NEW APPLICATION

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ARIZONA CORPORATION COMMISSION

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Qwest Communications Corporation's Application and Petition for Certificate of Convenience and Necessity to Provide Intrastate Telecommunications Services

2004 APR 23 P 4:52

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T-02811B-04-0313

Arizona Corporation Commission
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Please indicate if you have current applications pending in Arizona as an Interexchange reseller, AOS provider, or as the provider of other telecommunication services.

Type of Service: ______________________

Docket No.: __________ Date: __________ Date Docketed: ______________

Type of Service: ______________________

Docket No.: __________ Date: __________ Date Docketed: ______________

A. COMPANY AND TELECOMMUNICATION SERVICE INFORMATION

(A-1) Please indicate the type of telecommunications services that you want to provide in Arizona and answer the appropriate numbered items:

[X] Resold Long Distance Telecommunications Services (Answer Sections A, B).

[X] Resold Local Exchange Telecommunications Services (Answer Sections A, B, C).

[X] Facilities-Based Long Distance Telecommunications Services (Answer Sections A, B, D).

[X] Facilities-Based Local Exchange Telecommunications Services (Answer Sections A, B, C, D, E)

[ ] Alternative Operator Services Telecommunications Services (Answer Sections A, B)

On December 4, 2003, the Arizona Corporation Commission ("ACC") approved Qwest Communications Corporation's ("QCC") request for a Certificate of Convenience and Necessity (CC&N) to provide Facilities Based Long Distance Telephone Services in Decision No. 66612. With this application, QCC is requesting to have its CC&N modified to include Resold Long Distance Service, Resold Local Exchange Service and Facilities Based Local Exchange Service, in addition to the Facilities Based Long Distance authority previously granted.

(A-2) The name, address, telephone number (including area code), facsimile number (including area code), e-mail address, and World Wide Web address (if one is available for consumer access) of the Applicant:

Qwest Communications Corporation

1801 California – Suite 5100

Denver, CO 80202

Principal office and business office telephone number: 303-992-1400

Toll Free Customer Service telephone numbers: Residential: 800-860-2255

Business: 800-860-1020

Facsimile number of the Applicant: 1-888-860-1441

E-mail Address: uswpuc@qwest.com (note: this e-mail address is for the Commission's use in communicating with Qwest and should not be disclosed to the public. Individual customers can correspond with Qwest via e-mail at the following address:

http://www.3.qwest.com/cgi-bin/resoor.efg/php/enduser/home.php)

World Wide Web Address: www.qwest.com

(A-3) The d/b/a ("Doing Business As") name if the Applicant is doing business under a name different from that listed in Item (A-2):

Qwest Communications Corporation does business under the d/b/a Qwest Long Distance for its interexchange business.

(A-4) The name, address, telephone number (including area code), facsimile number (including area code), and E-mail address of the Applicant's Management Contact:

Maureen Arnold

Director- Regulatory

Qwest Public Policy

4041 N. Central Avenue, 11th Floor

Phoenix, Arizona 85012

Telephone: (602) 630-8222

Fax: (602) 235-3107

E-mail: Maureen.arnold@qwest.com

(A-5) The name, address, telephone number (including area code), facsimile number (including area code), and E-mail address of the Applicant's Attorney and/or Consultant:

Timothy Berg

Fennemore Craig, PC

3003 North Central Avenue, Suite 2600

Phoenix, Arizona 85012

Telephone: (602) 916-5421

Fax: (602) 916-5621

E-mail: tberg@fclaw.com

(A-6) The name, address, telephone number (including area code), facsimile number (including area code), E-mail address of the Applicant's Complaint Contact Person:

Susan McKown

1801 California Street, Suite 450

Denver, Colorado 80202

Telephone: (303) 896-8152

Fax: (303) 965-5555

E-mail: uswpuc@qwest.com

(A-7) What type of legal entity is the Applicant?

[ ] Sole proprietorship

[ ] Partnership: ____ Limited, ____ General, ____ Arizona, ____ Foreign

[ ] Limited Liability Company: ____ Arizona, ____ Foreign

[X] Corporation: ____ "S", _X_ "C", ____ Non-

[X] Domicile: ____ Arizona, _X_ Foreign

[ ] Other, specify: ____

(A-8) Please include "Attachment A":

Attachment "A" must include the following information:

1. A copy of the Applicant's Certificate of Good Standing as a domestic or foreign corporation, LLC, or other entity in the State of Arizona.
2. A list of the names of all owners, partners, limited liability company managers (or if a member managed

LLC, all members), or corporation officers and directors (specify).

3. Indicate percentages of ownership of each person listed in A-8.2.

1. **Please see Attachment A-1.**
2. **Please see Attachment A-2.**
3. **None of the officers or directors of QCC have any direct ownership interest in QCC as QCC is a wholly owned subsidiary of Qwest Services Corporation ("QSC"), which, in turn, is a wholly owned subsidiary of Qwest Communications International Inc. ("QCII"), which is a publicly traded entity on the New York Stock Exchange.**

(A-9) Include your Tariff as "Attachment B".

Your Tariff must include the following information:

1. Proposed Rates and Charges for each service offered (reference by Tariff page number). **See Section 5.1, Page 1**
2. Tariff Maximum Rate and Prices to be charged (reference by Tariff page number). **N.A.**
3. Terms and Conditions Applicable to provision of Service (reference by Tariff page number). **See Section 2, pages 1-11 and Section 5.1, page 1.**
4. Deposits, Advances, and/or Prepayments Applicable to provision of Service (reference by Tariff page number). **See Section 2.2.7, page 5 and Section 2.3.2, Page 8.**
5. The proposed fee that will be charged for returned checks (reference by Tariff page number). **$10.00 - See Section 2.3.2, Page 8.**

See Attachment B for QCC's tariff for the Local Exchange Services it plans to offer upon certification. As indicated in the company's responses to A-17 and C-1 in this application, QCC does not have a resale agreement at this time. QCC also does not currently have an interconnection agreement. QCC will file appropriate modifications to this tariff to include other local exchange services at such time as it obtains these agreements. The Commission previously approved QCC's tariff for long distance services in connection with its Facilities Based Long Distance CC&N in Decision No. 66612. Qwest will file any necessary modifications to its existing long distance tariff to include resold long distance services at such time as it obtains a resale agreement.

(A-10) Indicate the geographic market to be served:

[X] Statewide. (Applicant adopts statewide map of Arizona provided with this application).

[ ] Other. Describe and provide a detailed map depicting the area.

(A-11) Indicate if the Applicant or any of its officers, directors, partners, or managers has been or are currently involved in any formal or informal complaint proceedings pending before any state or federal regulatory commission, administrative agency, or law enforcement agency.

Describe in detail any such involvement. Please make sure you provide the following information:

1. States in which the Applicant has been or is involved in proceedings.

2. Detailed explanations of the Substance of the Complaints.
3. Commission Orders that resolved any and all Complaints.
4. Actions taken by the Applicant to remedy and/or prevent the Complaints from re-occurring.

Requests A-11 and A-12 request similar information on a rather broad scope. In responding to these issues, QCC has conducted a good faith investigation of its organization to obtain responsive information and documents. QCC has made several assumptions in conducting this inquiry and providing these responses, as described in more detail below. For example, to avoid providing information that is not relevant to the application, such as information related to private, domestic, or similar matters unrelated to the provision of telecommunications, QCC interprets the questions as seeking information related to the individual's professional responsibilities. Qwest also interprets the word "involve" as used in the requests as requesting information where an individual is a party to a civil action or the subject of a criminal investigation, and interprets "managers" to identify QCC's officers and directors, not every employee of QCC with supervisory responsibilities.

Much of the information responsive to these inquiries at least at a consolidated level, is contained in Item 3, pages 14-26 of QCII's recently filed consolidated financial statements (Attachment D), and the information disclosed therein is incorporated fully herein by reference.

As a large, nationwide provider of telecommunications services, QCC from time to time has been named in formal and informal complaint proceedings before state and federal commissions with responsibility for telecommunications regulation. QCC interprets this question to require disclosure limited to complaints docketed by state and federal commissions with jurisdiction over telecommunications regulation. QCC does not track each formal or informal complaint filed against it in any centralized system, as many of these complaints involve issues for which QCC is not even the responsible carrier. In many of these cases, complaints involve charges that are billed in accordance with lawful tariffs or otherwise without merit. QCC does track, however, actions or investigations initiated by state or federal utility commissions, attorneys general, or consumer advocate offices, and similar agencies or entities, which are described below.

QCC has settled formal complaint actions or investigations regarding alleged slamming or cramming with the following entities: the Federal Communications Commission, the state utility commissions of Oklahoma, South Dakota, Kentucky, Tennessee, Texas, and New Jersey, the attorneys general for the states of Arizona, Connecticut, Florida, Idaho, Illinois, Kansas, Minnesota, Missouri, Nevada, New York, Ohio, Oregon, Pennsylvania, and Wisconsin. QCC has also settled "do not call" violation investigations by the New York State Consumer Protection Board and the Florida Department of Agriculture and Services. Additionally, in October 2002, the California Public Utilities Commission fined QCC for alleged incidents of slamming and cramming. QCC filed an appeal in California state court, but the appeal was unsuccessful. Copies of the orders or agreements resolving these matters are attached. Attachment E pertains to A-11 and Attachment F to A-12.

QCC is also in the process of resolving two other proceedings in Okalahoma and Delaware. The Oklahoma proceeding is a formal complaint by the Commission Staff involving allegations of one incident of slamming against QCC. QCC is in the process of negotiating settlement of this complaint with the Oklahoma staff. The Delaware proceeding addressed allegations involving the improper termination of service for 16 customers. QCC is in the process of finalizing a settlement agreement with the Delaware Commission to resolve this matter. Final orders on these two proceedings have not yet been issued.

QCC is also currently cooperating with the attorney general for the state of Missouri regarding certain sales

practices, which investigation is ongoing, and is involved in a civil investigation relating to property tax surcharges in North Carolina. QCC is also involved in two pending formal complaints at the FCC; one filed by Touch America, Inc. alleging that QCC and its affiliates violated terms of the U S West, Inc./ Qwest Communications Inc. divestiture order and illegally were providing interLATA services in the former U S West local exchange region.

On or about October 25, 2001, a judgment was entered against QCC in Travis County, Texas (matter number 97-13778) in the amount of $1,746,446. In the lawsuit giving rise to the judgment, AT&T alleged that during construction of QCC's fiber optic network in the vicinity of Austin, Texas, QCC was responsible and liable for three cuts of AT&T fiber. Subcontractors were held to be liable for approximately $532,000 of the actual damages, and have paid these amounts. The punitive damages portion of the judgment, $467,808.91, is currently being appealed to the Texas Supreme Court.

Aside from these matters, QCC, based on its records, has not been the subject of any other formal complaints or investigations by state or federal utility commissions, attorneys general, or consumer advocate offices, and similar agencies or entities, regarding its provisions of telecommunications services during the last five years.

As to officers, directors, and managers of QCC: Mark Evans was named individually in a lawsuit (Civil Case No. 02-RB-464 (PAC), In re Qwest Savings and Retirement Plan ERISA Litigation, In the United States District Court for the District for Colorado), pursuant to which the plaintiffs (participants of the Qwest Retirement Plan (the "Plan")), allege that the members of the Plan's investment committee (the "Investment Committee") (including Mr. Evans, who was on the investment committee) of U S West/Qwest breached their fiduciaries duties by failing "to provide sufficient independent information to participants of the Plan to allow such participants to achieve the stated purpose of the Plan to provide such employees with a voice in the major decisions affecting U S West/Qwest" and "[f]ailing to disclose to participants material information concerning Qwest Fund Shares which they knew or should have known.

Qwest continually implements and reviews procedures and organizations to prevent regulatory or legal violations from occurring or being repeated as described above.

QCC will supplement this information when and/or if it discovers any additional judgments, complaints, or investigations properly responsive to this inquiry.

(A-12) Indicate if the Applicant or any of its officers, directors, partners, or managers has been or are currently involved in any civil or criminal investigation, or had judgments entered in any civil matter, judgments levied by any administrative or regulatory agency, or been convicted of any criminal acts within the last ten (10) years.

Describe in detail any such judgments or convictions. Please make sure you provide the following information:

1. States involved in the judgments and/or convictions.
2. Reasons for the investigation and/or judgment.
3. Copy of the Court order, if applicable.

Please see QCC's response to item A-11, which is incorporated by reference.

(A-13) Indicate if the Applicant's customers will be able to access alternative toll service providers or resellers via 1+

101XXXX access.

[X] Yes [ ] No

(A-14) Is applicant willing to post a Performance Bond? Please check appropriate box(s).

[X] For Long Distance Resellers, a $10,000 bond will be recommended for those resellers who collect advances, prepayments or deposits.

[X] Yes [ ] No

If "No", continue to question (A-15).

[X] For Local Exchange Resellers, a $25,000 bond will be recommended.

[X] Yes [ ] No

If "No", continue to question (A-15).

[X] For Facilities-Based Providers of Long Distance, a $100,000 bond will be recommended.

[X] Yes [ ] No

If "No", continue to question (A-15).

[X] For Facilities-Based Providers of Local Exchange, a $100,000 bond will be recommended.

[X] Yes [ ] No

If "No", continue to question (A-15).

Qwest Long Distance has already posted a $100,000 bond as a Facilities-Based Long Distance Provider. The bond was posted as part of QCC's application for a Certificate of Convenience and Necessity, Decision No. 66612. The remaining $135,000 bond will be posted in compliance with the ACC's decision in this proceeding.

Note: Amounts are cumulative if the Applicant is applying for more than one type of service.

(A-15) If No to any of the above, provide the following information. Clarify and explain the Applicant's deposit policy (reference by tariff page number). Provide a detailed explanation of why the applicant's superior financial position limits any risk to Arizona consumers.

Not Applicable

(A-16) Submit copies of affidavits of publication that the Applicant has, as required, published legal notice of the Application in all counties where the applicant is requesting authority to provide service.

Publication will be completed subsequent to the filing date of this application and upon assignment of a docket number for inclusion in the legal notice. QCC will supplement this response once it has received the affidavit of publication.

Note: Prior to issuance of the CC&N, the Applicant must complete and submit an Affidavit of Publication Form as Attachment "C". Refer to the Commission's website for Legal Notice Material (Newspaper Information, Sample Legal Notice and Affidavit of Publication).

(A-17) Indicate if the Applicant is a switchless reseller of the type of telecommunications services that the Applicant will or intends to resell in the State of Arizona:

☐ Yes ☐ No

If "Yes", provide the name of the company or companies whose telecommunications services the Applicant resells.

QCC intends to be both a switchless reseller and a facilities based (including switches) provider of telecommunications services that Applicant intends to provide in the State of Arizona. QCC has not yet entered into any resale agreements with any particular providers.

(A-18) List the States in which the Applicant has had an application approved or denied to offer telecommunications services similar to those that the Applicant will or intends to offer in the State of Arizona:

QCC has been approved as a CLEC in the following states: Washington, Oregon, Utah, Montana, Idaho, Iowa, Minnesota, Colorado and Wyoming.

QCC has also been approved in the following states, for the following services: Alabama – Facilities based interexchange service, Resold interexchange service; Arkansas – Resold interexchange service; California – Facilities based local exchange service, Resold local exchange service, Facilities based interexchange service, Resold interexchange service; Connecticut – Resold local exchange service, Resold interexchange service; Delaware – Facilities based local exchange service, Resold local exchange service, Resold interexchange service; District of Columbia – Facilities based local exchange service, Resold local exchange service; Florida – Facilities based local exchange service, Resold local exchange service, Facilities based interexchange service, Resold interexchange service; Georgia – Facilities based local exchange service, Resold local exchange service, Facilities based interexchange service, Resold interexchange service; Hawaii – Resold interexchange service; Illinois – Facilities based local exchange service, Resold local exchange service, Facilities based interexchange service, Resold interexchange service; Indiana – Facilities based local exchange service, Facilities based interexchange service, Resold interexchange service; Kansas – Facilities based local exchange service, Facilities based interexchange service, Resold interexchange service; Kentucky – Facilities based local exchange service, Facilities based interexchange service, Resold interexchange service; Louisiana – Facilities based interexchange service, Resold interexchange service; Maine – Facilities based interexchange service, Resold interexchange service; Maryland – Facilities based local exchange service, Facilities based interexchange service, Reslae interexchange service; Massachusetts – Facilities based local exchange service, Resold local exchange service, Facilities based interexchange service, Resold interexchange service; Michigan – Facilities based local exchange service, Resold local exchange service, Facilities based interexchange service, Resold interexchange service; Mississippi – Facilities based local exchange service, Resold local exchange service, Facilities based interexchange service, Resold interexchange service; Missouri - Facilities based local exchange service, Resold local exchange service, Facilities based interexchange service, Resold interexchange service; Nevada - Facilities based local exchange service, Resold local exchange service, Facilities based interexchange service, Resold interexchange service; New Hampshire - Facilities based local exchange service, Facilities based interexchange service, Resold interexchange service; New Jersey - Facilities based local exchange service, Resold local exchange service, Facilities based interexchange service, Resold interexchange service; New York - Facilities based local exchange service, Resold local exchange service, Facilities based interexchange service, Resold interexchange service; North Carolina - Facilities based local exchange service,

Resold local exchange service, Facilities based interexchange service, Resold interexchange service; Ohio - Facilities based local exchange service, Facilities based interexchange service, Resold interexchange service; Oklahoma - Facilities based local exchange service, Facilities based interexchange service, Resold interexchange service; Pennsylvania - Facilities based local exchange service, Facilities based interexchange service, Resold interexchange service; Rhode Island - Facilities based local exchange service, Resold interexchange service; South Carolina - Facilities based local exchange service, Facilities based interexchange service, Resold interexchange service; Tennessee - Facilities based local exchange service, Resold interexchange service; Texas - Facilities based local exchange service, Facilities based interexchange service, Resold interexchange service; Vermont - Facilities based local exchange service, Resold interexchange service; Virginia - Facilities based local exchange service, Facilities based interexchange service, Resold interexchange service; West Virginia - Facilities based local exchange service, Resold local exchange service, Facilities based interexchange service, Resold interexchange service; Wisconsin - Facilities based local exchange service, Resold interexchange service;

(A-19) List the States in which the Applicant currently offers telecommunications services similar to those that the Applicant will or intends to offer in the State of Arizona.

QCC is a certified, facilities based provider of interexchange services and other services in every U.S. state except Alaska.

(A-20) List the names and addresses of any alternative providers of the service that are also affiliates of the telecommunications company, as defined in R14-2-801.

Qwest Corporation: Provides local and intraLATA services.

Qwest LD Corp.: Provides resold interexchange services.

Qwest Wireless, LLC: provides CMRS services.

U S Long Distance, Inc.: Certified provider of the alternative operator services.

The address for all of the above entities is: 1801 California Street, Suite 5100, Denver, Colorado 80202.

B. FINANCIAL INFORMATION

(B-1) Indicate if the Applicant has financial statements for the two (2) most recent years.

[X] Yes   [ ] No

If "No," explain why and give the date on which the Applicant began operations.

QCC is a wholly owned subsidiary of Qwest Services Corporation, which in turn is a wholly owned subsidiary of QCII. As such, QCII does not prepare separate financial statements for QCC. Instead, QCC's financial information appears as a consolidated financial statement, together with QCII's other subsidiaries, in QCII's annual Form 10-K filing with the United States Securities and Exchange Commission. QCII's form 10-K filings for the periods ending 12/31/2002 and 12/31/2003 are attached in Attachment D. The information is also separately available on the Securities and Exchange Commission's website or through the Company's website.

(B-2) Include "Attachment D".

Provide the Applicant's financial information for the two (2) most recent years.

1. A copy of the Applicant's balance sheet.
2. A copy of the Applicant's income statement.

3. A copy of the Applicant's audit report.
4. A copy of the Applicant's retained earnings balance.
5. A copy of all related notes to the financial statements and information.

As indicated in the response to Item B-1, QCC is a wholly subsidiary of QSC, which is a wholly owned subsidiary of QCII. As such, QCII does not prepare a separate balance sheet, income statement, audit report, retained earnings statements, or notes to financial statements for QCC. Instead, QCC's financial information appears as a consolidated financial statement, together with QCII's other subsidiaries, in QCII's annual Form 10-K filing with the United States Securities and Exchange Commission. As indicated in response to Item B-1, QCII's Form 10-K filings for the periods ending 12/31/2002 and 12/31/2003 are attached and included in Attachment D. The information is also separately available on the Securities and Exchange Commission's website or through the Company's website.

Note: Make sure "most recent years" includes current calendar year or current year reporting period.

(B-3) Indicate if the Applicant will rely on the financial resources of its Parent Company, if applicable.

Yes, QCC will rely on the financial resources of its parent company, Qwest Services Corporation (QSC). QCC is a wholly owned subsidiary of QSC, which is a wholly owned subsidiary of Qwest Communications International, Inc. (QCII). Funding for QCC is through equity provided by QSC and by financial obligations issued by Qwest Capital Funding, Inc. (QCFI), a separate subsidiary of QCII.

(B-4) The Applicant must provide the following information.

1. Provide the projected total revenue expected to be generated by the provision of telecommunications services to Arizona customers for the first twelve months following certification, adjusted to reflect the maximum rates for which the Applicant requested approval. Adjusted revenues may be calculated as the number of units sold times the maximum charge per unit.
2. Provide the operating expenses expected to be incurred during the first twelve months of providing telecommunications services to Arizona customers following certification.
3. Provide the net book value (original cost less accumulated depreciation) of all Arizona jurisdictional assets expected to be used in the provision of telecommunications service to Arizona customers at the end of the first twelve months of operation. Assets are not limited to plant and equipment. Items such as office equipment and office supplies should be included in this list.
4. If the projected value of all assets is zero, please specifically state this in your response.
5. If the projected fair value of the assets is different than the projected net book value, also provide the corresponding projected fair value amounts.

1. **The projected total revenue to be generated by the provision of these services is $76,497,192**
2. **The projected operating expenses to be incurred in the provision of these services is $41,973,655.00**
3. **The net book value of all Arizona jurisdictional assets to be used in providing these services is $5,856,615.00.**
4. **Not applicable.**
5. **QCC estimates that the Projected Fair Value of these assets is $5,856,615.00**

C. RESOLD AND/OR FACILITIES-BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES

(C-1) Indicate if the Applicant has a resale agreement in operation,

☐ Yes ☒ No

If "Yes", please reference the resale agreement by Commission Docket Number or Commission Decision Number.

D. FACILITIES-BASED LONG DISTANCE AND/OR FACILITIES BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES

(D-1) Indicate if the Applicant is currently selling facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services in the State of Arizona. This item applies to an Applicant requesting a geographic expansion of their CC&N:

☒ Yes **- F-B Long Distance** ☒ No – **F-B Local**

If "Yes," provide the following information:

1. The date or approximate date that the Applicant began selling facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services for the State of Arizona.

   QCC is currently providing facilities based long distance service in Arizona pursuant to the CC&N granted by the Commission in Decision No. 66612. Qwest began offering these services in Arizona on December 15, 2003.

2. Identify the types of facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services that the Applicant sells in the State of Arizona.

   QCC sells switched and dedicated long distance, ATM, Frame Relay, Operator Services, Private Line, and toll free services in Arizona.

If "No," indicate the date when the Applicant will begin to sell facilities-based long distance telecommunications AND/OR facilities-based local exchange telecommunications services in the State of Arizona:

QCC will begin to offer facilities based local exchange service within the State of Arizona once it has received certification from the ACC.

(D-2) Check here if you wish to adopt as your petition a statement that the service has already been classified as competitive by Commission Decision:

☒ Decision # 64178 Resold Long Distance

☒ Decision # 64178 Resold LEC

☒ Decision # 64178 Facilities Based Long Distance pursuant to Decision No. 66612

☒ Decision # 64178 Facilities Based LEC

E. FACILITIES-BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES

(E-1) Indicate whether the Applicant will abide by the quality of service standards that were approved by the Commission in Commission Decision Number 59241:

[X] Yes [ ] No

(E-2) Indicate whether the Applicant will provide all customers with 911 and E911 service, where available, and will coordinate with incumbent local exchange carriers ("ILECs") and emergency service providers to provide this service:

[X] Yes [ ] No

(E-3) Indicate that the Applicant's switch is "fully equal access capable" (i.e., would provide equal access to facilities-based long distance companies) pursuant to A.A.C. R14-2-1111 (A):

[X] Yes [ ] No

I certify that if the applicant is an Arizona corporation, a current copy of the Articles of Incorporation is on file with the Arizona Corporation Commission and the applicant holds a Certificate of Good Standing from the Commission. If the company is a foreign corporation or partnership, I certify that the company has authority to transact business in Arizona. I certify that all appropriate city, county, and/or State agency approvals have been obtained. Upon signing of this application, I attest that I have read the Commission's rules and regulations relating to the regulations of telecommunications services (A.A.C. Title 14, Chapter 2, Article 11) and that the company will abide by Arizona state law including the Arizona Corporation Commission Rules. I agree that the Commission's rules apply in the event there is a conflict between those rules and the company's tariff, unless otherwise ordered by the Commission. I certify that to the best of my knowledge the information provided in this Application and Petition is true and correct.

Reed Peterson

(Signature of Authorized Representative)

4/23/04

(Date)

Reed Peterson

(Print Name of Authorized Representative)

Staff Advocate

(Title)

SUBSCRIBED AND SWORN to before me this 23rd day of April, 2004

Josie Maldonado

NOTARY PUBLIC

"OFFICIAL SEAL"
Josie Maldonado
Notary Public-Arizona
Maricopa County
My Commission Expires 9/18/2004

My Commission Expires 9/18/04

ATTACHMENT A-1

STATE OF ARIZONA

Office of the
CORPORATION COMMISSION

CERTIFICATE OF GOOD STANDING

To all to whom these presents shall come, greeting:

I, Brian C. McNeil, Executive Secretary of the Arizona Corporation Commission, do hereby certify that

******QWEST COMMUNICATIONS CORPORATION******

a foreign corporation organized under the laws of Delaware did obtain authority to transact business in the State of Arizona on the 6th day of June 1989.

I further certify that according to the records of the Arizona Corporation Commission, as of the date set forth hereunder, the said corporation has not had its authority revoked for failure to comply with the provisions of the Arizona Business Corporation Act; that its most recent Annual Report, subject to the provisions of A.R.S. sections 10-122, 10-123, 10-125 & 10-1622, has been delivered to the Arizona Corporation Commission for filing; and that the said corporation has not filed an Application for Withdrawal as of the date of this certificate.

This certificate relates only to the legal authority of the above named entity as of the date issued. This certificate is not to be construed as an endorsement, recommendation, or notice of approval of the entity's condition or business activities and practices.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the Arizona Corporation Commission. Done at Phoenix, the Capital, this 21st Day of October, 2003, A. D.

SEAL OF THE ARIZONA CORPORATION COMMISSION
DITAT DEUS
1912

Executive Secretary

By

ATTACHMENT A-2

Qwest Communications Corporation (QCC)
As of 04/06/2004

Directors

Title	*Director*	*Elected*	*Resigned*
Director	Tom F. Gillett	02/11/2003	
Director	Clifford S. Holtz	07/01/2002	

Officers

Title	*Officer*	*Appointed*	*Effective Date*	*Resigned*
Vice President and Assistant Treasurer	Mark T. Evans	01/22/2003	01/22/2003	
President	Tom F. Gillett	02/13/2003	02/13/2003	
Vice President - Assistant Controller	R. William (Bill) Johnston	09/03/2003	09/03/2003	
Executive Vice President	Clifford S. Holtz	07/01/2002	07/01/2002	
Senior Vice President	Pamela J. Stegora Axberg	07/01/2002	07/01/2002	
Vice President - Corporate Tax	Kelly S. Carter	09/11/1998	12/09/2003	
Assistant Secretary	Troy M. Keller	04/21/2003	04/21/2003	
Assistant Secretary	Joan E. Randazzo	09/03/2003	09/03/2003	

ATTACHMENT B

EXCHANGE SERVICE TARIFF (N)

QWEST COMMUNICATIONS CORPORATION

REGULATIONS APPLYING TO EXCHANGE SERVICE

WITHIN THE STATE OF ARIZONA

Attachment B

1. APPLICATION AND REFERENCE (N)

1. APPLICATION AND REFERENCE

1.1 APPLICATION OF TARIFF (N)

This Tariff applies to the furnishing of Exchange Services defined herein by Qwest Communications Corporation (hereinafter referred to as the "Company") for customers within the exchange service area of the State of Arizona. Services, features and functions will be provided where facilities, including but not limited to, billing and technical capability and the ability of the Company to purchase service elements from appropriate Tariffs for resale are available.

The provision of Exchange Service is subject to existing regulations, terms and conditions specified in this Tariff and may be revised, added to or supplemented by superseding issues.

Qwest Communications Corporation reserves the right to offer its customers a variety of competitive services as deemed appropriate by the Company.

1. APPLICATION AND REFERENCE

1.2 TABLE OF CONTENTS (N)

PAGE

SECTION 1. APPLICATION AND REFERENCE

SECTION 2. GENERAL REGULATIONS - CONDITIONS OF OFFERING

1. APPLICATION AND REFERENCE

1.2 TABLE OF CONTENTS (Cont'd) (N)

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SECTION 3.
RESERVED FOR FUTURE USE

SECTION 4.
RESERVED FOR FUTURE USE

SECTION 5.
EXCHANGE SERVICES

1. APPLICATION AND REFERENCE

1.3 SUBJECT INDEX

SECTION

1. APPLICATION AND REFERENCE

1.3 SUBJECT INDEX (Cont'd)

1. APPLICATION AND REFERENCE

1.4 TARIFF FORMAT (N)

1.4.1 LOCATION OF MATERIAL

A. Section 1 provides the following for all of the sections in this Tariff.

- Subject Index - an alphabetical listing to find the desired section.
- Table of Contents - a numerical listing to find the desired section and page.

B. Each individual section in the Tariff provides a Subject Index for the material located within that section.

C. Obsolete Service Offerings

Obsolete service offerings are identified in the Tariff by adding 100 to the current section number.

1.4.2 OUTLINE STRUCTURE

The Tariff uses nine levels of indentations known as Tariff Information Management (TIM) Codes, as outlined below:

LEVEL	APPLICATION	EXAMPLE
1	Section Heading	**1. APPLICATION AND REFERENCE**
2	Sub Heading	**1.4 TARIFF FORMAT**
3	Sub Heading	**1.4.1 LOCATION OF MATERIAL**
4	Sub Heading/Tariff Text	A. Text
5	Sub Heading/Tariff Text	1. Text
6	Sub Heading/Tariff Text	a. Text
7	Sub Heading/Tariff Text	(1) Text
8	Sub Heading/Tariff Text	(a) Text
9	Footnotes	[1] Text

1. APPLICATION AND REFERENCE

1.4 TARIFF FORMAT (Cont'd) (N)

1.4.3 RATE TABLES

Within rate tables, four types of entries are allowed:

- Rate Amount

  The rate amount indicates the dollar value associated with the service.

- A dash "–"

  The dash indicates that there is no rate for the service or that a rate amount is not applicable under the specific column header.

- A footnote designator "[1]"

  The footnote designator indicates that further information is contained in a footnote.

- ICB

  The acronym "ICB" indicates that the product/service is rated on an individual case basis.

1. APPLICATION AND REFERENCE

1.5 EXPLANATION OF CHANGE SYMBOLS (N)

SYMBOL	EXPLANATION
(C)	To signify changed regulation, term or condition
(D)	To signify discontinued material
(I)	To signify rate increase
(M)	To signify material moved from or to another part of the Tariff with no change, unless there is another change symbol present
(N)	To signify new material
(R)	To signify rate reduction
(T)	To signify a change in text but no change in rate, regulation, term or condition

2. GENERAL REGULATIONS - CONDITIONS OF OFFERING (N)

2. GENERAL REGULATIONS - CONDITIONS OF OFFERING

(N)

2. GENERAL REGULATIONS - CONDITIONS OF OFFERING

2.1 DEFINITIONS (N)

Accessories

Devices which are mechanically attached to, or used with, the facilities furnished by the Company and which are independent of, and not electrically, acoustically, or inductively connected to, the communications path of the telecommunications system.

Authorized User

A person, firm, corporation or other entity that either is authorized by the customer to use exchange services or is placed in a position by the customer, either through acts or omissions, to use exchange services.

Central Office Connecting Facility

A facility furnished to an Other Common Carrier by the Company (in accordance with the Company's Facilities for Other Common Carriers Tariffs) between the terminal location of the Other Common Carrier and a point of connection on the Company premises.

Communications Systems

Channels and other facilities which are capable, when not connected to exchange and/or long distance message telecommunications service, of communications between customer-provided terminal equipment.

Company

Refers to Qwest Communications Corporation, which is the issuer of this Tariff.

CPE

CPE is customer provided premises equipment, software and other materials used in connection with the facilities.

Customer

Any person, firm, partnership, corporation, municipality, cooperative organization, or governmental agency to whom the Company agrees to furnish communications service under the provisions and regulations of this Tariff.

2. GENERAL REGULATIONS - CONDITIONS OF OFFERING

2.1 DEFINITIONS (Cont'd) (N)

Data Access Arrangement

A protective connecting arrangement for use with the network control signaling unit or, in lieu of the connecting arrangement, an arrangement to identify a central office line and protective facilities and procedures to determine compliance with criteria set forth elsewhere.

Exchange Access Line

All of the Company's Central Office equipment and outside plant facilities that are needed to connect the service to the Company provided Network Interface or equivalent.

Individual Case Basis

A service arrangement in which the regulations, rates and charges are developed based on the specific circumstances of the customer's situation.

Interface

That point on the premises of the customer at which provision is made for connection of other than Company-provided facilities to facilities provided by the Company.

LATA –(Local Access Transport Area)

A geographical area within which a local exchange company provides communications services.

2. GENERAL REGULATIONS - CONDITIONS OF OFFERING

2.1 DEFINITIONS (Cont'd) (N)

Network Interface

The Network Interface consists of a miniature modular standard jack for the connection of customer premises inside wire. The Network Interface is provided as part of the Exchange Access Line.

Nonrecurring Charges

The one-time initial charges for services or facilities, including but not limited to charges for construction, installation, or special fees, for which the customer becomes liable at the time the Service Order is executed.

Recurring Charges

The monthly charges to the customer for services, facilities and equipment, which continue for the agreed upon duration of the service.

Service Address

The service address is the building where the customer receives the Exchange Access Facilities.

Service Commencement Date

The first day following the date on which the Company notifies the customer that the requested service or facility is available for use, unless extended by the customer's refusal to accept service which does not conform to standards set forth in the Service Order or this Tariff, in which case the Service Commencement Date is the date of the customer's acceptance of service. The parties may mutually agree on a substitute Service Commencement Date.

Standard Network Interface

The point of connection with the Telecommunication Network which is located at the customer's premises at a place deemed necessary by the Company in order to insure transmission quality and which is readily accessible to the customer.

2. GENERAL REGULATIONS - CONDITIONS OF OFFERING

2.2 ESTABLISHING AND FURNISHING SERVICE (N)

2.2.1 APPLICATION FOR SERVICE

A. Refusal

The Company reserves the right to refuse an application for service made by a present or former customer who is indebted to the Company for telephone service previously furnished, until the indebtedness is satisfied. The Company may refuse to furnish or may deny telephone service to any person or business whereas on their premises exists any telephone facility which shows any evidence of tampering, manipulating, or operation, or use of any device whatsoever, for the purpose of obtaining telephone service without payment of the charges applicable to the service rendered.

B. Cancellations and Deferments

When the Company advises a customer that ordered services are available on the requested due date, and the customer is unable or unwilling to accept service at that time, the facilities will be held available for the customer for a 30 business day grace period. If after 30 business days the customer still has not accepted service, the customer will be contacted and regular monthly billing for the ordered service shall begin if the customer requests that facilities continue to be held for their future use. Otherwise the facilities will be released for other service order activity, and cancellation charges (non-recurring charges that would have applied had the service been installed) shall be applied. These cancellation and deferment provisions apply to requests for 5 or more analog or digital exchange access lines.

C. Use of Service

1. Limitation on Use

Service is furnished to customers for use only by the or by employees or representatives when engaged in business.

When the general service to the public is impaired by a customer's use of exchange service, the Company shall have the right to require the customer to contract for and properly maintain as many additional access lines as are needed to adequately serve the customer's requirements, or to discontinue the service of the customer in question.

2. GENERAL REGULATIONS - CONDITIONS OF OFFERING

2.2 ESTABLISHING AND FURNISHING SERVICE (Cont'd) (N)

2.2.2 OBLIGATION TO FURNISH SERVICE

1. Facilities and lines furnished by the Company on the premises of a customer, authorized user or agent of the Company are the property of the Company and are provided upon the condition that such facilities and lines must be installed, relocated, rearranged and maintained by the Company, and that the Company's employees and agents may enter said premises at any reasonable hour to test and inspect such facilities and lines in connection with such purposes, or upon termination or cancellation of the service, to remove such facilities and lines.

2. The Company's obligation to furnish service or to continue to furnish service is dependent on its ability to obtain, retain and maintain suitable rights and facilities, and to provide for the installation of those facilities required incident to the furnishing and maintenance of that service.

2.2.4 LIMITED COMMUNICATION

The Company reserves the right to limit use of communication services when emergency conditions cause a shortage of facilities.

2.2.7 PAYMENT ARRANGEMENTS

The applicant or Customer may be required to make a deposit to be held as a guarantee for the payment of charges for services furnished. When service is terminated, the amount of the deposit, with interest, will be applied to any indebtedness to the Company. A deposit will be refunded or credited to the Customer's account after 12 months if the Customer has not been delinquent in payment. The deposit will bear simple interest at the rate of 6% a year payable on the actual amount on deposit with the Company. When billing is provided by a local exchange company on behalf of the Company, the local exchange company's deposit policy applies.

2. GENERAL REGULATIONS - CONDITIONS OF OFFERING

2.2 ESTABLISHING AND FURNISHING SERVICE (N)

2.2.11 SPECIAL SERVICES

A. Work On Customer's Premises

It is contemplated that all work on customers' premises can be performed during regular working hours. If a customer requests that work be performed during hours which results in overtime or premium rates of pay, a charge may apply in addition to other rates and charges which may be applicable, equal to the amount of overtime or premium time payments.

It is also contemplated that all installation, removals, service connections, moves and changes requested by a customer be performed without the Company incurring unusual costs. If a customer requests that work be performed in a special manner or at a special time which results in unusual costs, a charge equal to the amount of unusual costs may apply in addition to other applicable rates and charges.

B. Special Arrangements

The rates and charges quoted in this Tariff contemplate the use of standard arrangements, that is, the arrangement normally used by the Company to provide the type of service involved.

For special service arrangements to be provided by this Company, and not specifically covered in this Tariff, charges equivalent to the cost of furnishing such arrangements.

2. GENERAL REGULATIONS - CONDITIONS OF OFFERING

2.2 ESTABLISHING AND FURNISHING SERVICE (Cont'd) (N)

A. Initial Service Periods

1. The initial service period for service and facilities is one month, except as otherwise specified hereinafter.

2. Initial service periods for service or facilities of any class will be greater than those specified herein whenever that is required in order for the Company to protect itself from making a hazardous investment because the customer's location or the character of the service required is such that upon termination of the customer's contract the facilities which have been constructed or installed to render the service are not likely to be useful for furnishing service to any other customer.

3. Service for which the initial service period is one month may be terminated prior to the expiration of such period only by payment of charges for the entire initial period. The charges for any supplemental item of service or facilities furnished in connection with such service shall, however, be terminated in accordance with the regulations applicable to that item of service or facilities.

2. GENERAL REGULATIONS - CONDITIONS OF OFFERING

2.3 PAYMENT FOR SERVICE (N)

2.3.1 CUSTOMER RESPONSIBILITY

The customer is responsible for payment of all charges for facilities and services furnished the customer, including charges for services originated, or charges accepted, at such facilities.

2.3.2 PAYMENT OF BILLS

A. Charges Due

Charges for exchange service and facilities are due in advance. Payment is due upon receipt of bill. All bills are payable by any means mutually acceptable to the customer and the Company. Failure to receive a bill does not exempt the customer from prompt payment of their account. The customer is held responsible for all charges for exchange service and facilities furnished at the customer's request.

The Company shall utilize credit policies and reasonable and equitable methods in its debt collection practices as specified in the Administrative Rules of the South Dakota Public Utilities Commission.

B. Returned Payment Charge

A returned payment charge may apply to the customer's account for each occasion that a check, bank draft, or an electronic funds transfer item is returned to the Company for the reason for insufficient funds or no account.

	CHARGE
• Returned Payment Charge	$10.00

2. GENERAL REGULATIONS - CONDITIONS OF OFFERING

2.4 LIABILITY OF THE COMPANY (N)

2.4.1 SERVICE LIABILITIES

A. Limitations

1. The Company's liability, if any, for its willful misconduct is not limited by this Tariff. With respect to any other claim or suit, by a customer or by any others, for damages associated with the installation, provision, preemption, termination, maintenance, repair, or restoration of service, the Company's liability, if any, shall not exceed an amount equal to the proportionate part of the monthly recurring charge for the service for the period during which the service was affected. This liability shall be in addition to any amounts that may otherwise be due the customer under this Tariff as an allowance for interruptions.

2. The services furnished by the Company, in addition to the limitations set forth preceding, also are subject to the following limitation: The Company shall not be liable for damage arising out of mistakes, omissions, interruptions, delays, errors or defects in transmission or other injury, including but not limited to injuries to persons or property from voltages or currents transmitted over the service of the Company caused by Customer-provided equipment (except where a contributing cause is the malfunctioning of a Company-provided connecting arrangement, in which event the liability of the Company shall not exceed an amount equal to a proportional amount of the Company billing for the period of service during which such mistake, omission, interruption, delay, error, defect in transmission or injury occurs).

3. The customer indemnifies and saves the Company harmless against claims for libel, slander, infringement of copyright arising from the use of material transmitted over its facilities, or infringement of patents arising from combining with or using in connection with, facilities of the Company, apparatus or systems of the customer; and against all other claims arising out of any act or omission of the customer in connection with facilities provided by the Company.

4. Calling Privileges

   Company Tariffs govern and fix the outgoing service of customers and in no manner guarantees to them the same incoming service. All incoming service of a customer depends upon and is limited by the right of a calling customer to such service.

2. GENERAL REGULATIONS - CONDITIONS OF OFFERING

2.4 LIABILITY OF THE COMPANY (N)
2.4.1 SERVICE LIABILITIES (Cont'd)

B. Transmission of Messages

The function of the Company is to furnish means of communication. Acceptance, by employees, of written or verbal communications from the public, for transmission or delivery, is forbidden.

C. Defacement of Premises

No liability shall attach to the Company be reason of any defacement or damage to the customer's premises resulting from placing the Company's apparatus and associated wiring on such premises, or by the removal thereof when such defacement or damage is not the result of negligence on the part of the Company or its employees.

2. GENERAL REGULATIONS - CONDITIONS OF OFFERING

2.6 SPECIAL TAXES, FEES, CHARGES (N)

1. Adjustments for Municipality Payments

In the event that a municipality collects or receives any payment or payments from the Company for or by reason of the use of the streets, alleys, and public places of the municipality or for by reason of the operation of the Company's business or any portion or phase thereof in the municipality, whether such payments be called a tax, assessment, license fee, percentage of earnings or revenues, lump sum payments, or otherwise, or whether such payments were made under the provisions of any law, ordinance, resolution, franchise, permit, or otherwise, bills for the Company's services in such municipality will be increased during the period or periods in which any such payment or payments are collected or received by an aggregate amount approximating the amounts of such payment or payments, and bills to the Company's customers rendered under the several rate schedules in effect in such municipality will be increased by the applicable proportionate part of any such payment or payments.

5. EXCHANGE SERVICES (N)

SUBJECT **PAGE**

5. EXCHANGE SERVICES

5.1 EXCHANGE ACCESS FACILITIES (N)

1. Description

Exchange Access Facilities provide the physical connection, between the customer's premises and the Company's domestic network. The facilities include any entrance cable or drop wire to the point where provision is made for the termination of the Company's outside distribution network facilities at a suitable location at a customer-designated service address. The Company installs the facilities to the Company's point of demarcation.

Each facility includes Company maintained equipment at the Company's termination point at the customer's service address. The point of termination may also be called the demarcation point. The facility does not include any extended wiring, inside wiring, or equipment past the demarcation point that is not maintained by the Company.

2. Terms

<u>Exchange Access Facilities</u>

Exchange Access Facilities are only provisioned in conjunction with Qwest Communications Corporation complex telecommunications services.

3. Rates and Charges

Rates for Exchange Access Facilities will be developed on an Individual Case Basis (ICB).

ATTACHMENT D

QWEST COMMUNICATIONS INTERNATIONAL INC filed this 10-K on 10/16/2003.

Use these links to rapidly review the document
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

for the fiscal year ended December 31, 2002

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

for the transition period from to

Commission File No. 000-22609

QWEST COMMUNICATIONS INTERNATIONAL INC.

(Exact name of registrant as specified in its charter)

Delaware	**84-1339282**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1801 California Street, Denver, Colorado 80202
Telephone Number (303) 992-1400

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

Title of Each Class	**Name of Each Exchange on Which Registered**

Qwest Common Stock ($0.01 per share, par value)	New York Stock Exchange

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

On September 30, 2003, 1,761,634,561 shares of Qwest common stock were outstanding. The aggregate market value of the Qwest voting stock held by non-affiliates as of June 30, 2003 was approximately $4.8 billion.

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 ☐ 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 registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ☐.

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Exchange Act). Yes ☒ No ☐.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

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Signatures

Unless the context requires otherwise, references in this report to "Qwest," "we," "us" and "our" refer to Qwest Communications International Inc. and its consolidated subsidiaries.

PART I

ITEM 1. *BUSINESS*

We provide local telecommunications and related services, IntraLATA long-distance services and wireless, data and video services within our local service area, which consists of the 14-state region of Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming. We provide InterLATA long-distance services outside our local service area and switched InterLATA long-distance services (as a reseller) in all states within our local service area other than Arizona. We also provide reliable, scalable and secure broadband data, voice and video communications outside our local service area as well as globally.

We were incorporated under the laws of the State of Delaware in 1997. Pursuant to a merger with U S WEST, Inc. on June 30, 2000, which we refer to as the Merger, we acquired all the operations of U S WEST and its subsidiaries. For information regarding the Merger see Part II, Item 7 below. Our principal executive offices are located at 1801 California Street, Denver, Colorado 80202, telephone number (303) 992-1400.

For a discussion of certain risks applicable to our business, financial condition and results of operations, see the risk factors described in "Special Note Regarding Forward-Looking Statements" in Part II, Item 7 below.

Operations

As a result of a change in our segments in December 2002, we have presented our operations for the periods covered by this report on the basis of our products and services in three segments: (1) wireline services; (2) wireless services; and (3) other services. We also maintained, until September 2003, a fourth segment consisting of our directory publishing business. Our remaining directory publishing business was sold in September 2003 to a group of private equity investors. As a result, for purposes of calculating the percentages of revenue of our segments provided below, we have excluded the impact of revenue from our directory publishing business. For additional financial information about our segments see Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this report and Note 18—Segment Information to our consolidated financial statements in Item 8 of this report. The segment revenue percentages contained in this section are based upon financial results prepared in accordance with generally accepted accounting principles in the United States of America, or GAAP.

We market and sell our products and services to consumer and business customers. In general, our business customers fall into the following categories: (1) small businesses; (2) national and global businesses; (3) governmental entities; and (4) public and private educational institutions. We also provide our products and services to other telecommunications providers on a wholesale basis.

Impact of Restatement

This report contains our restated consolidated financial statements for the years ended December 31, 2001 and 2000. We performed an analysis of our previously issued consolidated financial statements for 2001 and 2000 and identified a number of errors. The nature of the errors and the restatement adjustments that we have made to our financial statements for the years ended December 31, 2001 and 2000 are set forth in Note 3—Restatement of Results to our consolidated financial statements in Item 8 of this report. The net impact of the restatement adjustments include the following:

	December 31, 2001	December 31, 2000
	(in millions, except per share amounts)	
Revenue	$ (1,543)	$ (945)
Loss before income taxes, discontinued operations and cumulative effect of change of accounting principle	(2,497)	(1,432)
Net loss	(1,580)	(956)
Loss per share	$ (0.95)	$ (0.76)

Additionally, we recorded a $353 million adjustment to reduce January 1, 2000 beginning retained earnings related to our restatement of our directory publishing revenues and costs and the related deferred income tax effects.

The restatements involve, among other matters, revenue recognition issues related to optical capacity asset transactions, equipment sales, directory publishing and purchase accounting. In making these restatements, we have performed an internal analysis of our accounting policies, practices, procedures and disclosures for the affected periods. Also, in certain of these transactions, once a determination to restate was made for one reason, we did not continue to pursue whether there were other reasons for restatement such as questions concerning the fair market value or business purpose of one or more of these transactions.

Please note that our consolidated financial statements do not include financial results of pre-Merger Qwest for any period prior to the June 30, 2000 merger. This is due to U S WEST being deemed the acquirer in the Merger for financial statement accounting purposes. Pre-Merger transactions entered into by Qwest are not being restated, although certain of these transactions (principally the optical capacity asset transactions) may have been accounted for by pre-Merger Qwest under policies and practices similar to those for which post-Merger transactions are being restated.

Wireline Services

We offer a wide variety of wireline products and services in a variety of categories that help people and businesses communicate. Our wireline products and services are offered through our telecommunications network, which consists of both our traditional telephone network and our fiber optic broadband network. The traditional telephone network is defined as all equipment used in processing telecommunications transactions within our local service area and forms a portion of the public switched telephone network, or PSTN. The PSTN refers to the worldwide voice telephone network that is accessible to every person with a telephone and a dial tone. Our traditional telephone network is made up of both copper cables and fiber optic broadband cables and serves approximately 16.5 million access lines (access lines are telephone lines reaching from a central office to customers' premises).

Our fiber optic broadband network extends over 180,000 miles to major cities worldwide and enables long-distance voice services and data and Internet services outside our local service area. Outside our local service areas, we rely on our completed metropolitan area network, or MAN rings. We utilize our existing MAN fiber rings and in-building rights-of-way to expand service to existing customers and provide service to new customers who have locations on or near a ring or in a building where we have a right-of-way or a physical presence. The MAN fiber rings allow us to provide such customers end-to-end connectivity for our broadband data services to large and multi-location enterprises and other telecommunications carriers in key United States metropolitan markets.

End-to-end connectivity provides customers with the ability to transmit and receive information at high speed through the entire connection path rather than be limited by dial-up connection speeds.

Wireline Products and Services

The following reflects the key categories of our wireline products and services.

Local Voice Services—Consumer and Business. Through our traditional telephone network, we originate and terminate local voice services within local exchange service territories as defined by the state Public Utility Commissions, or PUCs. These local voice services include:

- basic local exchange services provided through access lines connected to our portion of the PSTN;
- switching services for customers' internal communications through facilities that we own;
- various custom calling features such as Caller ID, Call Waiting, Call Return and 3-Way Calling; and
- enhanced voice services, such as voice mail.

Other Voice Services—Consumer and Business. We also offer the following services that are related to our local and long-distance voice services offerings:

- operator services, including directory assistance;
- public telephone service;
- collocation services (i.e. hosting of another provider's telecommunications equipment in our facilities); and
- voice Customer Premises Equipment, or CPE.

Long-Distance Voice Services—Consumer and Business. We provide three types of long-distance communications services to our consumer and business customers.

- We provide IntraLATA long-distance service to our customers nationwide including within our local service area. IntraLATA long-distance service refers to services that cross local exchange area boundaries but originate and terminate within the same geographic local access and transport area, or LATA. These services include calls that terminate outside a caller's local calling area but within their LATA and wide area telecommunications service or "800" services for customers with highly concentrated demand.
- We provide InterLATA long-distance services nationwide except in Arizona where we have not yet received approval from the Federal Communications Commission, or the FCC. These services include originating long-distance services for communications that cross LATA boundaries, and "800" services. We filed our application for InterLATA long-distance approval for Arizona with the FCC on September 4, 2003. Within our local service area, we are limited to providing switched InterLATA long-distance services, through a third-party reseller. We will only offer switched InterLATA long-distance services as a reseller until we comply with certain additional FCC requirements, after which point we will be able to offer InterLATA long-distance services within our local service area using our proprietary network assets.
- We also provide international long-distance services for voice calls that terminate or originate with our customers in the United States.

For the years ended December 31, 2002, 2001 and 2000, revenue from voice services accounted for approximately 70%, 72% and 77%, respectively, of our total revenue from continuing operations, as restated.

Data and Internet Services—Consumer and Business. We offer a broad range of products and professional services to enable our customers to transport voice, data and video telecommunications at speeds ranging from 14.4 kilobits per second to 10 gigabits per second. Our customers use these products and services in a variety of ways. Our business customers use them to facilitate internal and external data transmissions, such as transferring files from one location to another. Our consumer customers use them to access email and the Internet under a variety of connection speeds and pricing packages. We provide our data and Internet services in our local service area, nationally and internationally. However, we are limited in the number of products and services we are able to provide within our local service area until we comply with certain additional FCC requirements.

Some of our data and Internet services are described below.

- Asynchronous Transfer Mode, or ATM, which is a broadband, network transport service that provides a fast, efficient way to move large quantities of information over our highly reliable, scalable and secure fiber optic broadband network.

- Frame relay, which is a switching technology that allows data to travel in individual packets of variable length. The key advantage to this approach is that a frame relay network can accommodate data packets of various sizes associated with virtually any data protocol.

- Private lines, which are direct circuits or channels specifically dedicated to the use of an end-user organization for the purpose of directly connecting two or more sites. Private lines offer a secure solution for frequent communication of large amounts of data between sites.

- Dedicated Internet Access, or DIA, which offers customers Internet access ranging from 128 kilobits per second to 2.4 gigabits per second.

- Virtual Private Network, or VPN, which allows businesses with multiple locations to create a private network accessible only by their various offices. VPN provides businesses with a cost-effective alternative to meet their communication needs.

- Internet Dial Access, which provides Internet Service Providers, or ISPs, and business customers with a comprehensive, reliable and cost-effective dial-up network infrastructure.

- Digital Subscriber Line, or DSL, which provides consumer and business customers a digital modem technology that converts their existing telephone lines into higher speed facilities for video and high-speed data communications to the Internet or private networks. Substantially all of our DSL customers are currently located within our local service area.

- Web Hosting, which provides data center services. In its most basic form, web hosting includes space, power and bandwidth. We also offer a variety of server and application management and professional web design services. During 2002, we operated as many as 16 web hosting centers, or CyberCenters (SM). Due to reduced actual and forecasted demand, we have sold or closed several of our CyberCenters, and we currently operate nine CyberCenters.

- Professional Services, which include network management, the sale, installation and maintenance of data CPE and the building of proprietary fiber-optic broadband networks for our governmental and other business customers.

For the years ended December 31, 2002, 2001 and 2000, revenue from data and Internet services accounted for approximately 25%, 24% and 19%, respectively, of our total revenue from continuing operations, as restated.

Strategic Relationships

From time to time we negotiate and enter into strategic relationships to expand our wireline services total product offering. For example, we recently entered into strategic marketing arrangements with DIRECTV, Inc. and Echostar Communications Corporation to allow us to bundle satellite television products and services of these companies with our traditional telecommunications, data and Internet offerings in several markets in our local service area, including Colorado, Nebraska, Arizona and Washington. We believe relationships such as these will be important for us to provide the full suite of products being demanded by the market.

Distribution Channels

We sell our retail wireline products and services through a variety of channels, including direct-sales marketing, telemarketing and arrangements with third-party agents. We also provide the use of similar products and services, and the use of our network assets on a wholesale basis, as described below.

Switched Access Services. We provide switched access services primarily to interexchange carriers, or IXCs, for the use of our local network to connect their customers to their data and Internet protocol, or IP, networks. IXCs provide 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. Competitive communications companies often operate as both CLECs (defined in the following paragraph) and IXCs.

Wholesale Access Services. We provide network transport, billing services and access to our local network within our local service area to competitive local exchange carriers, or CLECs, and wireless carriers. These services allow them to provide telecommunications services using our local network. CLECs are communications companies certified by a state PUC or similar agency that provide local exchange service within a LATA, including LATAs within our local service area. At times, we sell unbundled network elements, or UNEs, that allow our wholesale customers to build their own networks and interconnect with our network.

Wholesale Long-Distance Services. Outside of our local service area, we currently provide wholesale InterLATA network transport services, primarily to IXCs to allow them to transport long-distance calls across our nationwide network.

Wholesale Private Line Services. We provide wholesale private line services primarily to IXCs to allow them use of our local network to connect their customers to their networks.

Optical Capacity Transactions. From time to time, we transfer optical capacity on our network primarily to other telecommunications service providers in the form of specific channels on our "lit" network. Our "lit" network refers to those lines on our network with the necessary equipment in place to provide telecommunications services. We also transfer optical capacity primarily to government customers and to other telecommunications service providers in the form of specific dark fiber strands, which are lines without the necessary equipment in place to provide telecommunications services. These arrangements have typically been structured as indefeasible rights of use, or IRUs, which are the exclusive right to use a specified amount of capacity or fiber for a specified period of time, usually 20 years or more. Because of reduced demand for these arrangements, reflecting customers' desires currently to satisfy their needs on a short-term basis, we entered into only a few IRU transactions during 2002, and we do not anticipate entering into a significant number of IRU transactions in the near future. We anticipate meeting most customer needs of this kind through short-term arrangements for fiber or capacity. We will not enter into such arrangements involving InterLATA routes on our "lit" network with an end-point in any state within our local service area until we are able to offer InterLATA services using our proprietary network assets and, with respect to Arizona, until we have

received FCC approval to provide InterLATA services in that state generally. For information regarding our accounting for IRUs in prior years and currently, please see Note 3—Restatement of Results to our consolidated financial statements in Item 8 of this report.

Wireline Services Revenue

For the years ended December 31, 2002, 2001 and 2000, revenue from wireline services accounted for approximately 95%, 95% and 97%, respectively, of our total revenue from continuing operations, as restated.

Wireless Services

We operate our wireless services segment primarily through our indirect wholly owned subsidiary, Qwest Wireless LLC. Through Qwest Wireless, we operate a personal communication service, or PCS, wireless network that serves select markets within our local service area, including Denver, Seattle, Phoenix, Minneapolis, Portland, Salt Lake City and other smaller markets. We currently provide wireless products and services to consumer and business customers within these select markets. To provide these services, we hold 10 megahertz (MHz) PCS licenses that were issued in 1997 with 10-year terms and are renewable for successive 10-year terms under FCC regulations. We also provide digital wireless services in the 1900 MHz band.

In August 2003, we entered into a services agreement with a subsidiary of Sprint Corporation that allows us to resell Sprint wireless services, including access to Sprint's nationwide PCS wireless network, to consumer and business customers, primarily within our local service area. We plan to begin offering these Sprint services under our brand name in early 2004. Under the services agreement, we retain control of all sales and marketing, customer service, billing and collection, pricing, promotion and product offerings relating to the Sprint services that we resell. The services agreement provides that Sprint will be our exclusive wireless provider and has an initial term of five years (with automatic renewal for successive one-year terms until either party provides notice of non-renewal). Our wireless customers who are currently being serviced through our proprietary wireless network will be transitioned at our cost onto Sprint's network.

We market our wireless products and services through our website, partnership relationships and our sales/call centers. We offer consumer and business customers a broad range of wireless plans, as well as a variety of custom and enhanced features, such as Call Waiting, Caller ID, 3-Way Calling, Voice Messaging, Enhanced Voice Calling and Two-Way Text Messaging. We also offer integrated service, which enables customers to use the same telephone number and voicemail box for their wireless phone as for their home or business phone.

For the years ended December 31, 2002, 2001 and 2000, revenue from wireless services accounted for approximately 5%, 4% and 3%, respectively, of our total revenue from continuing operations, as restated.

Other Services

We provide other services that primarily involve the sublease of some of our unused real estate assets, such as space in our office buildings, warehouses and other properties. The majority of these properties are located in our local service area.

Directory Publishing

Through our wholly owned subsidiary, Qwest Dex, Inc., or Dex, we have historically published telephone directories in our local service area. During 2002, we entered into an agreement to sell our directory publishing business for approximately $7.05 billion. The first phase of this sale, which included

the sale of our directory publishing operations in Colorado, Iowa, Minnesota, Nebraska, New Mexico, North Dakota, and South Dakota (referred to as our Dex East business), was completed in November of 2002. The second phase, which included the sale of the remaining operations in Arizona, Idaho, Montana, Oregon, Utah, Washington and Wyoming (referred to as our Dex West business) closed in September 2003.

For the years ended December 31, 2002, 2001 and 2000, revenue from directory publishing was included in income from discontinued operations. For more information see Note 8—Assets Held for Sale including Discontinued

Operations to our consolidated financial statements in Item 8 of this report.

Importance, Duration and Effect of Patents, Trademarks and Copyrights

Either directly or through our subsidiaries, we own or have licenses to various patents, trademarks, copyrights and other intellectual property necessary to the conduct of our business. We do not believe that the expiration of any of our intellectual property rights, or the non-renewal of those rights, would materially affect our results of operations.

Competition

Wireline Services

Local Voice Services—Consumer and Business. In providing local voice services to our consumer and business customers within our local service area, we compete with CLECs, including some owned by national carriers, smaller regional providers, competitive access providers, independent telephone companies, Internet telephony providers and, increasingly, with wireless providers and cable companies. Technology substitution, such as wireless substitution for wireline, cable telephony substitution for wireline and cable modem substitution for dial-up modem lines and DSL, has been a significant cause for a decrease in our total access lines in 2002. Competition is based primarily on pricing, packaging of services and features, quality of service and increasingly on meeting customer care needs such as simplified billing and timely response to service calls.

Our existing infrastructure and long-standing customer relationships make us the market leader in providing local voice services in our local service area. Although our status as an incumbent local exchange carrier, or ILEC, helps make us the leader in providing wireline services within our local service area, increased competition has resulted in recent declines in billable access lines.

Our competitors, mainly IXCs and CLECs, have accelerated their use of Unbundled Network Element—Platforms, or UNE-P. This wholesale service, which as a matter of current federal and state laws and regulations we are required to provide, allows our competitors to purchase all of the required network elements in a single bundle to provide local services to our customers. Regional Bell Operating Companies, or RBOCs such as Qwest, are required to provide this service, which allows IXCs and CLECs an alternative to building their own telecommunications networks. Consequently, we believe these competitors are able to provide local service at a cost advantage, allowing them to gain market share. Meanwhile, the obligation to provide this service reduces our revenue and margin. We believe the offering of UNE-P services will continue to cause downward pressure on our margins and result in incremental retail access line losses.

Long-Distance Voice Services—Consumer and Business. National carriers, CLECs and other resellers, such as AT&T Corporation, Sprint Corporation and WorldCom, Inc. (now known as MCI), compete with us in providing InterLATA and IntraLATA long-distance services both inside and outside our local service area. Other RBOCs, such as BellSouth Corporation, Verizon Communications and SBC Communications, Inc., also compete in the InterLATA market nationally and, as they have gained

FCC approval, within the states in their respective local service areas. Wireless providers also market long-distance services as a substitute to traditional wireline service.

Competition in the long-distance consumer market is based primarily on price, customer service, quality and reliability. We are the market share leader in providing IntraLATA long-distance service within our local service area, but face increasing competition from national carriers, which have substantial financial and technical resources. Competition in the business market is based on similar factors, as well as the ability to offer a ubiquitous solution nationwide. While we have received FCC approval to provide InterLATA long-distance services throughout our local service area (with the exception of Arizona), we are currently restricted from using our proprietary network assets to provide these services until we have complied with certain additional FCC requirements. As a result, we are currently providing only switched InterLATA long-distance services in our local service area. This arrangement impedes our ability to offer an integrated, ubiquitous, nationwide solution, which in turn affects our ability to compete with other national long-distance providers. We expect to be able to meet these additional FCC requirements in 2004.

In addition, the emergence of certain competitors, such as MCI, XO Communications, Inc. and McLeod-USA, Inc., from bankruptcy proceedings with substantially reduced debt could precipitate an industry-wide reduction in prices, thereby causing a decline in our revenues.

Data and Internet Services—Consumer and Business. Business customers are the primary market for these network-related services, although we are increasing our DSL offerings to both consumer and business customers in several markets in our local service area. In providing these services, we compete with national long-distance carriers (such as AT&T, Sprint and MCI), RBOCs, CLECs and large integrators. Large integrators like International Business Machines Corporation and Electronic Data Systems Corporation are also competing in a new manner, providing customers with managed network services, which takes inter-site traffic off our network. Customers are particularly concerned with network reach, but are also sensitive to quality, reliability, customer service and price. Outside of our local service area, our investment in improving the reach and quality of our network has helped our competitive position. However, until we obtain FCC approval to offer InterLATA services in Arizona and until we are able to use our proprietary network assets to provide InterLATA services in all states within our local service area, we will be at a competitive disadvantage in relation to the national carriers that do not need to use intermediaries when providing service to customers. With regards to our hosting business, while many of our competitors, such as Global Crossing Ltd. and Sprint, have abandoned or largely reduced their hosting businesses, competition remains high due to over-capacity from large providers such as Cable & Wireless plc.

Wholesale Services. Within our local service area, we compete primarily with smaller regional providers, including CLECs, competitive access providers and independent telephone companies. Outside our local service area, we compete primarily with other RBOCs and with IXCs. We compete on network quality, customer service, product features, the speed with which we can provide a customer with requested services and price. Although our status as an ILEC helps make us the leader in providing wholesale services within our local service area, increased competition has resulted in a reduction in billable access minutes of use. Our competitive position should improve as the FCC approves us to offer InterLATA wholesale services in Arizona and we meet the requirements to offer such services throughout our local service area using our proprietary network assets.

Wireless Services

The market for wireless services within our local service area remains highly competitive. We compete with AT&T Wireless Services, Inc., Verizon Communications Inc., T-Mobile International, Sprint and Nextel Communications, among others. Although we expect our competitive position to improve after we begin offering Sprint's nationwide wireless service under our brand name to

customers in our local service area, we continue to face heavy competition from national, and some regional, wireless carriers. Competition may increase as additional spectrum is made available within our local service area, both to new competitors and to current wireless providers who may acquire additional spectrum in order to increase their coverage areas and service quality. Competition in the wireless market is based primarily on price, coverage area, services, features, handsets, technical quality and customer service. Our future competitive position will depend on our ability to successfully integrate Sprint services into our branded service offerings and our ability to offer new features and services in packages that meet our customers' needs.

Regulation

As a general matter, we are subject to extensive state and federal regulation, including requirements and restrictions arising under the Federal Communications Act, as modified in part by the Telecommunications Act of 1996 or the "Telecommunications Act", state utility laws, and the rules and policies of the FCC, state PUCs and other governmental entities. Federal laws and FCC regulations apply to regulated interstate telecommunications (including international telecommunications that originate or terminate in the United States), while state regulatory authorities have jurisdiction over regulated telecommunications services that are intrastate in nature. Generally, we must obtain and maintain certificates of authority from regulatory bodies in most states where we offer regulated services and must obtain prior regulatory approval of tariffs for our intrastate services, where required.

This structure of public utility regulation generally prescribes the rates, terms and conditions of our regulated wholesale and retail products and services (including those sold or leased to CLECs). While there is some commonality among the regulatory frameworks from jurisdiction to jurisdiction, each state has its own unique set of constitutional provisions, statutes, regulations, stipulations and practices that impose restrictions or limitations on the regulated entities' activities. For example, in varying degrees, jurisdictions may provide limited restrictions on the manner in which a regulated entity can interact with affiliates, transfer assets, issue debt and engage in other business activities.

Interconnection

The FCC is continuing to interpret the obligations of ILECs under the Telecommunications Act to interconnect their networks with, and make UNEs available to, CLECs. These decisions establish our obligations in our local service area, and our rights when we compete outside of our local service area. In May 2002, the U.S. Supreme Court issued its opinion in the appeal of the FCC's rules on pricing of UNEs. The Court affirmed the FCC's rules. Since we were following the FCC's then current UNE pricing rules, this decision did not impact the pricing of our UNEs.

In May 2002, the D.C. Circuit Court of Appeals issued an order on the FCC's rules that determined the UNEs required to be made available to competitors. The court reversed the FCC, finding that the agency had not given adequate consideration to or properly applied the "necessary and impair" standard of the Telecommunications Act. The court also ruled that the FCC impermissibly failed to take into account the relevance of competition by other types of service providers, including cable and satellite companies. Finally, the court overturned a separate order of the FCC that had authorized "line sharing" where a CLEC purchases only a portion of the copper line connecting the end-user. This enables the CLEC to provide high-speed broadband services utilizing DSL technology. Petitions for rehearing were filed with the D.C. Circuit and a petition for certiorari was filed with the United States Supreme Court. All of these were denied. The D.C. Circuit did stay its order vacating the FCC's rules until February 20, 2003 to permit the FCC to complete an ongoing rulemaking to determine what elements should be unbundled.

On February 20, 2003, the FCC announced that it planned to adopt rules prescribing ILECs' obligations to unbundle their networks. The press release accompanying the FCC's announcement

indicated that the FCC's new rules would relieve ILECs of some unbundling obligations, while charging state regulators with the task of determining other unbundling obligations. The FCC did not actually release these rules and an accompanying lengthy decision until August 21, 2003 in its triennial review order. The triennial review order addresses a number of UNEs and the obligations of ILECs with respect to them. Among the more significant determinations made by the FCC in the triennial review order are: (i) CLECs are not impaired without access to unbundled switching when serving medium-to-large business and government customers using DS1 capacity and above loops (the physical connection between a customer's location and the serving central office), but state PUCs may initiate and conclude proceedings within 90 days of October 2, 2003, to rebut this presumption of no impairment; (ii) CLECs are impaired without access to switching, and, concomitantly, the UNE-P, to serve mass market customers, as well as most high capacity loops and dedicated transport services (the transmission facilities between an ILEC's central offices); proceedings before state PUCs to rebut these presumptions of impairment may be initiated and concluded within nine months of October 2, 2003; (iii) state PUCs must initiate and conclude within nine months of October 2, 2003, proceedings to approve a "batch hot cut migration process" (a process by which a CLEC's customers served by the UNE-P would be moved to the CLEC's own switch in the event switching is eliminated from UNE-P) to be implemented by ILECs to address the costs and timeliness of the hot cut process; (iv) ILECs are no longer required to provide other carriers with access to the high frequency portion of a loop that is used by CLECs to provide competing xDSL services (referred to as line sharing); however, current line sharing customers are "grandfathered," and the requirement to allow line sharing will be phased out over a three-year period; (v) ILECs are not required to provide CLECs with access to "next generation" networks and facilities used to provide broadband services; and (vi) the FCC modified the prohibition against CLECs using enhanced, extended links, or combinations of unbundled loops, multiplexing and dedicated transport, (referred to as EELs) to provide both local and long-distance services; the FCC established requirements designed to prevent the substitution of EELs for special access services needed by a carrier for the provision of its long-distance services.

We have joined with other ILECs in requesting that the D.C. Circuit Court of Appeals invalidate the rules that accompanied and were described in the triennial review order. We believe that the FCC did not comply with the May 2002, ruling by the D.C. Circuit by failing to properly apply the "necessary and impair" standard and that the FCC impermissibly, and without adequate guidance, delegated to state PUCs its responsibilities under the Telecommunications Act. We have also joined with the same companies in requesting that the D.C. Circuit postpone the effectiveness of the triennial review order and accompanying rules until after our appeal of the triennial review order is completed, assuming that the court does not grant our request that the rules be immediately invalidated. Finally, we have filed an appeal of the triennial review order which, together with appeals by a number of other parties, was consolidated in the Eighth Circuit Court of Appeals. Other ILECs and we, in turn, filed a motion to have these consolidated appeals transferred back to the D.C. Circuit, and the Eighth Circuit granted this motion. Accordingly, all matters associated with the appeal of the triennial review order will be heard by the D.C Circuit.

On September 15, 2003, the FCC released a Notice of Proposed Rulemaking, instituting a comprehensive review of the rules pursuant to which UNEs are priced and the discounts to CLECs on our services they intend to resell are established. In particular, the FCC indicated that it will re-evaluate the rules and principles surrounding Total Element Long Run Incremental Cost, or TELRIC, the basis upon which UNE prices are set. The outcome of this rulemaking could have a material effect on the revenues and margins associated with our provision of UNEs to CLECs.

Access Pricing

The FCC has initiated a number of proceedings that could affect the rates and charges for access services that we sell or purchase. These proceedings and related implementation of resulting FCC

decisions have not yet been completed. Also, from time to time, state regulatory agencies regulate intrastate access charges and conduct proceedings that may affect the rates and charges for those services.

On May 31, 2000, the FCC adopted the access reform and universal service plan developed by the Coalition for Affordable Local and Long-Distance Service, or "CALLS". The adoption of the CALLS proposal resolved a number of outstanding issues before the FCC. The CALLS plan has a five-year life and provides for the following: (i) elimination of the residential pre-subscribed IXC charge; (ii) increases in subscriber line charges; (iii) reductions in switched access usage rates; and (iv) the removal of certain implicit universal service support from access charges and direct recovery from end-users; and commitments from participating IXCs to pass through access charge reductions to end-users. We have opted into the five-year CALLS plan.

Advanced Telecommunications Services

The FCC has ruled that advanced services provided by an ILEC are covered by those provisions of the Telecommunications Act that govern telephone exchange and exchange access services. In January 2002, the FCC released a Notice of Proposed Rulemaking regarding the Regulatory Requirements for ILEC Broadband Telecommunications Services. In this proceeding the FCC has sought comment on what changes should be made in traditional regulatory requirements to reflect the competitive market and create incentives for broadband services growth and investment. The FCC has not yet issued final rules.

InterLATA Long-Distance Entry

The Telecommunications Act dictates, among other things, when and how we and other RBOCs are allowed to re-enter the InterLATA long-distance market in local service areas. Since passage of the Telecommunications Act, a significant number of long-distance applications have been filed with the FCC, with multiple applications having been filed for some states. As of the date of this filing, the FCC has approved applications for a total of 47 states and Washington D.C. Our application for authority in Arizona is pending with the FCC.

Intercarrier Compensation

On April 27, 2001, the FCC released a Notice of Proposed Rulemaking that commences a broad inquiry into, and initiates a fundamental re-examination of, all forms of compensation flowing between carriers as a result of their networks being interconnected. There are two primary forms of intercarrier compensation: (i) reciprocal compensation that applies to local traffic; and (ii) access charges that apply to toll traffic. The purpose of this FCC proceeding is to examine existing forms of intercarrier compensation and explore alternatives. One form of compensation that is being examined is "bill and keep" under which carriers freely exchange traffic and collect charges from their end-user customers. The rules emanating from this rulemaking could result in fundamental changes in the charges we collect from other carriers and our end-users.

On April 27, 2001, the FCC issued an Order with regard to intercarrier compensation for ISP-bound traffic. The Order required carriers serving ISP-bound traffic to reduce reciprocal compensation rates over a 36-month period beginning with an initial reduction to $0.0015 per minute of use and ending with a rate of $0.0007 per minute of use. In addition, a cap was placed on the number of minutes of use on which the terminating carrier may charge such rates. This reduction lowered costs that we paid CLECs for delivering such traffic to other carriers, but has not had, and is not likely to have, a material effect on our results of operations.

On May 3, 2002, the D.C. Circuit Court of Appeals remanded the matter to the FCC to implement a rate methodology that is consistent with the court's ruling. The rules promulgated by the

FCC remain in effect while the agency contemplates further action. Modifications in the FCC's rules or prescribed rates could increase our expenses.

Employees

As of September 30, 2003, we employed approximately 47,000 employees. This does not include approximately 1,450 of our former employees who were transferred to a new company on September 14, 2003 in connection with the sale of our Dex West business. In accordance with plans that we approved in the fourth quarter of 2001 and the third quarter of 2002, we reduced our employee levels by approximately 12,000 employees. You can find additional information regarding the restructuring in Note 12—Restructuring and Merger-Related Charges to our consolidated financial statements in Item 8 of this report.

Approximately 27,000 of our employees are represented by collective bargaining agreements with the Communications Workers of America, or "CWA", and the International Brotherhood of Electrical Workers, or "IBEW". We recently entered into new two-year collective bargaining agreements with CWA and IBEW. Each of these agreements was ratified by union members, went into effect on August 17, 2003 and expires on August 13, 2005. Among other things, these agreements provide for guaranteed wage levels and continuing employment-related benefits.

Financial Information about Geographic Areas

We provide a variety of telecommunications services on a national and international basis to global and national business, small business, government and consumer and wholesale customers. It is impractical for us to provide financial information about geographic areas.

Website Access

Our website address is www.qwest.com. You may obtain free electronic copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports at our investor relations website, www.qwest.com/about/investor/, under the heading "SEC Filings." These reports are available on our investor relations website as soon as reasonably practicable after we electronically file them with the Securities and Exchange Commission, or SEC. However, we have not yet filed our quarterly reports on Form 10-Q since the first quarter of 2002 and have not amended prior filings based on the restatement.

ITEM 2. *PROPERTIES*

Our principal properties do not lend themselves to simple description by character and location. The percentage allocation of our gross investment in property, plant and equipment consisted of the following:

	December 31,		
	2002	2001	2000
		(As restated)	
Land and buildings	8%	9%	7%
Communications equipment	42%	40%	36%
Other network equipment	42%	42%	43%
General-purpose computers and other	7%	7%	7%
Construction in progress	1%	2%	7%
	100%	100%	100%

Land and buildings consist of land, land improvements, central office and certain administrative office buildings. Communications equipment primarily consists of switches, routers and transmission electronics. Other network equipment primarily includes conduit and cable. General-purpose computers and other consists principally of computers, office equipment, vehicles and other general support equipment. We own substantially all of our telecommunications equipment required for our business. Total gross investment in plant, property and equipment was approximately $44.6 billion and $54.4 billion (as restated) at December 31, 2002 and 2001, respectively, including the effect of retirements, but before deducting accumulated depreciation.

Qwest-installed fiber optic cable is laid under various rights-of-way held by us. We own and lease sales offices in major metropolitan locations both in the United States and internationally. Our network management centers are located primarily in buildings that we own at various locations in geographic areas that we serve. Substantially all of the installations of central office equipment for our local service business are located in buildings and on land that we own.

Our public switched telephone network is predominantly located within our local service area.

ITEM 3. *LEGAL PROCEEDINGS*

Investigations

On April 3, 2002, the SEC issued an order of investigation that made formal an informal investigation initiated on March 8, 2002. We are continuing in our efforts to cooperate fully with the SEC in its investigation. The investigation includes, without limitation, inquiry into several specifically identified Qwest accounting practices and transactions and related disclosures that are the subject of the various adjustments and restatements described in this Form 10-K. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Restatement of 2001 and 2000 Consolidated Financial Statements" in Part II, Item 7 below for more information about our restatement. The investigation also includes inquiry into disclosure and other issues related to transactions between us and certain of our vendors and certain investments in the securities of those vendors by individuals associated with us.

On July 9, 2002, we were informed by the U.S. Attorney's Office for the District of Colorado of a criminal investigation of us. We believe the U.S. Attorney's Office is investigating various matters that include the subjects of the investigation by the SEC. We are continuing in our efforts to cooperate fully with the U.S. Attorney's Office in its investigation.

During 2002, the United States Congress held hearings regarding us and matters that are similar to those being investigated by the SEC and the U.S. Attorney's Office. We cooperated fully with Congress in connection with those hearings.

While we are continuing in our efforts to cooperate fully with the SEC and the U.S. Attorney's Office in each of their respective investigations, we cannot predict the outcome of those investigations. We are currently in discussions with the SEC staff in an effort to resolve the issues raised in the SEC's investigation of us. Such discussions are preliminary and we cannot predict the likelihood of whether those discussions will result in a settlement and, if so, the terms of such settlement. However, settlements typically involve, among other things, the SEC making claims under the federal securities laws in a complaint filed in United States District Court that, for purposes of the settlement, the defendant neither admits nor denies. We would expect such claims to address many of the accounting practices and transactions and related disclosures that are the subject of the various restatements we have made as well as additional transactions. In addition, any settlement with the SEC may also involve, among other things, the imposition of a civil penalty, the amount of which could be material, and the entry of a court order that would require, among other things, that we and our officers and directors comply with provisions of the federal securities laws as to which there have been allegations of prior violations.

In addition, as previously reported, the SEC has conducted an investigation concerning our earnings release for the fourth quarter and full year 2000 issued on January 24, 2001. The release provided pro forma normalized earnings information that excluded certain nonrecurring expense and income items resulting primarily from our acquisition of U S WEST. On November 21, 2001, the SEC staff informed us of its intent to recommend that the SEC authorize an action against us that would allege we should have included in the earnings release a statement of our earnings in accordance with GAAP. At the date of this filing, no action has been taken by the SEC. However, we expect that if our current discussions with the staff of the SEC result in a settlement, such settlement will include claims concerning the January 24, 2001 earnings release.

Also, as previously announced in July 2002 by the General Services Administration, or GSA, the GSA is conducting a review of all contracts with us for purposes of determining present responsibility. Recently, the Inspector General of the GSA referred to the GSA Suspension/Debarment Official the question of whether Qwest should be considered for debarment. We have been informed that the basis for the referral is last February's indictment against four former employees in connection with a transaction with the Arizona School Facilities Board in June 2001 and a civil complaint filed the same day by the SEC against the same former employees and others relating to the Arizona School Facilities Board transaction and a transaction with Genuity Inc. in 2000. We are cooperating fully with the GSA and believe that we will remain a supplier of the government, although we cannot predict the outcome of this referral.

Securities Actions and Derivative Actions

Since July 27, 2001, 13 putative class action complaints have been filed in federal district court in Colorado against us alleging violations of the federal securities laws. One of those cases has been dismissed. By court order, the remaining actions have been consolidated into a consolidated securities action, which we refer to herein as the "consolidated securities action". Plaintiffs in the consolidated securities action name as defendants in the Fourth Consolidated Amended Class Action Complaint (referred to as the Fourth Consolidated Complaint), which was filed on or about August 21, 2002, us, our former Chairman and Chief Executive Officer, Joseph P. Nacchio, our former Chief Financial Officers, Robin R. Szeliga and Robert S. Woodruff, other of our former officers and current directors, and Arthur Andersen LLP. The Fourth Consolidated Complaint is purportedly brought on behalf of purchasers of our publicly traded securities between May 24, 1999 and February 14, 2002, and alleges, among other things, that during the putative class period, we and certain of the individual defendants made materially false statements regarding the results of our operations in violation of section 10(b) of the Securities Exchange Act of 1934, or the "Exchange Act", that certain of the individual defendants are liable as control persons under section 20(a) of the Exchange Act, and that during the putative class period, certain of the individual defendants sold some of their shares of our common stock in violation of section 20A of the Exchange Act. The Fourth Consolidated Complaint also alleges that our financial results during the putative class period and statements regarding those results were false and misleading due to the alleged: (i) overstatement of revenue, (ii) understatement of costs, (iii) manipulation of employee benefits in order to increase profitability, and (iv) misstatement of certain assets and liabilities. The Fourth Consolidated Complaint further alleges that we and certain of the individual defendants violated Section 11 of the Securities Act of 1933, as amended, or the "1933 Act", and that certain of the individual defendants are liable as control persons under Section 15 of the 1933 Act by preparing and disseminating false registration statements and prospectuses for: (1) the registration of 897,907,706 shares of our common stock to be issued to U S WEST shareholders dated June 21, 1999, as amended August 13, 1999 and September 17, 1999; (2) the exchange of $3.25 billion of our notes dated July 12, 2001; and (3) the exchange of $3.75 billion of our notes dated October 30, 2001. The Fourth Consolidated Complaint seeks unspecified compensatory damages and other relief. However, lead counsel for the plaintiffs has indicated that plaintiffs will seek damages in the billions of dollars. On September 20, 2002, both we and the individual defendants filed motions to dismiss the

Fourth Consolidated Complaint. Those motions are currently pending before the court. On November 4, 2002, lead plaintiffs in the consolidated securities action filed a motion for a temporary restraining order and preliminary injunction seeking to enjoin the sale of Dex or, in the alternative, to place the proceeds of such sale in a constructive trust for the benefit of the plaintiffs. The court denied both motions.

On October 22, 2001, an alleged derivative lawsuit was filed in the United States District Court for the District of Colorado, naming as defendants each of the then members of our Board of Directors, and naming us as a nominal defendant. The derivative complaint is based upon the allegations made in the consolidated securities action and alleges, among other things, that the Board members intentionally or negligently breached their fiduciary duties to us by failing to oversee implementation of securities laws that prohibit insider trading. The derivative complaint also alleges that the Board members breached their fiduciary duties to us by causing or permitting us to commit alleged securities violations, thus (i) causing us to be sued for such violations, and (ii) subjecting us to adverse publicity, increasing our cost of raising capital and impairing earnings. The derivative complaint further alleges that certain directors sold shares between April 26, 2001 and May 15, 2001 using non-public information about us. On or about October 31, 2001, the court filed an order consolidating this derivative lawsuit with the consolidated securities action. In December 2001, the derivative lawsuit was stayed, pending further order of the court, based on the fact that the merits of the derivative lawsuit are intertwined with the resolution of the consolidated securities action. In March 2002, plaintiffs filed a first amended derivative complaint. The first amended derivative complaint adds allegations relating to the disclosures of our consolidated financial results from April 2000 through February 2002. On or about November 5, 2002, plaintiffs filed a second amended derivative complaint. The second amended complaint adds as defendants to the lawsuit certain former officers, including Robin R. Szeliga, Robert S. Woodruff, and others. The second amended complaint contains allegations in addition to those set forth in the prior complaints, stating, among other things, that (i) certain officers and/or directors traded our stock while in the possession of inside information, and (ii) certain officers and/or directors caused the restatement of more than $1 billion in revenue by concealing improper accounting practices. Plaintiffs seek, among other remedies, disgorgement of alleged insider trading profits. The lawsuit remains stayed.

On March 6, 2002, an alleged derivative lawsuit was filed in the District Court for the City and County of Denver, naming as defendants each of the then members of our Board of Directors, certain former officers of ours and Arthur Andersen LLP. We are named as a nominal defendant. The derivative complaint is based upon the allegations made in the consolidated securities action and alleges that the Board members intentionally or recklessly breached their fiduciary duties to us by causing or allowing us to issue financial disclosures that were false or misleading. Plaintiffs seek unspecified damages on our behalf against the defendants. On July 2, 2002, this state court derivative lawsuit was stayed pending further order of the court. On or about August 1, 2003, the plaintiffs filed an amended derivative complaint, which does not contain claims against our former officers and Arthur Andersen, but continues to assert claims against the Board defendants. In the amended complaint, the plaintiffs allege, among other things, that the individual defendants abdicated their duty to implement and maintain an adequate internal accounting control system and thus allegedly violated (i) their fiduciary duties of loyalty and good faith; (ii) GAAP; and (iii) our Audit Committee's charter (which requires, among other things, that our Audit Committee serve as an independent and objective party to monitor our financial reporting and internal control system). The amended complaint also states new claims against Mr. Nacchio for his alleged breach of fiduciary duties. Plaintiffs seek a court order requiring that Mr. Nacchio disgorge to us all of his 2001 compensation, including salary, bonus, long-term incentive payouts and stock options. In addition, the plaintiffs contend that Mr. Nacchio breached his fiduciary duties to us by virtue of his sales of our stock allegedly made using his knowledge of material non-public information. The plaintiffs seek the imposition of a constructive trust on any profits Mr. Nacchio obtained by virtue of these sales.

Since March 2002, seven putative class action suits were filed in federal district court in Colorado purportedly on behalf of all participants and beneficiaries of the Qwest Savings and Investment Plan and predecessor plans, or the "Plan", from March 7, 1999 until the present. By court order, five of these putative class actions have been consolidated, and the claims made by the plaintiff in the sixth case were subsequently included in the Second Amended and Consolidated Complaint described below. We expect the seventh putative class action to be consolidated with the other cases since it asserts substantially the same claims. The consolidated amended complaint filed on July 5, 2002, or the "consolidated ERISA action", names as defendants, among others, us, several former and current directors, officers and employees, Qwest Asset Management, the Plan's Investment Committee, and the Plan Administrative Committee of the pre-Merger Qwest Communications 401(k) Savings Plan. Plaintiffs filed a Second Amended and Consolidated Complaint on May 21, 2003, naming as additional defendants a former employee and Qwest's Plan Design Committee. The consolidated ERISA action, which is brought under the Employee Retirement Income Security Act, or "ERISA", alleges, among other things, that the defendants breached fiduciary duties to the Plan members by allegedly excessively concentrating the Plan's assets invested in our stock, requiring certain participants in the Plan to hold the matching contributions received from us in the Qwest Shares Fund, failing to disclose to the participants the alleged accounting improprieties that are the subject of the consolidated securities action, failing to investigate the prudence of investing in our stock, continuing to offer our stock as an investment option under the Plan, failing to investigate the effect of the U S WEST merger on Plan assets and then failing to vote the Plan's shares against it, preventing plan participants from acquiring our stock during certain periods, and, as against some of the individual defendants, capitalizing on their private knowledge of our financial condition to reap profits in stock sales. Plaintiffs seek equitable and declaratory relief, along with attorneys' fees and costs and restitution. Plaintiffs moved for class certification on January 15, 2003, and we have opposed that motion, which is pending before the court. Defendants filed motions to dismiss the consolidated ERISA action on August 22, 2002. Those motions are also pending before the court.

On June 27, 2002, a putative class action was filed in the District Court for the County of Boulder against us, The Anschutz Family Investment Co., Philip Anschutz, Joseph P. Nacchio and Robin R. Szeliga on behalf of purchasers of our stock between June 28, 2000 and June 27, 2002 and owners of U S WEST stock on June 28, 2000. The complaint alleges, among other things, that we and the individual defendants issued false and misleading statements and engaged in improper accounting practices in order to accomplish the U S WEST merger, to make us appear successful and to inflate the value of our stock. The complaint asserts claims under Sections 11, 12, 15 and 17 of the 1933 Act. The complaint seeks unspecified monetary damages, disgorgement of illegal gains, and other relief. On July 31, 2002, the defendants removed this state court action to federal district court in Colorado and subsequently moved to consolidate this action with the consolidated securities action identified above. The plaintiffs have moved to remand the lawsuit back to state court. Defendants have opposed that motion, which is pending before the court.

On August 9, 2002, an alleged derivative lawsuit was filed in the Court of Chancery of the State of Delaware, naming as defendants each of the then members of our Board of Directors and our current Chief Financial Officer, Oren G. Shaffer, and naming us as a nominal defendant. On or about September 16, 2002, an amended complaint was filed in the action, naming the same defendants except Mr. Shaffer, who is no longer a defendant in the action. A separate alleged derivative lawsuit was filed in the Court of Chancery of the State of Delaware on or about August 28, 2002. That lawsuit names as defendants our former Chairman and Chief Executive Officer, Joseph P. Nacchio, our former Chief Financial Officer, Robert S. Woodruff, former Board member, Marilyn Carlson Nelson, and each of the then members of our Board of Directors and names us as a nominal defendant. On October 30, 2002, these two alleged derivative lawsuits were consolidated, and an amended complaint (the "Second Amended Complaint") was later filed on or about January 23, 2003, and names as defendants the current members of our Board of Directors, former Board member Hank Brown, our former Chief

Executive Officer, Joseph P. Nacchio, and our former Chief Financial Officer, Robert Woodruff, and names us as a nominal defendant. In the Second Amended Complaint, the plaintiffs allege, among other things, that the individual defendants (i) breached their fiduciary duties by allegedly engaging in illegal insider trading in our stock; (ii) failed to ensure compliance with federal and state disclosure, anti-fraud and insider trading laws within Qwest, resulting in exposure to us; (iii) appropriated corporate opportunities, wasted corporate assets and self-dealt in connection with investments in Initial Public Offering securities through our investment bankers; and (iv) improperly awarded severance payments of $13 million to our former Chief Executive Officer, Mr. Nacchio. The plaintiffs seek recovery of incentive compensation alleged wrongfully paid to certain defendants, all severance payments made to Messrs. Nacchio and Woodruff, and all costs including legal and accounting fees. Plaintiffs have also requested, among other things, that the individual defendants compensate us for any insider-trading profits. Plaintiffs likewise allege that we are entitled to contribution and indemnification by each of the individual defendants. Plaintiffs request that the court cancel all unexercised stock options awarded to Messrs. Nacchio and Woodruff to which they were not entitled, that the defendants return to us all salaries and other remuneration paid to them by us during the time they breached their fiduciary duties, and that the court order the defendants to enforce policies, practices and procedures on behalf of us designed to detect and prevent illegal conduct by our employees and representatives. On March 17, 2003, defendants moved to dismiss the Second Amended Complaint, or, in the alternative, to stay the action. That motion is pending before the court.

On November 22, 2002, plaintiff Stephen Weseley IRA Rollover filed a purported derivative lawsuit in Denver District Court, naming as defendants each of the then members of our Board of Directors, certain of our former officers, Anschutz Company and us as a nominal defendant. Plaintiff alleges, among other things, that the director defendants breached their fiduciary duties to us and damaged us by deliberately in bad faith or recklessly (i) implementing a sham system of internal controls completely inadequate to ensure proper recognition of revenue; (ii) causing us to issue false and misleading statements and financial results to the market regarding our earnings, revenues, business and investments; (iii) exposing us to massive liability for securities fraud; (iv) damaging our reputation; and (v) trading our shares while in possession of material, non-public information regarding our true financial condition. The complaint purports to state causes of action for breach of fiduciary duty, gross negligence, unjust enrichment against some of our former officers and breach of contract and breach of the duty of loyalty/insider trader trading against several of our former officers and former and current directors. On or about January 7, 2003, plaintiff's counsel filed a proposed amended complaint which substitutes a new plaintiff, Thomas R. Strauss, and adds another former officer as a defendant. In the amended complaint, plaintiff seeks (i) disgorgement of bonuses and other incentive compensation paid to certain defendants; (ii) any profits that certain defendants made by virtue of their alleged trading on material, inside information; and (iii) other damages. By order dated January 9, 2003, the court permitted the substitution and Strauss became the plaintiff in this lawsuit under the amended complaint.

On December 10, 2002, the California State Teachers' Retirement System, or "CalSTRS", filed suit against us, certain of our former officers and certain of our current directors and several other defendants, including Arthur Andersen LLP and several investment banks, in the Superior Court of the State of California in and for the County of San Francisco. CalSTRS alleges that the defendants engaged in fraudulent conduct that caused CalSTRS to lose in excess of $150 million invested in our equity and debt securities. The complaint alleges, among other things, that in press releases and other public statements, defendants represented that we were one of the highest revenue producing telecommunications companies in the world, with highly favorable results and prospects. CalSTRS alleges that defendants were engaged, however, "in a scheme to falsely inflate Qwest's revenues and decrease its expenses so that Qwest would appear more successful than it actually was." The complaint purports to state causes of action against us for (i) violation of California Corporations Code Section 25400 et seq. (securities laws) (seeking, among other damages, the difference between the price

at which CalSTRS sold our notes and stock and their true value); (ii) violation of California Corporations Code Section 17200 et seq. (unfair competition); (iii) fraud, deceit and concealment; and (iv) breach of fiduciary duty. Among other requested relief, CalSTRS seeks compensatory, special and punitive damages, restitution, pre-judgment interest and costs. We and the individual defendants filed a demurrer, seeking dismissal of all claims. In response, the plaintiff voluntarily dismissed the unfair competition claim but maintained the balance of the complaint. The court denied the demurrer as to the California securities law and fraud claims, but dismissed the breach of fiduciary duty claim against us with leave to amend. The court also dismissed the claims against Robert S. Woodruff and Robin R. Szeliga on jurisdictional grounds. On or about July 25, 2003, plaintiff filed a First Amended Complaint. The material allegations remain largely the same, but plaintiff no longer alleges claims against Mr. Woodruff and Ms. Szeliga following the court's dismissal of the claims against them, and it has modified its allegation against us for breach of fiduciary duty to an allegation of aiding and abetting breach of fiduciary duty. We have filed a second demurrer, seeking to dismiss the allegation of aiding and abetting breach of fiduciary duty. The court has not ruled on this demurrer.

On November 27, 2002, the State of New Jersey (Treasury Department, Division of Investment), or "New Jersey", filed a lawsuit similar to the CalSTRS action in New Jersey Superior Court, Mercer County. New Jersey alleges, among other things, that we, certain of our former officers and certain current directors and Arthur Andersen LLP caused our stock to trade at artificially inflated prices by employing improper accounting practices, and by issuing false statements about our business, revenues and profits. As a result, New Jersey contends that it incurred tens of millions of dollars in losses. New Jersey's complaint purports to state causes of action against us for: (i) fraud; (ii) negligent misrepresentation; and (iii) breach of fiduciary duty. Among other requested relief, New Jersey seeks from defendants, jointly and severally, compensatory, consequential, incidental and punitive damages. In March 2003, we filed a motion to dismiss plaintiff's complaint. That motion has been fully briefed by the parties and is pending before the court.

On January 10, 2003, the State Universities Retirement System of Illinois, or "SURSI", filed a lawsuit similar to the CalSTRS and New Jersey lawsuits in the Circuit Court of Cook County, Illinois. SURSI filed suit against us, certain of our former officers and certain current directors and several other defendants, including Arthur Andersen LLP and several investment banks. SURSI alleges that defendants engaged in fraudulent conduct that caused it to lose in excess of $12.5 million invested in our common stock and debt and equity securities. The complaint alleges, among other things, that in press releases and other public statements, defendants represented that we were one of the highest revenue producing telecommunications companies in the world, with highly favorable results and prospects. SURSI alleges that defendants were engaged, however, in a scheme to falsely inflate our revenues and decrease our expenses. The complaint purports to state causes of action against us under: (i) the Illinois Securities Act; (ii) the Illinois Consumer Fraud and Deceptive Business Practice Act; (iii) common law fraud; (iv) common law negligent misrepresentation; and (v) Section 11 of the 1933 Act. SURSI seeks, among other relief, punitive and exemplary damages, costs, equitable relief including an injunction to freeze or prevent disposition of the defendants' assets and disgorgement. On March 28, 2003, SURSI filed a First Amended Complaint. The amended complaint adds 12 defendants, including one current officer and several of our former officers or employees, Calpoint, LLC, KMC Telecom Holdings, Inc., or KMC, KPNQwest and Koninklijke KPN, N.V. In addition, SURSI supplements its earlier allegations by contending, among other things, that we: (i) improperly recognized $100 million from a transaction involving Genuity, Inc. in September 2000; (ii) fraudulently recognized $34 million in revenue in the second quarter of 2001 in a transaction involving the Arizona School Facilities Board; and (iii) otherwise improperly accounted for certain revenue in connection with transactions with, among others, Calpoint and KMC. On October 1, 2003, plaintiff filed a motion to dismiss without prejudice its claims against three of the individual defendants and defendant KMC, all of whom had been added as defendants in the First Amended Complaint.

The consolidated securities action, the consolidated ERISA action and the CalSTRS, New Jersey and SURSI actions described above present material and significant risk to us. Some of the allegations in these lawsuits include many of the same subjects that the SEC and U.S. Attorney's Office are investigating. Moreover, the size, scope and nature of the restatements that we are making in this report affect the risk presented by these cases. While we intend to defend against these matters vigorously, the ultimate outcomes of these cases are very uncertain, and we can give no assurance as to the impacts on our financial results or financial condition as a result of these matters. Each of these cases is in a preliminary phase. None of the plaintiffs or the defendants has advanced evidence concerning possible recoverable damages, and we have not yet conducted discovery on these and other relevant issues. Thus, we are unable at this time to estimate reasonably a range of loss that we would incur if the plaintiffs in one or more of these lawsuits were to prevail. Any settlement of or judgment on one or more of these claims could be material, and we cannot give any assurance that we would have the resources available to pay such judgments. Also, our ability to meet our debt service obligations and our financial condition could be materially and adversely affected.

Regulatory Matters

On February 14, 2002, the Minnesota Department of Commerce filed a formal complaint against us with the Minnesota Public Utilities Commission alleging that we, in contravention of federal and state law, failed to file interconnection agreements with the Minnesota Commission relating to certain of our wholesale customers, and thereby allegedly discriminated against other CLECs. On October 21, 2002, the Minnesota Commission adopted in full a proposal by an administrative law judge that we committed 26 individual violations of federal law by failing to file, as required under Section 252 of the Telecommunications Act, 26 distinct provisions found in 12 separate agreements with individual CLECs for regulated services in Minnesota. The order also found that we agreed to provide and did provide to McLeod USA, or "McLeod", and Eschelon Telecom, Inc., or "Eschelon", discounts on regulated wholesale services of up to 10% that were not made available to other CLECs, thereby unlawfully discriminating against them. The order found we also violated state law, that the harm caused by our conduct extended to both customers and competitors, and that the damages to CLECs would amount to several million dollars for Minnesota alone.

On February 28, 2003, the Minnesota Commission issued its initial written decision imposing fines and penalties, which was later revised on April 8, 2003 to include a fine of nearly $26 million and ordered us to:

- grant a 10% discount off all intrastate Minnesota wholesale services to all carriers other than Eschelon and McLeod; this discount would be applicable to purchases made by these carriers during the period beginning on November 15, 2000 and ending on May 15, 2002;

- grant all carriers other than Eschelon and McLeod monthly credits of $13 to $16 per UNE-P line (subject to certain offsets) during the months of November 2000 through February 2001;

- pay all carriers other than Eschelon and McLeod monthly credits of $2 per access line (subject to certain offsets) during the months of July 2001 through February 2002; and

- allow CLECs to opt-in to agreements the Minnesota Commission determined should have been publicly filed.

The Minnesota Commission issued its final, written decision setting forth the penalties described above on May 21, 2003. On June 19, 2003, we appealed the Minnesota Commission's orders to the United States District Court for the District of Minnesota. The appeal is pending.

Arizona, Colorado, New Mexico, Washington, Iowa and South Dakota have also initiated formal proceedings regarding our alleged failure to file required agreements in those states. On July 25, 2003, we entered into a settlement with the staff of the Arizona Corporation Commission to settle this and

several other proceedings. The proposed settlement, which must be approved by the Arizona Commission, requires that we provide approximately $21 million in consideration in the form of a voluntary contribution to the Arizona State Treasury, contributions to certain organizations and/or infrastructure investments and refunds in the form of bill credits to CLECs. New Mexico has issued an order providing its interpretation of the standard for filing these agreements, identified certain of our contracts as coming within that standard and opened a separate docket to consider further proceedings. Colorado has also opened an investigation into these matters. On June 26, 2003, we received from the FCC a letter of inquiry seeking information about these matters. We submitted our initial response to this inquiry on July 31, 2003. The proceedings and investigations in New Mexico, Colorado, Washington and at the FCC could result in the imposition of fines and other penalties against us. Iowa and South Dakota have concluded their inquiries resulting in no imposition of penalties or obligations to issue credits to CLECs in those states.

Illuminet, Inc., a traffic aggregator, and several of its customers have filed complaints with the regulatory agencies in Idaho, Nebraska, Iowa, North Dakota and New Mexico, alleging that they are entitled to refunds due to our purported improper implementation of tariffs governing certain signaling services we provide in those states. The commissions in Idaho and Nebraska have ruled in favor of Illuminet and awarded it $1.5 million and $4.8 million, respectively. We have sought reconsideration in both states, which was denied. We have perfected an appeal in Nebraska. The proceedings in the other states and in states where Illuminet has not yet filed complaints could result in agency decisions requiring additional refunds.

As a part of the approval by the FCC of the U S WEST merger, the FCC required us to engage an independent auditor to perform an attestation review of our compliance with our divestiture of in-region InterLATA services and our ongoing compliance with Section 271 of the Telecommunications Act. In 2001, the FCC began an investigation of our compliance with the divestiture of in-region InterLATA services and our ongoing compliance with Section 271 for the audit years 2000 and 2001. In connection with this investigation, we disclosed certain matters to the FCC that occurred in 2000, 2001, 2002 and 2003. These matters were resolved with the issuance of a consent decree on May 7, 2003, by which the investigation was concluded. As part of the consent decree, we made a voluntary payment to the U.S. Treasury in the amount of $6.5 million, and agreed to a compliance plan for certain future activities. Separate from this investigation, we disclosed matters to the FCC in connection with our 2002 compliance audit, including a change in traffic flow related to wholesale transport for operator services traffic and certain toll-free traffic, certain bill mis-labeling for commercial credit card bills, and certain billing errors for public telephone services originating in South Dakota and for toll free services. The FCC has not yet instituted an investigation into the latter categories of matters. If it does so, an investigation could result in the imposition of fines and other penalties against us.

We have other regulatory actions pending in local regulatory jurisdictions, which call for price decreases, refunds or both. These actions are generally routine and incidental to our business.

Notice of Rescission from Insurance Carriers and Demand for Arbitration

On October 17, 2002, we received a Notice and Demand for Arbitration filed with the American Arbitration Association, or the "AAA", by several of our insurance carriers, including the primary carrier on our Director and Officer, or "D&O", Liability insurance policies, the primary carrier on our Employee Benefit Plan Fiduciary Liability insurance policies and several insurance companies that are excess carriers on these policies. The Notice stated that the insurance carriers have determined to rescind their respective policies, and the Demand for Arbitration sought a ruling rescinding the policies based on alleged material misstatements and omissions made in our consolidated financial statements and other publicly filed documents with the SEC. Two other excess carriers filed similar Demands for Arbitration on November 15 and 18, 2002, respectively, and all Demands for Arbitration were consolidated into one AAA proceeding.

On November 5, 2002, we filed a lawsuit in the Court of Chancery of the State of Delaware to compel non-binding mediation of the dispute and enjoin the carriers from arbitrating the matter, pursuant to provisions in the insurance polices which allow us to choose the form of alternative dispute resolution to resolve coverage disputes. By order dated December 20, 2002, the Court of Chancery permanently enjoined the carriers from pursuing arbitration and directed the carriers to submit to mediation. Following the court's decision, we and the carriers postponed formal mediation and entered into informal discussions in an effort to resolve our disputes. Those discussions are ongoing and include two additional excess carriers that were not parties to the AAA arbitration or the Delaware lawsuit, but have subsequently provided notice to us of rescission or denial of coverage of their respective policies.

The insurance policies that the carriers seek to rescind comprise: (i) $225 million of the Qwest D&O Liability Runoff Program (for the policy period June 30, 2000 to June 30, 2006), which otherwise provides coverage of up to $250 million for claims that at least in part involve conduct pre-dating the U S WEST merger; (ii) $225 million of the Qwest D&O Liability Ongoing Program (for the policy period June 30, 2000 to June 30, 2003), which otherwise provides coverage of up to $250 million for claims exclusively involving post-Merger conduct; and (iii) the Qwest Fiduciary Liability Program (for the policy period June 12, 1998 to June 30, 2003), which otherwise provides coverage of up to $100 million for claims in connection with Employee Benefit Plans. The insurance carriers are seeking to rescind these policies and any coverage that these policies could provide for, among other things, the consolidated securities action, the actions by CalSTRS, New Jersey and SURSI, the Colorado (federal and state) and Delaware derivative actions, the consolidated ERISA action, the SEC investigation, and the U.S. Attorney's Office investigation, which are described above.

In addition to these attempts to rescind policies issued to us, one carrier that has not attempted to rescind its policies, Twin City Fire Insurance Company, has denied coverage for most of the above-mentioned matters under two excess policies it issued. These two excess policies comprise the remaining $25 million balance of our coverage under each of the D&O liability insurance programs described in the preceding paragraph. Twin City is also participating in the ongoing discussions between us and our carriers to resolve our disputes.

In connection with the ongoing discussions with our insurance carriers in an effort to resolve our disputes, we recently reached a preliminary, non-binding agreement, which provides, among other things, that we would pay an additional premium in exchange for resolution of the carriers' coverage and other defenses. This preliminary, non-binding agreement is subject to the parties entering into a definitive agreement on or before October 30, 2003 and approval by our Board of Directors.

We intend to vigorously oppose the insurance carriers' efforts to rescind or otherwise deny coverage under the policies identified above if we are unable to reach a definitive settlement with the carriers. However, there can be no assurance that we will enter into a definitive settlement agreement with the carriers, or that we will not incur a material loss with respect to these matters. While we believe that, in the event the insurance carriers are successful in rescinding coverage, other insurance policies may provide partial coverage. However, there is risk that none of the claims we have made under the Qwest policies described above will be covered by such other policies. In any event, the terms and conditions of the applicable certificates or articles of incorporation, applicable bylaws, applicable law and any applicable agreements may obligate us to indemnify (and advance legal expenses to) our current and former directors, officers, and employees for any liabilities related to these claims.

Other Matters

In January 2001, an amended purported class action complaint was filed in Denver District Court against us and certain current and former officers and directors on behalf of stockholders of U S WEST. The complaint alleges that we have a duty to pay a quarterly dividend to U S WEST stockholders of record as of June 30, 2000. Plaintiffs further claim that the defendants attempted to avoid paying the dividend by changing the record date from June 30, 2000 to July 10, 2000. In

September 2002, we filed a motion for summary judgment on all claims. Plaintiffs filed a cross-motion for summary judgment on their breach of contract claims only. On July 15, 2003, the court denied both summary judgment motions.

In August 2001, we filed a complaint in state court in Colorado and an arbitration demand against Touch America, Inc. In response, also in August 2001, Touch America filed a complaint against us in federal district court in Montana, which was later dismissed. Touch America also filed answers and counterclaims in the arbitration and in the Colorado lawsuit. The disputes between us and Touch America relate to various billing, reimbursement and other commercial disputes in connection with certain agreements entered into on or about June 30, 2000 for the sale to Touch America of our InterLATA business in our local service area (Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming). Touch America also alleged that we violated state and federal antitrust laws, the Telecommunications Act (including claims alleging that our sale of indefeasible rights of use is in violation of the Telecommunications Act) and our FCC tariff. Each party seeks damages against the other for amounts billed and unpaid and for other disputes. The Colorado lawsuit has not yet progressed beyond a preliminary stage. On March 26, 2003, we received an interim opinion and award in the arbitration filed by us. The arbitrator determined that Touch America is obligated to pay us a net amount of approximately $59.6 million plus interest (in an amount to be determined). The interim opinion and award resolved the majority of issues in the arbitration. However, the arbitrator retained jurisdiction to decide certain issues raised during or immediately after the arbitration hearing, and in some cases to determine whether any further dispute remains on issues the arbitrator had previously addressed. In addition to the litigation and arbitration, Touch America also filed two administrative complaints at the FCC alleging violations of the Telecommunications Act by us. Touch America and we have agreed to resolve all of these matters in a settlement agreement that must be approved by the United States Bankruptcy Court for the District of Delaware, the terms of which are described below. Touch America and we have requested, and the FCC has granted, requests to stay the two FCC complaints pending approval of the settlement agreement by the Bankruptcy Court.

On June 19, 2003, Touch America filed a voluntary petition commencing a case under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. The aforementioned arbitration, Colorado lawsuit and FCC complaints were stayed either as a result of the filing of Touch America's bankruptcy petition or by the subsequent agreement of the parties. Immediately prior to Touch America's bankruptcy filing, Touch America and Qwest negotiated a settlement agreement the terms of which are memorialized in a Proposal for Global Settlement between Touch America and us dated June 22, 2003, and which is referred to herein as the "Settlement Proposal". The Settlement Proposal provides for: (a) the mutual general release of some or all claims known or unknown, suspected or unsuspected as of the effective date of the settlement; (b) the immediate termination of proceedings and dismissal with prejudice of all arbitration proceedings, complaints and other proceedings pending before the FCC, and all litigation between Touch America and us; (c) Touch America's forgiveness of a $23 million obligation due from us to Touch America; (d) the adjustment to zero by Touch America and us of all accounts payable and receivable for services delivered one to the other prior to May 31, 2003; (e) our agreement to loan Touch America

$10 million under a debtor in possession financing agreement, the balance of which loan will be forgiven by us if the settlement agreement is approved by the bankruptcy court prior to October 31, 2003, or repaid by Touch America if the settlement is not approved; (f) Touch America's agreement to continue to provide or contract for the provisioning of services currently provided to us; and (g) our agreement to purchase certain fiber assets necessary to our in-region operations from Touch America for a total price of $8 million. The terms of the settlement proposal were further detailed and agreed to in the global settlement and release agreement between the debtors and Qwest dated August 6, 2003.

A motion for approval of the settlement agreement between Touch America and us was filed August 1, 2003 and is pending. The Creditors Committee has indicated that it has objections to the

settlement agreement. In addition, 360 Networks was the successful bidder in a bankruptcy court auction to purchase most of the Touch America assets, including network assets used by Touch America to provide services to Qwest. On September 9, 2003, we reached an interim agreement with 360 Networks, Touch America and the Creditors Committee pursuant to which 360 Networks and Touch America agreed to continue to provide certain of these services. We are working with both the Creditors Committee and 360 Networks to try to address their concerns while protecting our interests and customers. However, we can give no assurance that the settlement agreement will be approved on the terms described above or at all.

From time to time we receive complaints and become subject to investigations regarding "slamming" (the practice of changing long-distance carriers without the customer's consent), "cramming" (the practice of charging a consumer for goods or services that the consumer has not authorized or ordered) and other sales practices. In December 2001, an administrative law judge recommended to the California Public Utilities Commission that we be assessed a $38 million penalty for alleged slamming and cramming violations. On October 24, 2002, the full California Commission issued a decision reducing the fine to $20.3 million. We have appealed that decision, and, the appeal was unsuccessful. Through August 2003, we resolved allegations and complaints of slamming and cramming with the Attorneys General for the states of Arizona, Colorado, Florida, Idaho, Oregon, Utah and Washington. In each of those states, we agreed to comply with certain terms governing our sales practices and to pay each of the states between $200,000 and $3.75 million. We may become subject to other investigations or complaints in the future, and any such complaints or investigations could result in further legal action and the imposition of fines, penalties or damage awards.

Several purported class actions were filed in various courts against us on behalf of landowners in Alabama, California, Colorado, Georgia, Illinois, Indiana, Kansas, Louisiana, Mississippi, Missouri, North Carolina, Oregon, South Carolina, Tennessee and Texas. Class certification was denied in the Louisiana proceeding and, subsequently, summary judgment was granted in our favor. A new Louisiana class action complaint has recently been filed. Class certification was also denied in the California proceeding, although plaintiffs have filed a motion for reconsideration. Class certification was granted in the Illinois proceeding. Class certification has not been resolved yet in the other proceedings. The complaints challenge our right to install our fiber optic cable in railroad rights-of-way and, in Colorado, Illinois and Texas, also challenge our right to install fiber optic cable in utility and pipeline rights-of-way. In Alabama, the complaint challenges our right to install fiber optic cable in any right-of-way, including public highways. The complaints allege that the railroads, utilities and pipeline companies own a limited property right-of-way that did not include the right to permit us to install our fiber optic cable on the plaintiff's property. The Indiana action purports to be on behalf of a national class of landowners adjacent to railroad rights-of-way over which our network passes. The Alabama, California, Colorado, Georgia, Kansas, Louisiana, Mississippi, Missouri, North Carolina, Oregon, South Carolina, Tennessee and Texas actions purport to be on behalf of a class of such landowners in those states, respectively. The Illinois action purports to be on behalf of landowners adjacent to railroad rights-of-way over which our network passes in Illinois, Iowa, Kentucky, Michigan, Minnesota, Nebraska, Ohio and Wisconsin. Plaintiffs in the Illinois action have filed a motion to expand the class to a nationwide class. The complaints seek damages on theories of trespass and unjust enrichment, as well as punitive damages. Together with some of the other telecommunication carrier defendants, in September 2002, we filed a proposed settlement of all these matters in the United States District Court for the Northern District of Illinois. On July 25, 2003, the court granted preliminary approval of the settlement and entered an order enjoining competing class action claims, except those in Louisiana. The settlement and the court's injunction are opposed by some, but not all, of the plaintiffs' counsel and are on appeal before the Seventh Circuit Court of Appeals. At this time, we cannot determine whether such settlement will be ultimately approved or the final cost of the settlement if it is approved.

On October 31, 2002, Richard and Marcia Grand, co-trustees of the R.M. Grand Revocable Living Trust, dated January 25, 1991, filed a lawsuit in Arizona Superior Court alleging that the defendants

violated state and federal securities laws and engaged in fraudulent behavior in connection with an investment by the plaintiff in securities of KPNQwest. We are a defendant in this lawsuit along with Qwest B.V., Joseph Nacchio and John McMaster, the former President and Chief Executive Officer of KPNQwest. The plaintiff trust claims to have lost $10 million in its investment in KPNQwest.

We are subject to a number of environmental matters as a result of our prior operations as part of the Bell System. We believe that expenditures in connection with remedial actions under the current environmental protection laws or related matters will not be material to our business or financial condition.

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

No matters were submitted to a vote of security holders during the fourth quarter of 2002, or during 2003 through the date of this filing.

PART II

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

Market for Qwest Common Stock

The United States market for trading in our common stock is the New York Stock Exchange. As of September 30, 2003, our common stock was held by approximately 452,000 stockholders of record. The following table sets forth the per share dividends that we paid during the periods indicated and the high and low sales prices per share of our common stock for the periods indicated.

	Market Price		
Per Share Market and Dividend Data	**High**	**Low**	**Dividends(1)**
2002			
First quarter	$ 14.93	$ 7.27	$ —
Second quarter	8.00	1.79	—
Third quarter	3.60	1.11	—
Fourth quarter	5.69	1.95	—
2001			
First quarter	$ 47.50	$ 33.25	$ —
Second quarter	40.90	29.82	0.05
Third quarter	31.15	16.50	—
Fourth quarter	18.90	11.51	—

(1) We did not pay any cash dividends on our common stock in 2002.

For a discussion of restrictions on our subsidiaries' ability to pay dividends to us contained in certain of our debt instruments, see Note 11—Borrowings to our consolidated financial statements in Item 8 of this report. Also, the information regarding securities authorized for issuance under our equity compensation plans is incorporated by reference to the section entitled "Equity Compensation Plan Information" in Part III, Item 12 of this report.

Sales of Unregistered Securities

On various dates during 2002, 2001 and 2000, we issued out of shares reserved for the Qwest Equity Incentive Plan 31,731, 114,089 and 53,596 shares of our common stock, respectively, to cover bonus amounts due to certain of our former employees who were then employed at one of our majority-owned subsidiaries. We sold these shares in the open market on various dates during 2002, 2001 and 2000 for aggregate gross proceeds of $140,251, $2,470,026 and $2,534,317, respectively. Upon reviewing the manner in which these shares were issued and sold, we subsequently determined that the sales of stock did not qualify for registration under any of our S-8 registration statements as originally intended and that no applicable exemptions from registration were available.

During the three months ended March 31, 2002, we issued approximately 9.88 million shares of our common stock out of treasury that were not registered under the 1933 Act in reliance on an exemption pursuant to Section 3(a)(9) of that Act. These shares of common stock were issued in a number of separately and privately negotiated direct exchange transactions occurring on various dates throughout the quarter for $97 million in face amount of debt issued by Qwest Capital Funding, Inc. (QCF), a wholly owned subsidiary and guaranteed by Qwest. The trading prices for our shares at the time the exchange transactions were consummated ranged from $8.29 per share to $9.18 per share. No underwriters or underwriting discounts or commissions were involved.

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

On June 30, 2000, we completed our acquisition of U S WEST Inc. (the "Merger"). We accounted for the Merger as a reverse acquisition under the purchase method of accounting, with U S WEST being deemed the accounting acquirer and pre-Merger Qwest the acquired entity. As a result, our consolidated financial statements do not include financial results of pre-Merger Qwest for any period prior to June 30, 2000. For the years ended December 31, 2001 and 2000, the data in the table below is presented on an as adjusted basis to reflect the restatement of results for those years (see below and Note 3—Restatement of Results to our consolidated financial statements in Item 8 of this report). For 1999 and 1998, the selected financial data in the table below is presented on a restated basis, to reflect a correction in our accounting for directory publishing revenues and costs and to present the directory publishing business as a discontinued operation (see Note 8—Assets Held for Sale including Discontinued Operations to our consolidated financial statements in Item 8 of this report). The results presented below for 1999 and 1998 have not been re-audited. You should refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this report and the notes to our consolidated financial statements for information regarding matters that might cause the financial data presented herein not to be indicative of our future financial condition or results of operations.

	Year Ended December 31,				
	2002	2001 (As restated)	2000 (As restated)	1999 (As restated, Unaudited)	1998 (As restated, Unaudited)
	(Dollars in millions, shares in thousands except per share amounts)				
Operating revenues	$ 15,385	$ 16,524	$ 14,148	$ 11,746	$ 11,128
Operating expenses	34,282	18,898	14,422	9,101	8,688
Operating income (loss)	(18,897)	(2,374)	(274)	2,645	2,440
(Loss) income from continuing operations	(17,625)	(6,138)	(1,442)	884	1,142
Net (loss) income(1)	$ (38,468)	$ (5,603)	$ (1,037)	$ 1,084	$ 1,500
(Loss) earnings per share:(2)					

Continuing operations:									
Basic	$	(10.48)	$	(3.69)	$	(1.13)	$	1.01	$ 1.34
Diluted	$	(10.48)	$	(3.69)	$	(1.13)	$	1.00	$ 1.32
Net (loss) income:									
Basic	$	(22.87)	$	(3.37)	$	(0.82)	$	1.24	$ 1.75
Diluted	$	(22.87)	$	(3.37)	$	(0.82)	$	1.23	$ 1.74
Weighted average common shares outstanding (in thousands):(2)									
Basic		1,682,056		1,661,133		1,272,088		872,309	854,967
Diluted		1,682,056		1,661,133		1,272,088		880,753	862,581
Dividends per common share	$	0.00	$	0.05	$	0.31	$	1.36	$ 1.24
Balance sheet data:									
Total assets	$	29,345	$	72,166	$	72,816	$	22,914	$ 18,416
Total debt(3)		22,540		25,037		19,157		13,071	9,919
Debt to total capital ratio(4)		114.36%		41.42%		31.55%		94.04%	94.32%
Other data:									
Cash provided by operating activities	$	2,334	$	2,890	$	3,762	$	4,546	$ 3,927
Cash used for investing activities		(2,738)		(8,059)		(5,256)		(6,462)	(2,769)
Cash (used for) provided by financing activities		(789)		4,660		1,268		1,945	(1,136)
Capital expenditures		2,764		8,042		7,135		3,944	2,905

(1) Amounts that follow in this footnote are on an after-tax basis. Also, as described in footnote (2), all share and per share amounts for the periods 1998 through 2000 assume the conversion of U S WEST common stock into Qwest common stock.

2002. 2002 net loss includes a charge of $22.800 billion ($13.55 per basic and diluted share) for a transitional impairment from the adoption of a change in accounting for goodwill and other intangible assets, charges aggregating $14.928 billion ($8.87 per basic and diluted share) for goodwill and asset impairments, a net charge of $111 million ($0.07 per basic and diluted share) for Merger-related, restructuring and other charges, a charge of $1.066 billion ($0.63 per basic and diluted share) for the losses and impairment of investment in KPNQwest, a gain of $1.124 billion ($0.67 per basic and diluted share) relating to the gain on the extinguishment of debt and gain on sale of discontinued operations of $1.592 billion ($0.95 per basic and diluted share).

2001. 2001 net loss includes charges aggregating $696 million ($0.42 per diluted share) for Merger-related, restructuring and other charges, a charge of $3.300 billion ($1.99 per basic and diluted share) for the losses and impairment of investment in KPNQwest, a charge of $136 million ($0.08 per basic and diluted share) for a depreciation adjustment on access lines returned to service, a charge of $86 million ($0.05 per basic and diluted share) for investment write-downs, a charge of $154 million ($0.09 per basic and diluted share) for asset impairments, a charge of $65 million ($0.04 per basic and diluted share) for the early retirement of debt and a gain of $31 million ($0.02 per basic and diluted share) for the sale of rural exchanges.

2000. 2000 net loss includes a charge of $907 million ($0.71 per basic and diluted share) for Merger-related costs, a charge of $531 million ($0.42 per basic and diluted share) for the loss on sale of Global Crossing investments and related derivatives, a charge of $208 million ($0.16 per basic and diluted share) for asset impairments and a net gain of $126 million ($0.10 per basic and diluted share) on the sale of investments.

1999. 1999 net income includes expenses of $282 million ($0.32 per basic and diluted share) related to a terminated merger, a loss of $225 million ($0.26 per basic and diluted share) on the sale of marketable securities and a charge of $34 million ($0.04 per basic and diluted share) on the decline in the market value of derivative financial instruments.

1998. 1998 net income includes expenses of $68 million ($0.08 per basic and diluted share) associated with the June 12, 1998 separation of U S WEST's former parent company into two independent companies and an asset impairment charge of $21 million ($0.02 per basic and diluted share).

(2) In connection with the Merger, each outstanding share of U S WEST common stock was converted into the right to receive 1.72932 shares of Qwest common stock (and cash in lieu of fractional shares). The weighted-average common shares outstanding assume the 1-for-1.72932 conversion of U S WEST shares for Qwest shares for all periods presented. In addition, weighted-average common shares outstanding also assume a one-for-one conversion of U S WEST Communications Group common shares outstanding into shares of U S WEST as of the date of the separation of U S WEST's former parent company.

(3) Amounts include outstanding commercial paper borrowings of $3.165 billion, $2.035 billion, $1.265 billion and $951 million for 2001, 2000, 1999 and 1998, respectively, and exclude future purchase commitments, operating leases, letters of credit and guarantees. There were no commercial paper borrowings outstanding as of December 31, 2002. At December 31, 2002, the amount of those future purchase commitments, operating leases, letters of credit and guarantees was approximately $7.857 billion.

(4) The debt to total capital ratio is a measure of the amount of debt in our capitalization. The ratio is calculated by dividing debt by total capital. Debt includes current borrowings and long-term borrowings as reflected in our consolidated balance sheets in Item 8 of this report. Total capital is the sum of debt and total stockholders' (deficit) equity.

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

Certain statements set forth below under this caption constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. See "Special Note Regarding Forward-Looking Statements" at the end of this Item 7 for additional factors relating to such statements as well as for a discussion of certain risk factors applicable to our business, financial condition and results of operations.

Business Overview

We provide local telecommunications and related services, IntraLATA long-distance services and wireless, data and video services within our local service area, which consists of the 14-state region of Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming. We provide InterLATA long-distance services outside our local service area and switched InterLATA long-distance services (as a reseller) in all states within our local service area other than Arizona. We also provide reliable, scalable and secure broadband data, voice and video communications outside our local service area as well as globally. We previously provided directory publishing services in our local service area. In 2002, we entered into contracts for the sale of our directory publishing business. In November 2002, we closed the sale of our directory publishing business in seven of the 14 states in which we offered these services. In September 2003, we completed the sale of the directory publishing business in the remaining states. As a consequence, the results of operations of our directory publishing business are included in income from discontinued operations in our consolidated statements of operations.

Restatement of 2001 and 2000 Consolidated Financial Statements

This report contains our restated consolidated financial statements for the years ended December 31, 2001 and 2000. We performed an analysis of our previously issued consolidated financial statements for 2001 and 2000 and identified a number of errors.

The nature of the errors and the restatement adjustments that we have made to our financial statements for years ended December 31, 2001 and 2000 are described in Item 1 Business—Impact of Restatement and are set forth in Note 3—Restatement of Results to our consolidated financial statements in Item 8 of this report.

The net impact of the restatement adjustments include the following:

	December 31,	
	2001	2000
	(in millions, except per share amounts)	
Revenue	$ (1,543)	$ (945)
Loss before income taxes, discontinued operations and cumulative effect of change of accounting principle	(2,497)	(1,432)
Net loss	(1,580)	(956)
Loss per share	$ (0.95)	$ (0.76)

Additionally, we recorded a $353 million adjustment to reduce January 1, 2000 beginning retained earnings related to our restatement of our directory publishing revenues and costs and the related deferred income tax effects. We also recorded significant restatements in connection with our accounting for the Merger. See Note 4—Merger to our consolidated financial statements in Item 8 of

this report for more information related to the restatements to our previously reported purchase accounting.

The restatements involve, among other matters, revenue recognition issues related to optical capacity asset transactions, equipment sales, directory publishing and purchase accounting. In making these restatements, we have performed an internal analysis of our accounting policies, practices, procedures and disclosures for the affected periods.

Please note that our consolidated financial statements do not include financial results of pre-Merger Qwest for any period prior to the Merger. This is due to U S WEST being deemed the acquirer in the Merger for financial statement accounting purposes. With respect to certain categories of transactions (principally the optical capacity asset transactions), we are restating these transactions only with respect to periods subsequent to June 30, 2000. Certain of these transactions may have been accounted for by pre-Merger Qwest under policies and practices similar to those for which post-Merger transactions are being restated.

Results of Operations

Overview

Our operating revenues are generated from our wireline, wireless and other segments. Our wireline segment includes revenues from the provision of voice services and data and Internet services. Voice services consist of local voice services (such as basic local exchange services), long-distance voice services (such as IntraLATA long-distance services and InterLATA long-distance services) and other voice services (such as operator services, public telephone service, enhanced voice services and CPE). Voice services revenues are also generated on a wholesale basis from switched-access service revenues, wholesale long-distance service revenues (included in long-distance services revenues) and wholesale access revenues (included in local voice services revenues). Data and Internet services includes data services (such as traditional private lines, wholesale private lines, frame relay, ATM and related CPE) and

Internet services (such as DSL, DIA, VPN, Internet dial access, web hosting, professional services and related CPE). Revenues from optical capacity transactions are also included in revenues from data services. Depending on the product or service purchased, a customer may pay an up-front fee, a monthly fee, a usage charge or a combination of these.

Our wireless services are provided through our wholly owned subsidiary, Qwest Wireless LLC, which holds 10 MHz licenses to provide Personal Communications Service, or PCS, in most markets in our local service area. We offer wireless services to residential and business customers, providing them the ability to use the same telephone number for their wireless phone as for their home or business phone.

In August 2003, we entered into a services agreement with a subsidiary of Sprint that allows us to resell Sprint wireless services, including access to Sprint's nationwide PCS wireless network, to consumer and business customers, primarily within our local service area. We plan to begin offering these Sprint services under our brand name in early 2004. Our wireless customers who are currently being serviced through our proprietary wireless network will be transitioned at our cost onto Sprint's network. We are still evaluating both the operational effects of this new wholesale wireless arrangement and the financial effects; however, due to the anticipated decrease in usage of our own wireless network we anticipate that we will record a charge related to an additional impairment of our wireless network. We expect that the impairment charge will be in the range of $200 million to $300 million. We have not adjusted our consolidated financial statements for the year ended December 31, 2002 for any potential impacts of this agreement.

Other services revenue is predominately derived from subleases of some of our unused real estate assets, such as space in our office buildings, warehouses and other properties.

Our wholly owned subsidiary, Dex, previously published telephone directories in our local service area. Virtually all of Dex's revenues were derived from the sale of advertising in its various directories. During 2002, we entered into an agreement to sell our entire directory publishing business to a third party for approximately $7.05 billion. The sale was divided into two phases, the first of which closed in November 2002. At this closing, we received approximately $2.75 billion of gross proceeds. The second phase closed in September 2003. At this closing, we received approximately $4.30 billion of gross proceeds. The results of operations from our directory publishing business for all periods presented are included in income from and gain on sale of discontinued operations in our consolidated statements of operations and, accordingly, the results of operations for all periods discussed below do not include the operating revenues or expenses of Dex. For more information regarding the sale of Dex, see Note 8—Assets Held for Sale including Discontinued Operations to our consolidated financial statements in Item 8 of this report.

Business Trends

Our results continue to be impacted by a number of factors influencing the telecommunications industry and our local service area. First, the weak economy in our local service area has continued to impact demand from both our consumer and business customers. The impacts include reduced demand for services resulting in loss of access lines, renegotiated commitments and loss of customers. We believe demand will continue to be affected because the recovery in our local service area is expected to lag the national recovery. Second, technology substitution and competition is expected to continue to lead to access line loss. However, the competitive landscape is changing as we have begun offering InterLATA services in our local service area and CLECs are increasing their use of UNE-P to gain a relative cost advantage for local voice services. Overall, as we expect industry-wide competitive factors to continue to impact our results, we have developed new strategies for offering complementary services such as satellite television and wireless. Third, our results continue to be impacted by regulatory responses to the competitive landscape for both our local and long-distance services.

Wireline Trends

In general, we expect to see a continued decrease in wireline related revenues as a result of a decrease in demand for access lines. Access lines are expected to continue decreasing primarily because of technology substitution, including wireless and cable substitution for wireline telephony, and cable modem substitution for dial-up Internet access lines. In addition, our competitors have accelerated their use of the UNE-P platform to deliver wireline voice services. Although the use of UNE-P did not have a material impact on our operations in 2002, we believe the offering of UNE-P services will cause downward pressure on our revenues and result in incremental retail access line losses.

We have experienced a decrease in wireline revenues associated with long-distance voice services out-of-region, or outside of our local service area, due to competitive pressures and a shift in product mix. Increasingly, however, we expect long-distance and DSL revenues within our local service region to offset these revenue declines.

We expect to see a continued decline in wholesale switched-access revenues due primarily to pricing changes and volume declines. Pricing declines occurred due to state regulatory actions and the 2000 CALLS order. The CALLS order capped prices for certain services, which resulted in a price decline for switched-access services. Volumes fell in 2002 due to general declines in long-distance usage. We expect that switched-access revenues will continue to decline as a result of more customers selecting Qwest as their long-distance provider and from competition from wireless and other wireline providers.

We have also begun to experience and expect increased competitive pressure from telecommunications providers either emerging from bankruptcy protection or reorganizing their capital

structure to more effectively compete against us. As a result of these increased competitive pressures, we have been and may continue to be forced to respond with less profitable product offerings and pricing plans that allow us to retain and attract customers. These pressures could adversely affect our operating results and financial performance.

Wireless Trends

Although wireless revenues were similar in 2002 to 2001, during 2002 we began to experience net subscriber losses due to our decision to de-emphasize marketing of wireless services and changes to customer credit requirements, coupled with intense industry competition and the impact of the economic slowdown. We expect these same factors to continue in 2003, and expect that the continued loss of subscribers will cause wireless revenues to decline during 2003.

Starting in 2004, we expect to expand our wireless offerings through our new arrangement with Sprint. This arrangement will enable us to utilize Sprint's nationwide digital wireless network to offer our customers new voice and data capabilities.

Merger with U S WEST

On June 30, 2000, we merged with U S WEST, Inc. The discussion and analysis of the results of operations for the years 2002, 2001 and 2000 reflects the transition that took place as a result of the Merger.

At the time of the Merger, we anticipated that the Merger would essentially enable us to extend our broadband Internet leadership position. The Merger was expected to allow us to reach more consumer and business customers through expanded broadband local connectivity and, in doing so, implement our strategy of becoming the premier end-to-end provider of advanced broadband Internet-based communications worldwide. The Merger was also expected to provide significant economies of scale and cost savings through the avoidance or elimination of duplicate operating costs and expenditures. Since the consummation of the Merger, we have realized certain operating benefits; however, we have not achieved all of the benefits expected by management at the time of the Merger primarily due to a decline in the economy and the resulting over-capacity that occurred in the industry. In addition, we experienced delays in our anticipated timing for obtaining approval to re-enter the long-distance business in our local service area which has delayed our ability to implement the overall strategy.

We accounted for the Merger as a reverse acquisition under the purchase method of accounting. For accounting purposes, U S WEST was deemed the accounting acquirer and its historical financial statements have been carried forward as those of the combined company. In connection with the Merger, each outstanding share of U S WEST common stock was converted into the right to receive 1.72932 shares of Qwest common stock (and cash in lieu of fractional shares). In addition, all outstanding U S WEST stock options and warrants were converted into options and warrants to acquire Qwest common stock at the same ratio. All share and per share amounts presented for 2000 have been restated to give retroactive effect to the exchange ratio. We have restated the previously reported value of consideration in the Merger, primarily because it had been based upon an improper valuation of the fair value of stock options and warrants. Following the restatement, the total value of the consideration was approximately $41.5 billion (as restated), which was allocated to the estimated fair values of our identifiable tangible and intangible assets and liabilities, including $32.4 billion to goodwill. For more information on the Merger with U S WEST, including the restatements to the Merger consideration and the allocation of purchase price, see Note 4—Merger to our consolidated financial statements in Item 8 of this report.

Presentation

The results for 2001 and 2000 presented below are "As Restated." Please refer to Note 3—Restatement of Results to our consolidated financial statements in Item 8 of this report. The analysis is organized in a way that provides the information required, while highlighting the information that we believe will be instructive for understanding the relevant trends going forward. In addition to the discussion of the historical information that reviews the current reporting presentation of our financial statements, an overview of the segment results is provided in "Segment Results" below. The segment discussion below reflects the way we reported our segment results to our Chief Executive Officer following a change in December 2002. Unless otherwise indicated, all information is presented in accordance with GAAP.

The Merger significantly impacts the comparison of the results of operations between 2001 and 2000. The financial results of pre-Merger Qwest for the first six months of 2000 are not included in the 2000 statements of the combined entity. Consequently, the 2001 results include a full twelve months of pre-Merger Qwest's business, compared to six months in 2000. After the Merger, we immediately began the process of integrating the two companies, including merging responsibilities. Consequently, we are unable to precisely separate the results of the two companies for any period after the Merger and analyze the business results of each company in the context of the Merger. However, in order to analyze 2001 versus 2000 revenues and expenses, we estimated the impact of the Merger by assuming that the revenues and expenses for the first six months of 2001 for pre-Merger Qwest were equal to the first six months of 2000 excluding certain non-recurring items (certain optical capacity asset and

equipment transactions). While we believe these assumptions are appropriate under the circumstances, different assumptions could lead to different impacts to our analysis.

	Year ended December 31,			Absolute Change		Percentage Change	
	2002	2001 As restated	2000 As restated	2002 v 2001	2001v 2000	2002 v 2001	2001v 2000
	(Dollars in millions, except per share amounts)						
Operating revenues	$ 15,385	$ 16,524	$ 14,148	$ (1,139)	$ 2,376	(7)%	17%
Operating expenses, excluding goodwill and asset impairment charges	15,274	18,647	14,082	(3,373)	4,565	(18)%	32%
Goodwill impairment charge	8,483	—	—	8,483	—	nm	nm
Asset impairment charges	10,525	251	340	10,274	(89)	nm	(26)%
Operating loss	(18,897)	(2,374)	(274)	(16,523)	(2,100)	nm	nm
Other expense—net	1,228	5,021	1,760	(3,793)	(3,261)	(76)%	185%

Loss before income taxes, discontinued operations, and cumulative effect of changes in accounting principles	(20,125)	(7,395)	(2,034)	(12,730)	(5,361)	172%	264%
Income tax benefit	2,500	1,257	592	1,243	665	99%	112%
Loss from continuing operations	(17,625)	(6,138)	(1,442)	(11,487)	(4,696)	187%	326%
Income from and gain on sale of discontinued operations, net of tax	1,957	511	446	1,446	65	283%	15%
Loss before cumulative effect of changes in accounting principles	(15,668)	(5,627)	(996)	(10,041)	(4,631)	178%	nm
Cumulative effect of changes in accounting principles, net of tax	(22,800)	24	(41)	(22,824)	65	nm	nm
Net loss	$ (38,468)	$ (5,603)	$ (1,037)	$ (32,865)	$ (4,566)	nm	nm
Basic and diluted loss per share	$ (22.87)	$ (3.37)	$ (0.82)	$ (19.50)	$ (2.55)	nm	nm

nm—not meaningful

Operating Revenues

	Year ended December 31,			Absolute Change		Percentage Change	
	2002	2001 As restated	2000 As restated	2002 v 2001	2001v 2000	2002 v 2001	2001v 2000
	(Dollars in millions)						
Voice services	$ 10,815	$ 11,876	$ 10,955	$ (1,061)	$ 921	(9)%	8%
Data and Internet services	3,819	3,901	2,720	(82)	1,181	(2)%	43%
Total wireline revenue	$ 14,634	$ 15,777	$ 13,675	$ (1,143)	$ 2,102	(7)%	15%
Wireless	694	688	422	6	266	1%	63%
Other services	57	59	51	(2)	8	(3)%	16%
Total operating revenues	$ 15,385	$ 16,524	$ 14,148	$ (1,139)	$ 2,376	(7)%	17%

For a description of the products and services included in each revenue line item, see "Overview" above.

Voice Services

Voice services revenues decreased $1.061 billion, or 9%, in 2002 and increased $921 million, or 8%, in 2001.

Voice Services 2002 vs. 2001

The voice services decrease in 2002 was the result of access line losses, our focus on more profitable products and services and a reduction in wholesale switched-access revenues, each of which is discussed further below.

We experienced a decline in local voice services revenues of $228 million in 2002 associated with the loss of 781,000 access lines. The access line loss was driven by a soft economy in our local service area, technology substitution to wireless and broadband services and competition. We are experiencing competition from both facility and non facility-based providers such as cable companies providing telephony services, CLECs, and other telecommunications providers reselling our services.

Throughout the last half of 2001 and during 2002, we evaluated the profitability of specific products sold outside of our local service area. Based upon this evaluation, we de-emphasized and stopped promoting certain services including InterLATA long-distance in the consumer and business markets, wholesale long-distance, IntraLATA long-distance and operator services. In addition, we also experienced lower long-distance pricing due to competitive pressures and a shift in the product mix to certain wholesale services. These factors combined to reduce long-distance voice revenues by $464 million in 2002.

We also experienced a revenue decline of $173 million in switched-access revenues in 2002. The switched-access revenue declines were due primarily to pricing and volume declines. Pricing declines occurred due to state regulatory actions and the July 2000 CALLS order. The CALLS order capped prices for certain services, which resulted in a price decline for switched-access services. Volumes also fell due to general declines in demand for long-distance usage and competitive losses.

In addition to the revenue decreases described above, other voice services declined $196 million in 2002, primarily due to declines in demand for services such as collocation, public telephone services and directory assistance. The declines were primarily driven by the soft telecommunications market, telecommunications company bankruptcies, wireless substitution of public telephones and deteriorating economic conditions.

Voice Services 2001 vs. 2000

Of the $921 million increase in voice services revenues in 2001 approximately $1.124 billion is attributable to the impact of the Merger. Additionally, voice revenues decreased by $203 million primarily as a result of access line losses.

We experienced revenue declines of $244 million in switched-access, $123 million in business customer price reductions and $49 million related to access line losses in 2001. The switched-access revenue declines were primarily due to the same regulatory and industry effects described for 2002 above. During 2000 and 2001, we reduced our rates to business customers to remain competitive in the marketplace for advanced voice services. In addition, business customers converted their single access lines to a fewer number of high speed, high-capacity access lines allowing for the transport of multiple simultaneous telephone calls and transmission of data at higher rates of speed. This conversion effectively resulted in the rate reduction and contributed to access line loss.

Offsetting the revenue declines in 2001 was an increase of $236 million in wholesale long-distance revenue, which resulted from a shift in our emphasis from retail to wholesale long-distance services.

Partially offsetting the increases in out-of-region long-distance revenue was a decrease in IntraLATA long-distance revenue in our local service area.

Data and Internet Services

Data and Internet services revenues remained relatively flat in 2002 and increased $1.181 billion, or 43%, in 2001. Approximately $580 million of the increase in 2001 is attributable to the Merger. Additionally, data and Internet services revenues increased by $601 million in 2001, primarily for reasons described below.

Data and Internet Services 2002 vs. 2001

In 2002, revenue increases from IP products such as Internet dial access, DSL and DIA were offset by declines in data services such as wholesale private line. During 2002, Internet dial access revenues increased $98 million primarily from sales to large ISPs and businesses for use in their internal telecommunication networks. DSL revenues increased by $75 million due to the addition of approximately 78,000 DSL subscribers for a total of 510,000 subscribers at the end of 2002 due to higher customer demand. DIA revenues grew $28 million in 2002 as demand for access to the Internet increased from business and wholesale customers. Data revenue declined by $226 million, primarily due to weak sales as a result of lower demand and disconnects of wholesale private line services by existing wholesale customers as the slow economy forced those customers to decrease the bandwidth they purchase to correlate with their current needs.

Data and Internet Services 2001 vs. 2000

In 2001, data revenue increases were from products such as frame relay, ATM, private line and CPE combined with Internet products such as hosting, professional services, DSL and DIA. In 2001, we experienced $301 million revenue increase from business and wholesale private line services, frame relay and ATM sales. This reflected expanding customer telecommunications needs during 2000 and early 2001. In addition, sales of CPE to our business customers increased by $87 million as a result of providing total telecommunications solutions to our customers. DSL revenues increased by $39 million in 2001 as a result of the addition of approximately 177,000 DSL subscribers. In addition DIA revenues grew $68 million in 2001 as demand for access to the Internet increased from business and wholesale customers.

Wireless

Revenues from the wireless services segment increased by $6 million, or 1%, in 2002 and increased $266 million, or 63%, in 2001.

Wireless 2002 vs. 2001

Although net subscribers fell from 1.12 million in 2001, to 1.03 million in 2002, revenues increased slightly. We did not experience an overall revenue decline due to the timing of the acquisition and disposition of customers between the years. The fall in subscribers, despite an expanding overall market, reflects our decision to de-emphasize sales of wireless services on a stand-alone basis, tighten credit policies and limit product marketing, as well as the impact of intense industry competition, the economic slowdown, lack of a national network and higher than expected customer disconnects. During 2002, our wireless penetration percentage (our wireless subscribers divided by the total number of subscribers in the points-of-presence we cover) declined in the markets we serve from 5.73% in 2001 to 4.66% in 2002.

Wireless 2001 vs. 2000

In 2001, total wireless subscribers increased from 805,000 in 2000 to 1.12 million in 2001. The increase in subscribers reflected the increase in demand for wireless services and our focus on growing the wireless subscriber base. During 2001, our wireless penetration percentage grew in the markets we serve from 4.89% in 2000 to 5.73% in 2001.

Other Services

Other Services revenue consists primarily of rental income from our owned and leased real estate. Other services revenue remained flat at $57 million in 2002 and $59 million in 2001. In 2001, other revenues increased $8 million or 16% from $51 million in 2000, due to eliminating the need for internal administrative space and leasing it externally.

Operating Expenses

The following table provides further detail regarding our operating expenses:

	Year ended December 31,			Absolute Change		Percentage Change	
	2002	2001 (As restated)	2000 (As restated)	2002 vs. 2001	2001 vs. 2000	2002 vs. 2001	2001vs. 2000
	(Dollars in millions)						
Operating expenses:							
Cost of sales	$ 5,966	$ 6,530	$ 4,375	$ (564)	$ 2,155	(9)%	49%
Selling, general and administrative ("SG&A")	5,279	5,616	4,886	(337)	730	(6)%	15%
Depreciation	3,268	3,704	2,555	(436)	1,149	(12)%	45%
Goodwill and other intangible amortization	579	1,660	785	(1,081)	875	(65)%	111%
Goodwill impairment charge	8,483	—	—	8,483	—	nm	—
Asset impairment charges	10,525	251	340	10,274	(89)	nm	(26)%
Restructuring, Merger-related and other charges	182	1,137	1,481	(955)	(344)	(84)%	(23)%
Total operating expenses	$ 34,282	$ 18,898	$ 14,422	$ 15,384	$ 4,476	81%	31%

nm - not meaningful

Cost of Sales

The following table shows a breakdown of cost of sales by major component:

	Year ended December 31,			Absolute Change		Percentage Change	
	2002	2001 (As restated)	2000 (As restated)	2002 vs. 2001	2001 vs. 2000	2002 vs. 2001	2001 vs. 2000
	(Dollars in millions)						
Facility costs	$ 2,991	$ 3,060	$ 1,236	$ (69)	$ 1,824	(2)%	148%
Network costs	378	555	525	(177)	30	(32)%	6%
Employee and service-related costs	1,844	1,842	1,926	2	(84)	0%	(4)%
Non-employee related costs	753	1,073	688	(320)	385	(30)%	56%
Total cost of sales	$ 5,966	$ 6,530	$ 4,375	$ (564)	$ 2,155	(9)%	49%

Cost of sales includes: facility costs, network costs, salaries and wages, benefits, materials and supplies, contracted engineering services, computer systems support and the cost of CPE sold. Facility costs are third-party telecommunications expenses we incur to connect customers to our network or to end-user product platforms not owned by us both in-region and out-of-region. Network costs include third-party expenses to repair and maintain the network and supplies to provide services to customers.

Total cost of sales decreased $564 million, or 9%, in 2002 and increased $2.155 billion, or 49%, in 2001. During 2002, our expenses declined due to improved management expense controls, lower staffing requirements and lower sales volumes offset by a decrease in the net pension credit. Of the $2.155 billion increase in cost of sales in 2001, approximately $1.101 billion is attributable to the Merger. Additionally, cost of sales increased $1.054 billion in 2001. This was primarily the result of increased facility costs which is discussed below.

Cost of sales, as a percentage of revenue, was 39% for 2002, 40% for 2001 and 31% in 2000. The increase in cost of sales as a percent of revenue between 2000 and 2001 was driven by the fact that the products and services of pre-Merger Qwest were generally associated with lower gross margins than the U S WEST products and services.

Facility costs, including leased local access circuits, decreased $69 million, or 2%, in 2002, and increased $1.824 billion, or 148%, in 2001. The decrease in 2002 is attributable to cost savings associated with network optimization and reduced voice volumes partially offset by costs associated with the introduction of new product platforms. Network optimization savings are primarily derived from eliminating excess capacity from the network and migrating from lower-speed services to more cost efficient higher-speed services where applicable. Approximately $1.024 billion of the increase in facilities costs in 2001 is attributable to the Merger. Additionally, facilities costs increased $800 million in 2001 due to the introduction of new product platforms, including our Internet dial and hosting infrastructure, and increased long-distance volumes in our out-of-region wholesale business.

Our network costs declined $177 million, or 32%, in 2002 and increased $30 million, or 6%, in 2001. During 2002, we reduced our reliance on third-party contractors to provide network maintenance services, by shifting this work to our employees. We also experienced lower costs associated with wireless handset sales as a result of lower unit prices and decreases in the number of new wireless subscribers. Approximately $10 million of the 2001 increase is attributable to the Merger. Additionally, network expense increased $20 million, in 2001, primarily due to higher total wireless handset costs as we expanded our wireless customer base during 2001.

Employee and service-related costs, such as salaries and wages, benefits, commissions, and third-party customer service were essentially flat in 2002 and decreased $84 million, or 4%, in 2001. In 2002, increases in benefits, pension and taxes as a result of the reduction in the net pension credit, as discussed below in Combined Pension and Post-Retirement Benefits were offset by decreases in salaries and wages included in cost of sales, primarily due to lower staffing requirements, combined with a reduction in the use of third-party contractors to design and install services for customers. The Merger caused an expense increase of approximately $84 million in 2001. Additionally, employee and service related costs decreased $168 million in 2001. The decrease is attributable to lower bonus payments to management employees, overtime reductions and salaries and wage decreases due to lower staffing requirements.

Non-employee related costs, such as real estate costs, cost of sales for CPE, and reciprocal compensation payments, decreased $320 million, or 30%, in 2002 and increased $385 million, or 56%, in 2001. The decrease in 2002 is attributable to lower reciprocal compensation costs due to an April 2001 FCC order which limited the amount of reciprocal compensation due to ISPs, lower postage and shipping costs associated with improved management expense controls and lower cost of sales for data and IP CPE, associated with lower CPE revenue. The Merger had minimal impact on 2001 as it relates to non-employee related costs. Additionally, non-employee related costs increased approximately

$385 million in 2001. The increase is primarily attributable to higher access expense and external commissions.

SG&A

The following table shows a breakdown of SG&A by major component:

	Year ended December 31,			Absolute Change		Percentage Change	
	2002	2001	2000	2002 vs. 2001	2001 vs. 2000	2002 vs. 2001	2001 vs. 2000
		as restated	as restated				
	(Dollars in millions)						
Property and other taxes	$ 493	$ 438	$ 467	$ 55	$ (29)	13%	(6)%
Bad debt	511	615	388	(104)	227	(17)%	59%
Employee and service related costs	2,768	3,309	2,775	(541)	534	(16)%	19%
Non-employee related costs	1,507	1,254	1,256	253	(2)	20%	—%
Total SG&A	$ 5,279	$ 5,616	$ 4,886	$ (337)	$ 730	(6)%	15%

Selling, general and administrative, or SG&A, expenses include taxes other than income taxes, bad debt charges, salaries and wages not directly attributable to products or services, benefits, sales commissions, rent for administrative space, advertising, professional service fees and computer systems support. SG&A, as a percent of revenue, was 34% for 2002, 34% for 2001 and 35% for 2000.

Total SG&A decreased $337 million, or 6%, in 2002 and increased $730 million, or 15%, in 2001. The 2002 decrease relates primarily to lower staffing requirements, offset by increased property taxes and non-employee related costs. Of the $730 million increase in SG&A in 2001, approximately $718 million is attributable to the Merger. Additionally, SG&A increased $12 million in 2001 due to increases in bad debt expense, employee expense and non-employee cost increases partially offset by decreases in property and other taxes.

Property and other taxes increased $55 million, or 13%, in 2002 and decreased $29 million, or 6%, in 2001. The increase in 2002 is attributable to capital expansion for both the traditional telephone network and global fiber optic broadband network that took place during the years ended December 31, 2001 and 2000. The Merger caused an increase in property and other tax expense of approximately $30 million. Also, property and other taxes decreased $59 million in 2001 as a result of changes in property tax estimates.

Bad debt expense decreased $104 million, or 17%, in 2002 and increased $227 million, or 59%, in 2001. Bad debt expense decreased as a percentage of revenue from 3.7% in 2001 to 3.3% in 2002. The 2002 decrease as a percentage of revenue was due primarily to improved collections practices and tighter credit policies offset by bankruptcies of wholesale customers and weak economic conditions. Approximately $69 million of the increase in 2001 is attributable to the Merger. Bad debt expense also increased $158 million in 2001 as a result of the impact of the slow down of the economy.

Employee and service-related costs, such as salaries and wages, benefits, sales commissions, overtime, professional fees (such as telemarketing and customer service costs), decreased $541 million, or 16%, in 2002 and increased $534 million, or 19%, in 2001. The decrease in 2002 was associated with lower salaries and wages, decreased professional fees, and reduced bonus payments to management employees. The decrease in salaries and wages of $177 million was primarily due to lower staffing requirements. The decrease in professional fees of $273 million was primarily due to lower costs associated with re-entering the InterLATA long-distance market, and payments to third-party service providers, as we re-incorporated certain previously outsourced customer service functions in the wireless services segment. Bonus payments to management employees also decreased by $90 million from the prior year. Partially offsetting these declines were increased benefits, pension and taxes of

$50 million mainly as a result of the decrease in the net pension credit as discussed below in Combined Pension and Post-Retirement Benefits and increased legal and other professional fees due to various investigations and claims. Approximately $369 million of the increase in 2001 is attributable to the Merger. Additionally, employee and service related expenses increased $165 million in 2001. The increase is primarily attributable to higher outside professional fees associated with re-entering the InterLATA long-distance market and higher commissions partially offset by various lower employee costs.

Non-employee related costs, such as marketing and advertising, rent for administrative space and software expenses, increased $253 million, or 20%, in 2002 and were essentially flat in 2001. The 2002 increase was driven by a shift in information technology resources to maintenance activities from those that were eligible for capitalization. The increase was partially offset by postage and shipping, reduced customer care costs and lower marketing and advertising expenses. The Merger caused an expense increase of approximately $250 million. Also, non-employee related costs decreased $252 million, in 2001, due to lower access expense and external commissions.

Combined Pension and Post-Retirement Benefits

Our results include a pension credit, net of post-retirement expenses, of $97 million in 2002 ($59 million after-tax or $0.04 per diluted share), $337 million in 2001 ($206 million after-tax or $0.12 per diluted share) and $281 million in 2000 ($172 million after-tax or $0.14 per diluted share). Absent these credits, our net loss in each of these years would have been higher by these amounts. The net pension credit is a function of the amount of pension and post-retirement benefits earned, interest on projected benefit obligations, amortization of costs and credits from prior benefit changes and the expected return on the assets held in the various plans. For the reasons described below we expect that we will record a net expense of $233 million related to pension and post-retirement obligations in 2003 as opposed to a net pension credit.

The net pension credit is allocated partially to cost of sales and the remaining balance to SG&A. A reduction in the expected return on plan assets as well as a reduction in recognized actuarial gains, offset by lower service and interest costs, accounted for the decrease in the pension credit for 2002. The expected return on the plan assets component decreased $209 million, or 16% in 2002 because of a continued deterioration in the equity markets. We expect that our 2003 pension credit will be lower than 2002 due to the volatile equity market conditions of 2000 through 2002 and the scheduled increase in pension benefits required under our union contracts. We also expect our post-retirement expenses to increase as a result of rising health care rates. As a result, we expect that we will record a net expense in 2003 as opposed to a net credit. You can find additional information on our pension and post-retirement plans in Note 14—Employee Benefits to our consolidated financial statements in Item 8 of this report. Also, for a discussion of the accounting treatment and assumptions regarding pension and post-retirement benefits, see the discussion of Critical Accounting Policies below.

Depreciation

Depreciation expense decreased $436 million, or 12%, in 2002 and increased $1.149 billion, or 45%, in 2001. The decrease in 2002 was primarily the result of the charge we recorded related to the impairment of our assets and the resulting decrease in the depreciable basis of our fixed assets as discussed below. The impact of the impairment will reduce our annual depreciation expense by approximately $900 million, effective July 1, 2002. The 2001 increase is the result of the acquisition of approximately $5.983 billion of assets in connection with the Merger, other capital expenditures in 2001 and 2000, and the "catch-up" in our depreciation discussed in the following two paragraphs.

During 1999 and 2000, U S WEST agreed to sell approximately 800,000 access lines to third-party telecommunications service providers, including approximately 570,000 access lines to Citizens Communications Company ("Citizens") in nine states. Because these access lines were classified as

"held for sale," U S WEST discontinued recognizing depreciation expense on these assets and recorded them at the lower of their cost or fair value less estimated cost to sell.

On July 20, 2001, we terminated our agreement with Citizens under which the majority of the remaining access lines in eight states were to have been sold and ceased actively marketing the remaining lines. As a result, the remaining access lines in eight states were reclassified as being "held for use" as of June 30, 2001. The access lines were measured individually at the lower of their (1) carrying value before they were classified as held for sale, adjusted for any depreciation expense or impairment losses that would have been recognized had the assets been continuously classified as held for use, or (2) their estimated fair value at June 30, 2001. The required adjustments to the carrying value of the individual access lines were included in operating loss for 2001. This resulted in a charge to depreciation of $222 million to "catch-up" the depreciation on these access lines for the period they were held for sale.

Goodwill and Other Intangibles Amortization

Amortization expense decreased $1.081 billion, or 65%, in 2002 and increased $875 million, or 111%, in 2001. The decrease in 2002 was the result of the adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" or SFAS No. 142, which required us to cease amortization of indefinite-lived intangible assets effective January 1, 2002 and the recognition of an impairment charge on intangibles with finite lives. The impact of the impairment will reduce our annual amortization expense by approximately $400 million, effective July 1, 2002. The 2001 increase in amortization is the result of the goodwill generated from the Merger and the result of the May 1, 2001 change in the amortizable life of a portion of goodwill from 40 years to 10 years.

Goodwill Impairment Charges

As discussed in greater detail below, under Critical Accounting Policies, on January 1, 2002 we adopted the provisions of SFAS No. 142. Prior to the adoption of SFAS No. 142, we reviewed our goodwill and other intangibles with indefinite lives for potential impairment based on the fair value of our entire enterprise using undiscounted cash flows. SFAS No. 142 requires that goodwill impairments be assessed based on allocating our goodwill to reporting units and comparing the net book value of the reporting unit to its estimated fair value. A reporting unit is an operating segment or one level below. SFAS No. 142 required us to perform a transitional impairment test on January 1, 2002.

In accordance with SFAS No. 142, we performed a transitional impairment test of goodwill and intangible assets with indefinite lives as of January 1, 2002. Based on this analysis, we recorded a charge for the cumulative effect of adopting SFAS No. 142 of $22.800 billion on January 1, 2002. Changes in market conditions, downward revisions to our projections of future operating results and other factors indicated that the carrying value of the remaining goodwill should be evaluated for impairment as of June 30, 2002. Based on the results of that impairment analysis, we determined that the remaining goodwill balance of $8.483 billion was completely impaired and we recorded an impairment charge on June 30, 2002 to write-off the remaining balance.

Asset Impairment Charges

During 2002, 2001 and 2000, we recorded asset impairment charges of $10.525 billion, $251 million and $340 million, respectively, detailed as follows:

	Year ended December 31,		
	2002	2001	2000
		(As restated)	(As restated)
	(Dollars in millions)		
Impairment of property, plant and equipment	$ 10,493	$ —	$ —
Facilities and other projects	—	134	—
Other real estate assets	28	—	—

Impairment due to Merger	—	16	35
Special purpose access lines	—	—	191
Capitalized software due to restructuring activities	4	68	—
Capitalized software due to Merger	—	33	114
Total asset impairments	$ 10,525	$ 251	$ 340

Effective June 30, 2002, pursuant to SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets" or SFAS No. 144, a general deterioration of the telecommunications market, downward revisions to our expected future results and other factors indicated that our investments in our long-lived assets may have been impaired at that date. In accordance with SFAS No. 144 we performed an evaluation of the recoverability of the carrying value of our long-lived assets using gross undiscounted cash flow projections. For impairment analysis purposes, we grouped our property, plant and equipment and projected cash flows as follows: traditional telephone network; national fiber optic broadband network; international fiber optic broadband network; wireless network; web hosting and Application Service Provider ("ASP"); and certain assets held for sale. Based on the gross undiscounted cash flow projections, we determined that all of our asset groups, except our traditional telephone network, were impaired at June 30, 2002. For those asset groups that were impaired, we then estimated the fair value using a variety of techniques. For the year ended December 31, 2002, we determined that the fair values were less than our carrying amounts by $10.493 billion in the aggregate.

In accordance with SFAS No. 144, the fair value of the impaired assets becomes the new basis for accounting purposes. As such, approximately $1.9 billion in accumulated depreciation was eliminated in connection with the accounting for the impairments. The impact of the impairments will reduce our annual depreciation and amortization expense by approximately $1.3 billion, effective July 1, 2002.

In 2002, we recorded other asset impairment charges of $28 million associated with the write-down of other real estate assets that were held for sale.

As part of our restructuring activities in 2001, we reviewed all of our existing construction projects. Following this review, we recorded asset impairment charges of $134 million related to the abandonment of web hosting centers and other internal use construction projects.

Subsequent to the Merger, we reevaluated all of our assets for potential impairment and concluded that the fair value of some of our assets were below their carrying value. As a result, we recorded an impairment charge related to equipment and internal use construction projects of $16 million and $35 million in 2001 and 2000, respectively, writing off the full carrying value of certain internal use construction projects and equipment.

Also, in connection with the Merger, we evaluated our dedicated special-purpose access lines that we lease to CLECs for potential impairment. After considering the declining industry conditions and regulatory changes affecting CLECs in 2000, as well as the fact that these access lines had no alternative use and could not be sold or re-deployed, we concluded that sufficient net cash flows would

not be generated to recover the carrying value of these assets. Therefore, we concluded that the fair value of these assets was minimal and recorded an impairment charge of $191 million in our 2000 consolidated statement of operations.

We recorded asset impairment charges of $4 million and $68 million in 2002 and 2001, respectively related to internal software projects that we terminated, including customer database system projects.

Following the Merger, we reviewed all internal use software projects in process, and determined that certain projects should no longer be pursued. Because the projects were incomplete and abandoned, the fair value of such software was determined to be zero. Capitalized software costs of $33 million and $114 million were written off in

2001 and 2000, respectively, and recorded to asset impairment charges on our consolidated statements of operations at the time they were abandoned. The abandoned projects primarily included a significant billing system replacement.

Restructuring and Other Charges

During 2002 and 2001, in order to streamline our business and consolidate operations in response to lower customer demand resulting from a decline in economic conditions, we implemented plans to reduce the number of employees, consolidate and sublease facilities, abandon certain capital projects and terminate certain operating leases. We incurred restructuring and other charges totaling $235 million in 2002 and $816 million in 2001, detailed as follows:

	Year ended December 31, 2002	Year ended December 31, 2001 As restated
	(Dollars in millions)	
Severance and employee-related charges, net	$ 66	$ 332
Contractual settlements and legal contingencies, net	98	120
Sublease losses, net	71	369
Other charges (credits), net	—	(5)
Total restructuring and other charges, net	$ 235	$ 816

2002 Activities

During 2002, in response to shortfalls in employee reductions planned as part of the 2001 restructuring plan (as discussed below), and due to the continued declines in our revenues and general economic conditions, we identified planned reductions in employees from various functional areas and permanently abandoned a number of operating and administrative facilities. These activities included charges of $179 million for severance benefits and employee-related matters pursuant to established severance policies triggered by a reduction in employees, which we recorded directly to restructuring and other charges in our consolidated statement of operations. We identified approximately 4,500 employees from various functional areas to be separated from the company as part of the staffing reduction. The affected employees are entitled to receive severance benefits pursuant to established severance policies. As of December 31, 2002, approximately 3,500 of the plan reductions were accomplished resulting in the utilization of $123 million for cash payments and enhanced pension benefits. We expect the remaining employee reductions, cash payments and provision of benefits to be completed by December 31, 2003. These charges were offset by a reversal of $113 million of accruals established in 2001 as part of the restructuring plan as discussed below.

In conjunction with the staffing reductions, we permanently abandoned 64 real estate facilities and recorded a charge of $116 million related to the rental payments due under the leases, net of estimated subleases rentals, and estimates of amounts to terminate the leases. Offsetting the $116 million charge

was a reversal of $18 million of accruals established in 2001 as part of the restructuring plan discussed below. During 2002 we utilized $8 million of the established reserves primarily for payments of amounts owed in accordance with the leases. We expect that the remaining reserve will be utilized over the remaining term of the leases which are up to five years.

In 2002, we recorded an additional $71 million charge primarily to increase the estimated cost of exiting our web hosting facilities net of a $23 million expected sublease loss recorded in 2001.

2001 Activities

During the fourth quarter of 2001, a plan was approved to further reduce current employee levels, consolidate and sublease facilities and abandon certain capital projects and terminate certain operating leases. As a result, we recorded a restructuring charge of $825 million to cover the costs associated with these actions as more fully described below.

In order to streamline our business and consolidate operations to meet lower customer demand resulting from a decline in economic conditions, we identified 10,000 employees, in various functional areas, to be terminated and accrued restructuring charges of $332 million for severance benefits to be made to those employees. As of December 31, 2002, our restructuring activities under this plan were substantially complete. We terminated approximately 7,000 employees and made payments of $203 million in cash severance, enhanced pension benefits and employee-related payments. As a result of the shortfall in actual terminations we reversed $113 million of the accruals established in 2001, which we recorded as a reduction in restructuring charges in our 2002 consolidated statement of operations.

Due to the reduction in employees and the consolidation of operations, we recognized a restructuring charge to our consolidated statement of operations in 2001 of $120 million for costs associated with the expected termination of 40 operating lease agreements across the country. By December 31, 2002 we had made payments of $43 million associated with sublease losses and contract termination costs related to exiting these buildings. A number of the operating lease agreements were subsequently terminated and as a result of certain favorable negotiations we reversed $18 million of this reserve in 2002.

We operated 16 web hosting centers across the country that were subject to various operating leases. We also had several web hosting centers under construction that would require additional capital outlays before they were functional. Additionally, we had some web hosting facilities under lease where no construction work had begun. As a result of the slowing economy and the excess capacity at the time for web hosting, we suspended our plans to build web hosting centers where construction had not begun and halted further construction on those facilities under construction at the time. We identified 10 web hosting centers that would be permanently abandoned. We expected to sublease the majority of the non-operational web hosting centers at rates less than our lease rates for the facilities. As a result we recorded a charge of $369 million for expected sublease losses to our consolidated statement of operations in 2001. In 2002, we exercised our options under the synthetic lease facility through which the web hosting centers were financed and purchased the buildings. We paid $254 million to acquire the buildings pursuant to these options. We assessed the fair value of the buildings based on other comparable market activity and determined the guaranteed residual value under the synthetic lease facilities exceeded the fair value by $94 million. Consequently, we recorded a charge of $71 million in 2002 as mentioned above primarily to increase the estimated costs of exiting these facilities, net of a $23 million expected sublease loss recorded in 2001.

We also recorded a credit of $9 million in 2001 directly to restructuring charges in our consolidated statements of operations related to deferred rent as a result of exiting the leased facilities described above. This was partially offset by $4 million of other restructuring charges.

Merger-Related (Credits) Charges

In 2000, we recorded Merger-related and other charges of $1.481 billion. We recorded additional charges of $321 million related to the Merger in 2001, net of reversals discussed below. We reversed $53 million of Merger-related reserves in 2002 due to the favorable settlement of certain legal contingencies during that year. Substantially all of the Merger-related charges were incurred by June 30, 2001. The 2001 data below for Merger-related and other charges reflects costs incurred through June 30, 2001, subject to the adjustments described below. A breakdown of these costs is as follows:

	Year ended December 31,		
	2002	2001	2000

	(As restated)		
	(Dollars in millions)		
Contractual settlements and legal contingencies, net	$ (53)	$ 115	$ 679
Severance and employee-related charges, net	—	132	584
Other Merger-related charges, net	—	74	218
Total Merger-related (credits) charges, net	$ (53)	$ 321	$ 1,481

We recorded charges to our consolidated statement of operations of $265 million and $679 million for 2001 and 2000, respectively, associated with various contractual settlements and legal contingencies. The charges were accrued to cancel various commitments no longer deemed necessary as a result of the Merger and to settle various claims related to the Merger. In 2002 and 2001, we reversed $53 million and $150 million, respectively, in our consolidated statement of operations. The reversals resulted from favorable developments in the matters underlying contractual settlements and legal contingencies.

In connection with the Merger, we reduced employee and contractor levels by over 14,000 people. These employees were terminated prior to December 31, 2001. The 2001 and 2000 severance and employee-related charges of $132 million and $584 million, respectively, consist of costs associated with payments to employees who involuntarily left the business since the consummation of the Merger and, for 2000, $91 million in bonus payments that were subject to the successful completion of the Merger. Upon the completion of our plans and achieving the planned reduction of 14,000 people in 2001 we reversed $44 million of the severances and employee-related reserves established that were no longer necessary.

Other net Merger-related charges of $74 million and $218 million were incurred in 2001 and 2000, respectively for professional fees, re-branding costs and other incremental costs directly related to the Merger. We considered only those costs that were incremental and directly related to the Merger to be Merger-related.

As of December 31, 2002, total Merger-related accruals of $22 million are included on our consolidated balance sheet. These relate primarily to outstanding legal contingencies. As those matters identified as legal contingencies associated with contract settlements and general legal contingencies are resolved, any amounts due will be paid at that time. Any differences between amounts accrued and actual payments will be reflected in our consolidated results of operations as Merger-related (credits) charges.

Total Other Expense-Net

Other expense—net includes interest expense, net of capitalized interest and interest income; investment write-downs; gains and losses on the sales of investments and fixed assets; gains and losses

on early retirement of debt; declines in derivative instrument market values; and our share of the investees income or losses for investments accounted for under the equity method of accounting.

Year ended December 31,			Absolute Change		Percentage Change	
2002	2001	2000	2002 vs. 2001	2001 vs. 2000	2002 vs. 2001	2001 vs. 2000
	as restated	as restated				
(Dollars in millions)						

Interest expense—net	$ 1,789	$ 1,437	$ 1,043	$ 352	$ 394	24%	38%
Losses and impairment of investment in KPNQwest	1,190	3,300	33	(2,110)	3,267	(64)%	nm
Loss on Global Crossing equity securities and related derivatives	—	7	867	(7)	(860)	(100)%	(99)%
Loss (gain) on sale of investments and other investment write-downs	88	141	(206)	(53)	347	(38)%	168%
(Gain) loss on early retirement of debt	(1,836)	106	—	(1,942)	106	nm	nm
(Gain) loss on sales of fixed assets	—	(51)	11	51	(62)	100%	(564)%
Other (income) expense—net	(3)	81	12	(84)	69	(104)%	575%
Total other expense—net	$ 1,228	$ 5,021	$ 1,760	$ (3,793)	$ 3,261	(76)%	185%

nm - not meaningful

Interest expense—net. Interest expense—net, was $1.789 billion for 2002, compared to $1.437 billion for 2001. We are currently incurring penalty interest of 0.25% on $1.5 billion in debt due to our failure to register these securities by October 8, 2002. We will continue to incur this penalty interest until we register these securities, which is expected to be in 2004. The increase in interest expense was also attributable to the issuance of $1.5 billion of 10-year bonds in March of 2002 at an 8.875% interest rate. Interest expense also increased due to borrowings from our $4.0 billion syndicated credit facility in the first quarter of 2002 to fund the repayment of approximately $3.2 billion of outstanding commercial paper, which had a weighted average interest rate of 2.98% as of December 31, 2001, compared to the 5.00% weighted average interest rate as of December 31, 2002 on the credit facility. Additionally, interest expense in 2002 increased as a result of our directory publishing business borrowing $750 million in August 2002 at a weighted average interest rate of 13.69% as of December 31, 2002. Finally, capitalized interest decreased $146 million as a result of lower capital expenditures.

Interest expense was $1.437 billion for 2001, compared to $1.043 billion for 2000. The increase in interest expense was primarily attributable to increased borrowings required to fund capital improvements to our network and the repurchase of shares of our common stock from BellSouth Corporation ("BellSouth"). Also contributing to the increase was the inclusion of a full twelve months of interest expense associated with pre-Merger Qwest debt as compared to six months in 2000. Partially offsetting the increase was an $82 million increase in capitalized interest as a result of additional qualifying construction during the period.

Losses and impairment of investment in KPNQwest. As more fully discussed in Note 10—Investments to our consolidated financial statements in Item 8 of this report, we reviewed the carrying value of our investment in KPNQwest as of June 30, 2001 to evaluate whether the $4.381 billion carrying amount of our investment in KPNQwest was impaired. Factors considered in reaching our conclusion that the decline was other than temporary included, among others, the following: a decline in the price of KPNQwest's publicly traded stock and the period of time over which such price had been below the carrying value of our investment; the change in analysts' expectations released during the second quarter of 2001 indicating significant declines from their first quarter expectations; and the

severe deterioration the European telecommunications sector experienced during the second quarter of 2001, including a number of bankruptcies, making the near-term prospects of a recovery of KPNQwest's stock less certain at June 30, 2001.

As a result of that evaluation, we determined that an other-than-temporary decline in fair value had occurred and that the fair value of our investment in KPNQwest at June 30, 2001 was $1.333 billion. Accordingly, an impairment loss of $3.048 billion was recorded in June 2001 to write the carrying amount of our investment down to its estimated fair value.

As discussed in Note 3—Restatement of Results to our consolidated financial statements in Item 8 of this report, we re-evaluated our valuation of KPNQwest as of December 31, 2001. That evaluation indicated that the fair value of our investment in KPNQwest was approximately $1.150 billion at that date. Consequently, in our restated consolidated financial statements for 2001, we have recorded an additional impairment loss of $156 million in the fourth quarter of 2001 to reflect this change.

As a result of the continued decline in the fair value of KPNQwest subsequent to December 31, 2001, we recorded a further impairment to our investment for an other-than-temporary decline in value in the first quarter of 2002. In May 2002, KPNQwest filed for bankruptcy protection and ceased operations. We do not expect to recover any of our investment in KPNQwest and, as a result, in the second quarter of 2002, we wrote-off our remaining investment in KPNQwest.

The losses and impairment charges in our consolidated statement of operations related to our investment in KPNQwest includes our equity share of losses in KPNQwest.

Loss on Global Crossing equity securities and related derivatives. In December 1999, we sold approximately 24 million shares of the 37 million shares we held in Global Crossing common stock. In connection with that sale, we entered into derivative contracts to create equity return swaps. Our objective in entering into these equity return swaps was to synthetically replace the 24 million shares sold. As a result, we maintained some of the risk and rewards of investment ownership and received cash proceeds upon the sale of the shares. These derivatives were carried at market value with changes in market value included in other income. Due to a decline in the market value of the derivatives, we recorded charges of $7 million and $470 million for 2001 and 2000, respectively. We also recorded a loss of $447 million in the second quarter of 2000, when we determined the decline in the value of our remaining 13 million shares in Global Crossing common stock was other than temporary. We sold our remaining investment in the third quarter of 2000, realizing cash proceeds of $421 million and a gain of $50 million.

Loss (gain) on sale of investments and other investment write-downs. Pre-Merger Qwest owned an interest in Qwest Digital Media, LLC ("QDM") as discussed in Note 10—Investments to our consolidated financial statements in Item 8 of this report. We accounted for this investment under the equity method of accounting. We recorded charges of $14 million, $20 million and $36 million in the years ended December 31, 2002, 2001 and 2000, representing primarily our equity share of losses in this investment.

We also have owned a number of other public and private investments. During 2002, 2001 and 2000 we sold various equity investments. As a result of these sales we received approximately $12 million, $98 million and $488 million in cash and recognized a loss of $38 million, a gain of $74 million and a gain of $402 million for the years ended December 31, 2002, 2001 and 2000, respectively.

We review our portfolio of equity securities on a quarterly basis to determine whether declines in value on individual securities are other than temporary. If we determine that a decline in value of an equity security is other than temporary, we record a charge in the statement of operations to reduce the carrying value of the security to its estimated fair value. We recorded write-downs of our

investments for other-than-temporary declines of $10 million, $193 million and $131 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Our portfolio of equity securities also included a number of warrants to purchase securities in other entities. We carry these securities at fair market value and include any gains or losses recognized in our consolidated statement of operations. We recorded a loss of $24 million for the year ended December 31, 2002, a gain of $7 million for the year ended December 31, 2001, and a loss of $29 million for the year ended December 31, 2000.

(Gain) loss on early retirement of debt. On December 26, 2002, we completed an offer to exchange up to $12.9 billion in aggregate principal amount of outstanding unsecured debt securities of QCF for new unsecured debt securities of Qwest Services Corporation (QSC). We received valid tender offers of approximately $5.2 billion in total principal amount of the QCF notes and issued in exchange approximately $3.298 billion in face value of new debt

securities of QSC. The majority of these debt exchanges were accounted for as debt extinguishments resulting in the recognition of a $1.8 billion gain recorded in other expense (income) in the 2002 consolidated statement of operations in Item 8 of this report. The cash flows for two of the new debt securities were not considered "substantially" different than the exchanged debt and therefore no gain was realized upon exchange. For these two debt instruments, the difference between the fair value of the new debt and the carrying amount of the exchanged debt of approximately $70 million is being amortized as a credit to interest expense using the effective interest method over the life of the new debt.

During the first quarter of 2002, we exchanged through private exchange transactions, $97 million in face amount of debt that was issued by QCF. In exchange for the debt, we issued approximately 9.88 million shares of our treasury stock with a fair value of $87 million. The trading prices for our shares at the time the exchange transactions were consummated ranged from $8.29 per share to $9.18 per share. As a result of these transactions, we recorded a $9 million gain in other expense (income) in our consolidated statement of operations.

In March 2001, we completed a tender offer to buy back certain outstanding debt. In the tender offer, we repurchased approximately $995 million in principal of the outstanding debt. As a result of the repurchase, we incurred a pre-tax charge of $106 million ($65 million after tax) in premium payments. The tender offer was to retire the bonds because of their high coupon rates and to reduce interest costs.

(Gain) loss on sales of fixed assets. In 2001, we completed the sale of approximately 41,000 access lines in Utah and Arizona resulting in proceeds of $94 million and a gain of $51 million. During 2000, we completed the sale of approximately 20,000 access lines in North Dakota and South Dakota generating a gain of $28 million. In addition, we recorded a loss of $39 million relating to the sale of other non-strategic fixed assets.

Other (income) expense—net. Other (income) expense—net, decreased $84 million in 2002 compared to 2001, and increased $69 million in 2001 compared to 2000. Other expense—net for 2001 principally consisted of charges associated with the write-off of various assets of approximately $56 million. We also incurred charges of approximately $18 million related to the write-off of receivables and other costs associated with QDM. In addition, we had approximately $4 million in miscellaneous fees and $3 million in costs associated with our deferred compensation plans.

Income Tax Benefit

Our continuing operations effective income tax benefit rate was 12.4% in 2002, 17.0% in 2001 and 29.1% in 2000. Our 2002 effective income tax benefit rate declined compared to 2001, due to non-deductible charges related to the impairment of our goodwill, as well as goodwill amortization. Additionally, in the second quarter of 2002, we recorded a non-cash charge of $1.677 billion, or $1.00 per share, to establish a valuation allowance against the 2002 net federal and state deferred tax assets.

The valuation allowance is determined in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes," ("SFAS No. 109") which requires an assessment of evidence when measuring the need for a valuation allowance. Our losses in recent periods coupled with the second quarter 2002 asset impairments constituted sufficient evidence to require a valuation allowance under SFAS No. 109. We intend to maintain the valuation allowance until sufficient evidence exists to support realization of the federal and state deferred tax assets. The decrease in the 2001 effective income tax benefit rate as compared to 2000 was predominately related to the write-down of our investment in KPNQwest, which is non-deductible for tax purposes.

Income from and gain on sale of Discontinued Operations—net of tax

Income from discontinued operations increased $1.446 billion, or 283% in 2002 and $65 million, or 15% in 2001. Income from discontinued operations in all years predominately relates to our directory publishing business, Dex. The increase in income from discontinued operations in 2002 is primarily the result of the completion of the sale of the Dex East business resulting in a gain on sale of $2.6 billion ($1.6 billion after tax).

Segment Results

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131") establishes standards for reporting information about operating segments in annual financial statements of public business enterprises and requires that those enterprises report selected information about operating segments in interim and annual financial reports issued to shareholders. Operating segments are components of an enterprise that engage in business activities from which revenues may be earned and expenses may be incurred, and for which discrete financial information is available and regularly evaluated by the chief operating decision maker ("CODM") of an enterprise.

In December 2002, our CODM, changed the way he views the results of our operations; therefore, we changed our segment reporting effective December 2002 to reflect the manner in which we managed the business. The CODM of a business represents the highest level of management who is responsible for the overall allocation of resources within the business. Our CODM is our Chief Executive Officer. Set forth below is revenue and operating expense information for the years ended December 31, 2002, 2001 and 2000 for the three segments utilized at the end of 2002: wireline, wireless, and other services. The wireline segment includes businesses that were previously in both U S WEST and pre-Merger Qwest, and the wireless business was only in U S WEST. The operating segments reflect strategic business units that offer similar products and services. Management evaluates the performance of each segment and allocates capital resources based on segment income as defined below. Our results of operations applicable to our directory publishing business are included in income from and gain on sale of discontinued operations in our consolidated statements of operations in Item 8 of this report.

Prior to December 2002, we managed our operations primarily from the perspective of the customer groups that used our networks such as consumer, business, and wholesale, except for wireless and directory publishing, which we managed as separate operating segments based on the similarity of products and services. Our view as of December 2002 allowed us to better align network infrastructure costs with our revenue segments and manage those costs more effectively. Network infrastructure costs include all engineering expense, design, repair and maintenance costs and all third-party facilities costs.

Segment income consists of each segment's revenues and direct expenses. Segment revenues are based on the types of products and services offered as described in results of operations above. The network infrastructure is designed to be scalable and flexible to handle multiple products and services. As a result, we do not allocate network infrastructure costs to individual products. Consequently, product margin impacts of certain revenue increases or decreases are not provided within our discussion of the results. Direct administrative costs include customer support, collections and marketing. Indirect administrative costs such as finance, information technology, real estate and legal are included in the other services segment. We manage indirect administrative services costs centrally; consequently, the costs are not allocated to the wireline or wireless services segments. Similarly, we manage depreciation, amortization, interest expense, interest income, and other income (expense) on a total company basis. As a result, these charges are not allocated to either the wireline or wireless segments.

Since all expenses have not been allocated to the segments, we have disclosed segment expenses without distinguishing between cost of sales and SG&A.

	For the Year Ended December 31,		
	2002	2001	2000
		(as restated)	
	(Dollars in millions)		
Operating revenues:			
Wireline services	$ 14,634	$ 15,777	$ 13,675
Wireless services	694	688	422
Other services	57	59	51

Total operating revenues	$ 15,385	$ 16,524	$ 14,148
Operating expenses:			
Wireline services	$ 8,122	$ 9,104	$ 6,395
Wireless services	506	751	527
Other services	2,617	2,291	2,339
Total segment expenses	$ 11,245	$ 12,146	$ 9,261
Segment income (loss):			
Wireline services	$ 6,512	$ 6,673	$ 7,280
Wireless services	188	(63)	(105)
Other services	(2,560)	(2,232)	(2,288)
Total segment income	$ 4,140	$ 4,378	$ 4,887

Wireline

Wireline Revenues

For a discussion of wireline revenues please see Results of Operations—Operating Revenues—Voice Services and—Data and Internet Services and Other above. Since it is expected to continue to be by far the largest component of our business, this segment will continue to be our primary focus going forward.

Wireline Expenses

The following table sets forth additional expense information to provide greater detail as to the composition of wireline expenses for the years of 2002, 2001 and 2000.

	Year ended December 31,			Absolute Change		Percentage Change	
	2002	2001 as restated	2000 as restated	2002 vs. 2001	2001 vs. 2000	2002 vs. 2001	2001 vs. 2000
	(Dollars in millions)						
Employee and service related costs	$ 3,188	$ 3,687	$ 3,261	$ (499)	$ 426	(14)%	13%
Facility costs	2,960	3,011	1,176	(51)	1,835	(2)%	156%
Network expenses	252	312	330	(60)	(18)	(19)%	(5)%
Non-employee related costs	1,722	2,094	1,628	(372)	466	(18)%	29%
Total wireline operating expense	$ 8,122	$ 9,104	$ 6,395	$ (982)	$ 2,709	(11)%	42%

Segment operating expenses for the wireline services segment decreased $982 million or 11%, in 2002 and increased $2.709 billion or 42% in 2001. Approximately $1.617 billion of the increase in 2001 is attributable to the Merger. Additionally, wireline operating expenses increased by $1.092 billion in 2001.

Wireline Expenses 2002 vs. 2001

Employee and service-related costs, such as salaries and wages, benefits, commissions, and overtime, decreased $499 million, or 14%, in 2002. The decrease in 2002 was due primarily to decreased salaries and wages of $234 million related to lower staffing requirements of approximately 7,700 employees. The reduced staffing requirements resulted from efficiently managing resources to repair and maintain our network, and reduced demand for our services. In addition, we experienced lower network overtime costs of $87 million for installation due to lower demand and enhanced management expense controls as well as lower commission costs of $83 million due to lower sales and fewer sales representatives. Finally, professional fees decreased $170 million as we reduced our dependence on third-party providers. These expense reductions were partially offset by lower capitalization associated with these expenses.

Facility costs decreased $51 million, or 2%, in 2002. The decrease is attributable to expanded network optimization efforts, lower rates for voice traffic and lower voice volumes, offset partially by higher purchases of wholesale private line services to support increased data and IP volumes.

Our network expense, such as third-party expenses to repair and maintain the network and supplies required to provide services to customers, decreased $60 million, or 19%, in 2002. During 2002, we reduced our reliance on third-party contractors to provide network maintenance services, by shifting this work to our employees.

Non-employee related costs, such as marketing and advertising, rent, software expense, bad debt, cost of sale for CPE, and reciprocal compensation payments, decreased $372 million, or 18% in 2002. The decrease in 2002 was primarily due to lower bad debt expense of $88 million, lower marketing and advertising spending of $46 million, lower access expense of $47 million, lower postage and shipping of $51 million, lower external commissions of $53 million, lower billing services expense of $39 million and other enhanced management expense controls.

Wireline Expenses 2001 vs. 2000

Employee and service-related costs increased $426 million, or 13%, in 2001. Approximately $354 million of the increase in 2001 is attributable to the Merger. Additionally, employee and service related costs increased $72 million, in 2001. The increase is primarily attributable to higher commissions, wage increases associated with the negotiation of the 2000 union contract and management salary increases partially offset by lower overtime and third party costs.

Facility costs increased $1.835 billion, or 156%, in 2001. Approximately $1.024 billion of the 2001 increase is attributable to the Merger. Additionally, facility costs increased $811 million in 2001. The increase is associated with increased data volumes, the introduction of new product platforms, including our Internet dial and hosting infrastructure and increased long-distance volumes in our out-of-region wholesale business. These cost increases were partially offset by expanded network optimization efforts.

Our network costs, decreased $18 million, or 5%, in 2001. The Merger caused an expense increase of approximately $11 million. Additionally, network costs decreased $29 million in 2001. The decreased expenditures are related to reducing our reliance on third-party contractors to provide network maintenance services.

Non-employee-related costs increased $466 million, or 29%, for 2001. Approximately $227 million of the 2001 increase is attributable to the Merger. Additionally, non-employee related costs increased $239 million in 2001. The increase is associated with higher bad debt expenses of $135 million due to slow-paying and non-paying customers. Alternative channel sales costs increased by $88 million, and reciprocal compensation payments increased by $74 million due to our customers terminating more traffic to CLECs. Alternative channel sales costs are commission payments to non-employee sales agents for the distribution of our products and services. Under existing agreements and regulatory rules, we are required to pay to and collect from other telecommunications providers reciprocal

compensation. We owe reciprocal compensation payments to other telecommunications carriers when the balance of local traffic from our customers exceeds traffic from another telecommunications company's customers. As the incumbent local exchange carrier, we generally will pay rather than receive reciprocal compensation.

Wireless

Wireless Revenues

For a discussion of wireless revenues please see Results of Operations—Operating Revenues—Wireless above.

Wireless Expenses

The following table sets forth additional expense information to provide greater detail as to the composition of wireless expenses for the years of 2002, 2001 and 2000.

	Year ended December 31,			Absolute Change		Percentage Change	
	2002	2001	2000	2002 vs. 2001	2001 vs. 2000	2002 vs. 2001	2001 vs. 2000
		as restated	as restated				
	(Dollars in millions)						
Employee and service related costs	206	310	147	(104)	163	(34)%	111%
Network expense	126	230	169	(104)	61	(45)%	36%
Non-employee related costs	174	211	211	(37)	—	(18)%	—
Total wireless operating costs	$ 506	$ 751	$ 527	(245)	224	(33)%	43%

Segment operating expenses for the wireless services segment decreased $245 million, or 33%, in 2002 and increased $224 million, or 43%, in 2001.

Wireless Expenses 2002 vs. 2001

Employee and service-related costs, such as salaries and wages, benefits, commissions, overtime, telemarketing, and customer service costs, decreased $104 million, or 34%, in 2002. Due to higher than expected customer disconnects and our decision to market wireless services as part of a communications package, we significantly reduced third-party telemarketing and customer care costs by $82 million and reduced staffing requirements by approximately 500 employees, or 51%, for a decrease of $19 million in salaries and wages.

Network expenses, such as handset costs, roaming fees, and third-party expenses to repair and maintain the network, declined $104 million, or 45%, in 2002. This decline is associated with better prices for handset purchases with suppliers and lower costs associated with fewer new subscribers. In addition we reduced our reliance on third-party contractors to provide network maintenance services.

Non-employee-related costs, such as marketing and advertising, rent, software expense, bad debt, cost of sale of CPE, and access expense decreased $37 million, or 18% in 2002. The majority of this decrease relates to lower marketing and advertising costs associated with our strategic decision to de-emphasize the sale of wireless services on a stand-alone basis during 2002.

Wireless expenses 2001 vs. 2000

Segment operating expenses for the wireless services segment increased $224 million, or 43% in 2001. There was no impact of the Merger on the wireless segment.

- Employee and service related costs increased $163 million, or 111% in 2001. The increase in the 2001 expense is attributable to increased professional fees from outsourcing customer care functions, increased telemarketing activities, and increased sales through our agent channel.

Network expenses increased $61 million, or 36%, in 2001. The increase is attributable to the increase in handset expense due to new subscriber additions.

Non-employee related costs were flat in 2001 compared to 2000.

Other Services

Other Services Revenues

For a discussion of other services revenues please see Results of Operations—Operating Revenues—Other Services above.

Other Services Expenses

As previously noted, the other services segment includes unallocated corporate expenses for functions such as finance, information technology, legal, marketing services and human resources, which we centrally manage. The following table sets forth additional expense information to provide greater detail as to the composition of other services expenses for the years of 2002, 2001 and 2000.

	Year ended December 31,			Absolute Change		Percentage Change	
	2002	2001 as restated	2000 as restated	2002 vs. 2001	2001 vs. 2000	2002 vs. 2001	2001 vs. 2000
	(Dollars in millions)						
Employee and service-related costs	$ 1,218	$ 1,153	$ 1,292	$ 65	$ (139)	6%	(11)%
Real estate costs	418	436	335	(18)	101	(4)%	30%
Property and other taxes	495	437	467	58	(30)	13%	(6)%
Non-employee related costs	486	265	245	221	20	83%	8%
Total other services expenses	$ 2,617	$ 2,291	$ 2,339	$ 326	$ (48)	14%	(2)%

Segment operating expenses for the other services segment increased $326 million, or 14%, in 2002 and decreased $48 million or 2% in 2001. The Merger caused an expense increase of approximately $202 million in 2001. Additionally, other services expenses decreased $250 million in 2001. The decrease is primarily attributable to lower salaries and wages and bonuses offset by increases in occupancy costs.

Other services expenses 2002 v 2001

Employee and service-related costs, such as salaries and wages, benefits, and overtime, increased $65 million, or 6% in 2002. The increase is primarily the result of reductions in the net pension credit of $240 million. We recognized the entire net pension credit in this segment. The decreased net pension credit was partially offset by lower professional fees associated with entry in the long-distance marketplace, and lower management bonus payouts during 2002.

Real estate costs were reduced by $18 million, or 4%, in 2002. These costs decreased due to reduced administrative space needs, associated with lower staffing requirements and our decision to not complete or shut down various web hosting centers.

Property and other taxes increased $58 million, or 13%, in 2002. The increase is attributable to capital expansion to local telephone and global fiber optic broadband networks that took place during the years ended December 31, 2000 and 2001.

Non-employee-related costs, such as marketing and advertising, and software expense increased $221 million, or 83%, in 2002. The increase primarily relates to a shift in information technology resources from capitalized development work to expensed maintenance work.

Other services expenses 2001 v 2000

Employee and service-related costs, decreased $139 million, or 11%, in 2001. The Merger caused an expense increase of approximately $100 million. Additionally, employee and service-related costs decreased by $239 million in 2001. The decrease is primarily attributable to lower salaries and wages from lower staffing requirements of $142 million and lower management bonus payments of $88 million.

Real estate costs increased $101 million, or 30%, in 2001. The Merger caused an expense increase of approximately $46 million. Additionally, real estate costs increased by $55 million in 2001 due to higher real estate costs associated with the construction of various web hosting centers and increased power costs.

Property and other taxes decreased $30 million, or 6%, in 2001. The Merger caused an expense increase of approximately $30 million. Property and other taxes decreased $60 million from 2000 related to changes in property tax estimates.

Non-employee related costs, increased $20 million, or 8%, in 2001, primarily as a result of the Merger.

Liquidity and Capital Resources

Financial Position

Our working capital deficit, or current assets less current liabilities, as restated, decreased $5.010 billion from $5.485 billion at December 31, 2001 to $475 million at December 31, 2002. The improvement in this position is due to the combination of our refinancing of current borrowings to long term and the receipt of $2.75 billion in proceeds from the sale of the Dex East business. Our working capital deficit in 2002 includes $1.5 billion of debt that is classified as a current liability based upon the requirement to pay in full upon the receipt of the $4.3 billion from the completion of the sale of the Dex West business that closed in September 2003.

As of September 30, 2003 and December 31, 2002, 2001 and 2000, our consolidated debt was approximately $21.2 billion, $22.5 billion, $25.0 billion and $19.2 billion, respectively. In addition, our unrestricted cash balances were approximately $6.0 billion, $2.3 billion, $186 million, and $207 million as of the same dates. We expect to use our cash primarily to invest in telecommunications assets and/or to redeem indebtedness. To preserve capital and maintain liquidity, we invest with financial institutions deemed to be of sound financial condition and in high quality and relatively risk-free investment products. Our cash investment policy limits the concentration of investments with specific financial institutions or among certain products and includes criteria related to credit worthiness of any particular investment. We have recently taken the following measures to improve our near-term liquidity and our capital structure and generally reduce financial risk:

- amended and restated our Credit Facility (defined below) in order to (a) lengthen the maturity, (b) obtain more flexible covenants, and (c) achieve a more favorable amortization schedule;

- sold the Dex directory publishing business, which generated gross cash proceeds of $7.05 billion;
- reduced capital investment and continued to manage working capital; and
- refinanced Qwest Corporation ("QC") debt due in 2003 with debt that has maturities in 2007 and 2010.

Even if we are successful in our de-leveraging efforts, we may need to obtain additional financing to meet our debt service obligations if operations do not improve, if revenue and operating cash flow declines are worse than expected, if economic conditions do not improve or if we become subject to significant judgments and/or settlements in connection with the resolution of one or more matters described under Securities Actions and Derivative Action in Item 3 of this report. However, we believe

that cash flows from operations, our current cash position and continued access to capital markets will allow us to meet our business requirements, including debt service, for the foreseeable future.

At December 31, 2001, our working capital deficit, as restated, increased $521 million from December 31, 2000 as a result of increased short-term borrowing obligations used to finance capital expenditures during the year as part of our efforts to finish the construction of our network, re-enter the interLATA long-distance business in our local service area, provide new services and improve service quality.

Operating Activities. We generated cash from operating activities of $2.334 billion, $2.890 billion and $3.762 billion, in 2002, 2001 and 2000, respectively.

The $556 million decrease in cash provided by operating activities in 2002 compared to 2001 was the result of the reduction of $905 million in accounts payable and accrued expenses and the reduction of $259 million of our restructuring reserves established in 2001. Additionally, income tax refunds received declined from $574 million in 2001 to $272 million in 2002. Partially offsetting these negative impacts was the non-recurrence of the increase in accounts receivable experienced between 2001 and 2000 described below.

Cash provided by operating activities in 2001 was negatively impacted by the payment of $514 million in accounts payable and accrued expenses and the build up in accounts receivable of $438 million due to higher sales resulting from the Merger, and an overall slowdown in receipts from customers as a result of the weak economic environment. These were offset by the favorable impact of an increase in unpaid restructuring reserves of $363 million.

Cash provided by operating activities in 2000 was positively impacted by the addition of unpaid Merger related accruals of $454 million, offset by increases in accounts receivable of $694 million associated with increased revenues.

Our bad debt expense has continued to remain high throughout 2002 as a result of the continued economic downturn particularly in our local service area. In 2002, 3.3% of our total operating revenues was expensed as bad debt compared to 3.7% in 2001. During 2002 we tightened our credit policies and improved our collections procedures. As a result we experienced an improvement in our collections in late 2002, which has continued into 2003.

The wireline segment produces significant operating cash flows, which, with continued access to capital markets, are expected to continue to be sufficient to cover its operating expenses, as well as the operating expenses of our wireless segment and general corporate overhead.

We do not anticipate a need to make any significant contributions to our retirement plans in 2003. You can find additional information on our pension plan in Note 14—Employee Benefits to our consolidated financial statements in Item 8 of this report.

Investing Activities. Cash used in investing activities was $2.738 billion, $8.059 billion and $5.256 billion in 2002, 2001 and 2000, respectively. Cash used in investing activities in 2002 decreased $5.321 billion compared to 2001 primarily as a result of a $5.278 billion reduction in capital expenditures in 2002. The decrease in capital expenditures was the result of our decision to reduce our expansion efforts as a result of the general economic downturn and the completion of many of our major capital projects in 2001.

Cash used in investing activities increased $2.803 billion in 2001 compared to 2000. This increase included an increase in capital expenditures of $907 million. Capital expenditures in 2001 included a full twelve months of expenditures associated with pre-Merger Qwest compared to only six months in 2000. The 2001 increase was also the result of non-recurring cash inflows received in 2000 of $2.049 billion associated with the sale of certain of our investments and the acquisition of $407 million in cash held by pre-Merger Qwest at the date of the Merger. The proceeds from the sale of

investments included $1.561 billion related to the sale of our holdings in Global Crossing offset by $436 million of payments for related derivatives. During 2001, we received $104 million associated mainly with the sale of access lines and $106 million associated with net cash received on contemporaneous optical capacity transactions.

Capital expenditures by segment are as follows:

	Year ended December 31,		
	2002	2001	2000
	(Dollars in millions)		
		(As restated)	
Wireline	$ 1,833	$ 7,146	$ 6,037
Wireless	55	310	321
Other	903	967	1,059
Total capital expenditures	2,791	8,423	7,417
Non-cash investing activities	(27)	(381)	(282)
Total cash capital expenditures	$ 2,764	$ 8,042	$ 7,135

We have spent significant resources in extending and improving our network but as a result of the significant downturn in the telecommunications industry and in the general economy, when we reviewed our property, plant and equipment for a potential impairment in 2002, we found that the fair value of our national and international fiber optic broadband networks had decreased significantly. As such we recorded an impairment charge in 2002 of $10.5 billion relating to the impairment of these and other assets. See Note 6—Property, Plant and Equipment to our consolidated financial statements in Item 8 of this report for additional information.

Capital expenditure forecast. Our current capital expenditure forecast for 2003 is for a total of approximately $2.5 billion with the majority being used in our wireline segment.

Financing Activities. Cash (used) provided by financing activities was ($789) million in 2002, $4.660 billion in 2001 and $1.268 billion in 2000. As of December 31, 2002, we had no unused credit capacity available to us under our existing credit facility; however, based on our recent access to certain capital markets and our relationships with the lead banks in our credit facilities, we believe we have the ability to secure additional borrowings. At December 31, 2002 we were in compliance with all provisions or covenants of our borrowings. Under the QSC Credit Facility described below, we have obtained a waiver for non-compliance to provide certain annual and quarterly financial information to the lenders. The waiver extended the compliance date to provide annual financial information for 2002 to November 30, 2003 and first and second quarter financial information for 2003 to December 31, 2003. For additional information regarding the covenants of our existing debt instruments, see Note 11—Borrowings to our consolidated financial statements in Item 8 of this report.

2002 Financing Activities

Until February 2002, we maintained commercial paper programs to finance our short-term operating cash needs. We had a $4.0 billion syndicated credit facility (the "Credit Facility") available to support our commercial paper program. As a result of reduced demand for our commercial paper, in February 2002 we borrowed the full amount under the Credit Facility and used the proceeds to repay $3.2 billion, constituting all of the commercial paper outstanding and terminated our commercial paper program. The remainder of the proceeds was used to pay maturities and capital lease obligations and to fund operations.

In March 2002, we amended the Credit Facility and converted the $4.0 billion balance into a one-year term loan due May 2003, with $3.0 billion designated to Qwest Capital Funding, Inc. ("QCF") and $1.0 billion designated to QC. QC used approximately $608 million of the proceeds from its

March 2002 bond offering discussed below to reduce the total amount outstanding under the Credit Facility. Following this repayment, the Credit Facility had $3.39 billion outstanding as of March 31, 2002, all of which was allocated to QCF.

Also in March 2002, QC issued $1.5 billion in bonds with a ten-year maturity and an 8.875% interest rate. At December 31, 2002, the interest rate was 9.125%. Once we have registered the notes, the interest rate will return to 8.875%, the original stated rate. The proceeds from the sale of the bonds were used to repay $608 million on the Credit Facility, short-term obligations and currently maturing long-term borrowings.

During the first quarter of 2002, we exchanged, through private transactions, $97 million in face amount of debt issued by QCF. In exchange for the debt, we issued approximately 9.88 million shares of our treasury stock with a fair value of $87 million. The trading prices for our shares at the time the exchange transactions were consummated ranged from $8.29 per share to $9.18 per share.

In August 2002, we amended the Credit Facility a second time. In connection with the second amendment, we reconstituted the Credit Facility as a revolving credit facility with QSC as the primary borrower (the "QSC Credit Facility") and extended the term of the QSC Credit Facility to May 2005. Many of our loan documents, including the QSC Credit Facility, contain financial reporting covenants that require delivery of annual and quarterly periodic reports, and the failure to comply with these financial reporting covenants can result in a default under certain of our loan documents. We have obtained extensions under the QSC Credit Facility for the delivery of our first and second quarter financial information for 2003 to December 31, 2003.

In August 2002, Dex borrowed $750 million under a term loan agreement ("Dex Term Loan") due September 2004 to fund costs in connection with the construction, installation, acquisition and improvement of telecommunications assets. We classified this term loan as a current liability based upon the requirement to pay this debt in full upon the sale of the Dex West business, which closed in September 2003. See Note 8—Assets Held for Sale including Discontinued Operations to our consolidated financial statements in Item 8 of this report, for further discussion of the terms of the Dex sale. As discussed below, on August 12, 2003, we paid off the outstanding balance of $750 million of the Dex Term Loan.

On November 8, 2002, we completed the sale of the Dex East business. The gross proceeds from the sale of the Dex East business were approximately $2.75 billion and were paid in cash. We used approximately $1.4 billion of the cash proceeds we received from the sale of the Dex East business to reduce our obligations under the QSC Credit Facility to $2.0 billion, and we expect to use the balance to invest in telecommunications assets and to redeem certain other indebtedness.

On November 20, 2002, we announced an offer to exchange up to $12.9 billion in aggregate principal amount of outstanding debt securities of QCF for new debt securities of QSC and Qwest. As of the completion of the offer on December 26, 2002, approximately $5.2 billion in total principal amount of the QCF notes were validly tendered and accepted for exchange for approximately $3.3 billion of new debt securities of QSC. The new QSC notes consist of 13% notes due 2007, 13.5% notes due 2010 and 14% notes due 2014 pursuant to an indenture issued on December 26, 2002.

We paid no dividends in 2002.

2001 Financing Activities

In January 2001, we repurchased 22.22 million shares of our common stock from BellSouth Corporation ("BellSouth") for $1.0 billion in cash. As part of this transaction, we entered into an agreement with BellSouth in January 2001 under which BellSouth agreed to purchase services valued at $250 million from us over a five-year period (the "2001 Agreement"). The 2001 Agreement provided that BellSouth could make payments for the services in our common stock based upon values as specified in the 2001 Agreement.

During the first quarter of 2002, we received approximately 278,000 shares of our common stock valued at $13 million from BellSouth in partial satisfaction of the $16 million accounts receivable outstanding at December 31, 2001. In addition, in accordance with the 2001 Agreement, we used $12 million of the $18 million in cash received from certain BellSouth affiliates to purchase approximately 253,000 shares of our common stock. The fair value of the stock tendered in the first quarter of 2002 of $5 million was recorded in treasury stock. The $20 million difference between (i) the fair value of the shares and (ii) the value assigned to the shares in the 2001 Agreement of $25 million was recorded as a reduction to additional paid-in capital. For more information concerning transactions with BellSouth, see Note 16—Stockholders' Equity to the consolidated financial statements in Item 8 of this report.

In February 2001, QCF issued a total of $3.25 billion in notes which consisted of $2.25 billion in notes due 2011 with an interest rate of 7.25% and $1.0 billion in notes due 2031 with an interest rate of 7.75%. The net proceeds from the notes were used to repay outstanding commercial paper and for general corporate purposes.

In March 2001, we completed a cash tender to buy back certain outstanding debt. In the tender offer, we repurchased approximately $995 million in principal of outstanding debt. As a result of the repurchase, we incurred $106 million in premium payments and recorded this expense in (gain) loss on early retirement of debt in our consolidated statement of operations. The tender offer was undertaken to retire the bonds because of their high coupon rates and to reduce interest costs. In connection with this tender offer, the indentures were amended to eliminate restrictive covenants and certain default provisions.

In July 2001, QCF issued a total of $3.75 billion in notes which consisted of $1.25 billion in notes due 2004 with an interest rate of 5.875%, $2.0 billion in notes due 2009 with an interest rate of 7%, and $500 million in notes due 2021 with an interest rate of 7.625%. The net proceeds from the notes were used to repay outstanding commercial paper and maturing debt.

On May 2, 2001, our Board of Directors approved a dividend of $0.05 per share on our common stock which was paid to stockholders of record as of the close of business on June 1, 2001 in satisfaction of any prior statement by us in connection with or following the Merger regarding the payment or declaration of dividends. As a result, dividends of $83 million were paid on common stock in 2001 compared to $542 million in 2000.

2000 Financing Activities

In June 2000, QC issued $1.0 billion in notes with a three-year maturity due 2003 and an interest rate of 7.625%. The net proceeds from the notes were used to repay outstanding commercial paper and for general corporate purposes.

In August 2000, QCF issued a total of $3.0 billion in notes which consisted of $1.25 billion in notes due 2006 with an interest rate of 7.75% and $1.75 billion in notes due 2010 with an interest rate of 7.9%. The net proceeds from the notes were used to repay outstanding commercial paper and for general corporate purposes.

We paid dividends of $542 million in 2000.

Payment Obligations and Contingencies

Payment obligations. The following table summarizes our future contractual cash obligations as of December 31, 2002:

	Payments Due by Period						
	Total	Year 1	Year 2	Year 3	Year 4	Year 5	After 5 Years
	(Dollars in millions)						
Future Contractual Cash Obligations							
Long-term debt	$ 22,496	$ 2,679	$ 1,837	$ 2,133	$ 887	$ 1,076	$ 13,884
Capital lease obligations	176	97	30	12	4	4	29
Operating leases	3,278	304	296	284	251	236	1,907
Purchase commitment obligations:							
Telecommunications commitments	2,735	1,085	840	513	274	4	19
IRU operating and maintenance obligations	1,200	62	59	59	58	57	905
Advertising and promotion	575	168	70	63	32	24	218
Total future contractual cash obligations	$ 30,460	$ 4,395	$ 3,132	$ 3,064	$ 1,506	$ 1,401	$ 16,962

We have future purchase commitments with CLECs, IXCs and third-party vendors that require us to make payments to purchase network services, capacity and telecommunications equipment primarily through December 31, 2006. These commitments require us to maintain minimum monthly and/or annual billings, in certain cases based on usage. We believe we will meet substantially all minimum payment commitments. In the unlikely event that requirements are not met, we will record the appropriate charges. Also included in the telecommunications commitments are unconditional purchase obligations that we entered into with certain telecommunications services companies, including KMC and Calpoint, in connection with sales of equipment to those entities at the time we entered into facilities management service agreements with them.

In connection with the KMC and Calpoint arrangements, we also agreed to pay the monthly service fees directly to trustees that serve as paying agents on debt instruments issued by special purpose entities sponsored by KMC and Calpoint. These unconditional purchase obligations require us to pay at least 75% of the monthly service fees for the entire term of the agreements, regardless of whether KMC or Calpoint provide us services. Our remaining unconditional purchase obligations under these agreements were $1.04 billion at December 31, 2002.

As part of our internal analysis, we have identified additional telecommunications commitments that were not included in quantification of our telecommunications commitments previously reported by us. Also, we determined that the amounts previously reported for KMC and Calpoint only included the unconditional purchase obligation but did not include the additional monthly 25% commitment beyond that. Costs for these additional monthly commitments were appropriately included as cost of goods sold in our consolidated statements of operations or capital expenditures in our consolidated statements of cash flows.

A portion of our fiber optic broadband network consists of facilities that were purchased or are leased from third parties. These agreements are generally 20 to 25 years in length. At the time of entering into these agreements we generally incur the obligation to pay operating and maintenance fees to a third party for the term of the agreement.

Concurrent with the closing of the sale of the Dex East business, we also entered into an advertising and telecommunications purchase commitment with the buyer. Pursuant to that commitment, we agreed to purchase from the buyer at least $20 million of advertising per year for 15 years (which commitment was not increased after the sale of the Dex West business) and the buyer agreed to exclusively purchase from us those telecommunication services that it uses from time to time

during this same period, subject to availability from us. In addition, we have various long-term, non-cancelable future purchase commitments for advertising and promotion services, including advertising with online service providers as well as marketing at sports arenas, stadiums and other venues and events through 2015.

Letters of Credit and Guarantees. At December 31, 2002, we had letters of credit of approximately $67 million and guarantees of approximately $2 million.

Contingencies. We are a defendant in a number of legal actions and the subject of a number of investigations by federal and state agencies. Certain of these actions present significant risk to us. We are unable at this time to estimate reasonably a range of loss that we would incur if the plaintiffs in one or more of these lawsuits were to prevail. While we intend to defend against these matters vigorously, the ultimate outcomes of these cases are very uncertain, and we can give no assurance as to the impacts on our financial results or financial condition as a result of these matters. Any settlement of or judgment on one or more of these claims could be material, and we cannot assure you that we would have resources available to pay such judgments. Also, our ability to meet our debt service obligations and our financial condition could be materially and adversely affected. For a description of these legal actions, please see Note 20—Commitments and Contingencies to our consolidated financial statements in Item 8 of this report.

Credit ratings

Our credit ratings were lowered by Moody's Investor Services ("Moody's"), Standard and Poor's ("S&P") and Fitch Ratings ("Fitch") on multiple occasions during 2002. The table below summarizes our ratings for the years ended December 31, 2002 and 2001.

	December 31, 2002			December 31, 2001		
	Moody's	S&P	Fitch	Moody's	S&P	Fitch
Corporate rating	NA	B-	NA	NA	BBB+	NA
Qwest Corporation	Ba3	B-	B	A2	BBB+	A
Qwest Services Corporation	NR	CCC+	NR	NA	NA	NA
Qwest Communications Corporation	Caa1	CCC+	CCC+	Baa1	BBB+	BBB+
Qwest Capital Funding, Inc.	Caa2	CCC+	CCC+	Baa1	BBB+	BBB+
Qwest Communications International Inc.	Caa1	CCC+	CCC+	Baa1	BBB+	BBB+

NA = Not applicable

NR = Not rated

The December 31, 2002 ratings are still in effect and represent ratings of long-term debt and loans at each entity.

With respect to Moody's, a Ba rating is judged to have speculative elements, meaning that the future of the issuer cannot be considered to be well-assured. Often the protection of interest and principal payments may be very moderate, and thereby not well safeguarded during both good and bad times. Issuers with Caa ratings are in poor standing with Moody's. These issuers may be in default, according to Moody's, or there may be present elements of danger with respect to principal and interest. The "1,2,3" modifiers show relative standing within the major categories, 1 being the highest, or best, modifier in terms of credit quality.

With respect to S&P, any rating below BBB indicates that the security is speculative in nature. A B- rating indicates that the issuer currently has the capacity to meet its financial commitment on the obligation, but adverse business, financial or economic conditions will likely impair the issuers' capacity or willingness to meet its financial commitment on the obligation. A CCC+ indicates that the obligation is currently vulnerable to nonpayment and the issuer is dependent on favorable business, financial and economic conditions in order to meet its financial commitment on the obligation. The plus and minus symbols show relative standing within the major categories.

With respect to Fitch, any rating below BBB is considered speculative in nature. A B rating is considered highly speculative, meaning that significant credit risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment. A CCC+ rating indicates default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. The plus and minus symbols show relative standing within major categories.

Debt ratings by the various rating agencies reflect each agency's opinion of the ability of the issuers to repay debt obligations as they come due. In general, lower ratings result in higher borrowing costs and/or impaired ability to borrow. A security rating is not a recommendation to buy, sell, or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organization.

Given our current credit ratings, as noted above, our ability to raise additional capital under acceptable terms and conditions may be negatively impacted.

Other Liquidity and Capital Resource Considerations

Prior to 2002, we entered into structured finance transactions under which we agreed to lease from unrelated parties certain real estate properties, including corporate offices, network operations centers and web hosting centers. These were referred to as synthetic lease facilities. These leases had terms of six years and were accounted for as operating leases. In March 2002, we paid the full amount necessary to acquire all properties subject to the synthetic lease agreements and unwound these agreements. The purchase price of all such properties was $254 million. As a result of the purchase, the loan commitments totaling $382 million were terminated and we are no longer liable for our residual value guarantees of up to $228 million that were only applicable if the leases expired at the end of their term.

Recent Developments Impacting Liquidity and Capital Resources

The following describes developments impacting our liquidity and capital resources from January 1, 2003 through the date of the filing of this report.

Subsequent to year-end, through September 2003, we exchanged, through direct transactions, $797 million face amount of debt issued by QCF. In exchange for the debt, we issued 50 million shares of common stock out of treasury and $406 million of new QSC notes similar to the notes issued in December 2002. The trading prices for our shares at the time the exchange transactions were consummated ranged from $3.22 per share to $5.11 per share.

On June 9, 2003, QC entered into a senior term loan with two tranches for a total of $1.75 billion principal amount of indebtedness. The term loan consists of a $1.25 billion floating rate tranche, due in 2007, and a $500 million fixed rate tranche, due in 2010. The term loan is unsecured and ranks equally with all of QC's current indebtedness. The floating rate tranche is non-prepayable for two years and thereafter is subject to prepayment premiums through 2006. There are no mandatory prepayment requirements. The covenant and default terms are substantially the same as the other senior QC indebtedness. The net proceeds were used to refinance QC debt due in 2003 and fund or refinance QC's investment in telecommunications assets.

The floating rate tranche bears interest at LIBOR plus 4.75% (with a minimum interest rate of 6.50%) and the fixed rate tranche bears interest at 6.95% per annum. The lenders funded the entire principal amount of the loan subject to the original issue discount for the floating rate tranche of 1.00% and for the fixed rate tranche of 1.652%. Also, in connection with this QC issuance, we reduced our obligation under the QSC Credit Facility by $429 million to a balance of $1.57 billion.

On August 12, 2003, we used cash to payoff the outstanding balance of $750 million of the Dex Term Loan in full.

On September 9, 2003, we completed the sale of the Dex West business. The gross proceeds from the sale of the Dex West business were approximately $4.3 billion and were received in cash. We used approximately $321 million of the cash proceeds to reduce our obligation under the QSC Credit Facility to $1.25 billion, and we expect to use the balance to invest in telecommunications assets and/or to redeem other indebtedness.

As a result of the above transactions and 2003 year-to-date maturities, at September 30, 2003, our future maturities of long-term borrowings are as follows:

	Maturities					
Interest rates	**2003**	**2004**	**2005**	**2006**	**2007**	**Thereafter**
	(Dollars in millions)					
Up to 5%	—	—	1,250	—	—	—
Above 5% to 6%	—	1,087	46	6	77	328
Above 6% to 7%	—	—	837	—	1,340	3,554
Above 7% to 8%	—	750	—	866	350	5,197
Above 8% to 9%	—	—	—	—	—	1,772
Above 9% to 10%	—	—	—	—	11	—
Above 10% to 14%	—	—	—	—	559	3,145
Total	—	1,837	2,133	872	2,337	13,996

In September 2003, we restructured our arrangements with Calpoint and another vendor that effectively eliminated our services agreements and settled certain claims of the parties. We paid $174 million to restructure these arrangements but will continue to make payments to a trustee related to the Calpoint agreement for 75% of the unconditional purchase obligation. This obligation will be paid to the trustee ratably through 2006. In connection with these transactions, our third quarter 2003 consolidated financial statements will reflect a liability of $346 million and a pretax charge of $393 million. In addition, we expect to realize a cash savings of approximately $118 million in 2004 as a result of these restructurings and additional cash savings through 2006.

Critical Accounting Policies

We have identified the policies below as critical to our business operations and the understanding of our results of operations. For a detailed discussion on the application of these and other significant accounting policies, see Note 2—Summary of Significant Accounting Policies to the consolidated financial statements in Item 8 of this report. These policies are considered "critical" because they have the potential to have a material impact on our financial statements, and because they require significant judgments and estimates. Certain historical accounting policies that were critical have been corrected and clarified in connection with our restatement. These include revenue recognition applicable to our IRU transactions, revenue and cost recognition related to our directory publishing business and other matters. Note that our preparation of this Annual Report on Form 10-K requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

Revenue Recognition and Related Reserves

Revenues from services are recognized when the services are provided. Payments received in advance are deferred until the service is provided. Up-front fees received, primarily activation fees and

installation charges, as well as the associated customer acquisition costs, are deferred and recognized over the expected customer relationship, generally two to ten years. Expected customer relationship periods are estimated using historical data of actual customer retention patterns. Termination fees or other fees on existing contracts that are negotiated in conjunction with new contracts are deferred and recognized over the new contract term. As the telecommunications market experiences greater competition and customers shift from traditional land-based telephony services to mobile services, our estimated customer relationship periods will likely decrease.

We believe that the accounting estimates related to the recognition of revenue and establishment of reserves for uncollectible amounts in the results of operations is a "critical accounting estimate" because: (1) it requires management to make assumptions about future collections, billing adjustments and unauthorized usage, and (2) the impact of changes in actual performance versus these estimates on the accounts receivable balance reported on our consolidated balance sheets and the results reported in our consolidated statements of operations could be material. In selecting these assumptions, we use historical trending of write-offs, industry norms, regulatory decisions and recognition of current market indicators about general economic conditions that might impact the collectibility of accounts.

Software Capitalization Policy

Internally used software, whether purchased or developed, is capitalized and amortized using the straight-line method over an estimated useful life of 18 months to five years. In accordance with Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," we capitalize certain costs associated with internally developed software such as payroll costs of employees devoting time to the projects and external direct costs for materials and services. Costs associated with internally developed software to be used internally are expensed until the point at which the project has reached the development stage. Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred. The capitalization of software requires judgment in determining when a project has reached the development stage and the period over which we expect to benefit from the use of that software. Further, the recovery of software projects is periodically reviewed and may result in significant write-offs.

Pension and Post-Retirement Benefits

Pension and post-retirement health care and life insurance benefits earned by employees during the year as well as interest on projected benefit obligations are accrued currently. Prior service costs and credits resulting from changes in plan benefits are amortized over the average remaining service period of the employees expected to receive benefits. Pension and post-retirement costs are recognized over the period in which the employee renders service and becomes eligible to receive benefits as determined using the projected unit credit method.

In computing the pension and post-retirement benefit costs, we must make numerous assumptions about such things as employee mortality and turnover, expected salary and wage increases, discount rates, expected return on plan assets and expected future cost increases. Two of these items generally have the most significant impact on the level of cost—discount rate and expected rate of return on plan assets.

Annually, we set our discount rate primarily based upon the yields on high-quality fixed-income investments available at the measurement date and expected to be available during the period to maturity of the pension benefits. In making this determination we consider, among other things, the yields on Moody's AA corporate bonds as of year end.

The expected rate of return on plan assets is the long-term rate of return we expect to earn on the trust's assets. We establish the expected rate of return by reviewing the investment composition of our plan assets, obtaining advice from our actuaries, reviewing historical earnings on the trust assets and evaluating current and expected market conditions.

To compute the expected return on pension plan assets, we apply our expected rate of return to the market-related value of the plan assets. The market-related asset value is a computed value that recognizes changes in fair value of pension plan assets over a period of time, not to exceed five years. In accordance with SFAS No. 87, "Employers' Accounting for Pensions," we elected to recognize actual returns on our pension plan assets ratably over a five year period when computing our market-related value of pension plan assets. The election was made in 1987 when SFAS No. 87 became effective. This method has the effect of smoothing market volatility that may be experienced from year to year. As a result, our expected return is not significantly impacted by the actual return on pension plan assets experienced in the current year.

Changes in any of the assumptions we made in computing the net of the pension credit and post-retirement benefit cost could have an impact on various components that comprise these expenses. Factors to be considered include the strength or weakness of the investment markets, changes in the composition of the employee base, fluctuations in interest rates, significant employee hirings or downsizings and medical cost trends. Changes in any of these factors could impact cost of sales and SG&A on the consolidated statement of operations as well as the value of the asset or liability on the consolidated balance sheet. If our assumed expected rate of return of 9.4% was 100 basis points lower, the impact would have been to decrease the pension credit, net of post-retirement expenses, by $106 million, $141 million and $142 million for 2002, 2001 and 2000, respectively.

Investments

We review our equity investments on a quarterly basis to determine whether a decline in value on individual securities is other than temporary. Many factors are considered in assessing whether a decline in value is other than temporary, including, as may be appropriate:

- earnings trends and asset quality;
- near-term prospects and financial condition of the issuer;
- financial condition and prospects of the issuer's region and industry;
- the cause and severity of the decline in market price;
- analysts' recommendations and stock price projections;
- the length of time (generally six to nine months) that fair value has been less than the carrying value;
- stock-price volatility and near-term potential for recovery; and
- our intent and ability to retain the investment.

If we conclude that the decline in value of an equity investment is other than temporary, we record a charge to our consolidated statements of operations to reduce the carrying value of the security to its estimated fair value. Changes in market conditions and our assessment of those conditions may impact the fair value of the investments on the consolidated balance sheet as well as charges to the consolidated statement of operations. If we fail to recognize the factors as listed above in a timely manner, we could record losses on investments in the wrong period.

Goodwill and Other Intangible Assets

We adopted SFAS No. 142 in January 2002. SFAS No. 142 requires companies to cease amortizing goodwill and certain intangible assets with indefinite useful lives. Instead, SFAS No. 142 requires that goodwill and indefinite-lived intangible assets be reviewed for impairment upon adoption on January 1, 2002 and at least annually thereafter. Under SFAS No. 142, goodwill impairment is deemed to exist if the carrying value of the reporting unit exceeds its estimated fair value.

In connection with the adoption of SFAS No. 142, we performed our initial impairment analysis of goodwill and indefinite-lived intangible assets as of January 1, 2002. The implementation involved the determination of the fair value of each reporting unit, where a reporting unit is defined as an operating segment or one level below.

We determined the fair value of each significant reporting unit based on discounted forecasts of future cash flows. Judgments and assumptions are required in the preparation of the estimated future cash flows, including long-term forecasts of revenue growth, gross margins and capital expenditures.

Two of the most significant assumptions underlying the determination of the fair value of goodwill and other intangible assets upon our initial implementation were the cash flow forecasts and discount rates used. In connection with the measurement we performed at the date we adopted SFAS No. 142 (January 1, 2002), we have determined that a 10% increase in the cash flow forecasts would have decreased the transitional impairment charge by approximately $1.5 billion, resulting in a transitional impairment charge of approximately $21.3 billion instead of $22.8 billion. In contrast, a 10% decrease in the cash flow forecasts would have increased the transitional impairment charge by approximately $1.2 billion, resulting in an impairment charge of approximately $24.0 billion. A 100 basis point increase in the discount rate we used would have resulted in a transitional impairment charge of approximately $25.2 billion instead of $22.8 billion, while a 100 basis point decrease in the discount rate would have resulted in a transitional impairment charge of approximately $17.1 billion.

Subsequent to adoption on January 1, 2002 of SFAS No. 142, we determined that circumstances indicated that it was more likely than not that an impairment loss was incurred, and as a result, we tested the remaining goodwill for possible impairment. Our impairment analysis as of June 30, 2002, resulted in an impairment of the remaining goodwill of approximately $8.483 billion. As a result of recording the cumulative effect of the change in accounting for the transitional impairment of $22.8 billion and the additional impairment of $8.483 billion, there is no goodwill remaining on our balance sheet as of and subsequent to June 30, 2002. A hypothetical 10% increase or decrease in the fair value estimates used in our June 30, 2002 measurement would have had no impact on the impairment recorded.

Impairment of Long-lived Assets

Effective June 30, 2002, pursuant to SFAS No. 144, the general deterioration of the telecommunications market, the downward revisions to our expected future results of operations and other factors indicated that our investments in long-lived assets may have been impaired at that date. In accordance with SFAS No. 144 we performed an evaluation of the recoverability of the carrying value of our long-lived assets using gross undiscounted cash flow projections. For impairment analysis purposes, we grouped our property, plant and equipment and projected cash flows as follows: traditional telephone network, national fiber optic broadband network; international fiber optic broadband network; wireless network; web hosting and ASP; assets held for sale; and out-of-region DSL. Based on this assessment of recoverability, we concluded that our traditional telephone network was not impaired. However, this analysis revealed that the remaining asset groups were impaired. We then estimated the fair value of these asset groups and, as a result, we recorded a total of $10.493 billion in asset impairment charges during the year ended December 31, 2002 as more fully described below.

Following is a summary of impairment charges recognized by asset group for the year ended December 31, 2002 net of $120 million for certain web hosting centers that have been reclassified to income from and gain on sale of discontinued operations in our consolidated statements of operations in Item 8 of this report.

Asset Group	Impairment Charge	Fair Value Methodology
	(Dollars in millions)	
National fiber optic broadband network	$ 8,505	Discounted cash flows
International fiber optic broadband network	685	Comparable market data
Wireless network	825	Comparable market data and discounted cash flows
Web hosting and ASP assets	88	Comparable market data
Assets held for sale	348	Comparable market data
Out-of-region DSL	42	Discounted cash flows
Total impairment charges	$ 10,493	

The national fiber optic broadband network (National Network) provides long-distance voice services, data and Internet services, and wholesale services to business, consumer and wholesale customers outside of our local service area. The international fiber optic broadband network (International Network) provides the same services to the same types of customers only outside of the United States. The wireless network provides Personal Communications Service, or PCS, in select markets in our local service area. Our web hosting and ASP asset group provides business customers both shared and dedicated hosting on our servers as well as application hosting services to help design and manage the customer's website and their hosting applications. Assets held for sale primarily consist of excess network supplies. Our out-of-region DSL assets provide DSL service to customers outside our local service area.

Calculating the estimated fair value of the asset groups as listed above involves significant judgments and a variety of assumptions. For calculating fair value based on discounted cash flows, we forecasted future operating results and future cash flows, which included long-term forecasts of revenue growth, gross margins and capital expenditures. We also used a discount rate based on an estimate of the weighted average cost of capital for the specific asset groups as of June 30, 2002. Comparable market data was obtained by reviewing recent sales of similar asset types in third-party market transactions. A hypothetical increase or decrease in the estimated future cash flows of 10% would have changed the impairment charge by approximately $105 million. A hypothetical increase or decrease in the discount rate used of 100 basis points would have changed the impairment charge by approximately $40 million.

Restructuring Reserves

Periodically, we commit to exit certain business activities, eliminate office or facility locations and/or reduce our number of employees. The charge to record such a decision depends upon various assumptions, including future severance costs, sublease income or disposal costs, length of time on market for abandoned rented facilities, contractual termination costs and so forth. Such estimates are inherently judgmental and may change based upon actual experience. The number of employees and the related estimate of severance costs for employees combined with the estimate of future losses on sublease income and disposal activity generally has the most significant impact.

Due to the estimates and judgments involved in the application of each of these accounting policies, changes in our plans and these estimates and market conditions could materially impact our financial condition or results of operations.

Recently Adopted Accounting Pronouncements and Cumulative Effect of Adoption

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 142. This statement addresses financial accounting and reporting for intangible assets (excluding goodwill) acquired individually or with a group of other assets at the time of their acquisition. It also addresses how goodwill and other intangible assets are accounted for after they have been initially recognized in the financial statements. As required, we adopted SFAS No. 142 effective January 1, 2002. Upon adoption of SFAS No. 142, the fair value of goodwill was evaluated as of January 1, 2002 as if an acquisition of each of our reporting units at fair value had occurred on that date. The valuation was based on our reporting units at that date, as opposed to an enterprise-wide basis, as was the case under the prior accounting literature. The cumulative effect of adoption of SFAS No. 142 was a loss from a change in accounting principle of approximately $22.8 billion. The adoption of SFAS No. 142 reduced our amortization expense for goodwill and indefinite-lived intangible assets by approximately $1.052 billion annually, beginning January 1, 2002. The cumulative effect of this change in accounting principle was reflected as a reduction in the carrying value of goodwill as of January 1, 2002. See Note 7—Goodwill and Other Intangible Assets to our consolidated financial statements in Item 8 of this report for further information.

In August 2001, the FASB issued SFAS No. 144. This pronouncement addresses financial accounting and reporting for the impairment or disposal of long-lived assets other than goodwill and intangible assets with indefinite lives. Under SFAS No. 144, long-lived assets being held or used are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable from their expected future undiscounted cash flows ("a triggering event"). The impairment loss is equal to the difference between the asset's carrying amount and estimated fair value. In addition, SFAS No. 144 requires long-lived assets to be disposed of other than by sale for cash to be accounted for and reported like assets being held and used. Long-lived assets to be disposed of by sale are to be recorded at the lower of their carrying amount or estimated fair value (less costs to sell) at the time the plan of disposition has been approved and committed to by the appropriate company management. We adopted SFAS No. 144 effective January 1, 2002. Effective June 30, 2002, a triggering event occurred and we recorded an impairment charge of approximately $10.493 billion. We also recorded other asset impairment charges during 2002 totaling $32 million. See Note 6—Property, Plant and Equipment to our consolidated financial statements in Item 8 of this report for further information.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002" ("SFAS No. 145"). We adopted SFAS No. 145 effective January 1, 2002. This statement eliminates the automatic classification of gain or loss on extinguishments of debt as an extraordinary item and requires that such gain or loss be evaluated for extraordinary classification under the criteria of Accounting Principles Board ("APB") Opinion No. 30, "Reporting Results of Operations." This statement also requires sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions and makes various other technical corrections to existing pronouncements. As a result, our gains and losses on debt extinguishments have been reclassified to other income and expense in our consolidated statements of operations for all periods presented.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123" ("SFAS No. 148"), which is effective for financial statements related to periods ending after December 15, 2002. SFAS No. 148 requires expanded disclosure regarding stock-based compensation which we have included in Note 2—Summary of Significant Accounting Policies to our consolidated financial statements in Item 8 of this report.

FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," was issued in November 2002. The interpretation provides guidance on the guarantor's accounting and disclosure of guarantees, including indirect guarantees of indebtedness of others. We have adopted the disclosure requirements of the interpretation as of December 31, 2002. The accounting guidelines are applicable to certain guarantees, excluding affiliate guarantees, issued or modified after December 31, 2002, and require that we record a liability for the fair value of such guarantees on our consolidated balance sheet. The adoption of this interpretation had no material effect on our consolidated financial statements.

In our restated 2001 consolidated financial statements, we recorded a cumulative effect of a change in accounting principle of $24 million, net of income taxes, related to the adoption of SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities". This $24 million credit represents the fair value of certain warrants to purchase common stock of other companies received by us in exchange for the purchase or sale of goods or services.

In 2000, we recorded a cumulative effect of a change in accounting principle of approximately $41 million, net of income taxes, upon our adoption of Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements" ("SAB No. 101"). The $41 million charge relates to the establishment of deferred revenues and costs for certain activation and installation activities. Previously, installation and activation fees and costs had been recognized in their entirety at the time the installation or activation was completed. Under the rules of SAB No. 101, these installation and activation fees are recognized ratably over the estimated lives of the customer relationships, which range from two to ten years. The adjustment to the cumulative effect previously reported is further described in Note 3—Restatement of Results to our consolidated financial statements in Item 8 of this report.

New Accounting Standards

On January 1, 2003, we adopted SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"). This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs, generally referred to as asset retirement obligations. SFAS No. 143 requires entities to record the fair value of a legal liability for an asset retirement obligation required to be settled under law or written or oral contract. If a reasonable estimate of fair value can be made, the fair value of the liability shall be recognized in the period it is incurred, or if not, in the period a reasonable estimate of fair value can be made. This cost is initially capitalized and then amortized over the estimated remaining useful life of the asset. We have determined that we have legal asset retirement obligations associated with the removal of a limited group of long-lived assets and recorded a cumulative effect of a change in accounting principle charge upon adoption of SFAS No. 143 of $28 million (liability of $43 million net of an asset of $15 million) in 2003.

Prior to the adoption of SFAS No. 143, we have included in our group depreciation rates estimated net removal costs (removal costs less salvage). These costs have historically been reflected in the calculation of depreciation expense and therefore recognized in accumulated depreciation. When the assets were actually retired and removal costs were expended, the net removal costs were recorded as a reduction to accumulated depreciation. While SFAS No. 143 requires the recognition of a liability for asset retirement obligations that are legally binding, it precludes the recognition of a liability for asset retirement obligations that are not legally binding. Therefore, upon adoption of SFAS No. 143, we reversed the net removal costs within accumulated depreciation for those fixed assets where the removal costs exceeded the estimated salvage value and we did not have a legal removal obligation. This resulted in income from the cumulative effect of a change in accounting principle of $365 million in 2003.

On a going forward basis, the net costs of removal related to these assets will be charged to our consolidated statement of operations in the period in which the costs are incurred. As a result, the adoption of SFAS No. 143 is expected to decrease our depreciation expense on an annual basis by approximately $32 million and increase operating expenses related to the accretion of the fair value of our legal asset retirement obligations by approximately $6 million annually beginning January 1, 2003. Based on historical charges and activity through the six months ended June 30, 2003, we believe that recurring removal costs will be approximately $35 million to $45 million annually.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146"), which is applicable for exit or disposal activities initiated after December 31, 2002. This statement requires that liabilities for costs that are associated with an exit or disposal activity be recognized and measured initially at fair value in the period in which the liability is incurred. It nullifies the guidance of Emerging Issues Task Force ("EITF") No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" ("EITF No. 94-3"). Under EITF No. 94-3, an entity recognized a liability for an exit cost on the date that the entity committed itself to an exit plan. SFAS No. 146 concludes that an entity's commitment to a plan does not, by itself, create a present obligation to other parties that meets the definition of a liability. In accordance with SFAS No. 146, our restructuring activities that were recorded prior to 2003 will continue to be accounted for under previous guidance. Our adoption of SFAS No. 146 on January 1, 2003 is not expected to have a material effect on our operating results or financial position.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities" ("FIN No. 46"), which is effective immediately for all variable interest entities created after January 31, 2003. FIN No. 46 must be applied for the first fiscal year or interim period beginning after June 15, 2003 for variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003, or the third quarter 2003 for us. FIN No. 46 requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among the parties involved. A primary beneficiary absorbs the majority of the entity's expected losses, if they occur, receives a majority of the entity's expected residual returns, if they occur, or both. Where it is reasonably possible that the information about our variable interest entity relationships must be disclosed or consolidated, we must disclose the nature, purpose, size and activity of the variable interest entity and the maximum exposure to loss as a result of our involvement with the variable interest entity in all financial statements issued after January 31, 2003. We do not expect that the adoption of FIN No. 46 will require consolidation of any previously unconsolidated entities.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity", ("SFAS No. 150"). SFAS No. 150 provides guidance on how an entity classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. We do not believe that the adoption of SFAS No. 150 will have a material impact on our consolidated financial statements.

Related Party Transactions

In October 1999, pre-Merger Qwest and Anschutz Digital Media, Inc. ("ADMI"), a subsidiary of Anschutz Company, formed a joint venture called Qwest Digital Media, LLC ("QDM"), which provided advanced digital production, post-production and transmission facilities; digital media storage and distribution services; telephony-based data storage and enhanced access and routing services. Pre-Merger Qwest contributed capital of approximately $84.8 million in the form of a promissory note payable over nine years at an annual interest rate of 6%. At inception, pre-Merger Qwest and ADMI each owned 50% equity and voting interest in QDM. In June 2000, we acquired an additional 25%

interest in QDM directly from ADMI and paid $48.2 million for the interest; $4.8 million in cash at closing and the remaining $43.4 million in the form of a promissory note payable in December 2000, with an annual interest rate of 8%. As a result of this transaction, subsequent to the Merger, we owned a 75% economic interest and 50% voting interest in QDM, and ADMI owned the remaining 25% economic interest and 50% voting interest. We paid the note associated with this additional 25% interest in full, including approximately $1.8 million in accrued interest, in January 2001. Because we have never controlled QDM, we have accounted for our investment in QDM under the equity method of accounting for all periods presented.

In October 1999, we entered into a long-term Master Services Agreement with QDM under which QDM agreed to purchase approximately $119 million of telecommunication services through October 2008, and we agreed to extend credit to QDM for the purpose of making payments for the telecommunications services. Each October, QDM would be required to pay us an amount equal to the difference between certain specified annual commitment levels and the amount of services actually purchased under the Master Services Agreement at that time. In October 2001, we agreed to terminate the Master Services Agreement and release QDM from its obligation under such agreement to acquire telecommunications services from us. At the same time, QDM agreed to forgive the remaining balance of $84.8 million that we owed on the promissory note related to the original capital contribution from pre-Merger Qwest. Prior to the termination of the Master Services Agreement, we advanced QDM $3.8 million, which was the amount it owed to us under the agreement for accrued telecommunications services. QDM used that advance to pay us the amount owed, including interest on amounts past due. Concurrently with terminating the Master Services Agreement, QDM repaid the $3.8 million advance under the Master Services Agreement with interest. QDM made purchases of $0.7 million, $3.3 million and $1.4 million during 2002, 2001 and 2000, respectively.

In January 2002, we and ADMI each loaned QDM approximately $1.3 million. In February 2002, in conjunction with ADMI, we agreed to cease the operations of QDM. This resulted in an impairment charge in our 2002 consolidated statement of operations for the carrying amount of our investment in QDM of $2 million. During the remainder of 2002, we loaned QDM an additional $3.8 million and ADMI loaned QDM $300,000. As of December 31, 2002, the aggregate principal balance and accrued interest outstanding on loans to QDM from us and ADMI was $12.4 million and $4.4 million, respectively.

In October 1999, we agreed to purchase certain telephony-related assets and all of the stock of Precision Systems, Inc, a telecommunications solutions provider, from ADMI in exchange for a promissory note in the amount of $34 million. The note bears interest at 6% annually with semi-annual interest payments and annual principal payments due through 2008. During 2002, 2001 and 2000, respectively, we paid $0, $2.0 million, and $2.1 million in interest and $0, $340,000, and $0 in principal, on the note. At December 31, 2002, the outstanding accrued interest on the note was approximately $2.4 million and the outstanding principal balance on the note was approximately $33.7 million.

In April 1999, we and KPN Telecom B.V. ("KPN") formed KPNQwest, a joint venture, to create a pan-European IP-based fiber optic broadband network, linked to our network in North America, for data and multimedia services. We and KPN each initially owned 50% of KPNQwest. In November 1999, KPNQwest consummated an initial public offering in which 50.6 million shares of common stock were issued to the public generating approximately $1.0 billion in proceeds. As a result of KPNQwest's initial public offering, the public owned approximately 11% of KPNQwest's shares, and the remainder was owned equally by us and KPN. Originally, contractual provisions restricted our ability to sell or transfer any of our shares through 2004. In November 2001, we purchased approximately 14 million additional shares, and Anschutz Company (our largest stockholder) purchased approximately six million shares, of KPNQwest common stock from KPN for $4.58 per share. Anschutz Company's purchase was at our request and with the approval of the disinterested members of our Board of Directors. After giving effect to this transaction, we held approximately 47.5% of KPNQwest's outstanding shares. In

connection with this transaction, the restrictions on our ability to transfer shares were removed. Because we have never had the ability to designate a majority of the members of the supervisory board or to vote a majority of the voting securities, we have accounted for our investment in KPNQwest using the equity method of accounting for all periods presented.

During 2002, 2001 and 2000, we entered into several transactions with KPNQwest for the purchase and sale of optical capacity assets and the provisioning of services, including but not limited to private line, web hosting, IP transit and DIA. We made purchases of these assets and services from KPNQwest totaling $169 million, $218 million and $70 million in 2002, 2001 and 2000, respectively. We recognized revenue on products and services sold to KPNQwest in the amount of $12 million, $18 million and $26 million in 2002, 2001 and 2000, respectively. At December 31, 2002, 2001 and 2000, we had a receivable from KPNQwest for these products and services of $5 million, $12 million and $3 million, respectively. Due to KPNQwest's bankruptcy, the full amount of the balance outstanding as of December 31, 2002 is provided for in our allowance for doubtful accounts. Pricing for these services was based on what we believed to be fair market value at the time the transactions were consummated. Some of KPNQwest's sales to us were in accordance with the distribution agreement with KPNQwest, whereby we were, in certain circumstances, the exclusive distributor of certain of KPNQwest's services in North America. As of December 31, 2001, we had a remaining commitment to purchase up to 81 million Euros (or $72 million based on a conversion rate at December 31, 2001) worth of network capacity through 2002 from KPNQwest. In connection with KPNQwest's bankruptcy, as discussed in Note 10—Investments to our consolidated financial statements in Item 8 of this report, the purchase commitment terminated during June 2002.

In March 2002, KPNQwest acquired certain assets of Global TeleSystems Europe B.V. ("GTS") for convertible notes of KPNQwest with a face amount of 211 million Euros ($186 million based on a conversion rate at March 18, 2002), among other consideration, under an agreement entered into in October 2001. As disclosed to our Board of Directors, a subsidiary of Anschutz Company had become a creditor of GTS in 2001. We understand that in 2002 and 2001, as part of a group of GTS bondholders, the Anschutz Company subsidiary also provided interim financing to GTS. In connection with the consummation of KPNQwest's acquisition of the GTS assets, the Anschutz Company subsidiary received a distribution of such notes with a face amount of approximately 37 million Euros ($33 million based on a conversion rate at March 18, 2002). We understand that the allocation of notes to the Anschutz Company subsidiary was determined by a creditor committee for GTS which did not include any representatives of Anschutz Company, and neither the KPNQwest notes nor the shares referenced above, both of which are still held by Anschutz Company, have any current value.

In 2000, Qwest decided to sell an aircraft and purchase a different aircraft. Qwest decided to do so in the form of a "like-kind exchange" transaction under Section 1031 of the Internal Revenue Code, as amended. A like-kind exchange transaction is one in which a company sells an asset and purchases a similar, or like-kind, asset. In order to qualify as a like-kind exchange, the sale of the old asset and the purchase of the new asset must take place within six months of each other. In November 2000, Qwest engaged a third party to facilitate the aircraft exchange, and in December 2000, transferred its aircraft to this party and acquired from the same party another aircraft, which it had acquired on Qwest's behalf. Qwest also began marketing the aircraft it intended to sell through an aircraft broker. At the end of March 2001, Qwest received an offer from an independent third party to purchase the aircraft for $7.65 million. However, the sale was not completed because the third party failed to consummate the purchase. In early May 2001, after Qwest had not found another party to acquire the aircraft it intended to sell, and as the six-month period to complete the like-kind exchange was nearing an end, a subsidiary of Anschutz Company agreed to purchase the aircraft for $7.6 million, which resulted in significant tax deferrals and savings for Qwest. This transaction was approved by the disinterested members of our board of directors.

We loaned Afshin Mohebbi, one of our former officers, $600,000 under a promissory note dated May 18, 1999. The loan was unsecured and did not bear interest. The promissory note provided that the principal amount was to be forgiven in 36 equal monthly increments beginning July 1, 1999 and ending on June 1, 2002. Effective April 1, 2002, we loaned Mr. Mohebbi an additional $4 million, which bears interest at the rate of 5.54%, compounded semi-annually. Mr. Mohebbi has agreed to use a portion of the loan to pay the premium on a life insurance policy covering his life. The outstanding principal balance of the loan, together with any accrued and unpaid interest thereon, will be due and payable within 90 days following Mr. Mohebbi's death or earlier upon the occurrence of any transfer or surrender of the life insurance policy, any borrowing against or withdrawals of cash from the policy, any pledge of or encumbrance on the policy, or any reduction in the face amount of the policy that results in a distribution of cash value. Mr. Mohebbi is the owner of the life insurance policy.

Risk Management

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 may also employ financial derivatives to hedge foreign currency exposures associated with particular debt. With the settlement of the Global Crossing derivative in 2001, we no longer hold any derivatives for other than hedging purposes.

As of December 31, 2002 and 2001, approximately $2.2 billion and $3.6 billion, respectively, of floating-rate debt was exposed to changes in interest rates. This exposure is linked to commercial paper rates and London Interbank Offered Rates, or LIBOR. A hypothetical increase of one-percentage point in LIBOR and commercial paper rates would increase annual pre-tax interest expense by $22 million. As of December 31, 2002 and 2001, we also had approximately $1.2 billion of long-term fixed rate debt obligations maturing in the following twelve 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. We had $19.0 billion and $20.2 billion of long-term fixed rate debt at December 31, 2002 and 2001, respectively. A 100 basis point increase in the interest rates on this debt would result in an increase in the fair value of these instruments of $0.7 billion and $1.1 billion at December 31, 2002 and 2001, respectively. A 100 basis point decrease in the interest rates on this debt would result in a decrease in the fair value of these instruments of $0.8 billion and $1.2 billion at December 31, 2002 and 2001, respectively.

As of December 31, 2002, Qwest had $2.253 billion of cash invested in money market and other short-term investments. Most cash investments are invested at floating rates. As interest rates change so will the interest income derived from these accounts.

Special Note Regarding Forward-Looking Statements

This Form 10-K contains or incorporates by reference "forward-looking statements," as that term is used in federal securities laws, about our financial condition, results of operations and business. These statements include, among others:

- statements concerning the benefits that we expect will result from our business activities and certain transactions we have completed, such as increased revenues, decreased expenses and avoided expenses and expenditures; and

- statements of our expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts.

These statements may be made expressly in this document or may be incorporated by reference to other documents we will file with the SEC. You can find many of these statements by looking for words such as "believes," "expects," "anticipates," "estimates," or similar expressions used in this report or incorporated by reference in this report.

These forward-looking statements are subject to numerous assumptions, risks and uncertainties that may cause our actual results to be materially different from any future results expressed or implied by us in those statements. Some of these risks are described below under "Risk Factors." These risk factors should be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue. We do not undertake any obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events. Further, the information contained in this document is a statement of our intention as of the date of this filing and is based upon, among other things, the existing regulatory environment, industry conditions, market conditions and prices, the economy in general and our assumptions as of such date. We may change our intentions, at any time and without notice, based upon any changes in such factors, in our assumptions or otherwise.

You are further cautioned that we have not filed certain of our recent periodic reports with the SEC, and we intend to restate information disclosed in certain other reports previously filed with the SEC. We have determined that in certain cases we misinterpreted or misapplied GAAP in our 2001 and 2000 consolidated financial statements and, accordingly, we have restated our consolidated financial statements for the two years ended December 31, 2001 and related interim periods. Because this restatement has also impacted our 2002 results, as reflected herein, the information previously filed in our quarterly report on Form 10-Q for the quarter ended March 31, 2002, our current reports on Form 8-K filed on November 14, 2002, February 18, 2003 and May 29, 2003 and any other 2002 information that has been previously disclosed should not be relied upon. The information to be contained in our quarterly reports for our quarters ended on June 30, 2002, September 30, 2002, March 31, 2003 and June 30, 2003 is unavailable at this time. Moreover, we can provide no assurances as to when such information will become available.

Risk Factors

Risks Affecting Our Business

Continued downturn in the economy in our local service area could affect our operating results.

Our operations in our local service area of Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming, from which we derive a substantial portion of our revenues, have been impacted by the continuing weakness in that region's economy. Because customers have less discretionary income, demand for second lines or additional services has declined. This economic downturn in our local service area has also led to an increased customer disconnection rate. In addition, several of the companies with which we do business appear to be in financial difficulty or have filed for bankruptcy protection. Some of these have requested renegotiation of long-term agreements with us because of their financial circumstances and because they believe the terms of these agreements are no longer appropriate for their needs. Our revenues have been and are likely to continue to be adversely affected by the loss or reduction of business with many of our customers as a result of this downturn and our continued efforts to accommodate our customers' needs in this changing business environment.

We believe that our local service area's economy lagged the national economy in entering the downturn and may follow the national economy in recovery by an indeterminate period. This continued economic slowdown will affect demand for our products and services within our local service area.

We face pressure on profit margins as a result of increasing competition, including product substitution, which could adversely affect our operating results and financial performance.

We compete in a rapidly evolving and highly competitive market, and we expect competition to intensify. We have faced greater competition in our core local business from cable companies, wireless providers (including ourselves), facilities-based providers using their own networks as well as those leasing parts of our network (unbundled network elements, or UNEs), and resellers.

One of the primary reasons we continue to experience loss of access lines is the intense competition from cable and wireless providers offering a substitute for our traditional voice and data services. We are implementing new strategies for enhancing our video and wireless offerings. However, it will be difficult to effectively execute our strategy in the face of increasing competition. For example, our recently announced wireless strategy of reselling Sprint wireless services to our customers is untested. We may not be able to effectively integrate Sprint's services into our product offerings, and it may require greater resources than we anticipate to operate as a wireless reseller. Also, while we recently entered into strategic marketing arrangements with Echostar and DIRECTV to bundle their satellite television products and services with our traditional telecommunications, data and Internet offerings, our video offering remains limited to select markets in our local service area. If we are unable to effectively implement our strategy for improving video and wireless solutions, both our wireless and our traditional telephone businesses may be adversely affected.

We have also begun to experience and expect further increased competitive pressure from telecommunications providers either emerging from bankruptcy protection or reorganizing their capital structure to more effectively compete against us. As a result of these increased competitive pressures, we have been and may continue to be forced to respond with lower profit margin product offerings and pricing schemes that allow us to retain and attract customers. These pressures could adversely affect our operating results and financial performance.

Our ability to compete will depend, in part, on our ability to provide competitive InterLATA services.

In order to successfully compete, we believe we need to be able to offer a ubiquitous long-distance service utilizing our proprietary telecommunications network assets. Under the Telecommunications Act

of 1996, we were not permitted to provide InterLATA services in the states where we provided service as an incumbent local exchange carrier until we satisfied certain regulatory conditions set forth in the Telecommunications Act primarily related to local exchange telephone competition. These restrictions generally prohibited us from providing service between the multiple LATAs in such states and between such states and the rest of the country, including providing private line service, long-distance services originating in such states, and toll-free long-distance services terminating in such states. To date, the FCC has approved our applications to provide InterLATA services in all the states in our local service area other than Arizona. We made our application with the FCC with respect to Arizona on September 4, 2003.

Even though the InterLATA restrictions have now been eliminated in most states in the local service area, our long-distance operations are subject to various regulatory constraints, including the requirement that InterLATA services be offered through a subsidiary that is structurally separated from our local exchange company. Also, we are restricted from fully utilizing our proprietary telecommunications assets in the provision of InterLATA services in our local service area until we have completed additional steps required by the FCC. As a result, within our local service area we currently provide only switched InterLATA long-distance services and do not provide some of the data and Internet services that we provide outside our local service area. These restrictions have resulted in lower margins in our current long-distance business than we would have without them and have kept us from rolling out additional products and services in our local service area. As a result, our ability to compete has been and may continue to be significantly impacted.

Rapid changes in technology and markets could require substantial expenditure of financial and other resources in excess of contemplated levels, and any inability to respond to those changes could reduce our market share.

The telecommunications industry is experiencing significant technological changes, and our ability to execute on our business plans and compete depends upon our ability to develop new products and accelerate the deployment of advanced new services, such as broadband data, wireless and video services. The development and deployment of new products could require substantial expenditure of financial and other resources in excess of contemplated levels. If we are not able to develop new products to keep pace with technological advances, or if such products are not widely accepted by customers, our ability to compete could be adversely affected and our market share could decline. Any inability to keep up with changes in technology and markets could also adversely affect the trading price of our securities and our ability to service our debt.

Risks Relating to Legal and Regulatory Matters

Any adverse outcome of investigations currently being conducted by the SEC and the U.S. Attorney's Office or the assessment being undertaken by the GSA could have a material adverse impact on us, on the trading price for our securities and on our ability to access the capital markets.

On April 3, 2002, the SEC issued an order of investigation that made formal an informal investigation initiated on March 8, 2002. We are continuing in our efforts to cooperate fully with the SEC in its investigation. The investigation includes, without limitation, inquiry into several specifically identified Qwest accounting practices and transactions and related disclosures that are the subject of the various adjustments and restatements described in this Form 10-K. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Restatement of 2001 and 2000 Consolidated Financial Statements" above and Note 3—Restatement of Results to our consolidated financial statements in Item 8 of this report for more information about our restatement. The investigation also includes inquiry into disclosure and other issues related to transactions between us and certain of our vendors and certain investments in the securities of those vendors by individuals associated with us.

On July 9, 2002, we were informed by the U.S. Attorney's Office for the District of Colorado of a criminal investigation of Qwest. We believe the U.S. Attorney's Office is investigating various matters that include the subjects of the investigation by the SEC.

While we are continuing in our efforts to cooperate fully with the SEC and the U.S. Attorney's Office in each of their respective investigations, we cannot predict the outcome of those investigations. We are currently in discussions with the SEC staff in an effort to resolve the issues raised in the SEC's investigation of Qwest. Such discussions are preliminary and we cannot predict the likelihood of whether those discussions will result in a settlement and, if so, the terms of such settlement. However, settlements typically involve, among other things, the SEC making claims under the federal securities laws in a complaint filed in United States District Court that, for purposes of the settlement, the defendant neither admits nor denies. We would expect such claims to address many of the accounting practices and transactions and related disclosures that are the subject of the various restatements we have made as well as additional transactions. In addition, any settlement with the SEC may also involve, among other things, the imposition of a civil penalty, the amount of which could be material, and the entry of a court order that would require, among other things, that we and our officers and directors comply with provisions of the federal securities laws as to which there have been allegations of prior violations.

In addition, as previously reported, the SEC has conducted an investigation concerning our earnings release for the fourth quarter and full year 2000 issued on January 24, 2001. The release provided pro forma normalized earnings information that excluded certain nonrecurring expense and income items resulting primarily from our acquisition of U S WEST. On November 21, 2001, the SEC staff informed us of its intent to recommend that the SEC authorize an action against us that would allege we should have included in the earnings release a statement of our earnings in accordance with GAAP. At the date of this filing, no action has been taken by the SEC. However, we expect that if our current discussions with the staff of the SEC result in a settlement, such settlement would include allegations concerning the January 24, 2001 earnings release.

Also, the GSA is conducting a review of all contracts with us for purposes of determining present responsibility. Recently, the Inspector General of the GSA referred to the GSA Suspension/Debarment Official the question of whether Qwest should be considered for debarment. We are cooperating fully with the GSA and believe that we will remain a supplier of the government, although we cannot predict the outcome of this referral.

An adverse outcome with respect to one or more of the SEC investigations, the U.S. Attorney's Office investigation or the GSA evaluation could have material and significant adverse impact upon us.

The breadth of our internal analysis of our accounting policies, practices and procedures, the passage of time and the turnover in accounting personnel or further review by the SEC could result in additional adjustments.

We continue to discuss our periodic filings with the staff of the SEC's Division of Corporation Finance. They have reviewed our 2001 Form 10-K and our Form 10-Q for the three months ended March 31, 2002. As appropriate, we have attempted to address the Staff's comments in our current filings and have provided responses to those other comments that we could address. Following their review of our 2002 Form 10-K we may receive additional comments from the staff of the Division of Corporation Finance and may be required to make further adjustments or additional disclosures. It is possible that these comments may lead to further investigations from the SEC's Division of Enforcement.

While we have attempted to address all the matters identified in our internal analysis of our accounting policies, practices and procedures, due to the breadth of this analysis, the passage of time and the turnover in accounting personnel employed by us, we may have overlooked some matters in our internal analysis.

Major lawsuits have been brought against us involving our accounting practices and other matters. The outcomes of these lawsuits may have a material adverse effect on our business, financial condition and operating results.

Several lawsuits have been filed against us, as well as certain of our past and present officers and directors. These lawsuits include putative class action lawsuits in which the plaintiffs allege numerous violations of securities laws. In one of these actions, lead counsel for the plaintiffs has indicated that plaintiffs will seek damages in the billions of dollars.

The consolidated securities action, the consolidated ERISA action and the CalSTRS, New Jersey and SURSI actions described above present material and significant risk to us. Some of the allegations in these lawsuits include many of the same subjects that the SEC and U.S. Attorney's Office are investigating. Moreover, the size, scope and nature of the restatements that we are making in this report affect the risk presented by these cases. While we intend to defend against these matters vigorously, the ultimate outcomes of these cases are very uncertain, and we can give no assurance as to the impacts on our financial results or financial condition as a result of these matters. Each of these cases is in a preliminary phase. None of the plaintiffs or the defendants has advanced evidence concerning possible recoverable damages, and we have not yet conducted discovery on these and other relevant issues. Thus, we are unable at this time to estimate reasonably a range of loss that we would incur if the plaintiffs in one or more of these lawsuits were to prevail. Any settlement of or judgment on one or more of these claims could be material, and we cannot give any assurance that we would have the resources available to pay such judgments. Also, our ability to meet our debt service obligations and our financial condition could be materially and adversely affected.

In addition, underwriters of the director and officer and fiduciary insurance policies identified above have informed us that they seek to rescind their policies or otherwise deny coverage that such policies may provide to cover any losses on these claims. We recently reached a preliminary, non-binding agreement with our carriers to resolve our disputes. If a definitive settlement agreement is not executed and approved by October 30, 2003, the parties may litigate their disputes on or after October 31, 2003. We intend to vigorously oppose the insurance carriers' efforts to rescind or otherwise deny coverage under the policies identified above if we are unable to reach a definitive settlement with the carriers. However, there can be no assurance that we will enter into a definitive settlement agreement with the carriers, or that we will not incur a material loss with respect to these matters. While we believe that, in the event the insurance carriers are successful in rescinding coverage, other insurance policies may provide partial coverage. However, there is risk that none of the claims we have made under the Qwest policies described above will be covered by such other policies. In any event, the terms and conditions of the applicable certificates or articles of incorporation, applicable bylaws, applicable law and any applicable agreements may obligate us to indemnify (and advance legal expenses to) our current and former directors, officers, and employees for any liabilities related to these claims.

Further, given the size and nature of our business, we are subject from time to time to various other lawsuits which, depending on their outcome, may have a material adverse effect on our financial position. Thus, we can give no assurances as to the impacts on our financial results or financial condition as a result of these matters.

Increased scrutiny of financial disclosure, particularly in the telecommunications industry in which we operate, could reduce investor confidence and affect our business opportunities, and any restatement of our earnings as stated in this filing could limit our ability to access the capital markets and could increase litigation risks.

As a result of our accounting issues and the increased scrutiny of financial disclosure, investor confidence in us has suffered and could suffer further. Congress, the SEC, other government authorities and the media are intensely scrutinizing a number of financial reporting issues and practices.

In addition to the SEC investigation discussed earlier, we have reported that the SEC has investigated our earnings release for the fourth quarter and full year 2000 and that the staff of the SEC has decided to recommend an action against us alleging that we should also have included in the earnings release a statement of our GAAP earnings. Although all businesses face uncertainty with respect to how the U.S. financial disclosure regime may be impacted by this process, particular attention has been focused recently on the telecommunications industry. Congressional hearings held in 2002, for example, related to the telecommunications industry practice of accounting for IRUs, as well as the appropriateness and consistency of pro forma financial information disclosure. Some of our former and current officers and directors have testified at these hearings concerning IRUs and other matters.

The existence of this heightened scrutiny and these pending investigations could adversely affect investor confidence and cause the trading price for our securities to decline. In addition, we cannot assure you that we will not have to further restate earnings for prior periods as a result of any formal actions, the SEC's review of our filings or because of our own periodic internal investigations. Any such restatement could further impact our ability to access the capital markets and the trading price of our securities.

We operate in a highly regulated industry, and are therefore exposed to restrictions on our manner of doing business and a variety of claims relating to such regulation.

Our operations are subject to extensive federal regulation, including the Communications Act of 1934, as amended, and FCC regulations thereunder. We are also subject to the applicable laws and regulations of various states, including regulation by Public Utility Commissions ("PUCs") and other state agencies. Federal laws and FCC regulations apply to interstate telecommunications (including international telecommunications that originate or terminate in the United States), while state regulatory authorities have jurisdiction over telecommunications that originate and terminate within the same state. Generally, we must obtain and maintain certificates of authority from regulatory bodies in most states where we offer intrastate services and must obtain prior regulatory approval of tariffs for our intrastate services in most of these jurisdictions.

Regulation of the telecommunications industry is changing rapidly, and the regulatory environment varies substantially from state to state. All of our operations are also subject to a variety of environmental, safety, health and other governmental regulations. There can be no assurance that future regulatory, judicial or legislative activities will not have a material adverse effect on our operations, or that domestic or international regulators or third parties will not raise material issues with regard to our compliance or noncompliance with applicable regulations.

We monitor our compliance with federal, state and local regulations governing the discharge and disposal of hazardous and environmentally sensitive materials, including the emission of electromagnetic radiation. Although we believe that we are in compliance with such regulations, any such discharge, disposal or emission might expose us to claims or actions that could have a material adverse effect on our business, financial condition and operating results.

Risks Affecting Our Liquidity

Our high debt levels and the restrictive terms of our debt instruments pose risks to our viability and may make us more vulnerable to adverse economic and competitive conditions, as well as other adverse developments.

We are highly leveraged. As of September 30, 2003, our consolidated debt was approximately $21.2 billion. As shown above in Item 7—Liquidity and Capital Resources—Payment Obligations and Contingencies, a significant amount of our debt obligations come due over the next few years. While we currently believe we will have the financial resources to meet our obligations when they come due,

we cannot anticipate what our future condition will be. We may have unexpected costs and liabilities and we may have limited access to financing.

We have recently taken the following measures to improve our near-term liquidity and our capital structure and generally reduce financial risk:

- amended and restated our Credit Facility in order to (a) lengthen the maturity, (b) obtain more flexible covenants and (c) achieve a more favorable amortization schedule;

- sold the Dex directory publishing business, which generated gross cash proceeds of $7.05 billion;

- reduced capital investment and continued to manage working capital; and

- refinanced QC debt due in 2003 with debt that has maturities in 2007 and 2010.

However, even if we are successful in our de-leveraging efforts, we may need to obtain additional financing to meet our debt service obligations if operations do not improve, if revenue and operating cash flow declines are worse than expected, if economic conditions do not improve, or if we become subject to significant judgements and/or settlements in connection with the resolution of one or more matters described under Securities Actions and Derivative Actions in Item 3 of this report.

The QSC Credit Facility also includes financial maintenance covenants with which we must comply. Any failure to do so could result in an event of default and an acceleration of our outstanding debt obligations. If we fail to repay indebtedness in respect of the QSC Credit Facility or any of our other indebtedness when due, or fail to comply with the financial maintenance covenants contained in the QSC Credit Facility, the applicable creditors or their representatives could declare the entire amount owed under such indebtedness immediately due and payable. Any such event could adversely affect our ability to conduct business or access the capital markets and could adversely impact our credit ratings.

Additionally, the degree to which we are leveraged may have important limiting consequences, including the following:

- our ability to obtain additional financing in the future for working capital, capital expenditures or general corporate purposes may be impaired;

- our leverage may place us at a competitive disadvantage as compared with our less leveraged competitors, including some who have significantly reduced their debt through a bankruptcy proceeding;

- our leverage may make us more vulnerable to the current or future downturns in general economic conditions or in any of our businesses;

- our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate may be limited; and

- our high debt levels could adversely impact our credit ratings.

We may be unable to significantly reduce the substantial capital requirements or operating expenses necessary to continue to operate our business, which may in turn affect our operating results.

We anticipate that our capital requirements relating to maintaining and routinely upgrading our network will continue to be significant in the coming years. We also may be unable to significantly reduce the operating expenses associated with our future contractual cash obligations, including future purchase commitments, which may in turn affect our operating results. As we will need to maintain the quality of our products and services in the future, we may be unable to further significantly reduce such capital requirements or operating expenses, even if revenues are decreasing. Such nondiscretionary capital outlays may lessen our ability to compete with other providers who face less significant spending requirements.

If we are unable to renegotiate a significant portion of our future purchase commitments, we may suffer related losses.

As of December 31, 2002, our aggregate future purchase commitments totaled $4.5 billion and we expect them to total $3 billion by December 31, 2003. We entered into these commitments, which obligate us to purchase network services and capacity, hardware or advertising from other vendors, with the expectation that we would use these commitments in association with projected revenues. We currently do not expect to generate revenues in the near-term that are sufficient to offset the costs associated with some of these commitments. Although we are attempting to renegotiate and restructure certain of these contracts, there can be no assurance that we will be successful to any material degree. If we cannot renegotiate or restructure a significant portion of these contracts on terms that are favorable to us, we will continue to have substantial ongoing expenses without sufficient revenues to offset the expenses related to these arrangements. In addition, we may incur substantial losses in connection with these restructurings and renegotiations.

Declines in the value of pension plan assets could require us to provide significant amounts of funding for our pension plans

While we do not expect to be required to make material cash contributions to our defined benefit pension plan in the near-term based upon current actuarial analyses and forecasts, a further significant decline in the value of pension plan assets in the future or unfavorable changes in laws or regulations that govern pension plan funding could materially change the timing and amount of required pension funding. As a result, we may be required to fund our benefit plans with cash from operations, perhaps by a material amount.

If we pursue and are involved in any business combinations, our financial condition could be affected.

On a regular and on-going basis, we review and evaluate other businesses and opportunities for business combinations that would be strategically beneficial. As a result, we may be involved in negotiations or discussions that, if they were to result in a transaction, could have a material effect on our financial condition (including short-term or long-term liquidity) or short-term or long-term results of operations.

Other Risks Affecting Qwest

We have postponed the filing of our most recent quarterly reports, and material information concerning our current operating results and financial condition is therefore unavailable.

We have postponed the filing of our periodic reports for the quarters ended March 31, 2003 and June 30, 2003, and the information to be contained therein is unavailable at this time. We may also need to delay the filing of our periodic report for the quarter ending September 30, 2003. While we released first quarter earnings information in our current report on Form 8-K filed on May 29, 2003 and second quarter earnings information in our current report on Form 8-K filed on September 4, 2003, this information was limited, incomplete and may be inconsistent with the information contained herein. We cannot predict how soon complete financial and operational information relating to our first two quarters for 2003 will become available. When it is, it may reflect changes or trends that are material to our business. Also, many of our loan documents, including the QSC Credit Facility, contain financial reporting covenants that require delivery of annual and quarterly periodic reports, and the failure to comply with these financial reporting covenants can result in a default under certain of our loan documents. We have obtained extensions under the QSC Credit Facility for the delivery of our unfiled first and second quarter periodic reports to December 31, 2003.

If conditions or assumptions differ from the judgments, assumptions or estimates used in our critical accounting policies, the accuracy of our financial statements and related disclosures could be affected.

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, assumptions, and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. Our critical accounting policies, which are set forth above, describe the significant accounting policies and methods used in the preparation of our consolidated financial statements. These accounting policies are considered "critical" because they require judgments, assumptions and estimates that materially impact our consolidated financial statements and related disclosures. As a result, if future events differ significantly from the judgments, assumptions, and estimates in our critical accounting policies or different assumptions are used in the future, such events or assumptions could have a material impact on our consolidated financial statements and related disclosures.

Taxing authorities may determine we owe additional taxes relating to various matters, which could adversely affect our financial results.

As a significant taxpayer, historically we have been subject to frequent and regular audits from the Internal Revenue Service, or the IRS, as well as from state and local tax authorities. These audits could subject us to risk due to adverse positions that may be taken by these tax authorities.

For example, the IRS has proposed a tax adjustment for tax years 1994 through 1996. The principal issue involves our allocation of costs between long-term contracts with customers for the installation of conduit or fiber optic cable and additional conduit or fiber optic cable retained by us. The IRS disputes our allocation of the costs between us and third parties for whom we were building similar network assets during the same time period. Similar claims have been asserted against us with respect to 1997 and 1998, and it is possible that claims could be made against us for other periods. We are contesting these claims and do not believe the IRS will be successful. Even if they are, we believe that any significant tax obligations will be substantially offset as a result of available net operating losses and tax sharing agreements. However, the ultimate effect of these claims is uncertain.

Also, as a member of an affiliated group filing a consolidated U.S. federal income tax return, we could be severally liable for tax examinations and adjustments not directly applicable to current members of the Qwest affiliated group. Tax sharing agreements have been executed between us and previous affiliates, and we believe the liabilities (if any) arising from adjustments to tax liability would be borne by the affiliated group member determined to have a deficiency under the terms and conditions of such agreements and applicable tax law. We have not provided for the liability of former affiliated members in our financial statements.

As a result of the restatement of our financial results, previously filed returns and reports may be required by legal, regulatory, or administrative provisions to be amended to reflect the tax related impacts (if any) of such restatements. Where legal, regulatory or administrative rules would require or allow us to amend our previous tax filings, we intend to comply with our obligations under applicable law. To the extent that tax authorities do not accept the tax consequences of restatement entries, liabilities for taxes could differ materially from what has been recorded in our consolidated financial statements.

While we believe we have adequately provided for taxes associated with these restatements, risks and contingencies, tax audits and examinations may result in liabilities that differ materially from those we have recorded in our consolidated financial statements.

If we fail to extend or renegotiate our collective bargaining contracts with our labor unions as they expire from time to time, or if our unionized employees were to engage in a strike or other work stoppage, our business and operating results could be materially harmed.

We are a party to collective bargaining contracts with our labor unions, which represent a significant number of our employees. Although we believe that our relations with our employees are satisfactory, no assurance can be given that we will be able to successfully extend or renegotiate our collective bargaining agreements as they expire from time to time. If we fail to extend or renegotiate our collective bargaining agreements, if disputes with our unions arise, or if our unionized workers engage in a strike or other work stoppage, we could incur higher ongoing labor costs or experience a significant disruption of operations, which could have a material adverse effect on our business. We recently reached agreements with the Communications Workers of America and the International Brotherhood of Electrical Workers on new two-year labor contracts. Each of these agreements was ratified by union members, went into effect on August 17, 2003 and expires on August 13, 2005.

The trading price of our securities could be volatile.

In recent years, the capital markets have experienced extreme price and volume fluctuations. The overall market and the trading price of our securities may fluctuate greatly. The trading price of our securities may be significantly affected by various factors, including:

- quarterly fluctuations in our operating results;
- changes in investors' and analysts' perception of the business risks and conditions of our business;
- broader market fluctuations; and
- general economic or political conditions.

ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

The information under the caption "Risk Management" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" is incorporated herein by reference.

ITEM 8. *CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

Independent Auditors' Report

The Board of Directors and Stockholders
Qwest Communications International Inc.:

We have audited the accompanying consolidated balance sheets of Qwest Communications International Inc. and subsidiaries as of December 31, 2002, 2001, and 2000, and the related consolidated statements of operations, stockholders' (deficit) equity, and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Qwest Communications International Inc. and subsidiaries as of December 31, 2002, 2001, and 2000, and the results of their operations and their cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the accompanying consolidated financial statements, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, and Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. As discussed in Note 2, effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and effective January 1, 2000, the Company adopted Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements*.

As discussed in Notes 3 and 4 to the accompanying consolidated financial statements, the Company has restated its consolidated balance sheets as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' (deficit) equity, and cash flows for each of the years then ended, which consolidated financial statements were previously audited by other independent auditors who have ceased operations.

/s/ KPMG LLP

Denver, Colorado
October 8, 2003

QWEST COMMUNICATIONS INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2002	2001	2000
		As restated (see Note 3)	
	(Dollars in millions, shares in thousands except per share amounts)		
Total operating revenues	$ 15,385	$ 16,524	$ 14,148
Operating expenses:			
Cost of sales (exclusive of depreciation and amortization detailed below)	5,966	6,530	4,375
Selling, general and administrative	5,279	5,616	4,886
Depreciation	3,268	3,704	2,555
Goodwill and other intangible assets amortization	579	1,660	785
Goodwill impairment charge	8,483	—	—
Asset impairment charges	10,525	251	340
Restructuring and other charges	235	816	—

Merger-related (credits) charges	(53)	321	1,481
Total operating expenses	34,282	18,898	14,422
Operating loss	(18,897)	(2,374)	(274)
Other expense (income):			
Interest expense—net	1,789	1,437	1,043
Losses and impairment of investment in KPNQwest	1,190	3,300	33
Loss on Global Crossing equity securities and related derivatives	—	7	867
Loss (gain) on sale of investments and other investment write-downs	88	141	(206)
(Gain) loss on early retirement of debt	(1,836)	106	—
(Gain) loss on sales of fixed assets	—	(51)	11
Other (income) expense—net	(3)	81	12
Total other expense—net	1,228	5,021	1,760
Loss before income taxes, discontinued operations and cumulative effect of changes in accounting principles	(20,125)	(7,395)	(2,034)
Income tax benefit	2,500	1,257	592
Loss from continuing operations	(17,625)	(6,138)	(1,442)
Discontinued operations:			
Income from and gain on sale of discontinued operations, net of taxes of $1,237, $323 and $282, respectively	1,957	511	446
Loss before cumulative effect of change in accounting principle	(15,668)	(5,627)	(996)
Cumulative effect of changes in accounting principles, net of taxes of $0, ($15) and $26, respectively	(22,800)	24	(41)
Net loss	$ (38,468)	$ (5,603)	$ (1,037)
Basic and diluted loss per share:			
Loss from continuing operations	$ (10.48)	$ (3.69)	$ (1.13)
Discontinued operations	1.16	0.31	0.34
Loss before cumulative effect of changes in accounting principles	(9.32)	(3.38)	(0.79)
Cumulative effect of changes in accounting principles, net of taxes	(13.55)	0.01	(0.03)
Basic and diluted loss per share	$ (22.87)	$ (3.37)	$ (0.82)
Basic and diluted weighted average shares outstanding	1,682,056	1,661,133	1,272,088

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

QWEST COMMUNICATIONS INTERNATIONAL INC.

CONSOLIDATED BALANCE SHEETS

	December 31,		
	2002	2001	2000
		As restated (see Notes 3 and 4)	
	(Dollars in millions, shares in thousands)		
ASSETS			
Current assets:			
Cash and cash equivalents	$ 2,253	$ 186	$ 207
Restricted cash	26	29	63
Accounts receivable—net	2,325	2,906	3,165
Inventories	68	156	108
Deferred income taxes	898	417	294
Prepaid and other assets	489	618	462
Assets held for sale	361	426	433
Total current assets	6,420	4,738	4,732
Property, plant and equipment—net	18,995	29,479	25,986
Goodwill—net	—	31,233	28,960
Other intangible assets—net	1,612	3,391	3,056
Investments	23	1,233	8,147
Deferred income taxes	398	—	—
Other assets	1,897	2,092	1,935
Total assets	$ 29,345	$ 72,166	$ 72,816
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY			
Current liabilities:			
Current borrowings	$ 2,786	$ 4,807	$ 3,616
Accounts payable	904	1,318	1,887
Accrued expenses and other current liabilities	2,008	2,520	2,711
Deferred revenue and customer deposits	773	768	696
Restructuring reserves	104	363	—
Merger-related reserve	22	111	454
Liabilities associated with discontinued operations	298	336	332
Total current liabilities	6,895	10,223	9,696
Long-term borrowings (net of unamortized debt discount of $129, $209 and $196, respectively—See Note 11)	19,754	20,230	15,541
Post-retirement and other post-employment benefit obligations	3,075	2,974	2,992
Deferred income taxes	—	796	1,122
Deferred revenue	957	1,092	945
Restructuring reserves	421	427	—
Other long-term liabilities	1,073	995	953
Total liabilities	32,175	36,737	31,249

Share repurchase commitment (Note 16)	—	16	—
Commitments and contingencies (Notes 20 and 21)			
Stockholders' (deficit) equity:			
Preferred stock-$1.00 par value, 200 million shares authorized, none issued or outstanding	—	—	—
Common stock-$0.01 par value, 5 billion shares authorized; 1,713,592, 1,687,957 and 1,672,018 issued; 1,699,115, 1,663,966 and 1,671,279 outstanding	17	17	17
Additional paid-in capital	43,225	43,469	42,934
Treasury stock	(618)	(1,041)	(38)
Accumulated deficit	(45,439)	(6,971)	(1,285)
Accumulated other comprehensive loss	(15)	(61)	(61)
Total stockholders' (deficit) equity	(2,830)	35,413	41,567
Total liabilities and stockholders' (deficit) equity	$ 29,345	$ 72,166	$ 72,816

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

QWEST COMMUNICATIONS INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2002	2001	2000
		As restated (see Notes 3 and 4)	
	(Dollars in millions)		
OPERATING ACTIVITIES			
Net loss	$ (38,468)	$ (5,603)	$ (1,037)
Adjustments to net loss:			
Income from and gain on sale of discontinued operations, net of tax	(1,957)	(511)	(446)
Depreciation and amortization	3,847	5,364	3,340
Loss on sale of investments and other investment write-downs, net	1,278	3,448	694
Provision for bad debts	511	615	388
Cumulative effect of changes in accounting principles	22,800	(24)	41
Goodwill impairment charge	8,483	—	—
Asset impairment charges	10,525	251	340
Tax benefit from stock options	—	165	191
Deferred income taxes	(2,252)	(733)	(569)
(Gain) loss on sales of fixed assets	—	(51)	11
(Gain) loss on early retirement of debt—net	(1,836)	106	—
Other non-cash charges	290	254	225
Changes in operating assets and liabilities:			

Accounts receivable	75	(438)	(694)
Inventories	117	(62)	(87)
Prepaid and other current assets	85	(136)	(270)
Accounts payable and accrued expenses	(905)	(514)	(130)
Current deferred revenue and customer deposits	5	98	286
Current restructuring reserve	(259)	363	—
Merger-related reserve	(89)	(343)	454
Other long-term assets and liabilities	84	641	1,025
Cash provided by operating activities	2,334	2,890	3,762
INVESTING ACTIVITIES			
Expenditures for property, plant and equipment	(2,764)	(8,042)	(7,135)
Cash acquired in connection with the Merger	—	—	407
Proceeds from sale of equity securities	12	98	488
Purchase of securities	(5)	(82)	(77)
Payments on derivative contracts	—	(97)	(436)
Proceeds from sale of equipment	103	210	23
Proceeds from sale of investment in Global Crossing, net	—	—	1,561
Other	(84)	(146)	(87)
Cash used for investing activities	(2,738)	(8,059)	(5,256)
FINANCING ACTIVITIES			
Proceeds from long-term borrowings	1,476	6,911	4,331
Repayments of long-term borrowings	(2,890)	(2,659)	(2,693)
Net proceeds from (payments of) short-term debt	809	1,247	(234)
Proceeds from issuance of common stock	14	286	435
Repurchase of common stock	(12)	(1,000)	—
Dividends paid on common stock	—	(83)	(542)
Debt issuance costs	(186)	(42)	(29)
Cash (used for) provided by financing activities	(789)	4,660	1,268
CASH AND CASH EQUIVALENTS			
Decrease in cash	(1,193)	(509)	(226)
Net cash generated by discontinued operations	506	488	355
Proceeds from sale of directory publishing business	2,754	—	—
Beginning balance	186	207	78
Ending balance	$ 2,253	$ 186	$ 207

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

QWEST COMMUNICATIONS INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' (DEFICIT) EQUITY

	Shares of Common Stock	Common Stock and Additional Paid-in Capital	Treasury Stock	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Loss
	(Shares outstanding in thousands)			(Dollars in millions)			
Balance, December 31, 1999, as previously reported	875,470	$ 656	$ —	$ 377	$ 222	$ 1,255	
Beginning balance adjustment (see Note 3—Restatement of Results)	—	—	—	(353)	—	(353)	
Balance, January 1, 2000 (unaudited)	875,470	656	—	24	222	902	
Net loss	—	—	—	(1,037)		(1,037)	$ (1,037)
Other comprehensive loss, net of taxes	—	—	—	—	(283)	(283)	(283)
Total comprehensive loss							$ (1,320)
Issuance of shares and fair value of options exchanged in connection with the Merger (as restated, see Note 4)	772,323	41,458	—	—	—	41,458	
Dividends declared on common stock	—	—	—	(272)	—	(272)	
Common stock issuances:							
Stock options exercised	23,106	421	—	—	—	421	
Employee stock purchase plan	350	14	—	—	—	14	
Other	769	68	—	—	—	68	
Tax benefit from stock options	—	191	—	—	—	191	
Stock-based compensation expense	—	126	—	—	—	126	
Stock held in Rabbi Trust	(739)	—	(38)	—	—	(38)	
Other	—	17	—	—	—	17	
Balance, December 31, 2000, as restated (see Notes 3 and 4)	1,671,279	42,951	(38)	(1,285)	(61)	41,567	
Net loss	—	—	—	(5,603)	—	(5,603)	$ (5,603)
Other comprehensive loss, net of taxes	—	—	—	—	—	—	—
Total comprehensive loss							$ (5,603)
Dividends declared on common stock	—	—	—	(83)	—	(83)	
Common stock issuances:							
Stock options exercised	12,280	250	—	—	—	250	
Employee stock purchase plan	1,761	36	—	—	—	36	
Other	1,898	77	—	—	—	77	
Tax benefit from stock options	—	165	—	—	—	165	
Stock-based compensation expense	—	34	—	—	—	34	
Repurchase of stock—BellSouth	(23,439)	(5)	(1,015)	—	—	(1,020)	
Rabbi Trust treasury share issuance	187	(6)	12	—	—	6	
Share repurchase commitment	—	(16)		—	—	(16)	
Balance, December 31, 2001, as restated (see Notes 3 and 4)	1,663,966	43,486	(1,041)	(6,971)	(61)	35,413	

Net loss	—	—	—	(38,468)	—	(38,468) $	(38,468)
Other comprehensive income, net of taxes	—	—	—	—	46	46	46
Total comprehensive loss							$ (38,422)
Common stock issuances:							
Stock options exercised	34	1	—	—	—	1	
Employee stock purchase plan	3,680	13	—	—	—	13	
Other	21,921	83	—	—	—	83	
Stock-based compensation expense	—	18	—	—	—	18	
Repurchase of stock—BellSouth	(531)	(20)	(5)	—	—	(25)	
Extinguishment of debt	9,880	(333)	420	—	—	87	
Rabbi Trust treasury share issuance	165	(6)	8	—	—	2	
Cancellation of share repurchase commitment	—	16	—	—	—	16	
Other	—	(16)	—	—	—	(16)	
Balance, December 31, 2002	1,699,115	$ 43,242	$ (618)	$ (45,439)	$ (15)	$ (2,830)	

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

QWEST COMMUNICATIONS INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2002, 2001 and 2000

Unless the context requires otherwise, references in this report to "Qwest," "we," "us", the "Company" and "our" refer to Qwest Communications International Inc. and its consolidated subsidiaries.

Note 1: Business and Background

Description of business

We provide local telecommunications and related services, IntraLATA long-distance services and wireless, data and video services within our local service area, which consists of the 14-state region of Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming. We provide InterLATA long-distance services outside our local service area and switched InterLATA long-distance services as a reseller in all states within our local service area other than Arizona. We provide reliable, scalable and secure broadband data, voice and video communications services outside our local service area as well as globally. For all years presented herein, we provided directory publishing services in our local service area. As more fully described in Note 8—Assets Held for Sale including Discontinued Operations, in 2002 we entered into contracts for the sale of our directory publishing business. In November 2002, we closed the sale of our directory publishing business in 7 of the 14 states in which we offered these services. In September 2003, we completed the sale of our directory publishing business in the remaining states. See Note 21—Subsequent Events. As a consequence, the results of operations of our directory publishing business are included in income from discontinued operations in our consolidated statements of operations.

On June 30, 2000, we completed the acquisition of U S WEST, Inc. ("U S WEST") (the "Merger"). U S WEST was deemed the accounting acquirer and its historical financial statements, including those of its wholly owned subsidiaries, have been carried forward as the predecessor of the combined company.

Restatement

During 2003 and 2002, we performed an internal analysis ("internal analysis") of our previously issued consolidated financial statements for 2001 and 2000. As a result of our internal analysis, we discovered certain errors in those consolidated financial statements. Our 2001 and 2000 consolidated financial statements and related financial information included herein have been restated. For further details on the nature of the errors and the related effects on our previously issued consolidated financial statements see Note 3—Restatement of Results and Note 4—Merger. Where appropriate, we have identified all balances that have been restated with the notation "as restated." Throughout these notes, the term "previously reported" will be used to refer to balances from our previously issued 2001 and 2000 consolidated financial statements.

Note 2: Summary of Significant Accounting Policies

As a part of the restatement of our consolidated financial statements for 2001 and 2000 we have corrected and clarified a number of the accounting policies that have been disclosed in previous filings.

Basis of presentation. The accompanying consolidated financial statements include the accounts of Qwest Communications International Inc. and its subsidiaries over which we exercise control. All intercompany amounts and transactions have been eliminated. Investments where we exercise significant influence but do not control the investee are accounted for under the equity method of accounting. All amounts presented for 2001 and 2000 in our consolidated financial statements and accompanying notes have been restated as discussed in Note 3—Restatement of Results and Note 4—Merger.

Use of estimates. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires us to make estimates and assumptions that affect the amounts and disclosures reported in our consolidated financial statements and accompanying notes. Estimates are used when accounting for items and matters such as long-term contracts, customer retention patterns, allowance for bad debts, depreciation, amortization, asset valuations, internal labor capitalization rates, recoverability of assets, impairment assessments, employee benefits, taxes, restructuring reserves and other provisions and contingencies. Actual results could differ from those estimates.

Reclassifications. Certain prior year balances have been reclassified to conform to the current year presentation.

Revenue recognition. Revenues for services are recognized when the related services are provided. Payments received in advance are deferred until the service is provided. Up-front fees received, primarily activation fees and installation charges, as well as the associated customer acquisition costs, are deferred and recognized over the expected customer relationship period, generally two to ten years. Expected customer relationship periods are estimated using historical data of actual customer retention patterns. Termination fees or other fees on existing contracts that are negotiated in conjunction with new contracts are deferred and recognized over the new contract term.

We have periodically transferred optical capacity assets on our network to other telecommunications service carriers. These transactions are structured as indefeasible rights of use, commonly referred to as IRUs, which are the exclusive right to use a specified amount of capacity or fiber for a specified term, typically 20 years. We account for the consideration received on transfers of optical capacity assets for cash and on all of the other elements deliverable under an IRU as revenue ratably over the term of the agreement. We do not recognize revenues on contemporaneous exchanges of our optical capacity for other optical capacity. See our accounting policy for contemporaneous transactions in our property, plant and equipment policy below.

Revenues related to equipment sales are recognized upon acceptance by the customer and when all the conditions for revenue recognition have been satisfied. Customer arrangements that include both equipment and services are evaluated to determine whether the elements are separable based on objective evidence. If the elements are separable and separate earnings processes exist, total consideration is allocated to each element based on the relative fair values of the separate elements and the revenue associated with each element is recognized as earned. If separate earnings processes do not exist, total consideration is deferred and recognized ratably over the longer of the contractual period or the expected customer relationship period.

Directory publishing accounting. Directory publishing revenues and costs are recognized ratably over the life of each directory, which is generally one year, commencing in the month of delivery. Such revenues and costs are included in our accompanying consolidated statements of operations as income from discontinued operations.

Advertising costs. Costs related to advertising are expensed as incurred. Advertising expense was $351 million, $378 million and $360 million in 2002, 2001 and 2000, respectively and is included in selling, general and administrative on our consolidated statements of operations.

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. Investment tax credits are accounted for under the deferral method and are amortized as reductions in income tax expense over the lives of the assets which gave rise to the credits and are included in other long-term liabilities in our consolidated balance sheets. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement and tax basis of assets and liabilities as well as for operating loss and tax credit carryforwards using enacted tax rates expected to apply to the year in which the differences are expected to affect taxable income. The effect on deferred

income tax assets and liabilities of a change in tax rate is recognized in operations in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred income tax assets to the amounts expected to be recovered.

We use the deferral method of accounting for investment tax credits earned prior to the repeal of such credits in 1986. We also defer certain transitional investment tax credits earned after the repeal, as well as investment tax credits earned in certain states. We amortize these credits over the estimated service lives of the related assets as an increase to our income tax benefit in our consolidated statement of operations.

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. As a result, the carrying amount of cash and cash equivalents approximates fair value. To preserve capital and maintain liquidity, we invest with financial institutions we deem to be of sound financial condition and in high quality and relatively risk-free investment products. Our cash investment policy limits the concentration of investments with specific financial institutions or among certain products and includes criteria related to credit worthiness of any particular financial institution.

Restricted cash. Restricted cash primarily relates to escrow accounts we established to fund certain construction activities and our deferred compensation plan.

Inventories. Inventories are carried at the lower of cost or market on a first-in, first-out basis. Market is determined based upon estimated replacement cost.

Assets held for sale including discontinued operations. Assets to be disposed of that meet all of the criteria to be classified as held for sale are reported at the lower of their carrying amounts or fair values less cost to sell. Assets are not depreciated while they are classified as held for sale. Assets held for sale that have operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of our assets are reported in discontinued operations when (a) it is determined that the operations and cash flows of the assets will be eliminated from our on-going operations and (b) we will not have any significant continuing involvement in the operations of the assets after the disposal transaction.

Property, plant and equipment. Property, plant and equipment is carried at cost and is depreciated using the straight-line group method. Under the straight-line group method, assets dedicated to providing regulated telecommunications services (which comprise the majority of our property, plant and equipment) that have similar physical characteristics, use and expected useful lives are categorized on the basis of equal life groups of similar assets acquired in a given year for purposes of depreciation and tracking. Generally, under the straight-line group method, when an asset is sold or retired, the cost, net of sale proceeds, is deducted from property, plant and equipment and charged to accumulated depreciation without recognition of a gain or loss. A gain or loss is recognized in our consolidated statements of operations only if a disposal is abnormal or unusual or when a sale involves land, artwork, assets associated with the sale of customer contracts or assets constructed or acquired for sale. Leasehold improvements are amortized over the shorter of the useful lives of the assets or the lease term. Expenditures for maintenance and repairs are expensed as incurred. Interest is capitalized during the construction phase of network and other internal-use capital projects. Direct labor costs related to construction of internal use assets are also capitalized during the construction phase. Property, plant and equipment supplies used internally are carried at average cost, except for significant individual items for which cost is based on specific identification.

We have periodically entered into agreements to acquire optical capacity assets from other telecommunications service carriers. These acquisitions of optical capacity assets expanded our fiber optic broadband network both domestically and internationally and enabled us to provide broadband communications services to our customers. Several of these other carriers have also acquired optical

capacity from us, principally in the United States of America. As more fully described in Note 3—Restatement of Results, the transactions have been restated. Optical capacity transactions in which we transfer capacity to and acquire capacity from the same third party at or about the same time are referred to as "contemporaneous transactions." We record the contemporaneous transactions as non-monetary exchanges of similar assets at book value as these transactions do not represent the culmination of an earnings process. Contemporaneous transactions do not result in the recognition of revenue. Net cash or other monetary assets paid or received in contemporaneous transactions are recorded as an adjustment to the book value of the transferred property. The adjusted book value becomes the carrying value of the transferred property in property, plant and equipment.

Software capitalization policy. Internally used software, whether purchased or developed, is capitalized and amortized using the straight-line method over an estimated useful life of 18 months to five years. In accordance with Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," we capitalize certain costs associated with internally developed software such as payroll costs of employees devoting time to the projects and external direct costs for materials and services. Costs associated with internally developed software to be used internally are expensed until the point at which the project has reached the development stage. Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred. The capitalization of software requires judgment in determining when a project has reached the development stage and the period over which we expect to benefit from the use of that software. Further, the recovery of software projects is periodically reviewed and may result in significant write-offs.

Goodwill and other intangible assets. Intangible assets arising from business combinations, such as goodwill, customer lists, assembled workforce, trademarks and trade names, are initially recorded at fair value. Other intangible assets not arising from business combinations, such as wireless spectrum licenses and capitalized software, are recorded at cost. In accordance with the adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142") on January 1, 2002, we reclassified assembled workforce into goodwill because it no longer met the criteria for recognition as a separate intangible asset apart from goodwill.

Intangible assets with finite lives are amortized on a straight-line basis over that life. Where there are no legal, regulatory, contractual or other factors that would reasonably limit the useful life of the intangible asset we have determined that the intangible asset has an indefinite life. In accordance with SFAS No. 142, these intangible assets are not amortized. Prior to the adoption of SFAS No. 142 on January 1, 2002, these intangible assets were amortized on a straight-line basis over their estimated useful lives.

Impairment of goodwill and other indefinite-lived intangible assets. Goodwill and other long-lived intangible assets with indefinite lives, such as trademarks, trade names and wireless spectrum licenses are reviewed for impairment annually or whenever an event occurs or circumstances change that would more likely than not reduce fair value below carrying value. These assets are carried at historical cost if their estimated fair value is greater than their carrying amounts. However, if their estimated fair value is less than the carrying amount, goodwill and other indefinite lived intangible assets are reduced to their estimated fair value through an impairment charge to our consolidated statements of operations.

Impairment of long-lived assets. We review long-lived assets, other than goodwill and intangible assets with indefinite lives, for impairment whenever facts and circumstances indicate that the carrying amounts of the assets may not be recoverable. An impairment loss is recognized only if the carrying amount of the asset is not recoverable and exceeds its fair value. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to the estimated undiscounted future net cash flows expected to be generated by the asset. If the asset's carrying value is not

recoverable, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds its fair value. We determine fair values by using a combination of comparable market values and discounted cash flows, as appropriate.

Prior to the adoption of SFAS No. 142 and SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144") on January 1, 2002, we reviewed our long-lived assets, such as goodwill, intangibles and property, plant and equipment for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" ("SFAS No. 121"). Under SFAS No. 121, we reviewed our long-lived assets for impairment whenever events or changes in circumstances indicated that the carrying amount of an asset might not be recoverable. We evaluated the recoverability of our long-lived assets based on estimated undiscounted future cash flows and provided for impairment when such undiscounted cash flows were insufficient to recover the carrying amount of the long-lived asset.

Investments. Investments where we exercise significant influence but do not control the investee are accounted for under the equity method of accounting. Under the equity method, investments are stated at initial cost and are adjusted for contributions, distributions and our share of the investee's income or losses as well as impairment write-downs for other-than-temporary declines in value.

Equity investments where we cannot exercise significant influence over the investee are carried at cost or, if the security is publicly traded, at fair-market value. For publicly traded securities, unrealized gains or losses, net of tax, are included in other comprehensive income (loss) until realized upon sale or other disposition of the securities. Realized gains and losses on securities and other-than-temporary declines in value are determined on the specific identification method and are reclassified from other comprehensive income (loss) and included in the determination of net loss. Our equity investments in publicly traded companies are classified as held for sale.

We review our equity investments on a quarterly basis to determine whether a decline in value on individual securities is other-than-temporary. Many factors are considered in assessing whether a decline in value is other-than-temporary, including, as may be appropriate: earnings trends and asset quality; near-term prospects and financial condition of the issuer; financial condition and prospects of the issuer's region and industry; the cause and severity of the decline in market price; analysts' recommendations and stock price projections; the length of time (generally six to nine months) that fair value has been less than the carrying value; stock-price volatility and near-term potential for recovery; and our intent and ability to retain the investment. If we conclude that a decline in value of an equity investment is other-than-temporary, we record a charge to our consolidated statements of operations to reduce the carrying value of the security to its estimated fair value.

Derivative instruments. Effective January 1, 2001, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 requires that all derivatives be measured at fair value and recognized as either assets or liabilities on our consolidated balance sheets. Changes in the fair values of derivative instruments that do not qualify as hedges and/or any ineffective portion of hedges are recognized as a gain or loss in our consolidated statement of operations in the current period. Changes in the fair values of derivative instruments used effectively as fair value hedges are recognized in earnings (losses), along with the change in the value of the hedged item. Changes in the fair value of the effective portions of cash flow hedges are reported in other comprehensive income (loss) and recognized in earnings (losses) when the hedged item is recognized in earnings (losses).

Restructuring and Merger-related charges. Periodically, we commit to exit certain business activities, eliminate office or facility locations and/or reduce our number of employees. At the time a restructuring plan is approved and communicated, we record a charge to our consolidated statement of operations for the estimated costs associated with the plan. Charges associated with these exit or restructuring plans incorporate various estimates, including severance costs, sublease income and costs,

disposal costs, length of time on market for abandoned rented facilities and contractual termination costs. We also record a charge when we permanently cease use of a leased facility. Estimates of charges associated with abandoned operating leases, some of which entail long-term lease obligations, are based on existing market conditions and undiscounted net amounts that are expected to be paid in the future. We utilize real estate brokers to assist in assessing market conditions and net amounts that we expect to pay.

Fair value of financial instruments. Our financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, investments, accounts payable and borrowings. The carrying values of cash and cash equivalents, accounts receivable, accounts payable and short-term borrowings approximate their fair values because of their short-term nature. Our investments are also recorded at their estimated fair market value as discussed in Note 10—Investments. Our borrowings have a fair value of approximately $18.7 billion, $24.9 billion and $19.1 billion at December 31, 2002, 2001 and 2000, respectively. The fair values of our borrowings are based on quoted market prices where available or, if not available, based on discounted future cash flows using current market interest rates.

Stock options. Our stock incentive plans are accounted for using the intrinsic-value method under which no compensation expense is recognized for options granted to employees when the strike price of those options equals or exceeds the value of the underlying security on the measurement date. Any excess of the stock price on the measurement date over the exercise price is recorded as deferred compensation and amortized over the service period during which the stock option award vests using the accelerated method described in Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans" ("FIN No. 28").

Had compensation cost for our stock-based compensation plans been determined under the fair value method in accordance with the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), our net loss and basic and diluted loss per share would have been changed to the pro forma amounts indicated below:

	Year Ended December 31,		
	2002	2001	2000
		(As restated, see Note 3)	
	(Dollars in millions, except per share amounts)		
Net loss:			
As reported	$ (38,468)	$ (5,603)	$ (1,037)
Add: Stock-option-based employee compensation expense included in reported net loss, net of related tax effects	58	17	67
Deduct: Total stock-option-based employee compensation expense determined under fair value-based method for all awards, net of related tax effects	(185)	(192)	(83)
Pro forma	$ (38,595)	$ (5,778)	$ (1,053)
Loss per share:			
As reported—basic and diluted	$ (22.87)	$ (3.37)	$ (0.82)

Pro forma—basic and diluted	$ (22.95)$	(3.48)$	(0.83)

The pro forma amounts reflected above may not be representative of the effects on our reported net income or loss in future years because the number of future shares to be issued under these plans is not known and the assumptions used to determine the fair value can vary significantly. See Note 15—Stock Incentive Plans for further information.

Recently adopted accounting pronouncements and cumulative effects of adoption

In June 2001, the FASB issued SFAS No. 142. This statement addresses financial accounting and reporting for intangible assets (excluding goodwill) acquired individually or with a group of other assets at the time of their acquisition. It also addresses how goodwill and other intangible assets are accounted for after they have been initially recognized in the financial statements. As required, we adopted SFAS No. 142 effective January 1, 2002. Upon adoption of SFAS No. 142, the fair value of goodwill was evaluated as of January 1, 2002 as if an acquisition of each of our reporting units at fair value had occurred on that date. The valuation was based on our reporting units at that date. A reporting unit is defined as an operating segment or one level below. The cumulative effect of adoption of SFAS No. 142 was a loss from a change in accounting principle of $22.8 billion. The adoption of SFAS No. 142 reduced our amortization expense for goodwill and indefinite-lived intangible assets by approximately $1.052 billion annually, beginning January 1, 2002. The cumulative effect of this change in accounting principle was reflected as a reduction in the carrying value of goodwill as of January 1, 2002. See Note 7—Goodwill and Other Intangible Assets for further information.

In August 2001, the FASB issued SFAS No. 144, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets other than goodwill and intangible assets with indefinite lives. Under SFAS No. 144, long-lived assets being held or used are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable from their expected future undiscounted cash flows ("a triggering event"). The impairment loss is equal to the difference between the asset's carrying amount and estimated fair value. In addition, SFAS No. 144 requires long-lived assets to be disposed of other than by sale for cash to be accounted for and reported like assets being held and used. Long-lived assets to be disposed of by sale are to be recorded at the lower of their carrying amount or estimated fair value (less costs to sell) at the time the plan of disposition has been approved and committed to by the appropriate company management. See Note 6—Property, Plant and Equipment for further information.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002" ("SFAS No. 145"). We adopted SFAS No. 145 effective January 1, 2002. This statement eliminates the automatic classification of gain or loss on extinguishments of debt as an extraordinary item and requires that such gain or loss be evaluated for extraordinary classification under the criteria of Accounting Principles Board ("APB") Opinion No. 30, "Reporting Results of Operations." This statement also requires sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions and makes various other technical corrections to existing pronouncements. As a result, our gains and losses on debt extinguishments have been reclassified to other income and expense in our consolidated statements of operations for all periods presented.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123" ("SFAS No. 148"), which is effective for financial statements related to periods ending after December 15, 2002. We have included the expanded disclosure required by SFAS No. 148 regarding stock-based compensation.

FASB Interpretation Number ("FIN") 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," was issued in November 2002. The interpretation provides guidance on the guarantor's accounting and disclosure of guarantees, including indirect guarantees of indebtedness of others. We have adopted the disclosure requirements of the interpretation as of December 31, 2002. The accounting guidelines are applicable to certain guarantees, excluding affiliate guarantees, issued or modified after December 31, 2002, and require that we record a liability for the fair value of such guarantees on our consolidated balance sheet. The adoption of this interpretation had no material effect on our consolidated financial statements.

In our restated 2001 consolidated financial statements, we recorded a cumulative effect of a change in accounting principle of $24 million, net of income taxes, related to the adoption of SFAS No. 133. This $24 million credit represents the fair value of certain warrants to purchase common stock of other companies received by us in exchange for the purchase or sale of goods or services.

In 2000, we recorded a cumulative effect of a change in accounting principle of approximately $41 million, net of income taxes, upon our adoption of Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements" ("SAB No. 101"). The $41 million charge relates to the establishment of deferred revenues and costs for certain activation and installation activities. Previously, installation and activation fees and costs had been recognized in their entirety at the time the installation or activation was completed. Under the rules of SAB No. 101, these installation and activation fees are recognized ratably over the estimated lives of the customer relationships, which range from two to ten years. The adjustment to the cumulative effect previously reported is further described in Note 3—Restatement of Results.

New accounting standards

On January 1, 2003, we adopted SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"). This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs, generally referred to as asset retirement obligations. SFAS No. 143 requires entities to record the fair value of a legal liability for an asset retirement obligation required to be settled under law or written or oral contract. If a reasonable estimate of fair value can be made, the fair value of the liability will be recognized in the period it is incurred, or if not, in the period a reasonable estimate of fair value can be made. This cost is initially capitalized and then amortized over the estimated remaining useful life of the asset. We have determined that we have legal asset retirement obligations associated with the removal of a limited group of long-lived assets and recorded a cumulative effect of a change in accounting principle charge upon adoption of SFAS No. 143 of $28 million (liability of $43 million net of an asset of $15 million) in 2003.

Prior to the adoption of SFAS No. 143, we have included in our group depreciation rates estimated net removal costs (removal costs less salvage). These costs have historically been reflected in the calculation of depreciation expense and therefore recognized in accumulated depreciation. When the assets were actually retired and removal costs were expended, the net removal costs were recorded as a reduction to accumulated depreciation. While SFAS No. 143 requires the recognition of a liability for asset retirement obligations that are legally binding, it precludes the recognition of a liability for asset retirement obligations that are not legally binding. Therefore, upon adoption of SFAS No. 143, we reversed the net removal costs within accumulated depreciation for those fixed assets where the removal costs exceeded the estimated salvage value and we did not have a legal removal obligation. This resulted in income from the cumulative effect of a change in accounting principle of $365 million.

On a going forward basis, the net costs of removal related to these assets will be charged to our consolidated statement of operations in the period in which the costs are incurred. As a result, the adoption of SFAS No. 143 is expected to decrease our depreciation expense on an annual basis by approximately $32 million and increase operating expenses related to the accretion of the fair value of our legal asset retirement obligations by approximately $6 million annually beginning January 1, 2003. Based on historical charges and activity through the six months ended June 30, 2003, we believe that recurring removal costs will be approximately $35 million to $45 million annually which will be charged to our consolidated statement of operations as incurred.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146"), which is applicable for exit or disposal activities initiated after December 31, 2002. This statement requires that liabilities for costs that are associated with an exit or disposal activity be recognized and measured initially at fair value in the period in which the liability is incurred. It nullifies the guidance of Emerging Issues Task Force ("EITF") No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" ("EITF Issue No. 94-3"). Under EITF Issue No. 94-3, an entity recognized a liability for an exit cost on the date that the entity committed itself to an exit plan. SFAS No. 146 concludes that an entity's commitment to a plan does not, by itself, create a present obligation to other parties that meets the definition of a liability. In accordance with SFAS No. 146, our restructuring activities that were recorded prior to 2003 will continue to be accounted for under previous guidance. Our adoption of SFAS No. 146 on January 1, 2003 is not expected to have a material effect on our operating results or financial position.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities" ("FIN No. 46"), which is effective immediately for all variable interest entities created after January 31, 2003. FIN No. 46 must be applied for the first fiscal year or interim period ending after December 15, 2003 for variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003, or the fourth quarter 2003 for us. FIN No. 46 requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among the parties involved. A primary beneficiary absorbs the majority of the entity's expected losses, if they occur, receives a majority of the entity's expected residual returns, if they occur, or both. Where it is reasonably possible that the information about our variable interest entity relationships must be disclosed or consolidated, we must disclose the nature, purpose, size and activity of the variable interest entity and the maximum exposure to loss as a result of our involvement with the variable interest entity in all financial statements issued after January 31, 2003. We do not expect the adoption of FIN No. 46 will require consolidation of any previously unconsolidated entities.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity", ("SFAS No. 150"). SFAS No. 150 provides guidance on how an entity classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. We do not believe that the adoption of SFAS No. 150 will have a material impact on our consolidated financial statements.

Note 3: Restatement of Results

We have determined that, in certain cases, we misinterpreted or misapplied GAAP in our 2001 and 2000 consolidated financial statements and, accordingly, we have restated our consolidated financial statements for each of the years in the two year period ended December 31, 2001 and related interim periods. We have also restated our January 1, 2000 opening retained earnings to correct our accounting for directory publishing services revenues and expenses, as further discussed below.

As discussed more fully below, the restatements involve, among other matters, revenue recognition issues related to optical capacity asset transactions, equipment sales, and directory publishing and purchase accounting. In making these restatements, we have performed an internal analysis of our accounting policies, practices, procedures and disclosures for the affected periods.

Please note that our consolidated financial statements do not include financial results of pre-Merger Qwest for any period prior to the June 30, 2000 merger. This is because U S WEST was deemed the acquirer in the Merger for financial statement accounting purposes. Pre-Merger transactions entered into by Qwest are not being restated, although certain of these transactions (principally the optical capacity asset transactions) may have been accounted for by pre-Merger Qwest under policies and practices similar to those for which post-Merger transactions are being restated.

Summary of restatement items

The following tables set forth the effects of the restatement adjustments discussed below on revenue; pre-tax loss (i.e., loss before income taxes, discontinued operations and cumulative effect of change of accounting principle); net loss; and loss per share as presented in our consolidated statements of operations for the years ended December 31, 2001 and 2000. The restatement adjustments are discussed in the paragraphs following the tables.

	Year ended December 31, 2001			
	Revenue	Pre-tax Loss	Net Loss	Loss per Share
	(Dollars in millions, except per share amounts)			
Previously reported	$ 19,695	$ (3,958)	$ (4,023)	$ (2.42)
Restatement Adjustments, net:				
Transfers of optical capacity for cash	(339)	(163)	(100)	(0.06)
Contemporaneous transfers of optical capacity	(649)	(251)	(154)	(0.09)
Certain equipment sales	(202)	(58)	(36)	(0.02)
Directory publishing services revenues and costs	(78)	(78)	(48)	(0.03)
Termination fees	(75)	(75)	(46)	(0.03)
Wireless revenue	(46)	(46)	(28)	(0.02)
Customer premises equipment revenue	(31)	(6)	(3)	(0.00)
Balance sheet reconciliations	(29)	(145)	(89)	(0.05)
Installation fees	19	19	12	0.01
Purchase accounting	—	(347)	(222)	(0.13)
Restructuring accrual	—	(240)	(147)	(0.09)
Third-party telecommunications costs	—	(164)	(101)	(0.06)
Deferred commissions	—	(160)	(98)	(0.06)
KPNQwest valuation	—	(156)	(156)	(0.09)
Equipment write-offs	—	(111)	(68)	(0.04)
Network labor costs	—	(84)	(51)	(0.03)
Compensated absences	—	(73)	(44)	(0.03)
Out-of-period expenses	—	64	39	0.02
Cost of removal	—	(40)	(24)	(0.02)
Stock compensation	—	(28)	(17)	(0.01)
Investment in Qwest Digital Media	—	27	17	0.01
Curtailment gain	—	16	10	0.01
Other	(113)	(398)	(226)	(0.14)
Net restatements	(1,543)	(2,497)	(1,580)	(0.95)
As restated, before reclassifications of extraordinary item and discontinued operations	18,152	(6,455)	(5,603)	(3.37)
Reclassification of previously reported extraordinary item	—	(106)	—	—
As restated before reclassification of discontinued operations	18,152	(6,561)	(5,603)	(3.37)
Reclassification for discontinued operations (1)	(1,628)	(834)	—	—
As restated	$ 16,524	$ (7,395)	$ (5,603)	$ (3.37)

(1) As further discussed in Note 8—Assets Held for Sale including Discontinued Operations, in 2002 we began reporting the operations of our directory publishing business as discontinued. However, certain of the restatement adjustments affect these operations. The reclassification is made to reconcile revenues and pre-tax loss as previously reported, which included our directory publishing business in continuing operations, to the "as restated" amounts under the current presentation.

	Year ended December 31, 2000			
	Revenue	Pre-tax Income (Loss)	Net Loss	Loss per Share
	(Dollars in millions, except per share amounts)			
Previously reported	$ 16,610	$ 126	$ (81)	$ (0.06)
Restatement Adjustments, net:				
Transfers of optical capacity for cash	(150)	(106)	(65)	(0.05)
Contemporaneous transfers of optical capacity	(317)	(169)	(103)	(0.08)
Certain equipment sales	(111)	(83)	(51)	(0.04)
Directory publishing services revenues and costs	(57)	(31)	(19)	(0.02)
Termination fees	(50)	(50)	(30)	(0.02)
Wireless revenue	(57)	(57)	(34)	(0.03)
Balance sheet reconciliations	(48)	(72)	(65)	(0.05)
Installation fees	(90)	(90)	(96)	(0.08)
Purchase accounting	—	(263)	(166)	(0.13)
Equipment write-offs	—	(31)	(19)	(0.02)
Network labor costs	—	(100)	(61)	(0.05)
Compensated absences	—	(14)	(9)	(0.01)
Out-of-period expenses	—	(70)	(43)	(0.03)
Stock compensation	—	(109)	(67)	(0.05)
Investment in Qwest Digital Media	—	(27)	(17)	(0.01)
Curtailment gain	—	(106)	(65)	(0.05)
Other	(65)	(54)	(46)	(0.04)
Net restatements	(945)	(1,432)	(956)	(0.76)
As restated, before reclassification of discontinued operations	15,665	(1,306)	(1,037)	(0.82)
Reclassification for discontinued operations (1)	(1,517)	(728)	—	—
As restated	$ 14,148	$ (2,034)	$ (1,037)	$ (0.82)

(1) As further discussed in Note 8—Assets Held for Sale including Discontinued Operations, in 2002 we began reporting the operations of our directory publishing business as discontinued. However, certain of the restatement adjustments affect these operations. The reclassification is made to reconcile revenues and pre-tax loss as previously reported, which included our directory publishing business in continuing operations, to the "as restated" amounts under the current presentation.

Transfers of optical capacity for cash

In 2001 and 2000, we engaged in transactions where we transferred the rights to use our optical capacity assets, also referred to as IRUs, on our network primarily to other telecommunications services providers. These IRU transactions involved specific channels on our "lit" network or specific strands of dark fiber. The terms of these IRUs were typically 20 years and reflected the estimated useful life of the optical capacity.

In our previously issued consolidated financial statements we recognized a substantial portion of the total consideration received for transfers of optical capacity for cash as revenue at the inception of the transaction. As part of our internal analysis of our accounting policies, practices and procedures in place in 2001 and 2000, we reviewed this previous accounting model for transfers of optical capacity for cash and concluded that we did not meet the criteria for up-front revenue recognition for sales-type leases under SFAS No. 13 "Accounting for Leases" ("SFAS No. 13"). Revenues related to our transfers of optical capacity assets for cash should have been recognized ratably over the terms of the

agreements. Accordingly, we have restated our previously issued consolidated financial statements to defer the revenues on these transactions and recognize them ratably over the terms of the respective IRU arrangements.

We also determined that in certain cases we had recognized revenue from optical capacity cash transfers in the wrong period based on our prior accounting policies. These included instances in which the optical capacity assets had not been transferred at the time of the previously reported recognition of revenue. The restatement now reflects the recognition of the IRU fees beginning in the period the IRU was delivered and when all other criteria for revenue recognition had been satisfied. Also, in certain of these transactions, once a determination to restate was made for one reason, we did not continue to pursue whether there were other reasons for restatement.

In our restated consolidated financial statements we reduced our previously reported revenue by $339 million and $150 million for the years ended December 31, 2001 and 2000, respectively. These amounts reflect the reversal of sales-type lease revenue of $360 million and $151 million, offset by the ratable recognition of revenue of $21 million and $1 million for the years ended December 31, 2001 and 2000, respectively. We have also increased pre-tax loss by $163 million and $106 million in the years 2001 and 2000, respectively, which reflects the adjustment to reduce revenue, partially offset by adjustments to decrease the related cost of sales.

Contemporaneous transfers of optical capacity

In 2001 and 2000, we also engaged in transactions with other providers of telecommunications services to exchange optical capacity assets. We refer to these transactions herein as "contemporaneous transactions." In our previously issued consolidated financial statements, we recorded revenue on these transactions at the estimated fair value of the capacity transferred at the inception of the transaction. Our previous accounting policy was based on the conclusion that we were exchanging assets held for sale for assets to be held for use in the ordinary course of business, as allowed under APB Opinion No. 29, "Accounting for Nonmonetary Transactions" ("APB No. 29"), and related interpretive guidance.

We have since determined that the application of our prior policies and practices did not support a position under APB No. 29 because we did not adequately identify the assets or segregate the costs of capacity held for sale in our records. As a result, we concluded that we could not establish that our contemporaneous transactions were the culmination of an earnings process and determined that they should be recorded as exchanges of similar productive assets based on the carrying value of the optical capacity assets that we provided in the exchanges. Also, in certain of these transactions, once a determination to restate was made for one reason, we did not continue to pursue whether there were other reasons for restatement.

In our restated consolidated financial statements we have decreased our previously reported revenue by $649 million and $317 million for the years ended December 31, 2001 and 2000, respectively, to reflect the reversal of all revenue recognized on contemporaneous transfers of optical capacity assets. We have also increased our pre-tax loss by $251 million and $169 million for the years ended December 31, 2001 and 2000, respectively, which reflects the adjustment to reduce revenue, partially offset by adjustments to decrease the related cost of sales.

Certain equipment sales

Genuity—During the third quarter of 2000, we entered into an arrangement with Genuity in which we sold certain equipment to them for $100 million and agreed to provide services over a five-year period for $160 million on the basis that these were separate agreements. In the third quarter of 2000, we recorded revenue of $100 million and cost of sales of $21 million related to the equipment sale. Additional equipment costs of $7 million and $10 million were charged to cost of sales in the fourth quarter of 2000 and first quarter of 2001, respectively. We recognized revenue under the service contract of $31 million and $11 million in 2001 and 2000, respectively. As a result of our internal analysis, we now believe that the equipment sale should be considered part of a single arrangement to provide services to Genuity. We also determined that we improperly recognized revenue under the services agreement prior to Genuity's acceptance of the underlying equipment's performance. Genuity's acceptance did not occur until the third quarter of 2001. As a result, we have restated our 2001 and 2000 consolidated financial statements to reverse the previously recognized equipment and services revenue of $142 million. In our restated consolidated financial statements we are recognizing the $260 million arrangement fee as revenues ratably by site, over the five-year term of the arrangement beginning in the third quarter of 2001, which amounted to $1 million in 2001. Our restated consolidated financial statements also include adjustments to reverse the amounts of previously recognized cost of sales totaling $38 million. This amount has been reclassified to property, plant and equipment and is being depreciated over the five-year term of the agreement, including $3 million in 2001.

Arizona—In 2001, we received a purchase order for a maximum amount of $100 million from the Arizona School Facilities Board ("Arizona") for design and implementation of a statewide school network. During the second quarter of 2001, we recognized revenue of $36 million and cost of sales of $28 million related to certain equipment to be installed in connection with this arrangement. We subsequently determined that the equipment transaction had been incorrectly recorded as a "bill and hold" transaction because we had not received any payments for the equipment and there was no binding obligation to pay in 2001, despite documentation to the contrary. In the fourth quarter of 2001, we determined that the Arizona arrangement should have been accounted for using long-term contract accounting and we reversed all of the previously recognized revenue and cost of sales. As a result, in the fourth quarter of 2001, we began recognizing revenue and cost of sales using the percentage-of-completion method of accounting. In applying this method, an assumption was made that the total amount of revenue to be received upon contract completion would be substantially greater than the $100 million purchase order amount. We have reviewed this assumption during our internal analysis and found it to be incorrect. We also discovered additional errors related to the Arizona transaction in our previously issued consolidated financial statements resulting in misstatements of revenue and cost of sales in 2001. As a result, we have recorded net restatement adjustments that reduce previously reported 2001 revenue by $24 million and cost of sales by $1 million.

KMC and Calpoint—We entered into arrangements with KMC Telecom, Inc. ("KMC") during the first and second quarters of 2001. In these arrangements we sold equipment to KMC and at or about the same time agreed to purchase services from KMC over terms of approximately four years. In our previously issued consolidated financial statements we recorded equipment sales of $148 million and cost of sales of $67 million during the first and second quarters of 2001. In the fourth quarter of 2001, we determined that we could not separate the equipment sales from the service agreements because they were entered into in contemplation of each other. Accordingly, we recorded an entry in the fourth quarter of 2001 to increase cost of sales by $81 million and defer the previously recognized gross profit on the equipment.

In the third quarter of 2001, we entered into an equipment arrangement with Calpoint LLC ("Calpoint") and at the same time agreed to purchase services from Calpoint over a five-year term. We determined at the inception of the Calpoint arrangement that the equipment agreements did not represent a separate earnings process for which revenue could be recognized because it was entered into in contemplation of the services agreement. Accordingly, the excess of the sales proceeds of $298 million received from Calpoint over the cost of the equipment of $172 million was deferred. In our previously issued consolidated financial statements, the deferred gross profit on the KMC and Calpoint arrangements was being amortized ratably over the terms of the respective services agreement as a reduction to cost of sales.

In connection with the KMC and Calpoint arrangements discussed above, in order to assist KMC and Calpoint in obtaining financing, we also agreed to pay the monthly service fees directly to trustees that serve as paying agents on debt instruments for which special purpose entities sponsored by KMC and Calpoint are the primary obligors. These agreements ("consent agreements") require us to pay at least 75% of the monthly service fees for the entire term of the agreements, regardless of whether KMC or Calpoint provide us services. Subsequent to the Merger, we executed consent agreements for two service agreements that were entered into by pre-Merger Qwest. These consent agreements were not contemplated at the outset of these equipment sales and service agreements. Our aggregate unconditional purchase obligations under all of the consent agreements was $1.35 billion at December 31, 2001.

We have now concluded that the previous accounting for the KMC and Calpoint transactions was not in compliance with GAAP, and we have reversed the previously recorded revenues and cost of sales in our restated consolidated financial statements. For each KMC and Calpoint transaction, we now believe that the aggregate cash received plus any outstanding receivable less our cost to acquire the equipment sold should be deferred until such time as our aggregate commitment to make payments of up to 75% of the service fee under the consent agreements is equal to or less than the total amount deferred. We will begin to amortize the deferred credit to cost of sales in an amount equal to the periodic reduction of our obligation under the consent agreements at that time. As a result, we have reversed $12 million of amortization of the deferred gross profit that was recognized in 2001.

The adjustments recorded in our restated consolidated financial statements related to certain equipment transactions with Genuity, Arizona, KMC and Calpoint, as discussed above, resulted in an aggregate decrease in previously reported revenue of $202 million and $111 million for the years ended December 31, 2001 and 2000, respectively. These adjustments also increased our pre-tax loss by $58 million and $83 million for the years ended December 31, 2001 and 2000, respectively.

Directory publishing services revenues and costs

Prior to 1999, we recognized revenues and expenses for our directory publishing business, Qwest Dex, Inc. ("Dex"), under the "deferral and amortization method" whereby revenues and expenses were recognized over the lives of the directories, generally one year. In 1999, we changed to the "point of publication method" of accounting, under which we recognized revenues and expenses at the time the related directory was published. Based on (1) our review of the policy, and (2) the interpretive guidance the Securities and Exchange Commission ("SEC") staff issued in 1999 in SAB No. 101, we determined that our change to the point of publication method for our directory publishing business was not a change to an appropriate or preferable method of accounting, pursuant to APB Opinion No. 20, "Accounting Changes." Instead, we believe the "deferral and amortization method" is appropriate under our circumstances because we have a continuing obligation to our advertisers to maintain the directory in circulation over its life and under our customer agreements, we have the discretion to change the publication dates for the directories.

As a result, in our restated consolidated financial statements we have reduced our previously reported directory publishing services revenue by $78 million and $57 million for the years ended December 31, 2001 and 2000, respectively. These restatements also increased our pre-tax loss by $78 million and $31 million for the years ended December 31, 2001 and 2000, respectively.

In addition, we restated our opening retained earnings balance as of January 1, 2000 to recognize the effect of restating directory publishing services revenues and expenses for the year ended December 31, 1999 to the deferral and amortization method. The cumulative adjustment to opening retained earnings on January 1, 2000 was $353 million, net of the income tax effect of $226 million.

As discussed in Note 8—Assets Held for Sale including Discontinued Operations and Note 21—Subsequent Events, our directory publishing business has been sold and is reported as a discontinued

operation in these consolidated financial statements. The impact of the restatement adjustments discussed above is included in income from discontinued operations in the consolidated statements of operations.

Termination fees

In 2001, we recognized revenue related to contractual termination fees that were assessed to several customers. At or about the same time, we entered into new arrangements with these customers to provide services in the future. In connection with our internal analysis, we have determined that the revenues recognized in these instances should have been deferred and recognized as revenue ratably over the term of the new arrangements.

In our restated consolidated financial statements, we have reduced our previously reported revenue and increased our pre-tax net loss by $75 million and $50 million for the years ended December 31, 2001 and 2000, respectively.

Wireless revenue

In our previously issued consolidated financial statements, we erroneously recognized revenue associated with products that were given away through promotions in our wireless business. We also erroneously recognized excess revenue as a result of not reconciling or adjusting our estimates of unbilled and deferred service revenues.

In our restated consolidated financial statements, we have reduced our previously reported wireless revenues and increased our pre-tax loss by $46 million and $57 million for the years ended December 31, 2001 and 2000, respectively.

Customer premise equipment ("CPE") revenue

In 2001, we recorded revenue and related costs for certain sales of CPE based upon the project's scheduled completion date, instead of the actual date of completion of the project. As part of our restatement, we have corrected these errors and have recognized revenue and costs in the periods in which all revenue recognition criteria were met. In our restated consolidated financial statements, we have reduced our previously reported revenues by $31 million and increased our pre-tax loss by $6 million for the year ended December 31, 2001.

Balance sheet reconciliations

During our internal analysis, we were unable to support the balances of certain asset and liability accounts through the reconciliation process that we performed. As a result, we have adjusted certain balance sheet accounts resulting in an aggregate decrease in previously reported revenue of $29 million and $48 million for the years ended December 31, 2001 and 2000, respectively. The adjustments also increased our previously reported pre-tax loss by $145 million and $72 million for the years ended December 31, 2001 and 2000, respectively.

Installation fees

In 2001 and 2000, we recognized revenue for certain up-front fees charged to customers in connection with special plant construction or relocation. These fees were recognized as revenue in full at the time the construction or relocation was completed. Under SAB No. 101, these fees should have been initially deferred and recognized over the estimated life of the customer relationship.

In our restated consolidated financial statements, we have increased our previously reported revenues by $19 million and decreased previously reported revenues by $90 million for the years ended December 31, 2001 and 2000, respectively, resulting in a decrease in our pre-tax loss for 2001 and an

increase in our pre-tax loss for 2000 of corresponding amounts. In addition, as a result of this change, our restated net loss for the year ended December 31, 2000 includes a $41 million charge, net of the income tax effect of $26 million, presented as the cumulative effect of change in accounting principle resulting from the adoption of SAB No. 101.

Purchase accounting

As described more fully in Note 4—Merger, we found several errors in the application of purchase accounting for the June 30, 2000 Merger and have recorded adjustments to correct those errors in our restated consolidated financial statements. Additional adjustments to the results of our operations subsequent to the Merger in 2000 and 2001 were also required as a result of adjustments to the post-Merger opening balances. Those adjustments that had a significant impact on our post-Merger operating results are described in the following paragraphs.

Intangible assets. We recorded restatement adjustments to the amounts allocated to the customer lists and technology-in-place intangible assets acquired in the Merger. We also revised the estimated lives that had been originally assigned to these assets. These changes resulted in adjustments to the amortization of those assets. The effect of the adjustments to intangible assets was a reduction of amortization expense of $31 million and $15 million in 2001 and 2000, respectively.

Tangible assets. As a result of restatement adjustments to increase the amount allocated to property, plant and equipment, adjustments were required to increase depreciation expense by $86 million and $40 million in 2001 and 2000, respectively.

Investments. As a result of restatement adjustments to increase the amount allocated to investments, adjustments to subsequent write-downs and gains and losses on sales of investments were required. As a result of the adjustments to investments, we recorded adjustments to increase the loss on sale of investments and other investment write-downs by $27 million in 2001 and to reduce the gain by $71 million in 2000.

Liabilities. As a result of restatement adjustments that reduced the amounts allocated to certain liabilities primarily related to amounts that we inappropriately accounted for as unfavorable contracts at the Merger date, related adjustments were required to correct our consolidated statements of operations in periods subsequent to the Merger. These adjustments to liabilities increased operating expenses by $249 million and $155 million in 2001 and 2000, respectively.

Goodwill. The amount allocated to goodwill was affected as a result of each of the purchase accounting allocation adjustments discussed in the paragraphs above. Goodwill also was affected as a result of an adjustment that increased the amount of consideration paid in the Merger. The net of these adjustments was an increase of $1.634 billion in the amount allocated to goodwill. These adjustments necessitated an adjustment to goodwill amortization. As part of our internal analysis, we corrected the timing of certain previously recorded amortization adjustments. The result of these changes was a net increase in goodwill amortization expense of $16 million and $12 million in 2001 and 2000, respectively.

Restructuring accrual

In our previously issued consolidated financial statements we recorded restructuring expenses in the fourth quarter of 2001 in connection with our permanent abandonment of certain leased real estate facilities. We have determined that we misinterpreted applicable accounting guidance, including EITF Issue No. 94-3, SAB No. 100, "Restructuring Charges," and EITF Issue No. 88-10, "Costs Associated with Lease Modification or Termination," as they relate to leased facilities and excluded certain items that should have been included in the restructuring charges. As a result, we have increased our previously reported pre-tax loss by $240 million for the year ended December 31, 2001.

Third-party telecommunications costs

During 2001, we received and paid for services from third-party telecommunications providers but did not properly record the cost associated with such services in our cost of sales. As a result, we have increased our pre-tax loss by $164 million in the year ended December 31, 2001.

Deferred commissions

In 2001, we erroneously began to defer certain commissions paid to internal and external agents related to contract sales to business customers and amortize over the average term of the related contracts. As a result, in our restated consolidated financial statements we have increased our previously reported pre-tax loss by $160 million in the year ended December 31, 2001.

KPNQwest valuation

In our original December 31, 2001 assessment of the carrying value of our investment in KPNQwest, we concluded that an other-than-temporary decline in value had not occurred as of December 31, 2001. We, therefore, did not adjust the carrying value of our investment at that date. In our internal analysis, we reconsidered the information that was available at the time we originally issued our 2001 consolidated financial statements and determined that our prior assessment did not fully recognize the impact of certain restrictions on our ability to receive market value for our shares. Applying those factors, we determined the estimated fair value of the KPNQwest investment had remained below its carrying value for an extended period of time, indicating that there had been an other-than-temporary decline in value. Accordingly, we have recorded an adjustment in our restated consolidated financial statements to write-down the value of the KPNQwest investment by $156 million to reflect its estimated fair value of $1.15 billion at December 31, 2001. This resulted in an increase of $156 million to our pre-tax loss for the year ended December 31, 2001. See further discussion in Note 10—Investments.

Equipment write-offs

Included in our previously issued 2001 consolidated financial statements was certain capitalized equipment with a carrying value of $142 million. During our internal analysis we determined that this cost should have been expensed during 2001 and 2000. Accordingly, we have increased our previously reported pre-tax loss by $111 million and $31 million for the years ended December 31, 2001 and 2000, respectively.

Network labor costs

In 2000, we began capitalizing certain labor costs that were associated with designing, deploying and testing facilities. During our internal analysis, we determined that certain of these costs should have been expensed as incurred. As a result, in our restated consolidated financial statements we have recorded adjustments to increase operating expenses and decrease net property, plant and equipment by $84 million and $100 million for the years ended December 31, 2001 and 2000, respectively.

Compensated absences

During 2001 and 2000, we recorded entries that reduced our liabilities for compensated absences associated with non-management employees. We have since determined that these adjustments were not in compliance with SFAS No. 43, "Accounting for Compensated Absences." As a result, we have increased our previously reported pre-tax loss by $73 million and $14 million for the years ended December 31, 2001 and 2000, respectively.

Out-of-period expenses

We recorded certain charges in 2001 and 2000 as expenses for contractual sponsorships, service contracts, fines and other costs. We have since determined that we recorded these charges in the wrong period. As a result, in our restated consolidated financial statements, we have decreased our previously reported pre-tax loss by $64 million in 2001 and increased our previously reported loss by $70 million in 2000.

Cost of removal

In 2001, we recorded costs associated with the reconditioning of certain cable lines against the cost of removal reserve. This reserve is a component of accumulated depreciation that was established specifically for costs of removal related to portions of our telecommunications network. During our internal analysis, we determined that these reconditioning costs were not costs of removal and should not have been recorded against the reserve in accumulated depreciation. As a result, in our restated consolidated financial statements we have increased our previously reported pre-tax loss by $40 million for the year ended December 31, 2001.

Stock compensation

During 2001 and 2000, the terms of certain outstanding stock options were modified to allow the extension of the exercise period upon the employee's separation from the Company. In our previously issued consolidated financial statements, we did not record compensation expense in connection with these modifications or with regard to certain other awards where the fair value of the underlying stock at the measurement date was greater than the strike price of the award. As part of our internal analysis, we determined that compensation expense should have been recorded for these matters in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees," and FIN No. 44, "Accounting for Certain Transactions involving Stock Compensation" (an interpretation of APB Opinion No. 25). As a result, in our restated consolidated financial statements we have increased our previously reported pre-tax loss by $28 million and $109 million for the years ended December 31, 2001 and 2000, respectively.

Investment in Qwest Digital Media

We account for our investment in Qwest Digital Media ("QDM") under the equity method of accounting. An error was made in calculating our share of the QDM loss in 2000. In our previously issued consolidated financial statements, this error was identified and corrected in our 2001 reported results. In our restated consolidated financial statements we have recorded an adjustment to make the correction in the appropriate year. Accordingly, we have decreased our previously reported pre-tax loss by $27 million in 2001 and increased our previously reported pre-tax loss by $27 million in 2000.

Curtailment gain

During the third quarter of 2000, and in conjunction with the Merger, we changed certain post-retirement benefits as discussed in Note 14—Employee Benefits. The reduction in the accumulated post-retirement benefit obligation was originally accounted for as a plan curtailment, resulting in a one-time gain in our previously issued consolidated financial statements. Based on our internal analysis, and in consideration of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("SFAS No. 106") and the FASB Staff Implementation Guide for SFAS No. 106, we determined that the elimination of benefits should have been recorded as a negative plan amendment. Negative plan amendments are amortized as a reduction of benefit expense over the expected remaining service period or life expectancy of the participants, as appropriate, or approximately seven years in our case. As a result, in our restated consolidated financial statements we have decreased our

previously reported pre-tax loss by $16 million in 2001 and increased our previously reported pre-tax loss by $106 million in 2000.

Other

We reduced our previously reported revenue by $113 million and $65 million and increased our pre-tax loss by $398 million and $54 million for the years ended December 31, 2001 and 2000, respectively, for other errors discovered as a result of our internal analysis. These adjustments have been aggregated in this presentation. The individual adjustments ranged from $100,000 to $27 million for revenues and from $100,000 to $34 million for pre-tax loss in the periods presented and had an average impact of $7 million, to each of revenues and pre-tax loss.

Balance sheet impacts

In addition to the effects on our 2001 and 2000 consolidated statements of operations discussed above, the restatement affected our consolidated balance sheets as of December 31, 2001 and 2000 and our opening retained earnings as of January 1, 2000. The following tables set forth the effects of our restatement adjustments on our condensed 2001 and 2000 consolidated balance sheets:

	Previously Reported	Adjustments for Discontinued Operations	Increase/ (Decrease)	As Restated
	(Dollars in millions)			
As of December 31, 2001:				

Assets:				
Total current assets	$ 5,757	$ —	$ (1,019)	$ 4,738
Property, plant and equipment, net	29,977	(220)	(278)	29,479
Goodwill and other intangible assets, net	34,523	—	101	34,624
Other assets	3,524	220	(419)	3,325
Total assets	$ 73,781	$ —	$ (1,615)	$ 72,166
Liabilities and stockholders' equity:				
Total current liabilities	$ 9,989	$ —	$ 234	$ 10,223
Long-term borrowings	20,197	—	33	20,230
Deferred income taxes and other liabilities	6,940	—	(656)	6,284
Total liabilities	37,126	—	(389)	36,737
Share repurchase commitment	—	—	16	16
Total stockholders' equity	36,655	—	(1,242)	35,413
Total liabilities and stockholders' equity	$ 73,781	$ —	$ (1,615)	$ 72,166

	Previously Reported	Adjustments for Discontinued Operations	Increase/ (Decrease)	As Restated
	(Dollars in millions)			
As of December 31, 2000:				
Assets:				
Total current assets	$ 5,199	$ —	$ (467)	$ 4,732
Property, plant and equipment, net	25,760	(212)	438	25,986
Goodwill and other intangible assets, net	32,327	—	(311)	32,016
Other assets	10,215	212	(345)	10,082
Total assets	$ 73,501	$ —	$ (685)	$ 72,816
Liabilities and stockholders' equity:				
Total current liabilities	$ 9,676	$ —	$ 20	$ 9,696
Long-term borrowings	15,421	—	120	15,541
Deferred income taxes and other liabilities	7,100	—	(1,088)	6,012
Total liabilities	32,197	—	(948)	31,249
Share repurchase commitment	—	—	—	—
Total stockholders' equity	41,304	—	263	41,567

Total liabilities and stockholders' equity	$ 73,501	$ —	$ (685)	$ 72,816

Stockholders' equity has been restated for items other than the adjustments to net loss discussed in the summary of restatement items section above. Among other restatements, it has also been restated for adjustments to purchase accounting, as discussed in Note 4—Merger, and for an adjustment to recognize an obligation to repurchase stock from BellSouth, as discussed in Note 16—Stockholders' Equity. A reconciliation of stockholders' equity between "Previously Reported" and "As Restated" is as follows:

	December 31,	
	2001	2000
	(Dollars in millions)	
Stockholders' equity, as previously reported	$ 36,655	$ 41,304
Cumulative effect of restatement adjustments on net loss	(2,536)	(956)
Dex adjustment to opening retained earnings	(353)	(353)
Adjustment to purchase price of Merger for stock options (Note 4—Merger)	1,438	1,438
Cumulative stock compensation adjustments (Note 3—Restatement of Results)	137	109
BellSouth share repurchase obligation (Note 16—Stockholders' Equity)	(16)	—
BellSouth sales discount amortization (Note 16—Stockholders' Equity)	38	—
Rabbi trust share repurchase (Note 16—Stockholders' Equity)	—	(38)
Other comprehensive income	(27)	(42)
Other stock-based expenses (Note 16—Stockholders' Equity)	35	48
Purchase accounting adjustments (Note 4—Merger)	33	11
Other consolidation and reconciliation adjustments	9	46
Stockholders' equity, as restated	$ 35,413	$ 41,567

Note 4: Merger

On June 30, 2000, Qwest completed its acquisition of U S WEST. U S WEST was deemed the accounting acquirer and its historical financial statements, including those of its wholly owned subsidiaries, have been carried forward as those of the combined company. In connection with the Merger, each outstanding share of U S WEST common stock was converted into the right to receive 1.72932 shares of Qwest common stock (and cash in lieu of fractional shares). In addition, all outstanding U S WEST stock options were converted into options to acquire Qwest common stock. All share and per share amounts presented for 2000 have been restated to give retroactive effect to the exchange ratio.

The Merger has been accounted for as a reverse acquisition under the purchase method of accounting with U S WEST being deemed the accounting acquirer and Qwest (prior to the Merger "pre-Merger Qwest") the acquired entity. The total value of the consideration has been allocated to the tangible and identifiable intangible assets and liabilities of pre-Merger Qwest. As disclosed in our previously issued consolidated financial statements, a preliminary allocation of the purchase price was made at June 30, 2000 to certain identified tangible and intangible assets and liabilities based upon information available to management at that date. During the second quarter of 2001, we finalized the original allocation of the purchase price to the acquired net assets of pre-Merger Qwest. In connection with our internal analysis of our previously issued consolidated financial statements (see Note 3—Restatement of Results), we found several errors related to the amount of the purchase price itself, the preliminary purchase price allocation and the adjustments to the preliminary allocation to finalize it. The purchase price allocation and related adjustments are summarized in the table below.

	Previously Reported			As Restated	
	Preliminary Purchase Price Allocation	Adjustments	Adjusted Purchase Price Allocation	Restatement Adjustments	Purchase Price Allocation, As restated
	(Dollars in millions)				
Identified intangible assets	$ 4,100	$ —	$ 4,100	$ (1,853)	$ 2,247
Investment in KPNQwest, N.V	7,935	(3,180)	4,755	—	4,755
Tangible assets	7,868	(38)	7,830	841	8,671
Liabilities	(7,135)	575	(6,560)	587	(5,973)
Deferred income taxes	(671)	(208)	(879)	229	(650)
Goodwill	27,923	2,851	30,774	1,634	32,408
Purchase price	$ 40,020	$ —	$ 40,020	$ 1,438	$ 41,458

Purchase price. Our original determination of the preliminary purchase price of $40.020 billion reflected 772 million shares of our stock with a fair market value of $38.616 billion and outstanding stock options with an estimated fair value of $1.404 billion. In connection with our internal analysis, we determined that the previously reported fair value of outstanding stock options omitted certain outstanding warrants and stock options (principally unvested employee stock options) and reflected certain inappropriate valuation assumptions. Our restated consolidated financial statements include adjustments totaling $1.438 billion, which increases the total purchase price to $41.458 billion.

Intangible assets. In our original purchase price allocation, we identified a number of intangible assets including: (a) customer lists with a value ascribed of $1.200 billion, (b) technology-in-place with a value ascribed of $2.200 billion, (c) trademarks with a value ascribed of $600 million and (d) an established workforce with a value ascribed of $100 million. In connection with our internal analysis, we reevaluated the value assigned to each of these acquired identifiable intangible assets and concluded that the amounts allocated to customer lists and technology-in-place did not represent their fair values

at the date of the Merger. Our reevaluation of the fair values of these intangible assets was done using information that was available at the time the original purchase price allocation was finalized. As a result, we have recorded adjustments to the amounts allocated to customer lists and technology-in-place in our restated consolidated financial statements. These adjustments resulted in a $347 million increase in the value ascribed to customer lists and a decrease in the value ascribed to technology-in-place at the acquisition date of approximately $2.2 billion. We also determined, in connection with our internal analysis, that the previously selected estimated life of ten years for customer lists was not reasonable under the circumstances and thus, was changed to five years. Accordingly, in our restated consolidated financial statements we have decreased amortization expense by $31 million and $15 million for the years ended December 31, 2001 and 2000, respectively, to reflect the fair value adjustments and the change in estimated life.

Investment in KPNQwest, N.V. Pre-Merger Qwest's investment in KPNQwest had a book value of approximately $552 million. On June 30, 2000, our preliminary estimate of the value of the investment in KPNQwest was $7.935 billion, which was based upon the closing price of $39.625 of KPNQwest's publicly traded Class C shares on that date. The Class C shares comprised approximately 11% of the equity ownership of KPNQwest. Our ownership interest in KPNQwest was held in Class B shares, which, as of the acquisition date, were subject to restrictions on marketability through 2004. Because of the size of our ownership interest in KPNQwest and the fact that the shares we held were subject to a number of restrictions, the fair value of our investment was determined in June 2001 to be $4.755 billion. We then recorded an adjustment of $3.180 billion to reduce the amount of the purchase price allocated to our investment in KPNQwest. This adjustment also increased goodwill by a corresponding amount. This revised amount allocated to KPNQwest was not affected by our internal analysis or the restatement process. See discussion at Note 10—Investments.

Tangible assets. Pre-Merger Qwest had tangible assets with a book value of approximately $9.148 billion. Included in these assets were cash of $407 million, accounts receivable of $1.372 billion, other assets of $1.386 billion and property, plant and equipment of $5.983 billion, which consisted mainly of pre-Merger Qwest's fiber optic broadband network. In our original allocation of the purchase price, the book values of these assets were adjusted to our initial estimate of fair value. The most significant adjustment was to reduce the carrying value of the fiber optic broadband network by approximately $1.145 billion based on our initial estimate of replacement cost. We also reduced the carrying amounts of accounts receivable and other assets by a total of $135 million. In finalizing the purchase price in 2001, the value of the fiber optic broadband network was increased by $25 million and the value of the accounts receivable and other assets reduced by an additional $63 million.

In connection with our internal analysis, we reevaluated the replacement cost of the fiber optic broadband network using information that was available at the time the original allocation was done and estimated that the replacement cost of the fiber optic broadband network at the Merger date was approximately $5.760 billion. As a result, we have adjusted the purchase price allocation in our restated consolidated financial statements to reflect a $897 million increase in the value of the acquired property, plant and equipment at June 30, 2000. In addition, as part of our internal analysis we also reduced the carrying value of accounts receivable and other assets by a total of $56 million.

Liabilities. Pre-Merger Qwest had debt with a book value of $4.560 billion and accounts payable and accrued liabilities with a book value of $1.459 billion. We made adjustments in the initial purchase price allocation to increase these liabilities by $1.116 billion, primarily to reflect the fair value of certain unfavorable contractual commitments that were inappropriately recognized at the date of the Merger. These liabilities were subsequently reduced by $575 million in 2001 in the course of finalizing our purchase price allocation. In connection with our internal analysis, we reconsidered the amounts determined as unfavorable contractual commitments and certain other accrued expenses. Our analysis indicated that credits and certain accrued expenses totaling $587 million established in connection with

the Merger were not appropriate. Accordingly, in our restated consolidated financial statements we have reduced the amount attributed to unfavorable contract credits by $587 million.

Deferred income taxes. The $208 million adjustment made to deferred income taxes in finalizing the purchase price allocation resulted from adjustments to pre-Merger Qwest's tangible assets and liabilities. As a result of our internal analysis, the net deferred income tax liabilities recorded in the purchase price allocation have been reduced by $229 million to give effect to the expected future tax consequences resulting from the restatement adjustments to the values of the acquired assets and liabilities.

Goodwill. As a result of the finalization of the allocation of the purchase price in 2001, goodwill was adjusted. As part of our internal analysis as discussed above, we made adjustments to that final allocation. The aggregate impact of the restatement adjustments on goodwill was $1.634 billion.

The final restated allocation of the purchase price resulted in goodwill of $32.408 billion. Adjustments were also made to amortize this goodwill on a straight-line basis over a 40-year life. Amortization was recorded through December 31, 2001. Beginning January 1, 2002, in accordance with the adoption of SFAS No. 142, we ceased amortization of goodwill and other intangible assets with indefinite lives. See discussion at Note 7—Goodwill and Other Intangible Assets.

Note 5: Accounts Receivable

The following table presents a breakdown of our accounts receivable balances:

	December 31,		
	2002	2001	2000
		(As restated, see Note 3)	
	(Dollars in millions)		
Trade receivables	$ 2,133	$ 2,572	$ 2,146
Earned and unbilled receivables	353	376	414
Purchased receivables	104	148	213
Other	95	212	697
Total accounts receivable	2,685	3,308	3,470
Less: Allowance for bad debts	(360)	(402)	(305)
Accounts receivable—net	$ 2,325	$ 2,906	$ 3,165

The fair value of accounts receivable balances approximates their carrying value because of their short-term nature. We are exposed to concentrations of credit risk from customers within our local service area and from other telecommunications service providers. We generally do not require collateral to secure our receivable balances.

We have agreements with other telecommunications service providers whereby we agree to bill and collect on their behalf for services rendered by those providers to our customers within our local service area. We purchase these accounts receivable from the other telecommunications service providers on a full-recourse basis and include these amounts in our accounts receivable balance. Purchased receivables included in our accounts receivable balances were $104 million, $148 million and $213 million at December 31, 2002, 2001 and 2000, respectively. We have not experienced any significant losses under the recourse provisions related to these purchased receivables.

In addition, we also have billing and collection arrangements with other telecommunications service providers for certain services we provide to our customers outside our local service area. While these amounts are billed by the other telecommunications service providers on our behalf, we continue to include the receivables in our accounts receivable balances due to the full-recourse provisions of the billing and collection agreements.

Note 6: Property, Plant and Equipment

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

	Depreciable Lives	December 31, 2002	2001	2000
			(As restated, see Note 3)	
		(Dollars in millions)		
Land		$ 116	$ 105	$ 103
Buildings	30-38 years	3,524	4,706	3,269
Communications equipment	2-25 years	18,948	21,941	17,491

Other network equipment	8-57 years	18,635	22,941	20,603
General purpose computers and other	3-11 years	3,007	3,530	3,554
Construction in progress	—	350	1,214	3,380
		44,580	54,437	48,400
Less: accumulated depreciation		(25,585)	(24,958)	(22,414)
Property, plant and equipment—net		$ 18,995	$ 29,479	$ 25,986

Asset impairments

A summary of asset impairments recognized is as follows:

	Year ended December 31,		
	2002	2001	2000
		(As restated, see Note 3)	
	(Dollars in millions)		
Impairment of property, plant and equipment	$ 10,493	$ —	$ —
Facilities and other projects	—	134	—
Other real estate assets	28	—	—
Impairment due to Merger	—	16	35
Special purpose access lines	—	—	191
Capitalized software due to restructuring activities (Note 7—Goodwill and Other Intangible Assets)	4	68	—
Capitalized software due to Merger (Note 7—Goodwill and Other Intangible Assets)	—	33	114
Total asset impairments	$ 10,525	$ 251	$ 340

Effective June 30, 2002, pursuant to SFAS No. 144, a general deterioration of the telecommunications market, downward revisions to our expected future results of operations and other factors indicated that our investments in long-lived assets may have been impaired at that date. In accordance with SFAS No. 144 we performed an evaluation of the recoverability of the carrying value of our long-lived assets using gross undiscounted cash flow projections. For impairment analysis purposes, we grouped our property, plant and equipment and projected cash flows as follows: traditional telephone network, national fiber optic broadband network, international fiber optic broadband network, wireless network, web hosting and Application Service Provider ("ASP"), assets held for sale and out-of-region Digital Subscriber Line ("DSL"). Based on the gross undiscounted cash flow projections, we determined that all of our asset groups, except our traditional telephone network, were impaired at June 30, 2002. For those asset groups that were impaired, we then estimated the fair value using a variety of techniques, which are presented in the table below. For those asset groups that were impaired, we determined that the fair values were less than our carrying amount by

$10.613 billion in the aggregate of which $120 million has been reclassified to income from and gain on sale of discontinued operations for certain web hosting centers in our consolidated statements of operations at December 31, 2002.

Asset Group		Impairment Charge	Fair Value Methodology
		(Dollars in millions)	
National fiber optic broadband network	$	8,505	Discounted cash flows
International fiber optic broadband network		685	Comparable market data
Wireless network		825	Comparable market data and discounted cash flows
Web hosting and ASP assets		88	Comparable market data
Assets held for sale		348	Comparable market data
Out-of-region DSL		42	Discounted cash flows
Total impairment charges	$	10,493	

Calculating the estimated fair value of the asset groups as listed above involves significant judgments and a variety of assumptions. For calculating fair value based on discounted cash flows, we forecasted future operating results and future cash flows, which included long-term forecasts of revenue growth, gross margins and capital expenditures. We also used a discount rate based on an estimate of the weighted average cost of capital for the specific asset groups. Comparable market data was obtained by reviewing recent sales of similar asset types in third-party market transactions.

A brief description of the underlying business purpose of each of the asset groups that were impaired as a result of our analysis as of June 30, 2002 is as follows:

- Our national fiber optic broadband network ("National Network") provides long-distance voice services, data and Internet services, and wholesale services to business, residential and wholesale customers outside of our local service area.

- Our international fiber optic broadband network ("International Network") provides the same services to the same types of customers, only outside of the United States.

- Our wireless network provides Personal Communications Service ("PCS") in select markets in our local service area.

- Our web hosting and ASP assets provide business customers shared and dedicated hosting on our servers as well as application hosting services to help design and manage customers' websites and hosting applications.

- Assets held for sale primarily consist of excess network supplies. See Note 8—Assets Held for Sale including Discontinued Operations for further information.

- Our out-of-region DSL assets provide DSL service to customers outside our local service area.

In accordance with SFAS No. 144, the fair value of the impaired assets becomes the new basis for accounting purposes. As such, approximately $1.9 billion in accumulated depreciation was eliminated in connection with the accounting for the impairments. The impact of the impairments will reduce our annual depreciation and amortization expense by approximately $1.3 billion, effective July 1, 2002.

Other asset impairments

In 2002, we recorded other asset impairment charges of $28 million associated with the write-down of other real estate assets that were held for sale.

As part of our restructuring activities in 2001, we reviewed our existing construction projects. As a result of this review, we recorded an asset impairment charge of $134 million for the abandonment of web hosting centers and other internal use construction projects.

Subsequent to the Merger, we reevaluated all of our assets for potential impairment and, in certain instances, we concluded that the fair value of some of our assets were below their carrying value. As a result, we recorded impairment charges in 2001 and 2000 of $16 million and $35 million, respectively, writing off the full carrying value of certain internal use construction projects and equipment.

Also, in connection with the Merger, we evaluated our dedicated special-purpose access lines that we lease to Competitive Local Exchange Carriers ("CLECs") for potential impairment. After considering the declining industry conditions and regulatory changes affecting CLECs in 2000, as well as the fact that these access lines had no alternative use and could not be sold or re-deployed, we concluded that sufficient net cash flows would not be generated to recover the carrying value of these assets. Therefore, we concluded that the fair value of these assets was minimal and we recorded an impairment charge of $191 million in our 2000 consolidated statement of operations.

Note 7: Goodwill and Other Intangible Assets

A summary of the changes in the carrying amount of our goodwill during the year ended December 31, 2002 is as follows. All of the goodwill relates to our wireline segment.

	(Dollars in millions)
Balance as of December 31, 2001 (as restated, see Notes 3 and 4)	$ 31,233
Reclassification of assembled workforce	50
Cumulative effect of adoption of SFAS No. 142	(22,800)
Goodwill impairment charges under SFAS No. 142	(8,483)
Balance as of December 31, 2002	$ —

The components of goodwill and other intangible assets are as follows:

		December 31,					
		2002		2001		2000	
		(Dollars in millions)					
	Life Prior to Adoption of SFAS No. 142	Carrying Cost	Accumulated Amortization	Carrying Cost	Accumulated Amortization	Carrying Cost	Accumulated Amortization
				(As restated, see Note 3)			
Intangibles with indefinite lives:							
Goodwill	40 years	$ —	$ —	$ 32,408	$ (1,175)	$ 29,338	$ (378)
Other	3-40 years	146	—	817	(80)	801	(30)

Total intangibles with

indefinite lives		146	—	33,225	(1,255)	30,139	(408)
Intangibles with finite lives:							
Capitalized software	5 years	2,032	(577)	1,910	(341)	1,163	(272)
Customer lists and other	5 years	33	(22)	1,549	(464)	1,549	(155)
Total intangibles with finite lives		2,065	(599)	3,459	(805)	2,712	(427)
Total goodwill and intangible assets		$ 2,211	$ (599)	$ 36,684	$ (2,060)	$ 32,851	$ (835)

We recorded amortization expense of $579 million in 2002 for intangibles with finite lives. Based on the current amount of intangible assets subject to amortization, the estimated amortization for each of the succeeding 5 years is as follows:

	(Dollars in millions)
2003	$ 429
2004	400
2005	328
2006	226
2007	83
	$ 1,466

Adoption of SFAS No. 142

On January 1, 2002, we adopted SFAS No. 142, which requires companies to cease amortizing goodwill and intangible assets which have indefinite useful lives. SFAS No. 142 also requires that goodwill and indefinite-lived intangible assets be reviewed for impairment upon adoption on January 1, 2002 and annually thereafter, or more often if events or circumstances warrant. Under SFAS No. 142, goodwill impairment may exist if the carrying value of the reporting unit to which it is allocated exceeds its estimated fair value.

Based on the transition provisions of SFAS No. 142, we reclassified the $50 million net carrying value of our assembled workforce intangible asset, which was recognized in connection with the Merger, into goodwill effective January 1, 2002. The assembled workforce intangible asset no longer met the criteria for recognition as a separate intangible asset apart from goodwill. Amortization of goodwill, including the addition to goodwill from the reclassification of the assembled workforce intangible asset, ceased on January 1, 2002. We also ceased amortizing our intangible assets with indefinite lives, including trademarks, trade names and wireless spectrum licenses on January 1, 2002. Upon adoption of SFAS No. 142, we reviewed the useful lives of our amortizable intangible assets—primarily capitalized software and customer lists, and determined that after restatement, they remained appropriate. See Note 4—Merger, for further discussion regarding the revisions of the useful lives of our customer lists.

In accordance with SFAS No. 142, we performed a transitional impairment test of goodwill and intangible assets with indefinite lives as of January 1, 2002. The first step of the transitional test of impairment was performed by comparing the fair value of our reporting units to the carrying values of the reporting units to which goodwill was assigned. Because we do not maintain balance sheets at the reporting unit level, we allocated all assets and liabilities to each of our reporting units based on various methodologies that included specific identification and allocations based primarily on revenues, voice grade equivalents (the amount of capacity required to carry one telephone call), and relative number of employees. Goodwill was allocated to reporting units based on the relative fair value of each reporting unit. We did not allocate any goodwill to our wireless and directory publishing reporting units because they were not expected to benefit significantly from the synergies of the Merger and are not considered sources of the goodwill which arose from the Merger.

Upon implementation of SFAS No. 142, we identified 13 reporting units. Goodwill was allocated to four of these reporting units on a relative fair value basis. Reporting units that were non-revenue producing or that were not expected to benefit significantly from the synergies of the Merger were not allocated goodwill. In addition, insignificant reporting units were not allocated goodwill. As discussed in Note 18—Segment Information, operating segments were changed in the fourth quarter of 2002 after goodwill had already been reduced to zero through the impairments discussed in the following paragraphs.

We estimated the implied fair value of goodwill for each reporting unit by subtracting the fair value of the reporting unit's assets, including any unrecognized intangibles, from the total fair value of the reporting unit. The excess was deemed the implied fair value of goodwill. The implied fair value of the goodwill was then compared to the carrying amount of goodwill for the reporting unit. Based on this analysis, we recorded a charge for the cumulative effect of adopting SFAS No. 142 of $22.8 billion on January 1, 2002. This charge related to the reporting units in the table below:

Reporting Unit	Impairment Charge
	(Dollars in millions)
Global	$ 5,151
National	2,147
Consumer	4,856
Wholesale	10,646
Total	$ 22,800

Changes in market conditions, downward revisions to our projections of future operating results, and other factors indicated that the carrying value of the remaining goodwill should be evaluated for impairment as of June 30, 2002. Based on the results of that impairment analysis, we determined that the remaining goodwill balance of $8.483 billion was impaired and we recorded an impairment charge on June 30, 2002 to write-off the remaining balance. In accordance with SFAS No. 142, we will continue to perform impairment tests on the remaining indefinite-lived intangible assets on an annual basis, or more often if events or changes in circumstances indicate the assets may be impaired.

The following table adjusts loss from continuing operations, net loss and the related per share amounts in 2001 and 2000 to exclude amortization, net of any related tax effects, of goodwill and indefinite lived intangible assets.

	Year ended December 31,	
	2001	2000
	(As restated, see Notes 3 and 4)	

	(Dollars in millions, except per share amounts)	
Reported loss from continuing operations	$ (6,138)	$ (1,442)
Amortization associated with goodwill	797	378
Amortization associated with excess basis in investment in KPNQwest	205	92
Amortization associated with trade name	9	5
Amortization associated with assembled workforce	20	10
Amortization associated with wireless spectrum licenses	1	1
Total amortization associated with intangible assets with indefinite lives	1,032	486
Adjusted loss from continuing operations	$ (5,106)	$ (956)
Reported net loss	$ (5,603)	$ (1,037)
Amortization associated with goodwill	797	378
Amortization associated with excess basis in investment in KPNQwest	205	92
Amortization associated with trade name	9	5
Amortization associated with assembled workforce	20	10
Amortization associated with wireless spectrum licenses	1	1
Total amortization associated with intangible assets with indefinite lives	1,032	486
Adjusted net loss	$ (4,571)	$ (551)
Basic and diluted loss per share:		
Reported loss from continuing operations per share	$ (3.69)	$ (1.13)
Amortization associated with goodwill	0.48	0.30
Amortization associated with excess basis in investment in KPNQwest	0.12	0.07
Amortization associated with trade name	0.01	—
Amortization associated with assembled workforce	0.01	0.01
Amortization associated with wireless spectrum licenses	—	—
Total amortization associated with intangible assets with indefinite lives	0.62	0.38
Adjusted loss from continuing operations per share	$ (3.07)	$ (0.75)
Reported net loss per share	$ (3.37)	$ (0.82)
Amortization associated with goodwill	0.48	0.30
Amortization associated with excess basis in investment in KPNQwest	0.12	0.07
Amortization associated with trade name	0.01	—
Amortization associated with assembled workforce	0.01	0.01
Amortization associated with wireless spectrum licenses	—	—
Total amortization associated with intangible assets with indefinite lives	0.62	0.38
Adjusted net loss per share	$ (2.75)	$ (0.44)

Other intangible information

In June 2002, pursuant to SFAS No. 144 as discussed in Note 6—Property, Plant and Equipment, we recorded an asset impairment charge to other intangible assets with finite lives. These included impairments related to capitalized computer software of $411 million and our customer lists of $812 million.

We also recorded asset impairment charges of $4 million and $68 million in 2002 and 2001, respectively, related to internal software projects that we terminated, including customer database system projects.

Following the Merger, we reviewed all internal use software projects in process, and determined that certain projects should no longer be pursued. Because the projects were incomplete and abandoned, the fair value of such software was determined to be zero. Capitalized software costs of $33 million and $114 million were written off in 2001 and 2000, respectively, and reported as asset impairment charges on our consolidated statements of operations at the time they were abandoned. The abandoned projects primarily included a significant billing system replacement.

In 2002, realization of a $396 million tax benefit ($647 million on a pre-tax basis) became probable as a result of the completion of the first phase of the sale of our directory publishing business. The tax benefit existed at the time of the Merger, but was not recognized in the purchase because at that time it was not apparent that the temporary difference would be realized in the foreseeable future. In 2002, in accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS No. 109"), we recorded the tax benefit, on a pre-tax basis, as a $555 million reduction to our trade name intangible asset and as a $92 million reduction to our customer lists intangible asset. The credits were applied to these two non-current intangible assets because these assets were created in connection with the original purchase price allocation.

Note 8: Assets Held for Sale including Discontinued Operations

The following table presents the summarized results of operations for each of the years in the three-year period ended December 31, 2002 related to our discontinued operations. These results primarily relate to our directory publishing business. Other discontinued operations represent immaterial operations.

	Years ended December 31,		
	2002	2001	2000
		(As restated, see Note 3)	
	(Dollars in millions)		
Revenue	$ 1,535	$ 1,628	$ 1,517
Costs and Expenses:			
Cost of services	502	581	585
Selling, general and administrative	399	176	168
Depreciation and amortization	29	32	35
Income from operations	605	839	729
Gain on sale of directory publishing business	2,615	—	—
Other income (expense)	(26)	(5)	(1)
Income before income taxes	3,194	834	728
Income tax provision	1,237	323	282
Income from and gain on sale of discontinued operations	$ 1,957	$ 511	$ 446

The following table presents the condensed balance sheets related to our discontinued operations, primarily our directory publishing business, as of December 31, 2002, 2001 and 2000. All other assets held for sale are included in our wireline segment.

	December 31, 2002	December 31, 2001 (As restated, see Note 3)	December 31, 2000 (As restated, see Note 3)
	(Dollars in millions)		
Current assets held for sale	$ 263	$ 426	$ 433
Property, plant and equipment, net*	72	220	212
Other assets*	26	31	5
Total assets held for sale	$ 361	$ 677	$ 650
Current portion of liabilities associated with discontinued operations	$ 248	$ 336	$ 332
Other long-term liabilities*	50	35	57
Total liabilities associated with discontinued operations	$ 298	$ 371	$ 389

* Property, plant and equipment and other assets for 2001 and 2000 represent the non-current portion of assets held for sale and are presented in other assets for those periods respectively. Other long-term liabilities for 2001 and 2000 represent the long-term portion of liabilities associated with discontinued operations and are presented in other long-term liabilities for those periods respectively.

Discontinued directory publishing business

During the second quarter of 2002, we began actively pursuing the sale of our directory publishing business. On November 8, 2002, we completed the first stage of the sale of our directory publishing business to a new entity formed by the private equity firms of The Carlyle Group and Welsh, Carson, Anderson & Stowe (the "Buyer") (the "Dex Sale"). The sales price for the first stage of the Dex Sale, which involved the sale of Dex operations in the states of Colorado, Iowa, Minnesota, Nebraska, New Mexico, North Dakota and South Dakota (the "Dex East business") was \$2.75 billion (subject to adjustments related to changes in the working capital of the Dex East Business) and was paid in cash. We recognized a gain of \$1.6 billion (net of \$1.0 billion in taxes) on the sale of the Dex East business.

The sale of our directory publishing business in the remaining states of Arizona, Idaho, Montana, Oregon, Utah, Washington and Wyoming (the "Dex West business") was completed in September 2003. We received approximately \$4.3 billion in gross sale proceeds (subject to adjustments relating to changes in the working capital of the Dex West business) related to the sale.

Concurrent with the closing of the sale of the Dex East business, we entered into an advertising and telecommunications commitment agreement with the Buyer. Pursuant to that agreement, we agreed to purchase from the Buyer at least \$20 million annually worth of advertising, at fair value, for 15 years and the Buyer agreed to exclusively purchase from us those telecommunication services that it uses from time to time during this same period, at market based rates, subject to availability.

Other assets held for sale

Prior to and during 2000, U S WEST agreed to sell approximately 800,000 access lines to third-party telecommunications services providers, including approximately 570,000 access lines in nine states to Citizens Communications Company ("Citizens"). Because these access lines were "held for sale", U S WEST discontinued recognizing depreciation expense on the related assets and carried them at the lower of their cost or fair value, less estimated cost to sell. These access lines are part of our wireline segment.

On July 20, 2001, we terminated the agreement with Citizens under which the majority of the remaining access lines in eight states were to have been sold and ceased actively marketing the remaining access lines. As a result, the remaining access lines and related assets were reclassified to "held for use" as of June 30, 2001. In connection with the change in use and this reclassification; the access lines and related assets were measured individually at the lower of their (a) carrying value before they were classified as held for sale, adjusted for any depreciation expense or impairment losses that would have been recognized had the assets been continuously classified as held for use, or (b) their fair value at June 30, 2001. This resulted in a charge to depreciation in 2001 of $222 million to "catch up" the depreciation on these access lines and related assets for the period they were classified as held for sale. The required adjustments to the carrying value of the individual access lines and related assets were included in our 2001 consolidated statement of operations.

In 2001, we sold approximately 41,000 access lines in Utah and Arizona resulting in $94 million in proceeds and a gain of $51 million. In 2000, we completed the sale of approximately 20,000 access lines in North Dakota and South Dakota resulting in a gain of $28 million. In addition, we recorded a net loss of $39 million relating to the sale of other non-strategic fixed assets.

Excess network supplies held for sale

We periodically review our network supplies against our usage requirements to identify potential excess supplies for disposal. During the second quarter of 2002, we identified $359 million of excess supplies and engaged a third-party broker to conduct a sale of those assets. An impairment charge of $348 million was recorded on June 30, 2002 to reduce the carrying amount of the supplies to their estimated fair value less cost to sell of $17 million. Fair value was based upon market values of similar equipment. The impairment charge of $348 million is included in asset impairment charges in our 2002 consolidated statement of operations. In the fourth quarter of 2002, we identified additional excess inventory that had previously been impaired as part of the impairment of the national fiber optic broadband network. Additional excess inventory was written down by $16 million in the fourth quarter of 2002. This write-down is included in selling, general and administrative in our 2002 consolidated statement of operations.

Note 9: Optical Capacity Transactions

As previously disclosed, we have transferred optical capacity assets on our network to other telecommunications services providers. These arrangements are typically structured as indefeasible rights of use, or IRUs, which are the exclusive right to use a specified amount of capacity or fiber for a specified period of time, usually 20 years or more. Revenues from these transactions are recognized ratably over the term of the agreements. After our restatement (see Note 3—Restatement of Results), we have recognized revenue on a ratable basis of $22 million, $21 million and $1 million for the years ended December 31, 2002, 2001 and 2000, respectively, related to these restated transactions. The cash receipts are included in cash from operating activities in our consolidated statements of cash flows.

We have also entered into agreements to purchase optical capacity assets and network facilities from other telecommunications services providers. These purchases allowed us to expand our fiber optic broadband network both domestically and internationally.

Note 10: Investments

The following table summarizes the carrying value of our investments as of December 31, 2002, 2001 and 2000:

December 31,

	2002	2001	2000
		(As restated, see Note 3)	
		(Dollars in millions)	
Investments accounted for under the equity method of accounting	$ —	$ 1,161	$ 7,916
Publicly traded marketable securities	1	43	87
Investments in private companies	22	29	144
Total investments	$ 23	$ 1,233	$ 8,147

Equity method investments

As discussed in Note 2—Summary of Significant Accounting Policies, investments where we exercise significant influence but do not control the investee are accounted for under the equity method of accounting. Under the equity method, investments are stated at initial cost and are adjusted for contributions, distributions, our share of the investee's income or losses as well as impairment write-downs for other-than-temporary declines in value. The following table summarizes the changes in our investments that were accounted for using the equity method of accounting:

	KPNQwest	Qwest Digital Media	Total
		(Dollars in millions)	
Balance as of December 31, 1999 (unaudited)	$ —	$ —	$ —
Investments acquired in Merger—pre-Merger Qwest's book value	552	133	685
Preliminary purchase price allocation to increase investments to estimated fair value	7,383	—	7,383
Amortization of excess basis	(92)	—	(92)
Equity share of loss(1)	(33)	(36)	(69)
Capital contributions	—	16	16
Currency translation adjustment	(7)	—	(7)
Balance as of December 31, 2000 (as restated, see Note 3)	7,803	113	7,916
Equity share of loss	(96)	(20)	(116)
Purchase price allocation adjustment	(3,180)	—	(3,180)
Impairment charges	(3,204)	(9)	(3,213)
Capital contributions	65	12	77
Forgiveness of promissory note	—	(85)	(85)
Amortization of excess basis	(205)	—	(205)
Currency translation adjustment	(33)	—	(33)
Balance as of December 31, 2001 (as restated, see Note 3)	1,150	11	1,161
Equity share of loss	(131)	(14)	(145)
Impairment charges	(1,059)	(2)	(1,061)
Capital contributions	—	5	5
Currency translation adjustment	40	—	40
Balance as of December 31, 2002	$ —	$ —	$ —

(1) Represents the equity losses recognized for the period following the Merger on June 30, 2000.

Investment in KPNQwest. In April 1999, pre-Merger Qwest and KPN Telecom B.V. ("KPN") formed KPNQwest, a joint venture, to create a pan-European Internet Protocol ("IP")-based fiber optic broadband network, linked to Qwest's network in North America, for data and multimedia services. Qwest and KPN each initially owned 50% of KPNQwest. In November 1999, KPNQwest consummated an initial public offering ("KPNQwest's IPO") in which 50.6 million shares of common stock were issued to the public generating approximately $1.0 billion in proceeds. As a result of KPNQwest's IPO, the public owned approximately 11% of KPNQwest's shares, and the remainder were owned equally by Qwest and KPN. Originally, contractual provisions restricted our ability to sell or transfer any of our shares through 2004. In November 2001, we purchased approximately 14 million additional shares, and Anschutz Company (our largest stockholder) purchased approximately six million shares, of KPNQwest common stock from KPN for $4.58 per share. Anschutz Company's purchase was at our request and with the approval of the disinterested members of our Board of Directors. After giving effect to this transaction, Qwest held approximately 47.5% of KPNQwest's outstanding shares. In connection with this transaction, the restrictions on our ability to transfer shares were removed. Because we have never had the ability to designate a majority of the members of the supervisory board or to vote a majority of the voting securities, we have accounted for our investment in KPNQwest using the equity method of accounting for all periods presented.

As discussed in Note 4—Merger, in connection with the allocation of the purchase price, we assigned a preliminary value of $7.935 billion to our investment in KPNQwest at June 30, 2000. Prior to the Merger, Qwest's investment in KPNQwest had a book value of $552 million. In accordance with APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock," the excess basis related to our investment in KPNQwest of $7.383 billion was attributed to goodwill. This goodwill was initially assigned an estimated life of 40 years and was being amortized ratably over that period. The final determination of the estimated fair value of our investment in KPNQwest was completed in June 2001. This final determination resulted in an estimated fair value of $4.755 billion, or $3.180 billion less than our preliminary estimate of fair value. As a result, we recorded a $3.180 billion reduction to our investment in KPNQwest effective in the second quarter of 2001. Also at that time we changed the estimated life of the revised goodwill balance of $4.203 billion from 40 years to 10 years.

On June 30, 2001, we evaluated our investment in KPNQwest and concluded that there had been a decline in fair value that was other than temporary. Factors considered in reaching our conclusion that the decline was other than temporary included, among others, the following: a decline in the price of KPNQwest's publicly traded stock and the period of time over which such price had been below the carrying value of our investment; the change in analysts' expectations released during the second quarter of 2001 indicating significant declines from their first quarter expectations; and the severe deterioration the European telecommunications sector experienced during the second quarter of 2001, including a number of bankruptcies, making the near-term prospects of a recovery of KPNQwest's stock less certain at June 30, 2001.

As a result of that evaluation, we determined that an other-than-temporary decline in fair value had occurred and that the fair value of our investment in KPNQwest at June 30, 2001 was $1.333 billion. Accordingly, an impairment loss of $3.048 billion was recorded in June 2001 to write the carrying amount of our investment in KPNQwest down from its balance at that date to the estimated fair value of $1.333 billion.

In our original December 31, 2001 review of the carrying value of our investment in KPNQwest, we concluded that a further other-than-temporary decline in value had not occurred as of December 31, 2001. We therefore did not adjust the carrying value of the investment at that date. In our internal analysis, we reconsidered the information that was available at the time we originally issued our 2001 consolidated financial statements and determined that our prior review did not consider all information that was available at the time. Certain of that information indicated that the fair value of the KPNQwest investment had remained below its carrying value for an extended period of time, indicating that there had been an other-than-temporary decline in value. Accordingly, we have recorded an adjustment in our restated consolidated financial statements to write-down the value of our KPNQwest investment by $156 million to reflect its estimated fair value of $1.150 billion at December 31, 2001. This resulted in an increase of $156 million to our pre-tax loss for the year ended December 31, 2001.

As a result of the continued decline in the fair value of KPNQwest subsequent to December 31, 2001, we recorded a further impairment to our investment for an other-than-temporary decline in value in the first quarter of 2002. In May 2002, KPNQwest filed for bankruptcy protection and ceased operations. We do not expect to recover any of our investment in KPNQwest. Consequently, in the second quarter of 2002, we wrote-off our remaining investment in KPNQwest to our consolidated statement of operations.

The following table summarizes the available financial information for KPNQwest:

	Year Ended December 31,	
	2001	2000
	(unaudited)	
	(Dollars in millions)	
Total assets	$ 3,201	$ 2,717
Total debt	1,364	731
Other liabilities	868	775
Total liabilities	$ 2,232	$ 1,506
Revenue	$ 722	$ 425
Loss from operations	(222)	(201)
Net loss	(237)	(128)
Our share of net loss	$ (96)	$ (33)

The 2000 information was audited by auditors who have ceased operations. The 2001 information is unaudited and 2002 information is unavailable as a result of KPNQwest's filing for bankruptcy before completing its audited financial statements or filing its Annual Report on Form 20-F. Qwest has been informed that those financial statements have not and will not be completed, and therefore we cannot include the financial statements in this filing. Qwest does not have any affiliation with the administrators of KPNQwest's bankruptcy.

Investment in Qwest Digital Media, LLC. In October 1999, pre-Merger Qwest and Anschutz Digital Media, Inc. ("ADMI"), a subsidiary of Anschutz Company, formed a joint venture called QDM, which provided advanced digital production, post-production and transmission facilities; digital media storage and distribution services; and telephony-based data storage and enhanced access and routing services. Pre-Merger Qwest contributed capital of approximately $84.8 million in the form of a promissory note payable over nine years at an annual interest rate of 6%. At inception, pre-Merger Qwest and ADMI each owned 50% equity and voting interest in QDM. In June 2000, pre-Merger Qwest acquired an additional 25% interest in QDM directly from ADMI and paid $48.2 million for the interest; $4.8 million in cash at closing and the remaining $43.4 million in the form of a promissory note payable in December 2000, with an annual interest rate of 8%. As a result of this transaction, subsequent to the Merger, we owned a 75% economic interest and 50% voting interest in QDM, and ADMI owned the remaining 25% economic interest and 50% voting interest. We paid the note associated with this additional 25% interest in full, including approximately $1.8 million in accrued interest, in January 2001. Because we have never controlled QDM, we have accounted for our investment in QDM using the equity method of accounting for all periods presented.

As discussed in Note 19—Related Party Transactions, in October 1999, pre-Merger Qwest entered into a long-term Master Services Agreement with QDM under which QDM agreed to purchase approximately $119 million of telecommunication services through October 2008, and we agreed to extend credit to QDM for the purpose of making payments to us for the telecommunications services provided. Each October, QDM was required to pay an amount equal to the difference between certain specified annual commitment levels and the amount of services actually purchased under the Master Services Agreement at that time. In October 2001, we agreed to terminate the Master Services Agreement and release QDM from its obligation under such agreement to acquire telecommunications services from us. At the same time, QDM agreed to forgive the $84.8 million that we owed on the promissory note related to the original capital contribution from pre-Merger Qwest. Prior to the termination of the Master Services Agreement, we advanced QDM $3.8 million which was the amount owed to us under the agreement for accrued telecommunications services. QDM used that advance to pay us the amount owed, including interest on amounts past due. Concurrent with termination of the Master Services Agreement, QDM repaid us the $3.8 million advance under the Master Services Agreement with interest.

In January 2002, we and ADMI each loaned QDM approximately $1.3 million. In February 2002, in conjunction with ADMI, we agreed to cease the operations of QDM. This resulted in an impairment charge to our 2002 consolidated statement of operations for the carrying amount of our investment in QDM of $2 million. During the remainder of 2002, we loaned QDM an additional $3.8 million and ADMI loaned QDM $300,000 in connection with the winding down of QDM's business and in response to certain loan requests made in 2001. As of December 31, 2002, the aggregate principal balance and accrued interest outstanding on loans to QDM from us and ADMI was $12.4 million and $4.4 million, respectively.

Marketable securities

We have investments in publicly traded marketable securities and private company equity securities, which are classified as "available-for-sale" under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115"). In accordance with SFAS No. 115, we are required to carry these investments at their fair value. Unrealized gains and losses on these securities are recorded in other comprehensive income (loss), net of related income tax effects, in the consolidated statement of stockholders' (deficit) equity.

In addition, we have investments in certain derivative instruments on marketable securities. As discussed in Note 2—Summary of Significant Accounting Policies, derivative financial instruments are measured at fair value and recognized as either assets or liabilities on our consolidated balance sheets. Changes in the fair values of derivative instruments that do not qualify as hedges and/or any portion of a hedge that is not effective as a hedge, are recognized as a gain or loss in the consolidated statement of operations in the current period. The following table summarizes the information related to our

investments in marketable equity securities and derivatives, for the years ended December 31, 2002, 2001 and 2000:

	Publicly Traded	Private Company	Total
	(Dollars in millions)		
Balance as of December 31, 1999 (unaudited)	$ 1,199	$ 26	$ 1,225
Pre-Merger Qwest investments acquired	345	127	472
Additions	46	16	62
Dispositions	(450)	(15)	(465)
Unrealized mark-to-market gains	200	—	200
Unrealized mark-to-market losses	(656)	—	(656)
Other-than-temporary declines in value and mark-to-market adjustment of warrants	(597)	(10)	(607)

Balance as of December 31, 2000 (as restated, see

Note 3)	87	144	231
Additions	13	3	16
Dispositions	(21)	(3)	(24)
Unrealized mark-to-market gains	62	—	62
Unrealized mark-to-market losses	(29)	—	(29)
Other-than-temporary declines in value and mark-to-market adjustment of warrants	(69)	(115)	(184)
Balance as of December 31, 2001 (as restated, see Note 3)	43	29	72
Dispositions	(50)	—	(50)
Unrealized mark-to-market gains	41	—	41
Unrealized mark-to-market losses	(5)	—	(5)
Other-than-temporary declines in value and mark-to-market adjustment of warrants	(28)	(7)	(35)
Balance as of December 31, 2002	$ 1	$ 22	$ 23

Publicly traded marketable securities

Global Crossing and related derivatives. U S WEST acquired 37 million shares of Global Crossing common stock in 1999 at a cost of $2.463 billion. During 1999, we sold approximately 24 million shares for $1.140 billion and recognized a loss of $367 million. In connection with that sale we entered into derivative contracts to create equity-return swaps (see discussion of equity-return swaps in the following paragraph). Our objective in entering into these equity-return swaps was to synthetically replace the 24 million shares of Global Crossing stock that we had sold. We recorded a loss of $447 million in the second quarter of 2000 to write the value of our remaining 13 million shares of Global Crossing common stock down to its fair value of $371 million. This was based on our determination that the decline in its fair value was other than temporary. We sold our remaining 13 million shares of Global Crossing stock in the third quarter of 2000 for $421 million in proceeds, recognizing a gain of $50 million.

As noted in the prior paragraph, in December 1999, we entered into equity-return swaps in connection with the sale of approximately 24 million shares of Global Crossing common stock. Under these equity-return swaps we agreed with other parties to exchange payments based on a notional amount at specific intervals over a defined term. In exchange for making payments based upon an interest rate index, we received (rendered) payments based upon increases (decreases) in the market price of Global Crossing common stock. Amounts received on the equity-return swaps were tied to changes in the market price of Global Crossing common shares and the amounts paid were tied to one- and three-month London Interbank Offered Rates ("LIBOR"). Equity collars were also entered into in conjunction with certain of these equity-return swaps to limit the magnitude of any realized gains or losses. During 2001 and 2000, these swaps and collars were carried at fair value with changes in fair value included in other income in our consolidated statements of operations. During 2001 and 2000, we recognized a pre-tax loss of $7 million and $470 million, respectively, as a result of a decline in the market value of the equity-return swaps and collars. The fair value of these swaps and collars was

$90 million and $(56) million at December 31, 2000 and 1999, respectively. These equity-return swaps matured in increments through August 2001.

Investments in other publicly traded securities. As of December 31, 2002 and 2001 our portfolio of publicly traded marketable securities consisted principally of the warrants we held to purchase various public company equity securities, which had a fair value of approximately $1 million and $22 million, respectively. In accordance with SFAS No. 133 and SFAS No. 115, we mark the warrants to market and any changes in the fair value of these warrants are charged to the consolidated statement of operations. We recorded losses of $20 million, $6 million and $29 million, for the years ended December 31, 2002, 2001 and 2000, respectively, related to changes in the fair value of these warrants.

We had no other significant derivative financial instruments as of December 31, 2002 or 2001.

As of December 31, 2000, our portfolio of marketable securities included holdings in Lucent Technologies Inc. and CoSign Communications, Inc. as well as various other publicly traded securities. During 2000, we sold our holdings in Nortel Networks Limited, Covad Communications Group, Inc., Redback Networks Inc., Critical Path, Inc. and USinternetworking, Inc. From the sale of these and other smaller investments we received $488 million in cash proceeds and we realized a gain of $402 million. We also recorded charges related to other-than-temporary declines in value relating to our investments in other publicly traded securities during 2002, 2001 and 2000 totaling $8 million, $63 million and $121 million, respectively. During 2002 and 2001 we sold various holdings in our public and non-public investments for approximately $12 million and $98 million, respectively. We recorded a loss of $37 million in 2002, and a gain of $72 million in 2001 associated with these sales.

Investments in other derivatives. We occasionally enter into derivative financial instruments. The objective of our interest rate risk management program is to manage the level and volatility of our interest expense. We have also employed financial derivatives to hedge foreign currency exposures associated with certain debt.

Prior to 2000, under a cross-currency swap, we agreed with another party to exchange U.S. dollars for foreign currency based on a notional amount, at specified intervals over a defined term. We designed this cross-currency swap as a hedge of our borrowings. This swap was effective during 2001. The cross-currency swap was carried at fair value on the consolidated balance sheet with changes in fair value included in other comprehensive income (loss) in the consolidated statement of stockholders' (deficit) equity. The cross-currency swap was tied to the Swiss Franc and had a fair value of negative $40 million at December 31, 2000. The cross-currency swap expired in November 2001 when the Swiss Franc borrowing matured.

We were exposed to, but did not incur, losses from non-performance by counter-parties on these derivative financial instruments.

Private company equity securities

In addition to our holdings in publicly traded securities, we have investments and warrants to purchase equity securities in various private entities. As of December 31, 2002, 2001 and 2000, the carrying value of our investments and warrants in private entities was $22 million, $29 million and $144 million, respectively. We periodically review the carrying value of each investment to determine if it exceeds the investment's fair value. During 2002, 2001, 2000 we recorded charges to our consolidated statement of operations totaling $2 million, $130 million, and $10 million, respectively, relating to other-than-temporary declines in the fair value of these investments.

Note 11: Borrowings

Current borrowings

As of December 31, 2002, 2001 and 2000, our current borrowings consisted of:

	December 31,		
	2002	2001	2000
		(As restated, see Note 3)	
	(Dollars in millions)		
Commercial paper	$ —	$ 3,165	$ 2,035
Short-term notes	750	124	—
Current portion of credit facility	750	—	—

Current portion of long-term borrowings	1,201	1,358	1,431
Current portion of capital lease obligations	85	160	150
Total current borrowings	$ 2,786	$ 4,807	$ 3,616

Commercial paper

During 2001 and 2000, we utilized various commercial paper programs to finance our short-term operating cash needs. Our commercial paper programs were terminated in February 2002 and therefore we had no commercial paper borrowings outstanding at December 31, 2002. The weighted average interest rates on outstanding commercial paper borrowings at December 31, 2001 and 2000 were 2.98% and 7.33%, respectively.

Short-term notes

In August 2002, Dex, our directory publishing business, borrowed $750 million under a term loan agreement ("Dex Term Loan") due September 2004. Borrowings under the Dex Term Loan were completed in two tranches: Tranche A and Tranche B. As of December 31, 2002, Tranche A borrowings were $213 million and Tranche A bears interest at either (i) an adjusted LIBOR plus 11.50% per annum, as calculated in accordance with the term loan agreement; or (ii) the base rate under the agreement plus 8.75% per annum. The interest rate on Tranche A was 12.90% at December 31, 2002. As of December 31, 2002, the Tranche B borrowings were $537 million and bore a fixed interest rate of 14.00%.

The Dex Term Loan contained various financial covenants for Dex Holdings (parent of Dex) including, but not limited to: (i) a ratio of Dex Holdings' senior debt to Dex Holdings' consolidated earnings before interest, taxes, depreciation and amortization ("Dex Holdings' Consolidated EBITDA") of no greater than 1.75 to 1.0 after the sale of the Dex East business; and (ii) a ratio of Dex Holdings' Consolidated EBITDA to interest coverage of not less than 4.75 to 1.0 after the sale of the Dex East business. This term loan also specified a minimum Dex Holdings' consolidated net worth requirement at least equal to its consolidated net worth as of June 30, 2002, less $150 million. The Dex Term Loan contained certain other covenants including, but not limited to: (i) limitations on incurrence of indebtedness; (ii) limitations on restricted payments; (iii) limitations on transactions with affiliates; (iv) limitations on mergers, consolidations and asset sales; (v) limitations on investments; and (vi) limitations on liens. The Dex Term Loan also contained provisions relating to cross acceleration and cross default of any other debt obligations of Qwest Services Corporation ("QSC") and its subsidiaries in the aggregate in excess of $100 million. As of December 31, 2002, we were in compliance with all the financial and other covenants of the Dex Term Loan.

The Dex Term Loan was secured by a lien on the stock and certain assets of Dex and Dex Holdings and a secondary lien on the stock of our wholly owned subsidiary, Qwest Corporation ("QC").

We classified this term loan as a current liability based upon the requirement to pay this debt in full upon the sale of the Dex West business which closed in September 2003. See Note 8—Assets Held for Sale including Discontinued Operations, for further discussion of the terms of the Dex Sale. On August 12, 2003, the $750 million Dex Term Loan was paid in full. See Note 21—Subsequent Events—Debt-related matters for discussion of this redemption and sale of Dex.

At December 31, 2001, we had short-term notes of $124 million. These notes consisted of a $25 million overnight line of credit (which was paid in full on January 2, 2002) at an interest rate of 2.7%, term loan notes of $75 million maturing on January 31, 2002 at an interest rate of 2.68% (LIBOR plus 0.75%), and a $24 million term loan note maturing on April 30, 2002 at an interest rate of 2.51% (LIBOR plus 0.40%). In March 2002, all of the term loan notes were paid in full.

Long-term borrowings

At December 31, 2002, $1.083 billion of our long-term borrowings were held at Qwest and the remainder was held in four of our wholly owned subsidiaries: QC, QSC, Qwest Communications Corporation ("QCC") and Qwest Capital Funding ("QCF"). See Note 21—Subsequent Events—Debt-related matters, for a description of transactions affecting our long-term borrowings that occurred subsequent to December 31, 2002. As of December 31, 2002, 2001 and 2000, long-term borrowings consisted of the following (for all notes with unamortized discount or premium, the face amount of the notes and the unamortized discount or premium are presented separately):

	December 31,		
	2002	2001	2000
	(Dollars in millions)		
Qwest Corporation:			
Notes with various rates ranging from 4.375% to 9.125% and maturities from 2002 to 2043	$ 6,137	$ 5,817	$ 6,177
Unamortized discount and other	(142)	(122)	(125)
Capital lease obligations and other	21	86	195
Qwest Services Corporation:			
Notes with various rates ranging from 13.00% to 14.00% and maturities from 2007 to 2014	3,298	—	—
Unamortized premium	70	—	—
Credit facility due 2005 with rate of LIBOR + 3.50%	1,250	—	—
Qwest Communications Corporation:			
7.25% Senior Notes due in 2007	350	350	350
Unamortized discount and other	(7)	(13)	(14)
Capital lease obligations and other	30	50	26
Qwest Capital Funding:			
Notes with various rates ranging from 5.875% to 7.900% and maturities from 2002 to 2031	7,665	13,000	6,800
Unamortized discount	(20)	(39)	(17)
Qwest Communications International Inc.:			
7.50% Senior Notes due in 2008	750	750	750
7.25% Senior Notes due in 2008	300	300	300
Unamortized discount and other	(30)	(35)	(40)
Senior Notes with various rates ranging from 8.29% to 10.875% and maturities from 2007 to 2008	33	33	1,016
Notes payable to QDM (Note 10—Investments)	—	—	85
Note payable to ADMI (Note 19—Related Party Transactions)	34	34	34
Other:			
Capital lease obligations	15	19	4
Total long-term borrowings	$ 19,754	$ 20,230	$ 15,541

Our long-term borrowings had the following interest rates and maturities at December 31, 2002:

Interest rates	Maturities 2003	2004	2005	2006	2007	Thereafter	Total
	(Dollars in millions)						
Up to 5%	$ 800	$ —	$ 1,250	$ —	$ —	$ —	$ 2,050
Above 5% to 6%	24	1,087	46	6	78	328	1,569
Above 6% to 7%	43	—	837	—	90	3,400	4,370
Above 7% to 8%	1,062	750	—	881	350	5,633	8,676
Above 8% to 9%	—	—	—	—	—	1,772	1,772
Above 9% to 10%	—	—	—	—	11	—	11
Above 10%	750	—	—	—	547	2,751	4,048
Total	$ 2,679	$ 1,837	$ 2,133	$ 887	$ 1,076	$ 13,884	22,496
Capital leases and other							173
Unamortized discount and other							(129
Less current borrowings							(2,786
Total long-term debt							19,754

QC notes

At December 31, 2002, 2001 and 2000, QC had aggregate principal outstanding of $6.137 billion, $5.817 billion and $6.177 billion, excluding unamortized discounts of $142 million, $122 million and $125 million, respectively, of unsecured notes at interest rates ranging from 4.375% to 9.125% and with maturities from 2002 to 2043. The indentures governing these QC notes contain certain covenants including, but not limited to: (i) a prohibition on certain liens on the assets of QC and (ii) a limitation on mergers or sales of all, or substantially all, of the assets of QC, which limitation requires that a successor assume the obligation with regard to these notes. These indentures do not contain any cross-default provisions. We were in compliance with all of the covenants at December 31, 2002. Included in the amounts listed above are the following issuances:

In March 2002, QC issued $1.5 billion in bonds with a ten-year maturity and an 8.875% interest rate. At December 31, 2002, the interest rate was 9.125%. Once we have registered the notes, the interest rate will return to 8.875%, the original stated rate.

In June 2000, QC issued $1.0 billion in notes with a three-year maturity due 2003 and an interest rate of 7.625%.

QSC notes

At December 31, 2002, QSC had aggregate principal outstanding of $3.298 billion, including 13% Notes due in 2007 ("2007 Notes"), 13.5% Notes due in 2010 ("2010 Notes") and 14% Notes due in 2014 ("2014 Notes") pursuant to an indenture issued on December 26, 2002. The total unamortized premium for these notes was $70 million. We are required to register these notes within the earlier of (a) 180 days after Qwest recommences the filing of its annual and quarterly reports with the Securities and Exchange Commission ("SEC") and (b) December 26, 2003. In the event that we cannot complete the required registration of these notes, there will be additional interest of 0.25% per annum for the first 90-day period immediately following the required registration date, and up to an additional 0.25% or a maximum o 0.50% per annum following the first 90-day period. The 2007 Notes, 2010 Notes, and 2014 Notes are callable on December 15 of 2005, 2006, and 2007 at 106.5%, 106.75%, and 107%, respectively. The QSC notes are secured by a lien on the stock of QSC and QCF and junior liens on certain of the same collateral that secures the QSC Credit Facility (discussed below) and the Dex Term Loan (which, as described in Note 21—Subsequent Events—Debt-related matters, has been repaid in 2003).

The QSC indenture contains certain covenants including, but not limited to: (i) limitations on incurrence of indebtedness; (ii) limitations on restricted payments; (iii) limitations on dividends and other payment restrictions; (iv) limitations on asset sales; (v) limitations on transactions with affiliates; (vi) limitations on liens; and (vii) limitations on business activities. Under the QSC indenture we must repurchase the notes upon certain changes of control. This indenture also contains provisions for cross acceleration relating to any of our other debt obligations and the debt obligations of our restricted subsidiaries in the aggregate in excess of $100 million. We were in compliance with all QSC indenture covenants as of December 31, 2002.

QSC Credit Facility

Until February 2002, we maintained commercial paper programs to finance the short-term operating cash needs of our business. We had a $4.0 billion syndicated credit facility available to support our commercial paper programs. As a result of reduced demand for our commercial paper, in February 2002 we borrowed the full amount under this credit facility and used the proceeds to repay $3.2 billion or all of the commercial paper outstanding and terminated our commercial paper program. The remainder of the proceeds was used to pay maturities and capital lease obligations and to fund operations.

At December 31, 2002, we had $2.0 billion outstanding under the credit facility, which had been reconstituted as a revolving credit facility in August 2002, with QSC as the primary borrower ("QSC Credit Facility"). The QSC Credit Facility matures in May 2005 and bears interest at either (i) adjusted LIBOR plus 3.5% or (ii) base rate plus 2.5%. At December 31, 2002, the QSC Credit Facility bore interest of 5.0%. We classified $750 million of the outstanding borrowings under the QSC Credit Facility at December 31, 2002 as a current liability based upon the requirement that the QSC Credit Facility be reduced by $750 million to a balance of $1.25 billion upon the sale of the Dex West business, which occurred during September 2003. See Note 8—Assets Held for Sale including Discontinued Operations, for further discussion of the terms of the Dex Sale. In addition, we are required, on or before the dates noted in the following, to reduce the aggregate lending commitments under the credit facility by an amount equal to (a) the lesser of $500 million and an amount sufficient to reduce the outstanding lending commitments to $1.5 billion by June 1, 2004 and (b) the lesser of $400 million and an amount sufficient to reduce the outstanding lending commitments to $1.25 billion by December 1, 2004. See Note 21—Subsequent Events—Debt-related matters for information regarding our pay down of a portion of the outstanding balance under the QSC Credit Facility.

The QSC Credit Facility contains financial covenants that (i) require us to maintain a debt-to-Consolidated EBITDA ratio (Consolidated EBITDA as defined in the QSC Credit Facility is a measure of EBITDA that starts with our net income (loss) and adds back taxes, interest and non-cash and non-recurring items) of not more than 6.0-to-1.0 and (ii) require QC and its consolidated subsidiaries to maintain a debt-to-Consolidated EBITDA ratio of not more than 2.5-to-1.0. The QSC Credit Facility contains certain other covenants including, but not limited to: (i) limitations on incurrence of indebtedness; (ii) limitations on restricted payments; (iii) limitations on dividends and other payment restrictions; (iv) limitations on mergers, consolidations and asset sales; (v) limitations on investments; and (vi) limitations on liens. We must pay down the QSC Credit Facility upon certain changes of control. The QSC Credit Facility also contains provisions for cross acceleration and cross default relating to any other of our debt obligations and the debt obligations of our subsidiaries in the aggregate in excess of $100 million. As of December 31, 2002, we were in compliance with all covenants under the QSC Credit Facility. We have obtained a waiver for non-compliance to provide certain annual and quarterly financial information to the lenders. The waiver extended the compliance date to provide annual financial information for 2002 to November 30, 2003 and first and second quarter financial information for 2003 to December 31, 2003.

We pledged the stock of QC and granted secondary liens on the stock of Dex and Dex Holdings and certain assets of Dex as security for this facility.

QCC notes

At December 31, 2002, 2001 and 2000, QCC had aggregate principal outstanding of $350 million, excluding unamortized discount of $7 million, $13 million and $14 million, respectively, of unsecured 7.25% Senior Notes, due 2007. Prior to December 31, 2001 these notes were the obligation of another one of our wholly owned subsidiaries. In connection with the acquisition by QCC of substantially all the assets of that other subsidiary as of December 31, 2001, QCC assumed the obligation with regard to these notes. The indenture governing these notes contains certain covenants including, but not limited to: (i) a prohibition on certain liens on assets of QCC, and (ii) a limitation on mergers or sales of all, or substantially all, of the assets of QCC, which requires that a successor assume the obligation with regard to these notes. This indenture contains provisions relating to acceleration upon an acceleration of any other debt obligations of QCC in the aggregate in excess of $25 million. We were in compliance with all of the covenants as of December 31, 2002.

QCF notes

At December 31, 2002, 2001 and 2000, QCF had aggregate principal outstanding of $7.665 billion, $13.0 billion and $6.8 billion, excluding unamortized discounts of $20 million, $39 million and $17 million, respectively, of unsecured notes at rates ranging from 5.875% to 7.9% and with maturities from 2002 to 2031. The indentures governing these QCF notes contain certain covenants including, but not limited to: (i) a prohibition on certain liens on the assets of QCF, and (ii) a limitation on mergers or sales of all, or substantially all, of the assets of QCF or us, which limitation requires that a successor assume the obligation with regard to these notes. These indentures do not contain any cross-default provisions. We were in compliance with all of the covenants as of December 31, 2002.

On December 26, 2002, we completed an offer to exchange up to $12.9 billion in aggregate principal amount of outstanding unsecured debt securities of QCF for new unsecured debt securities of QSC and Qwest. (Because of the amount tendered no Qwest notes were required to be issued.) We received valid tender offers of approximately $5.2 billion in total principal amount of the QCF notes and issued in exchange $3.298 billion in face value of new debt securities of QSC under the indenture described above. This transaction was accounted for in accordance with the guidance in EITF Issue No. 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments." On December 26, 2002, the present value of the cash flows under the terms of the revised debt instruments were compared to the present value of the remaining cash flows under the original debt instruments. The cash flows for nine of the new debt securities were considered "substantially" different to that of the exchanged debt securities. Accordingly, these debt exchanges were accounted for as debt extinguishments resulting in the recognition of a $1.8 billion gain in other expense (income) in the 2002 consolidated statement of operations. The cash flows for two of the new debt securities were not considered "substantially" different to that of the exchanged debt and therefore no gain was realized upon exchange. For these two debt instruments, the difference between the fair value of the new debt and the carrying amount of the exchanged debt of approximately $70 million is being amortized as a credit to interest expense using the effective interest method over the life of the new debt.

During the first quarter of 2002, we exchanged through private exchange transactions, $97 million in face amount of debt that was issued by QCF. In exchange for the debt, we issued approximately 9.88 million shares of our treasury stock with a fair value of $87 million. The trading prices for our shares at the time the exchange transactions were consummated ranged from $8.29 per share to $9.18 per share. As a result of these transactions, we recorded a $9 million gain in other expense (income) in our consolidated statement of operations.

Included in the amounts in the first paragraph above of this section are the following obligations that were issued pursuant to one of the indentures described above:

In July 2001, QCF issued a total of $3.75 billion in notes that consisted of $1.25 billion in notes due in 2004 with an interest rate of 5.875%, $2.0 billion in notes due in 2009 with an interest rate of 7.0%, and $500 million in notes due in 2021 with an interest rate of 7.625%.

In February 2001, QCF issued a total of $3.25 billion in notes that consisted of $2.25 billion in notes due in 2011 with an interest rate of 7.25% and $1.0 billion in notes due in 2031 with an interest rate of 7.75%.

In August 2000, QCF issued a total of $3.0 billion in notes that consisted of $1.25 billion in notes due in 2006 with an interest rate of 7.75% and $1.75 billion in notes due in 2010 with an interest rate of 7.9%.

Qwest 2008 notes

At December 31, 2002, 2001 and 2000, we had an aggregate amount outstanding of $1.05 billion senior notes due in 2008, excluding unamortized discount of $30 million, $35 million and $40 million, respectively, which pre-Merger Qwest issued in November 1998. These notes consisted of $750 million issued with an interest rate of 7.50% and $300 million issued with an interest rate of 7.25%. As of December 26, 2002, these senior notes have been secured equally and ratably with the QSC notes discussed above by a lien on the stock of QSC and QCF and by junior liens on certain of the same collateral that secures the QSC Credit Facility and Dex Term Loan discussed above. The indentures governing these senior notes contain certain covenants including, but not limited to: (i) limitations on consolidated debt; (ii) limitations on debt and preferred stock of restricted subsidiaries; (iii) limitations on restricted payments; (iv) limitations on dividend and other payment restrictions affecting restricted subsidiaries; (v) limitations on liens; (vi) limitations on issuance of certain guarantees by and debt securities of restricted subsidiaries; (vii) limitations on sale and leaseback transactions; (viii) limitations on asset dispositions; (ix) limitations on issuances and sales of common stock of restricted subsidiaries; (x) transactions with affiliates and related persons; and (xi) limitations on designations of unrestricted subsidiaries. Under these indentures we must repurchase the senior notes upon certain changes of control. These indentures also contain provisions relating to acceleration upon acceleration of any other of our debt obligations and the debt obligations of our restricted subsidiaries in the aggregate in excess of $10 million. We were in compliance with all of the covenants as of December 31, 2002.

Other Qwest notes

At December 31, 2002, 2001 and 2000, we had an aggregate amount of other notes outstanding of $33 million, $33 million and $1.016 billion, respectively, including 8.29% Senior Notes due in 2008, 9.47% Senior Notes due in 2007 and 10.875% Senior Notes due in 2007. In March 2001, we completed a cash tender offer to buy back the outstanding notes. In the tender offer, we purchased $995 million in principal of the outstanding notes. As a result of the repurchase, we incurred $106 million in premium payments and recorded this expense in other expense (income) in our 2001 consolidated statement of operations. The tender offer was undertaken to retire the notes because of their high coupon rates and to reduce interest cost. In connection with this tender offer, the remaining outstanding indentures governing the notes were amended to eliminate restrictive covenants and certain default provisions.

Interest

The following table presents the amount of gross interest expense, capitalized interest and cash paid for interest during 2002, 2001 and 2000:

	Year Ended December 31,		
	2002	2001	2000
	(Dollars in millions)		
Gross interest expense	$ 1,830	$ 1,624	$ 1,148
Capitalized interest	(41)	(187)	(105)
Net interest expense	$ 1,789	$ 1,437	$ 1,043
Cash interest paid	$ 1,822	$ 1,260	$ 892

Credit ratings

Our credit ratings were lowered by Moody's Investor Services ("Moody's"), Standard and Poor's ("S&P") and Fitch Ratings ("Fitch") on multiple occasions during 2002. The table below summarizes our ratings for the years ended

December 31, 2002 and 2001.

	December 31, 2002			December 31, 2001		
	Moody's	S&P	Fitch	Moody's	S&P	Fitch
Corporate rating	NA	B-	NA	NA	BBB+	NA
Qwest Corporation	Ba3	B-	B	A2	BBB+	A
Qwest Services Corporation	NR	CCC+	NR	NA	NA	NA
Qwest Communications Corporation	Caa1	CCC+	CCC+	Baa1	BBB+	BBB+
Qwest Capital Funding, Inc.	Caa2	CCC+	CCC+	Baa1	BBB+	BBB+
Qwest Communications International Inc.	Caa1	CCC+	CCC+	Baa1	BBB+	BBB+

NA = Not applicable

NR = Not rated

The December 31, 2002 ratings are still in effect and represent ratings of long-term debt and loans at each entity.

With respect to Moody's, a Ba rating is judged to have speculative elements, meaning that the future of the issuer cannot be considered to be well assured. Often the protection of interest and principal payments may be very moderate, and thereby not well safeguarded during both good and bad times. Issuers with Caa ratings are in poor standing with Moody's. These issuers may be in default, according to Moody's, or there may be present elements of danger with respect to principal and interest. The "1,2,3" modifiers show relative standing within the major categories, 1 being the highest, or best, modifier in terms of credit quality.

With respect to S&P, any rating below BBB indicates that the security is speculative in nature. A B- rating indicates that the issuer currently has the capacity to meet its financial commitment on the obligation, but adverse business, financial or economic conditions will likely impair the issuers' capacity or willingness to meet its financial commitment on the obligation. A CCC+ indicates that the obligation is currently vulnerable to nonpayment and the issuer is dependent on favorable business, financial and economic conditions in order to meet its financial commitment on the obligation. The plus and minus symbols show relative standing within the major categories.

With respect to Fitch, any rating below BBB is considered speculative in nature. A B rating is considered highly speculative, meaning that significant credit risk is present, but a limited margin of

safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment. A CCC+ rating indicates default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. The plus and minus symbols show relative standing within major categories.

Debt ratings by the various rating agencies reflect each agency's opinion of the ability of the issuer to repay debt obligations as they come due. In general, lower ratings result in higher borrowing costs and/or impaired ability to borrow. A security rating is not a recommendation to buy, sell, or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organization.

Given our current credit ratings, as noted above, our ability to raise additional capital under acceptable terms and conditions may be negatively impacted.

Leased facilities

Prior to 2002, we entered into structured finance transactions under which we agreed to lease from unrelated parties certain real estate properties, including corporate offices, network operations centers and web hosting centers. These are referred to as synthetic lease facilities. These leases had terms of six years and were accounted for as operating leases. Under the terms of these leases, we had the option to purchase the leased properties at any time during the lease term. These synthetic lease facilities had a capacity of approximately $382 million, of which approximately $254 million had been utilized at December 31, 2001. These synthetic lease facilities also had certain financial covenants including $228 million of residual value guarantees and maximum debt to consolidated EBITDA ratios ranging from 3.5-to-1.0 to 3.75-to-1.0 across various facilities. EBITDA is a measure that starts with our net loss and adds back taxes, interest and certain non-cash and non-recurring items. The total debt held by the lessors related to the properties we leased under these synthetic leases was $254 million at December 31, 2001. In March 2002, we paid the full amount necessary to acquire all properties subject to the synthetic lease agreements and terminated these agreements. The purchase price of all such properties was approximately $254 million. Upon the closing of the purchase we assessed the fair value of the buildings based on other comparable market activity and determined that the carrying cost of the buildings exceeded the fair value by $94 million. Consequently, we recorded a charge of $71 million in our 2002 consolidated statement of operations as restructuring and other charges net of a $23 million expected sublease loss recorded in 2001. As a result of the purchase, loan commitments totaling $382 million were terminated and we are no longer liable for residual value guarantees of up to $228 million that were only applicable if the leases expired at the end of their term.

Note 12: Restructuring and Merger-Related Charges

Restructuring and other charges

2002 Activities

During 2002, in response to shortfalls in employee reductions planned as part of the 2001 restructuring plan (as discussed below), and due to continued declines in our revenues and general economic conditions, we identified planned employee reductions in various functional areas and permanently abandoned a number of operating and administrative facilities. As a result, we established a restructuring reserve and recorded a charge to our consolidated statement of operations of $295 million to cover the costs associated with these actions as more fully described below.

An analysis of activity associated with our 2002 restructuring plan for the year ended December 31, 2002 is as follows:

Year ended December 31, 2002

	2002 Provision	2002 Utilization	December 31, 2002 Balance
		(Dollars in millions)	
Severance and employee-related charges	$ 179	$ 123	$ 56
Contractual settlements and legal contingencies	116	8	108
Total	$ 295	$ 131	$ 164

The 2002 activities included charges of $179 million for severance benefits and employee-related matters pursuant to established severance policies associated with a reduction in the number of employees. We identified approximately 4,500 employees from various functional areas to be terminated as part of this reduction. As of December 31, 2002, approximately 3,500 of the planned reductions had been accomplished and $123 million of the restructuring reserve had been used for severance payments and enhanced pension benefits. We expect the remaining employee reductions, severance payments and provision of benefits to be completed by December 31, 2003. These charges were offset in our 2002 consolidated statement of operations by a reversal of $113 million of accruals established in 2001 as part of the restructuring plan as discussed below.

Also as part of the 2002 restructuring, we permanently abandoned 64 leased facilities and recorded a charge of $116 million to restructuring and other charges in our consolidated statement of operations. The abandonment costs include rental payments due over the remaining terms of the leases, net of estimated sublease rentals, and estimated costs to terminate the leases. These charges were offset in our 2002 consolidated statement of operations by a reversal of $18 million of accruals established in 2001 as part of the restructuring plan as discussed below. As of December 31, 2002 we had utilized $8 million of the established reserves primarily for payments of amounts due under the leases. We expect the balance of the reserve to be utilized over the remaining terms of the leases, which are up to five years.

In 2002, we recorded an additional $71 million charge primarily to increase the estimated cost of exiting our web hosting facilities.

2001 Activities

During the fourth quarter of 2001, a plan was approved to further reduce current employee levels, consolidate and sublease facilities and abandon certain capital projects and terminate certain operating leases. As a result, we established a restructuring reserve and took a charge to our consolidated statement of operations of $825 million to cover the costs associated with these actions as more fully described below.

In order to streamline our business and consolidate operations to meet lower customer demand resulting from declining economic conditions, we implemented a plan to reduce employees, consolidate and sublease facilities, abandon certain capital projects, terminate certain operating leases and

recognize associated asset impairments. An analysis of activity associated with our 2001 plan for the years ended December 31, 2002 and 2001 is as follows:

Year ended December 31, 2002

	January 1, 2002 Balance	2002 Provision	2002 Utilization	2002 Reversal	December 31, 2002 Balance
	(Dollars in millions)				
Severance and employee-related charges	$ 301	$ —	$ 172	$ 113	$ 1
Contractual settlements and legal contingencies	118	—	41	18	5
Sublease losses	367	71	152	—	28
Other charges	4	—	—	4	–
Total	$ 790	$ 71	$ 365	$ 135	$ 36

Year ended December 31, 2001

	2001 Provision	2001 Utilization	December 31, 2001 Balance
	(As restated, see Note 3) (Dollars in millions)		
Severance and employee-related charges	$ 332	$ 31	$ 301

Contractual settlements and legal contingencies	120	2	118
Sublease losses and leasehold write-offs	369	2	367
Other charges	4	—	4
Total	$ 825	$ 35	$ 790

In 2001 we identified approximately 10,000 employees from various functional areas, to be terminated as part of an employee reduction and accrued a restructuring reserve of $332 million for severance benefits for those employees. As of December 31, 2002, our restructuring activities under this plan were substantially complete. Approximately 7,000 employees had been terminated and $203 million of the restructuring reserve had been used for severance payments, enhanced pension benefits and other employee-related outlays. As a result of actual terminations falling short of our original plan, we reversed $113 million of the severance reserve established in 2001. This reversal was recorded as a reduction of restructuring and other charges in our 2002 consolidated statement of operations. In 2002, in response to this shortfall in planned employee terminations, we reviewed our manpower complement in other functional areas and identified employees to be terminated as part of another staffing reduction. These planned reductions are discussed above in connection with our 2002 restructuring activities.

Until the fourth quarter of 2001, we occupied certain administrative and network operations buildings under operating leases with varying terms. Due to our staffing reduction and consolidation of our operations, we accrued a restructuring reserve and recorded a charge to our 2001 consolidated statement of operations of $120 million. This restructuring reserve was associated with the expected termination of 40 operating lease agreements across the country. As of December 31, 2002 we had utilized $43 million of the established reserve for payments associated with leases and losses on subleases and contract termination costs related to exiting these buildings. As a result of favorable settlement negotiations on the terminations of a number of our operating leases, we reversed $18 million of this reserve in 2002. The reversal was recorded as a reduction of restructuring and other charges in our 2002 consolidated statement of operations.

In 2001, we operated 16 web hosting centers across the country, all of which were subject to various operating leases. In 2001, we also had several web hosting centers under construction that required additional capital outlays before they would be functional. Additionally, we had certain web hosting facilities under lease where no construction had begun. As a result of the slowing economy and the excess capacity that existed for web hosting we suspended our plans to build web hosting centers where construction had not begun and halted work on those sites that were under construction. We identified ten web hosting centers that would be permanently abandoned. We expected to sublease the majority of the non-operational web hosting centers at rates less than our lease rates for the facilities. As a result, in 2001, we established a restructuring reserve and recorded a charge of $369 million to cover the expected sublease losses. Certain of these leases are for terms of up to 20 years.

As of December 31, 2002, we had utilized $154 million of the established reserve primarily for payments made on the web hosting center leases and contract termination costs.

A number of our web hosting centers were leased from third parties through synthetic lease arrangements as discussed in Note 11—Borrowings. In March 2002, we exercised our option under synthetic lease facilities through which the web hosting centers were financed and purchased the buildings. We paid $254 million to acquire the buildings pursuant to these options. We assessed the fair value of the buildings based on other comparable market activity and determined the guaranteed residual value under the synthetic lease facilities exceeded the fair value by $94 million. Consequently, we recorded a charge of $71 million primarily to increase the estimated costs of exiting these facilities, net of a $23 million expected sublease loss recorded in 2001.

As a result of exiting the leased facilities described above, we also recorded a charge of $4 million in 2002, and a credit of $9 million in 2001, to restructuring and other charges in our consolidated statements of operations related to deferred rent on certain of these facilities.

Merger-related (credits) charges

An analysis of activity associated with our Merger-related accruals for the years ended December 31, 2002, 2001 and 2000 is as follows:

Year ended December 31, 2002

	January 1, 2002 Balance	2002 Provision	2002 Utilization	2002 Reversals	December 31, 2002 Balance
			(Dollars in millions)		
Contractual settlements and legal contingencies	$ 102	$ —	$ 29	$ 53	$ 20
Severance and employee-related charges	9	—	7	—	2
Total Merger-related charges	$ 111	$ —	$ 36	$ 53	$ 22

Year ended December 31, 2001

	January 1, 2001 Balance	2001 Provision	2001 Utilization	2001 Reversals	December 31, 2001 Balance
			(As restated, see Note 3) (Dollars in millions)		
Contractual settlements and legal contingencies	$ 307	$ 265	$ 320	$ 150	$ 102
Severance and employee-related charges	130	176	253	44	9
Other Merger-related charges	17	78	91	4	—
Total Merger-related charges	$ 454	$ 519	$ 664	$ 198	$ 111

Year ended December 31, 2000

	2000 Provision	2000 Utilization	December 31, 2000 Balance
		(As restated, see Note 3) (Dollars in millions)	
Contractual settlements and legal contingencies	$ 679	$ 372	$ 307
Severance and employee-related charges	584	454	130
Other Merger-related charges	218	201	17
Total Merger-related charges	$ 1,481	$ 1,027	$ 454

We considered only those costs that were incremental and directly related to the Merger to be "Merger-related."

In 2000, in connection with the Merger, we established a Merger-related accrual and recorded a charge of $679 million to cover various contractual settlements and legal contingencies. In 2001, in connection with finalizing our purchase accounting, we increased this reserve by $265 million related to these matters and recognized this additional charge. The amounts accrued relate to the cancellation of various commitments no longer deemed necessary as a result of the Merger and the settlement of various claims related to the Merger. In 2001 we reversed $150 million of this accrual and in 2002 we reversed an additional $53 million of the accrual. The reversals resulted from favorable developments in the matters underlying contractual settlements and legal contingencies. The reversals were credited to Merger-related (credits) charges in the consolidated statement of operations for the applicable year.

In connection with the Merger, we reduced employee and contractor levels by over 14,000 people, primarily by eliminating duplicate functions. We initially identified 10,000 employees in the third quarter of 2000. At various times throughout the fourth quarter of 2000 and the first and second quarters of 2001 we identified 4,000 additional employees to arrive at the total reduction of 14,000 people. In 2000, we established a Merger-related accrual of $584 million related to this staffing reduction and in 2001 we increased the reserve by $176 million. All of the identified employees were terminated prior to December 31, 2001. Included in the severance and employee-related accrual in 2000 were $91 million of bonus payments that were subject to the successful completion of the Merger. The remainder of the 2000 accrual for severance and employee-related charges had to do with expected payments to employees expected to leave the Company under planned reductions subsequent to the consummation of the Merger. As of December 31, 2002, $714 million, including the payment of $91 million in bonuses, of the accrual had been used for severance and enhanced pension payments. In 2001, upon completion of our Merger-related plans in this area and having achieved the planned reduction of 14,000 people, we reversed $44 million of the accrual that was no longer necessary.

Other net Merger-related accruals were $218 million for 2000 and $74 million for 2001. These other charges were comprised of professional fees, re-branding costs and other incremental costs directly associated with the Merger.

As of December 31, 2002 total Merger-related accruals of $22 million are included on our consolidated balance sheet. These relate primarily to outstanding legal contingencies. As the matters identified as contract settlement and general legal contingencies are resolved, any amounts due will be paid and charged against our remaining accrual. Any differences between amounts accrued and actual payments made will be reflected in Merger-related (credits) charges in our consolidated statement of operations for the period in which the difference is identified.

Note 13: Other Financial Information

Other liabilities

Accrued expenses and other current liabilities consist of the following:

	December 31,		
	2002	2001	2000
		(As restated, see Note 3)	
	(Dollars in millions)		
Accrued interest	$ 402	$ 480	$ 316
Employee compensation	333	427	461
Accrued property and other taxes	456	467	508
Property, plant and equipment accruals	84	233	392
Accrued facilities costs	199	345	275
Other	534	568	759
Total accrued expenses and other current liabilities	$ 2,008	$ 2,520	$ 2,711

Note 14: Employee Benefits

Pension, post-retirement and other post-employment benefits

We have a noncontributory defined benefit pension plan (the "Pension Plan") for substantially all management and occupational (union) employees. In addition to this qualified Pension Plan we also operate a non-qualified pension plan for certain executives (the "Non-Qualified Pension Plan"). We maintain post-retirement healthcare and life insurance plans that provide medical, dental, vision and life insurance benefits for certain retirees. We also provide post-employment benefits for certain other former employees. As of December 31, 2002, 2001 and 2000, shares of our common stock accounted for less than 0.5% of the assets held in the pension plans and post-retirement healthcare and life trusts.

In conjunction with the Merger, we made the following changes to our employee benefit plans for management employees only. Effective September 7, 2000, employees were not eligible to receive retiree medical and life benefits unless they either had at least 20 years of service by December 31, 2000 or would be service pension eligible by December 31, 2003. The elimination of the retiree medical and life benefits decreased our post-retirement benefits expense for 2000 by approximately $17 million. In addition, the elimination of future benefits was accounted for in our restated consolidated financial statements as a negative plan amendment requiring deferral and amortization of the associated $106 million gain over a period of approximately 7 years. The amortization of the gain further reduced post-retirement benefits expense by $16 million, $16 million and $5 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Management employees who retain the retiree medical and life benefits and retire after September 6, 2000 will begin paying contributions toward retiree medical and life benefits in 2004. The current collective bargaining agreement for our occupational (union) employees provides that those who retire after December 31, 1990 will begin paying contributions toward retiree medical benefits once they exceed our healthcare cost caps, but no sooner than January 2006.

Prior to January 1, 2001, Pension Plan benefits for management employees were based upon their salary and years of service while occupational (union) employees' benefits were generally based upon job classification and years of service.

We also modified the Pension Plan benefits, effective January 1, 2001, for all former U S WEST management employees who did not have 20 years of service by December 31, 2000, or who would not

be service pension eligible by December 31, 2003. For employees who did not meet these criteria, no additional years of service will be credited under the defined lump sum formula for years worked after December 31, 2000. These employees' pension benefits will only be adjusted for changes in the employees' future compensation levels. Future benefits will equal 3% of pay, plus a return as defined in the Pension Plan. The minimum return an employee can earn on their account in a given year is based upon the Treasury Rate and the employee's account balance at the beginning of the year. All management employees, other than those who remain eligible under the previous formulas, will be eligible to participate in the 3%-of-pay plan. The impact of these changes on the pension credit for 2001 was an increase of approximately $10 million.

Effective August 11, 2000, the Pension Plan was amended to provide additional pension benefits to certain plan participants who were involuntarily separated from the Company between August 11, 2000, and June 30, 2001. The Pension Plan was subsequently amended to provide termination benefits through June 30, 2003. The amount of the benefit is based on pay and years of service. For 2002, 2001 and 2000, the amounts of additional termination benefits paid were $226 million, $154 million and $27 million, respectively. In addition, special termination benefits of $3 million, $6 million and $1 million were paid from the Non-Qualified Pension Plan to certain executives during 2002, 2001 and 2000, respectively.

Pension and post-retirement health care and life insurance benefits earned by employees during the year, as well as interest on projected benefit obligations, are accrued currently. Prior service costs and credits resulting from changes in plan benefits are amortized over the average remaining service period of the employees expected to receive benefits. Pension and post-retirement costs are recognized over the period in which the employee renders services and becomes eligible to receive benefits as determined using the projected unit credit method.

Our funding policy is to make contributions with the objective of accumulating sufficient assets to pay all qualified pension benefits when due. No pension funding was required in 2002, 2001 or 2000 and as of December 31, 2002, the fair value of the assets in the qualified Pension Trust exceeded the accumulated benefit obligation of the qualified Pension Plan. In addition, we did not make any contributions to the post-retirement healthcare or life trusts in 2002 or 2001; however, we did contribute $16 million to the post-retirement healthcare trust in 2000.

The components of the net pension credit, non-qualified pension benefit cost and post-retirement benefit cost are as follows:

	Pension Credit Year Ended December 31,			Non-Qualified Pension Benefit Cost Year Ended December 31,			Post-retirement Benefit Cost Year Ended December 31,		
	2002	2001	2000	2002	2001	2000	2002	2001 (As restated, see Note 3)	2000
	(Dollars in millions)								
Service cost	$ 154	$ 187	$ 182	$ 3	$ 2	$ 2	$ 27	$ 29	$ 49
Interest cost	601	686	702	5	5	7	328	307	337
Expected return on plan asset	(925)	(1,101)	(1,068)	—	—	—	(191)	(224)	(271)
Amortization of transition asset	(76)	(79)	(79)	2	2	2	—	—	—
Amortization of prior service cost	—	—	2	—	—	—	(20)	(20)	7
Plan settlement	11	—	—	2	6	7	—	—	—
Special termination benefits	—	—	—	3	6	1	—	—	—
Recognized net actuarial (gain) loss	—	(53)	(58)	2	1	4	(23)	(91)	(107)
Net (credit) cost included in current earnings/loss	$ (235)	$ (360)	$ (319)	$ 17	$ 22	$ 23	$ 121	$ 1	$ 15

The net pension (credit) cost is allocated between cost of sales and selling, general and administrative expense in the consolidated statement of operations.

Following is an analysis of the change in the projected benefit obligation for the pension and non-qualified pension plans, and accumulated post-retirement benefit obligation for the years ended December 31, 2002, 2001 and 2000:

Pension Year Ended December 31,	Non-Qualified Pension Year Ended December 31,	Post-retirement Year Ended December 31,

	2002	2001	2000	2002	2001	2000	2002	2001	2000
	(Dollars in millions)								
Benefit obligation accrued at beginning of year	$ 9,625	$ 9,470	$ 8,877	$ 70	$ 75	$ 89	$ 4,700	$ 4,500	$ 4,344
Service cost	154	187	182	3	2	2	27	29	49
Interest cost	601	686	702	5	5	7	328	307	337
Actuarial loss (gain)	(164)	652	513	3	7	(10)	1,012	136	303
Plan amendments	—	—	—	—	—	—	—	—	(277)
Special termination benefits	226	154	27	3	6	1	—	—	—
Business divestitures	(88)	—	—	—	—	—	(27)	—	—
Benefits paid	(1,613)	(1,524)	(831)	(13)	(25)	(14)	(332)	(272)	(256)
Benefit obligation accrued at end of year	$ 8,741	$ 9,625	$ 9,470	$ 71	$ 70	$ 75	$ 5,708	$ 4,700	$ 4,500

Following is an analysis of the change in the fair value of plan assets for the pension, non-qualified pension, and post-retirement plans for the years ended December 31, 2002, 2001 and 2000:

	Pension Year Ended December 31,			Non-Qualified Pension Year Ended December 31,			Post-retirement Year Ended December 31,		
	2002	2001	2000	2002	2001	2000	2002	2001	2000
								(As restated—see Note 3)	
	(Dollars in millions)								
Fair value of plan assets at beginning of year	$ 11,121	$ 13,594	$ 14,593	$ —	$ —	$ —	$ 2,045	$ 2,407	$ 2,886
Actual loss on plan assets	(1,001)	(851)	(78)	—	—	—	(191)	(148)	(68)
Net employer contributions (withdrawals)	—	—	—	13	25	14	43	(40)	(245)
Section 420 transfer	—	(98)	(90)	—	—	—	—	98	90
Business divestitures	(80)	—	—	—	—	—	—	—	—
Benefits paid	(1,613)	(1,524)	(831)	(13)	(25)	(14)	(332)	(272)	(256)
Fair value of plan assets at year end	$ 8,427	$ 11,121	$ 13,594	$ —	$ —	$ —	$ 1,565	$ 2,045	$ 2,407

In December 2001 and 2000, under provisions of Section 420 of the Internal Revenue Code ("IRC"), $98 million and $90 million, respectively, of pension assets were transferred from the Pension Plan to the post-retirement benefit plan to pay for current year retiree health care benefits. In 2001 and 2000, $33 million and $300 million, respectively, of Life Insurance and Welfare Trust assets were transferred to the Company to pay for employee welfare benefits.

The following table presents the funded status of the pension, non-qualified pension, and post-retirement plans as of December 31, 2002, 2001 and 2000:

	Pension Year Ended December 31,			Non-Qualified Pension Year Ended December 31,			Post-retirement Year Ended December 31,		
	2002	2001	2000	2002	2001	2000	2002	2001	2000
	(Dollars in millions)								
Funded (unfunded) status	$ (314)	$ 1,496	$ 4,124	$ (71)	$ (70)	$ (75)	$ (4,143)	$ (2,655)	$ (2,093)
Unrecognized net actuarial loss (gain)	1,460	(265)	(2,922)	24	25	25	1,257	(133)	(732)
Unamortized prior service cost (benefit)	—	—	—	1	1	1	(118)	(138)	(158)
Unrecognized transition (asset) obligation	(134)	(229)	(308)	9	11	14	—	—	—
Prepaid benefit (accrued cost)	$ 1,012	$ 1,002	$ 894	$ (37)	$ (33)	$ (35)	$ (3,004)	$ (2,926)	$ (2,983)

In computing the pension and post-retirement benefit costs, we must make numerous assumptions about such things as employee mortality and turnover, expected salary and wage increases, discount rate, expected rate of return on plan assets and expected future cost increases. Two of these items generally have the most significant impact on the level of cost: (1) discount rate and (2) expected rate of return on plan assets.

Annually, we set our discount rate primarily based upon the yields on high-quality fixed-income investments available at the measurement date and expected to be available during the period to

maturity of the pension benefits. In making this determination we consider, among other things, the yields on Moody's AA corporate bonds as of year-end.

The expected rate of return on plan assets is the long-term rate of return we expect to earn on the trust's assets. We establish the expected rate of return by reviewing the investment composition of the plan assets, obtaining advice from our actuaries, reviewing historical earnings on the trust assets and evaluating current and expected market conditions.

To compute the expected return on Pension Plan assets, we apply an expected rate of return to the market-related asset value of the Pension Plan assets. The market-related asset value is a computed value that recognizes changes in fair value of plan assets over a period of time, not to exceed five years. This method has the effect of smoothing market volatility that may be experienced from year to year. As a result, our expected return is not significantly impacted by the actual return on Pension Plan assets experienced in any given year.

Changes in any of the assumptions we make in computing the net of the pension credit and post-retirement benefit costs could have an impact on various components that comprise these expenses. If our assumed expected long-term rate of return on plan assets of 9.4% was 100 basis points lower, the impact for 2002, 2001 and 2000 would have been to decrease the pension credit, net of post-retirement expenses, by $106 million, $141 million and $142 million, respectively. In response to current market conditions, effective January 1, 2003, we lowered our assumed expected long-term rate on plan assets to 9.0%. In addition, we decreased the discount rate to 6.75% and the rate of compensation increase remained the same at 4.65%.

The actuarial assumptions used to compute the net pension credit, non-qualified pension benefit cost and post-retirement benefit cost are as follows:

	Pension Credit			Non-Qualified Pension Benefit Cost			Post-retirement Benefit Cost		
	2002	2001	2000	2002	2001	2000	2002	2001	2000
Beginning of the year									
Discount rate	7.25%	7.75%	8.00%	7.25%	7.75%	8.00%	7.25%	7.75%	8.00%
Rate of compensation increase	4.65%	4.65%	4.65%	4.65%	4.65%	4.65%	N/A	N/A	N/A
Expected long-term rate of return on plan assets	9.40%	9.40%	9.40%	—	—	—	9.40%	9.40%	9.40%
End of the year									
Initial healthcare cost trend rate	—	—	—	—	—	—	10.00%	8.25%	7.00%
Ultimate healthcare cost trend rate	—	—	—	—	—	—	5.00%	5.00%	5.00%
Year ultimate trend rate is reached	—	—	—	—	—	—	2013	2007	2011

A change of one percent in the assumed initial healthcare cost trend rate would have had the following effects in 2002:

	One Percent Change	
	Increase	Decrease
	(Dollars in millions)	
Effect on the aggregate of the service and interest cost components of net periodic post-retirement benefit cost (statement of operations)	$ 19	$ (16)
Effect on accumulated post-retirement benefit obligation (balance sheet)	$ 329	$ (285)

On January 5, 2001, we announced an agreement with our major unions, the Communications Workers of America ("CWA") and the International Brotherhood of Electrical Workers ("IBEW"), to extend the existing union contracts for another two years, through August 2003. The extensions include a 3.5% wage increase in 2001, a 5% wage increase in 2002, a 6% pension increase in 2002, and a 10% pension increase in 2003. The appropriate changes were reflected in the pension and post-retirement benefit computations. In August 2003, we reached an agreement with the CWA and IBEW on a new two-year contract expiring on August 13, 2005. The new agreements will not have a material impact on our pension and post-retirement benefit computations.

Other benefit plans

401(k) plan

We currently sponsor a defined contribution benefit plan covering substantially all management and occupational (union) employees. Under this plan, employees may contribute a percentage of their annual compensation to the plan up to certain maximums, as defined by the plan and by the Internal Revenue Service. Currently, we match a percentage of employee contributions in our common stock. As a result of our failure to file various of our Quarterly Reports on Form 10-Q for periods through June 30, 2003 and our failure to file our Annual Report on Form 10-K for the year ended December 31, 2002, we suspended the investment of employee contributions in our common stock. As of

December 31, 2002 the assets of the plan included approximately 84 million shares of our common stock as a result of the combination of our employer match and participant directed contributions. We made cash contributions in connection with our 401(k) plans of $8 million, $83 million and $116 million for 2002, 2001 and 2000, respectively. In addition, we made contributions of our common stock of $77 million and $17 million in 2002 and 2001, respectively. We did not make any contributions of our common stock in 2000. During 2001 and 2000 we also managed the pre-Merger Qwest 401(k) Savings Plan. The net assets of this plan, in the amount of $121 million, were merged into our plan effective midnight December 30, 2001.

Deferred compensation plans

We sponsor several deferred compensation plans for a select group of our current and former management and highly compensated employees, certain of which are open to new participants. Participants in these plans may, at their discretion, invest their deferred compensation in various investment choices including our common stock.

Our deferred compensation obligation is included in our consolidated balance sheet in other long-term liabilities. Shares of our common stock owned inside the plans are treated as treasury stock and are included at cost in the consolidated balance sheet in treasury stock. Investment earnings, administrative expenses, changes in investment values and increases or decreases in the deferred compensation liability resulting from changes in the investment values are recorded in our consolidated statement of operations. The deferred compensation liability as of December 31, 2002, 2001 and 2000 was $36 million, $62 million and $63 million, respectively. The value of the deferred compensation plans' assets were $41 million, $33 million and $54 million at December 31, 2002, 2001 and 2000, respectively, and are included in other long-term assets in the consolidated balance sheets.

Deferred compensation plan for non-employee directors

We sponsor a deferred directors' fees plan for members of our current and former Board of Directors. Under this plan, directors may, at their discretion, elect to defer all or any portion of the directors' fees for the upcoming year for services they perform as a director of the Company. In the plan for the members of the current Board of Directors, we match 50% of the fees that are contributed to the plan. Participants in the plan are fully vested in both their deferred fees and the matching contribution. Participants can suspend or change the amount of deferred fees at their discretion.

Quarterly, we credit the director's account with "phantom units," which are held in a notational account. Each phantom unit represents a value equivalent to one share of our common stock and is subject to adjustment for cash dividends payable to our stockholders as well as stock dividends and splits, consolidations and the like that affect shares of our common stock outstanding. The account is ultimately distributed at the time elected by the director or at the end of the plan and is paid, at the director's election, either in: (1) a lump-sum payment; (2) annual cash installments over periods up to 10 years; or (3) some other form selected by our Executive Vice President—Human Resources (or his or her designee).

Investment earnings, administrative expenses, changes in investment values and increases or decreases in the deferred compensation liability resulting from changes in the value of our common stock are recorded in our consolidated statement of operations. The deferred compensation liability as of December 31, 2002, 2001 and 2000 for the plan was not significant nor was the expense associated with this plan significant in these years. However, depending on the extent of appreciation in the value of our common stock, expenses incurred under this plan could become significant in subsequent years.

Note 15: Stock Incentive Plans

Stock options

Prior to the Merger, U S WEST adopted stock plans under which it could grant awards in the form of stock options, stock appreciation rights, restricted stock and phantom units, as well as substitute stock options and restricted stock awards. In connection with the Merger, all U S WEST options outstanding prior to the Merger announcement became fully vested. Options granted after that date and prior to June 30, 2000 continue to vest according to the vesting requirements in the plan.

On June 23, 1997, pre-Merger Qwest adopted the Equity Incentive Plan, which was most recently amended and restated on October 4, 2000. This plan permits the grant of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, stock units and other stock grants. The maximum number of shares of our common stock that may be issued under the Equity Incentive Plan at any time pursuant to awards is equal to 10% of the aggregate number of our common shares issued and outstanding. Issued and outstanding shares are determined as of the close of trading on the New York Stock Exchange on the preceding trading day. As of December 31, 2002, the maximum number of options available for grant under the Equity Incentive Plan was 170 million, with 112 million options outstanding and 58 million options available for grant.

As a result of our failure to file with the SEC various of our Quarterly Reports on Form 10-Q for periods through June 30, 2003 and our failure to file our Annual Report on Form 10-K for the year ended December 31, 2002, we have suspended the ability of option holders to exercise their vested options.

The sub-committee of the Compensation and Human Resources Committee of our Board of Directors, or its delegate, approves the exercise price for each option. Stock options generally have an exercise price that is at least equal to the fair market value of the common stock on the date the stock option is granted, subject to certain restrictions. Stock option awards generally vest in equal increments over the vesting period of the granted option (generally three to five years). Unless otherwise provided by the Compensation and Human Resources Committee, our Equity Incentive Plan provides that, on a "change in control," all awards granted under the Equity Incentive Plan will vest immediately. Options granted under the plan before June 1, 1998 were subject to a different definition of change in control that was triggered by the Merger. Options that we granted to our employees from June 1999 to September 2002 typically provide for accelerated vesting if the optionee is terminated without cause following a change in control. Since September 2002, options that we grant to our executive officers (vice president level and above) typically provide for accelerated vesting and an extended exercise period upon a change of control, and options that we grant to all other employees typically provide for accelerated vesting if the optionee is terminated without cause following a change in control. Options granted in 2002, 2001 and 2000 have ten-year terms.

On October 31, 2001, we announced a voluntary stock option exchange offer. Under the terms of the offer and subject to certain restrictions, our employees could exchange all or a portion of their stock options that had an exercise price of $35 or more. The offer was available only to our full-time, non-union employees (excluding 15 senior executives), for options granted by us or U S WEST. Options surrendered by employees were cancelled on November 30, 2001 and new options were issued on June 3, 2002 on a share-for-share basis. On June 3, 2002, 9,655 employees received 26 million stock

options in the exchange. The exercise price on the new options is $5.10, the closing market price on the day the new options were granted. The new options vest ratably over a four-year period commencing on June 3, 2002.

Our stock incentive plans are accounted for using the intrinsic-value method under which no compensation expense is recognized for options granted to employees with a strike price that equals or exceeds the value of the underlying security on the measurement date. In certain instances, the strike price has been established prior to the measurement date, in which event any excess of the stock price on the measurement date over the exercise price is recorded as deferred compensation and amortized over the service period during which the stock option award vests, in accordance with FIN No. 28. We recorded stock-based compensation expense of $5 million, $28 million and $109 million in the years ended December 31, 2002, 2001 and 2000, respectively.

Summarized below is the activity of the U S WEST plan prior to the Merger, the pre-Merger Qwest plan prior to the Merger and our combined plan subsequent to the Merger:

	U S WEST Plan		Qwest Equity Incentive Plan	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price

	(in thousands)		(in thousands)	
Outstanding December 31, 1999 (unaudited)	52,024	$ 26.56	69,565	$ 21.52
Granted	13,198	41.20	20,487	45.99
Exercised	(6,729)	21.20	(4,623)	13.37
Canceled or expired	(6,932)	36.18	(4,774)	29.08
U S WEST options converted upon Merger	51,561	$ 29.71	51,561	29.71
Outstanding June 30, 2000			132,216	28.52
Granted			23,971	44.97
Exercised			(16,377)	17.09
Canceled or expired			(6,200)	38.28
Outstanding December 31, 2000			133,610	32.32
Granted			33,015	24.21
Exercised			(12,280)	20.62
Tendered for cancellation			(29,129)	43.45
Canceled or expired			(19,722)	37.92
Outstanding December 31, 2001			105,494	27.01
Granted			49,701	4.66
Exercised			(34)	5.90
Canceled or expired			(42,841)	19.97
Outstanding December 31, 2002			112,320	$ 19.81

Options to purchase 49.3 million, 45.4 million and 49.7 million shares of Qwest common stock at weighted average exercise prices of $28.62, $28.40 and $25.32 were exercisable at December 31, 2002, 2001 and 2000, respectively.

The outstanding options at December 31, 2002 have the following characteristics (shares in thousands):

	Outstanding Options			Exercisable Options	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.01 - $5.10	35,813	9.35	$ 4.49	153	$ 4.18
$5.11 - $20.00	24,641	5.07	13.83	13,205	16.32
$20.01 - $35.00	34,212	4.65	29.16	22,870	29.09
$35.01 - $39.00	5,190	5.67	36.66	3,848	36.46
$39.01 - $49.00	12,000	5.33	42.67	8,994	41.92
$49.01 - $60.00	464	5.97	50.85	266	50.72
Total	112,320	6.37	$ 19.81	49,336	$ 28.63

As required by SFAS No. 123 and SFAS No. 148, we have disclosed in Note 2—Summary of Significant Accounting Policies the pro forma amounts as if the fair value method of accounting had been used. These pro forma amounts may not be representative of the effects on reported net income or loss in future years because, the number of future shares to be issued under these plans is not known and the assumptions used to determine the fair value can vary significantly.

Following are the weighted average assumptions used with the Black-Scholes option-pricing model to estimate the fair value of options granted in 2002, 2001 and 2000:

	Year Ended December 31,		
	2002	2001	2000
Risk-free interest rate	4.1%	4.1%	5.9%
Expected dividend yield	0.0%	0.2%	1.4%
Expected option life (years)	4.4	4.4	5.3
Expected stock price volatility	57.6%	41.4%	29.5%
Weighted average grant date fair value	$ 2.25	$ 9.40	$ 14.60

Two of the more significant assumptions used in this estimate are the expected option life and the expected volatility, both of which we estimated based on historical information.

Restricted stock

In 2002, 2001 and 2000, we granted 400,000, 650,000 and 441,247 shares of restricted stock under the Equity Incentive Plan and various U S WEST plans in 2000, with weighted-average grant date fair values of $6.85, $16.81 and $46.66 per share, respectively. Restricted stock awards granted in 2002 and 2001 generally vest ratably over four years. Restricted stock awards granted in 2000 generally vest immediately. Compensation expense of $13 million, $6 million and $17 million was recognized for restricted stock grants in 2002, 2001 and 2000, respectively.

Growth share plan

Pre-Merger Qwest had a Growth Share Plan for certain of its employees and directors. A "Growth Share" was a unit of value based on the increase in value of our common stock over a specified measurement period. Upon vesting, settlement of each Growth Share was made in our common stock. All Growth Share grants were made based on a beginning value of our common stock that was greater than or equal to the fair value of our common stock at the grant date.

The following table summarizes activity related to the shares of our common stock allocated for the settlement of outstanding Growth Shares:

	Number of Shares
December 31, 1999 outstanding balance	522,438
2000 settlements pre-Merger	(25,360)
2000 settlements post-Merger	(140,355)
December 31, 2000 outstanding balance	356,723
2001 settlements	(356,723)
December 31, 2001 outstanding balance	—

Due to the change in control as a result of the Merger, all Growth Shares were vested at June 30, 2000 and approximately $29 million was included in other long-term liabilities in our consolidated balance sheet related to outstanding obligations to issue our common stock for Growth Shares. In the first quarter of 2001, we issued approximately 357,000 shares of our common stock in settlement of all remaining vested Growth Shares.

Employee stock purchase plan

In October 1998, pre-Merger Qwest instituted an Employee Stock Purchase Plan ("ESPP"). Under the ESPP, we are authorized to issue approximately 7.0 million shares of our common stock to eligible employees. Under the terms of the ESPP, eligible employees may authorize payroll deductions of up to 15% of their base compensation, as defined, to purchase our common stock at a price of 85% of the fair market value of the our common stock on the last trading day of the month in which our common stock is purchased. Shares purchased prior to the Merger were 249,234 in 2000. Shares purchased subsequent to the Merger were 3,680,443, 1,761,470 and 349,868 for the years ended December 31, 2002, 2001 and 2000, respectively. As a result of our failure to file with the SEC various of our Quarterly Reports on Form 10-Q for periods through June 30, 2003 and our failure to file our Annual Report on Form 10-K for the year ended December 31, 2002, we have suspended the ESPP.

Note 16: Stockholders' Equity

Common stock ($0.01 par value)

In connection with the Merger, common stock shares outstanding have been adjusted to reflect the conversion rate of 1.72932 Qwest shares for every U S WEST share.

Preferred stock

Under our charter, our Board of Directors has the authority, without stockholder approval, to (1) create one or more classes or series within a class of preferred stock, (2) issue shares of preferred stock in such class or series up to the maximum number of shares of the relevant class or series of preferred stock authorized, and (3) determine the preferences, rights, privileges and restrictions of any such class or series, including the dividend rights, voting rights, the rights and terms of redemption, the rights and terms of conversion, liquidation preferences, the number of shares constituting any such class or series and the designation of such class or series. One of the effects of authorized but unissued and unreserved shares of capital stock may be to render more difficult or discourage an attempt by a potential acquirer to obtain control of us by means of a merger, tender offer, proxy contest or otherwise, and thereby protect the continuity of our management. The issuance of such shares of capital stock may have the effect of delaying, deferring or preventing a change in control of us without any further action by our stockholders. We have no present intention to adopt a stockholder rights plan, but could do so without stockholder approval at any future time.

As of December 31, 2002, 2001 and 2000, there were no shares of preferred stock issued or outstanding.

Treasury stock

In January 2001, we repurchased 22.22 million shares of our common stock at fair value from BellSouth Corporation ("BellSouth") for $1.0 billion in cash. As part of this transaction, we entered into an agreement with BellSouth in January 2001 under which BellSouth agreed to purchase services valued at $250 million from us over a five-year period (the "2001 Agreement"). The 2001 Agreement included provisions that allowed for termination of the arrangement prior to satisfaction of the entire purchase committment. The 2001 Agreement also provided that BellSouth could make payments for the services in our common stock based upon values as specified in the 2001 Agreement. This provision in the 2001 Agreement represented a written put option. For accounting purposes the written put option vests as services are provided by us pursuant to the 2001 Agreement. Based on services performed, the value of put options vested in 2001 was $38 million, which was recorded in our consolidated statement of operations as a reduction in revenue and an increase in additional paid-in capital in our statement of stockholders' (deficit) equity.

During 2001, BellSouth acquired services valued at approximately $92 million related to the 2001 Agreement. We recognized net revenue for such services of approximately $54 million. BellSouth paid for these services by remitting cash throughout the year of $18 million and, on December 10, 2001, tendering 1.2 million shares of our common stock. The fair value of the tendered shares at December 10, 2001 of $15 million was recorded in treasury stock. The $43 million difference between (i) the fair value of the shares at December 10, 2001 and (ii) the value of $58 million assigned to the shares under the 2001 Agreement was recorded as a reduction to additional paid-in capital. The unpaid balance of $16 million was recorded in accounts receivable. At December 31, 2001, we reclassified $16 million from stockholders' equity to share repurchase commitment, a temporary equity classification in our consolidated balance sheet, to reflect the value of receivables that could be satisfied by BellSouth delivering shares of our common stock.

During the first quarter of 2002, we received approximately 278,000 shares of our common stock valued at $13 million from BellSouth in partial satisfaction of the $16 million accounts receivable outstanding at December 31, 2001. In addition, in accordance with the 2001 Agreement, we used $12 million of the $18 million in cash received from certain BellSouth affiliates to purchase approximately 253,000 shares of our common stock. The fair value of the stock tendered in the first quarter of 2002 of $5 million was recorded in treasury stock. The $20 million difference between (i) the fair value of the shares and (ii) the value assigned to the shares in the 2001 Agreement of $25 million was recorded as a reduction to additional paid-in capital.

The 2001 Agreement was cancelled as of January 16, 2002. At that time, we entered into a second agreement with BellSouth under which BellSouth committed to purchase from us $350 million in services payable in cash over a four-year period. In consideration for terminating the 2001 Agreement, we gave BellSouth a non-cash credit of $71 million that we have included in our consolidated balance sheet as a deferred sales discount. The deferred sales discount will reduce revenue from BellSouth proportionately as we provide services under the new agreement. During 2002, we reduced our revenue by $17 million related to the amortization of the deferred sales discount.

During the first quarter of 2002, we issued 9.88 million shares of our common stock in exchange for certain outstanding debt. The weighted average cost of treasury shares issued was $42.53 per share. For further information, see Note 11—Borrowings.

Subsequent to December 31, 2002, the remaining treasury shares related to the BellSouth repurchase were issued in connection with certain debt-for-stock exchanges as discussed in Note 21—Subsequent Events.

Deferred compensation

Rabbi trusts established in 2000 for two of our deferred compensation plans held 387,000, 552,000 and 739,000 shares of our common stock with a cost of $18 million, $26 million and $38 million at December 31, 2002, 2001 and 2000, respectively. The shares are accounted for as treasury stock.

Other comprehensive loss

Other comprehensive income (loss) in the consolidated statement of stockholders' (deficit) equity includes the following components:

	Year Ended December 31,		
	2002	2001	2000
		(As restated, see Note 3)	
	(Dollars in millions)		
Unrealized gains (losses) on available-for-sale marketable securities, net of reclassification adjustments	$ 36	$ 33	$ (456)

Foreign currency translation gains (losses)	40	(33)	(7)
Income tax (provision) benefit related to items of other comprehensive income	(30)	—	180
Other comprehensive income (loss)	$ 46	$ —	$ (283)

Embedded in net unrealized gains and losses on available-for-sale marketable securities are reclassification adjustments. Reclassification adjustments are comprised of amounts that have been removed from other comprehensive income (loss) in the consolidated statement of stockholders' (deficit) equity and recognized in income or loss from operations in our consolidated statements of operations during the periods cited below:

	Year Ended December 31,		
	2002	2001	2000
		(As restated, see Note 3)	
	(Dollars in millions)		
Reversal of unrealized net gains (losses) on investments sold during the period	$ 39	$ 19	$ (518)
Other-than-temporary gains (losses) charged to income or loss	—	44	(103)
Reversal of foreign currency translation gain	40	—	—
Income tax benefit (expense) related to items reclassified into income or loss	(31)	(24)	240
Total reclassification adjustments	$ 48	$ 39	$ (381)

Earnings per share

The weighted average number of shares used for computing basic loss per share for the years ended December 31, 2002, 2001 and 2000 was 1.682 billion, 1.661 billion and 1.272 billion, respectively. The effect of approximately 112 million, 105 million and 135 million of outstanding stock options were excluded from the calculation of diluted loss per share because the effect was anti-dilutive.

Dividends

We declared and paid dividends of $0.05 and $0.31 per share of common stock during 2001 and 2000, respectively. We did not declare any dividends during 2002.

Note 17: Income Taxes

The components of the income tax benefit from continuing operations are as follows:

Year Ended December 31,		
2002	2001	2000
	(As restated see Note 3 and Note 4)	

	(Dollars in millions)		
Current tax (benefit) provision:			
Federal	$ (239)	$ (492)	$ (23)
State and Local	6	—	11
	(233)	(492)	(12)
Deferred tax (benefit) provision:			
Federal	(3,301)	(579)	(478)
State and Local	(643)	(186)	(102)
Change in valuation allowance	1,677	—	—
	(2,267)	(765)	(580)
Income tax benefit	$ (2,500)	$ (1,257)	$ (592)

The effective tax rate for our continuing operations differs from the statutory tax rate as follows:

	Year Ended December 31,		
	2002	2001	2000
		(As restated see Note 3 and Note 4)	
	(in percent)		
Federal statutory income tax rate	35.0%	35.0%	35.0%
State income taxes—net of federal effect	2.1	1.6	2.9
Non-deductible KPNQwest investment writedown and losses	(1.5)	(16.6)	(1.6)
Non-deductible goodwill impairment and amortization	(14.8)	(3.8)	(6.4)
Non-deductible Merger-related charges	—	—	(1.0)
Other	(0.1)	0.8	0.2
Change in valuation allowance, State and Federal	(8.3)	—	—
Effective income tax rate	12.4%	17.0%	29.1%

The components of the deferred tax assets and liabilities are as follows:

	December 31,		
	2002	2001	2000
		As restated (see Note 3 and Note 4)	
	(Dollars in millions)		

Net operating loss carryforward	$ 2,028	$ 2,274	$ 882
Post-retirement benefits and pensions	737	636	757
State deferred taxes-net of federal effect	372	358	262
Property, plant and equipment	164	—	—
Revenue recognition	—	—	217
Deferred compensation	—	104	126
Other	496	471	451
	3,797	3,843	2,695
Valuation allowance on deferred tax assets	(1,677)	—	—
Total deferred tax assets	2,120	3,843	2,695
Property, plant and equipment	—	(2,616)	(2,415)
Intangible assets	—	(849)	(484)
State deferred taxes-net of federal effect	(80)	(392)	(342)
Revenue recognition	(241)	(154)	—
Other	(503)	(211)	(282)
Total deferred tax liabilities	(824)	(4,222)	(3,523)
Net deferred tax assets (liabilities)	$ 1,296	$ (379)	$ (828)

We received $272 million and $574 million in net income tax refunds in 2002 and 2001 and made net cash payments of $86 million in 2000.

As of December 31, 2002, we had a net operating loss carryforward of $5.8 billion that will expire between 2003 and 2022. We plan on utilizing approximately $3.3 billion of this carryforward in 2003 to offset the gain on the sale of the Dex West business. Unused net operating losses generated by pre-Merger Qwest are subject to special rules in the Internal Revenue Code. IRC Section 382 limits the amount of income that may be offset each year by unused net operating losses arising prior to a merger. The annual limitations are based upon the value of the acquired company at the time of the Merger times the federal long-term tax-exempt interest rate in effect at that date. Any unused limitation may be carried forward and added to the next year's limitations. We do not expect this limitation to impact Qwest's ability to utilize its net operating losses against future taxable income.

Prior to the purchase of an additional equity interest in KPNQwest in November 2001, our investment in KPNQwest was deemed a foreign corporate joint venture whose basis difference was exempt from the recording of a deferred tax liability. At the end of 2001, the remaining unrecorded deferred tax liability associated with that exempt basis difference was $322 million. In 2002, the remaining book investment in KPNQwest was written off resulting in a $124 million deferred tax asset, which was recorded. We also own a foreign subsidiary with a deductible temporary basis difference for which a $19 million deferred tax asset has not been recorded because the basis difference is essentially permanent in duration and it is not apparent that it will be deducted in the foreseeable future.

In the second quarter of 2002, we recorded a non-cash charge of $1.677 billion, to establish a valuation allowance against the 2002 net federal and state deferred tax assets. The valuation allowance is determined in accordance with the provisions of SFAS No. 109, which requires an assessment of both negative and positive evidence when measuring the need for a valuation allowance. Our losses in recent

years coupled with the asset impairments in 2002 represented sufficient negative evidence to require a valuation allowance under SFAS No. 109. We intend to maintain the valuation allowance until sufficient positive evidence exists to support realization of the federal and state deferred tax assets.

We had unamortized investment tax credits of $104 million, $119 million, and $151 million as of December 31, 2002, 2001 and 2000, respectively, included in other long-term liabilities on our consolidated balance sheets and as discussed in Note 2—Summary of Significant Accounting Policies, these are amortized over the life of the related asset. At the end of 2002 we also have $56 million ($34 million net of federal income tax) of state investment tax credit carryforwards that will expire between 2010 and 2015 if not utilized.

Note 18: Segment Information

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131") establishes standards for reporting information about operating segments in annual financial statements of public business enterprises and requires that those enterprises report selected information about operating segments in interim and annual financial reports issued to shareholders. Operating segments are components of an enterprise that engage in business activities from which revenues may be earned and expenses may be incurred, and for which discrete financial information is available and regularly evaluated by the chief operating decision maker ("CODM") of an enterprise.

In December 2002, our CODM changed the way he views the results of our operations; therefore, we changed our segment reporting effective December 2002 to reflect the manner in which we now manage the business. The CODM of a business represents the highest level of management who is responsible for the overall allocation of resources within the business and assessment of the performance of the business. Our CODM is our Chief Executive Officer. Set forth below is revenue and operating expense information for the years ended December 31, 2002, 2001 and 2000 for three of the four segments utilized at the end of 2002: wireline services, wireless services and other services. Management evaluates the performance of each segment and allocates capital resources based on segment income, which does not include centrally managed costs such as depreciation, amortization, asset impairment charges, restructuring or certain other charges. The fourth segment that we operate is our directory publishing business, which as described in Note 8—Assets Held for Sale including Discontinued Operations, has been classified as discontinued operations and accordingly is not presented in our segment results below.

Prior to December 2002, we managed our operations primarily from the perspective of the customer groups that used our networks such as consumer, business, and wholesale, except for wireless and directory publishing which we managed as separate operating segments based on the similarity of products and services. Our view as of December 2002 allowed us to better align network infrastructure costs with our revenue segments and manage those costs more effectively. Network infrastructure costs include all engineering expense, design, repair and maintenance costs and all third party facilities costs.

Between January 1, 2002 and November 30, 2002, we managed our operations primarily from 10 segments. These segments were global business, national business, consumer, wholesale, directory, wireless, local network, worldwide network, facilities costs and other.

Segment income consists of each segment's revenues and direct expenses. Segment revenues are based on the types of products and services offered as described below. The network infrastructure is designed to be scalable and flexible to handle multiple products and services. As a result, we do not allocate network infrastructure costs to individual products. Direct administrative costs include customer support, collections and marketing. Indirect administrative costs such as finance, information technology, real estate, and legal are included in the other services segment. We manage indirect administrative services cost centrally; consequently, the costs are not allocated to the wireline or

wireless services segments. Similarly, depreciation, amortization, interest expense, interest income and other income (expense) are not allocated to our operating segments.

Our wireline services segment includes revenues from the provision of voice, data and Internet services. Voice services consist of local voice services (such as basic local exchange services), long-distance voice services (such as IntraLATA long-distance services and InterLATA long-distance services) and other voice services (such as operator services, public telephone service, enhanced voice services and customer premises equipment, or CPE). Voice services revenues are also generated on a wholesale basis from switched-access service revenues (which are revenues generated principally from charges to interexchange carriers, or IXCs, for use of our local network to connect their customers to their long distance networks. An IXC is a telecommunications company that provides long-distance services to end-users by handling calls that are made from a phone exchange in one local access transport area, or LATA, to an exchange in another LATA, wholesale long-distance service revenues (included in long-distance services revenues) and wholesale access revenues (included in local voice services revenues). Data and Internet services includes data services (such as traditional private lines, wholesale private lines, frame relay, asynchronous transfer mode, or ATM and related CPE) and Internet services (such as Digital Subscriber Line, or DSL, dedicated Internet access, or DIA, virtual private network, or VPN, Internet dial access, web hosting, professional services and related CPE). Revenues from optical capacity transactions are also included in revenues from data services. Depending on the product or service purchased, a customer may pay an up-front fee, a monthly fee, a usage charge, or a combination of these fees and charges.

Our wireless services are provided through our wholly owned subsidiary, Qwest Wireless LLC, which holds 10 MHz licenses to provide Personal Communications Service, or PCS, in most markets in our local service area. We offer wireless services to residential and business customers, providing them the ability to use the same telephone number for their wireless phone as for their home or business phone.

Our other services segment consists of revenues and expenses from other operating segments and functional departments that do not meet the quantitative threshold requirements of SFAS No. 131. Other services revenue is predominately derived from subleases of some of our unused real estate assets, such as space in our office buildings, warehouses and other properties. Our other services segment expenses include unallocated corporate expenses for functions such as finance, information technology, legal, marketing services and human resources, which we centrally manage.

Information for all periods has been conformed to the 2002 presentation, as described above. Other than as already described herein, the accounting principles used are the same as those used in our consolidated financial statements. The revenues shown below for each segment are derived from transactions with external customers. Internally, we do not separately track the total assets of our

wireline or other segments. As such, total asset information for the three segments shown below is not presented.

	For the Year Ended December 31,		
	2002	2001	2000
		(As restated, see Note 3)	
	(Dollars in millions)		
Operating revenues:			
Wireline services	$ 14,634	$ 15,777	$ 13,675
Wireless services	694	688	422
Other services	57	59	51
Total operating revenues	$ 15,385	$ 16,524	$ 14,148
Operating expenses:			
Wireline services	$ 8,122	$ 9,104	$ 6,395
Wireless services	506	751	527
Other services	2,617	2,291	2,339
Total segment expenses	$ 11,245	$ 12,146	$ 9,261

Segment income (loss):			
Wireline services	$ 6,512	$ 6,673	$ 7,280
Wireless services	188	(63)	(105)
Other services	(2,560)	(2,232)	(2,288)
Total segment income	$ 4,140	$ 4,378	$ 4,887
Capital expenditures:			
Wireline	$ 1,833	$ 7,146	$ 6,037
Wireless	55	310	321
Other	903	967	1,059
Total capital expenditures	2,791	8,423	7,417
Non-cash investing activities	(27)	(381)	(282)
Total cash capital expenditures	$ 2,764	$ 8,042	$ 7,135

The following table reconciles segment operating income to net loss for each of the years ended December 31, 2002, 2001 and 2000:

	For the Year Ended December 31,		
	2002	2001	2000
		(As restated, see Note 3)	
	(Dollars in millions)		
Segment income	$ 4,140	$ 4,378	$ 4,887
Depreciation	(3,268)	(3,704)	(2,555)
Goodwill and other intangible assets amortization	(579)	(1,660)	(785)
Goodwill impairment charge	(8,483)	—	—
Asset impairment charges	(10,525)	(251)	(340)
Restructuring and other charges	(235)	(816)	—
Merger-related (charges) credits	53	(321)	(1,481)
Total other expense- net	(1,228)	(5,021)	(1,760)
Income tax benefit	2,500	1,257	592
Income and gain from sale of discontinued operations	1,957	511	446
Cumulative effect of accounting change	(22,800)	24	(41)
Net loss	$ (38,468)	$ (5,603)	$ (1,037)

Set forth below is revenue information for the years ended December 31, 2002, 2001 and 2000 for revenues derived from external customers for our products and services.

For the Year Ended December 31,

	2002	2001	2000
		(As restated, see Note 3)	
		(Dollars in millions)	
Operating revenues:			
Wireline voice services	$ 10,815	$ 11,876	$ 10,955
Wireline data and Internet services and other	3,819	3,901	2,720
Wireless services	694	688	422
Other services	57	59	51
Total operating revenues	$ 15,385	$ 16,524	$ 14,148

We provide a variety of telecommunications services on a national and international basis to global and national businesses, small businesses, governmental agencies and residential customers. It is impractical for us to provide revenue information about geographic areas.

We do not have any single major customer that provides more than ten percent of the total of our revenues derived from external customers.

Note 19: Related Party Transactions

As discussed in Note 10—Investments, pre-Merger Qwest and ADMI, a subsidiary of Anschutz Company, formed QDM in October 1999. At inception, pre-Merger Qwest and ADMI each owned 50% equity and voting interest in QDM. In June 2000, pre-Merger Qwest acquired an additional 25% interest in QDM directly from ADMI. Following this transaction, pre-Merger Qwest owned a 75% economic interest and 50% voting interest in QDM, and ADMI owned the remaining 25% economic interest and 50% voting interest.

In January 2002, we and ADMI each loaned QDM approximately $1.3 million. In February 2002, in conjunction with ADMI, we agreed to cease the operations of QDM. This resulted in an impairment charge in our 2002 consolidated statement of operations for the carrying amount of our investment in QDM of $2 million. During the remainder of 2002, we loaned QDM an additional $3.8 million and ADMI loaned QDM $300,000. As of December 31, 2002, the aggregate principal and accrued interest outstanding on loans to QDM from us and ADMI was $12.4 million and $4.4 million, respectively.

As discussed in Note 10—Investments, we entered into a long term Master Services Agreement with QDM under which QDM agreed to purchase telecommunications services from us. QDM made purchases of $0.7 million, $3.3 million and $1.4 million during 2002, 2001 and 2000, respectively.

In October 1999, pre-Merger Qwest agreed to purchase certain telephony-related assets and all of the stock of Precision Systems, Inc., a telecommunications solutions provider, from ADMI in exchange for a promissory note in the amount of $34 million. The note bears interest at 6% annually with semi-annual interest payments and annual principal payments due through 2008. During 2002, 2001 and 2000, respectively, we paid $0, $2.0 million, and $2.1 million in interest, and $0, $340,000, and $0 in principal, on the note. At December 31, 2002, the outstanding accrued interest on the note was $2.4 million and the outstanding principal balance on the note was $33.7 million.

As discussed in Note 10—Investments, pre-Merger Qwest and KPN formed KPNQwest in April 1999. In November 2001, we purchased approximately 14 million additional shares and Anschutz Company purchased approximately six million shares of KPNQwest common stock from KPN for $4.58 per share. Anschutz Company's stock purchase was at our request and with the approval of the disinterested members of our Board of Directors. After giving effect to this transaction, we held approximately 47.5% of KPNQwest's outstanding shares.

During 2002, 2001 and 2000, we entered into several transactions with KPNQwest for the purchase and sale of optical capacity assets and the provisioning of services, including but not limited to private line, web hosting, IP transit and DIA. We made purchases of these assets and services from KPNQwest totaling $169 million, $218 million and $70 million in 2002, 2001 and 2000, respectively. We recognized revenue on products and services sold to KPNQwest in the amount of $12 million, $18 million and $26 million in 2002, 2001 and 2000, respectively. At December 31, 2002, 2001 and 2000, Qwest had a receivable from KPNQwest for these products and services of $5 million, $12 million and $3 million, respectively. Due to KPNQwest's bankruptcy, the full amount of the balance outstanding as of December 31, 2002 is provided for in our allowance for doubtful accounts. Pricing for these services was based on what we believed to be the fair market value at the time the transactions were consummated. Some of KPNQwest's sales to us were in accordance with the distribution agreement with KPNQwest, whereby we were, in certain circumstances, the exclusive distributor of certain of KPNQwest's services in North America. As of December 31, 2001, we had a remaining commitment to purchase up to 81 million Euros (or $72 million based on a conversion rate at December 31, 2001) worth of network capacity through 2002 from KPNQwest. In connection with KPNQwest's bankruptcy, as discussed in Note 10—Investments, the purchase commitment terminated during June 2002.

In March 2002, KPNQwest acquired certain assets of Global TeleSystems Europe B.V. ("GTS") for convertible notes of KPNQwest with a face amount of 211 million Euros ($186 million based on a conversion rate at March 18, 2002), among other consideration, under an agreement entered into in October 2001. As disclosed to our Board of Directors, a subsidiary of Anschutz Company had become a creditor of GTS in 2001. We understand that in 2002 and 2001, as part of a group of GTS bondholders, an Anschutz Company subsidiary also provided interim financing to GTS. In connection with the consummation of KPNQwest's acquisition of the GTS assets, the Anschutz Company subsidiary received a distribution of notes with a face amount of approximately 37 million Euros ($33 million based on a conversion rate at March 18, 2002). We understand that the allocation of notes to the Anschutz Company subsidiary was determined by a creditor committee for GTS which did not include any representatives of Anschutz Company, and neither the KPNQwest notes nor the shares referenced above, both of which are still held by Anschutz Company, have any current value.

In 2000, Qwest decided to sell an aircraft and purchase a different aircraft. Qwest decided to do so in the form of a "like-kind exchange" transaction under Section 1031 of the Internal Revenue Code, as amended. A like-kind exchange transaction is one in which a company sells an asset and purchases a similar, or like-kind, asset. In order to qualify as a like-kind exchange, the sale of the old asset and the purchase of the new asset must take place within six months of each other. In November 2000, Qwest engaged a third party to facilitate the aircraft exchange, and in December 2000, transferred its aircraft to this party and acquired from the same party another aircraft, which it had acquired on Qwest's behalf. Qwest also began marketing the aircraft it intended to sell through an aircraft broker. At the end of March 2001, Qwest received an offer from an independent third party to purchase the aircraft for $7.65 million. However, the sale was not completed because the third party failed to consummate the purchase. In early May 2001, after Qwest had not found another party to acquire the aircraft it intended to sell, and as the six-month period to complete the like-kind exchange was nearing an end, a subsidiary of Anschutz Company agreed to purchase the aircraft for $7.6 million, which resulted in significant tax deferrals and savings for Qwest. This transaction was approved by the disinterested members of our board of directors.

We loaned Afshin Mohebbi, one of our former officers, $600,000 under a promissory note dated May 18, 1999. The loan was unsecured and did not bear interest. The promissory note provided that the principal amount was to be forgiven in 36 equal monthly increments beginning July 1, 1999 and ending on June 1, 2002. Effective April 1, 2002, we loaned Mr. Mohebbi an additional $4 million,

which bears interest at the rate of 5.54%, compounded semi-annually. Mr. Mohebbi has agreed to use a portion of the loan to pay the premium on a life insurance policy covering his life. The outstanding principal balance of the loan, together with any accrued and unpaid interest thereon, will be due and payable within 90 days following Mr. Mohebbi's death or earlier upon the occurrence of any transfer or surrender of the life insurance policy, any borrowing against or withdrawals of cash from the policy, any pledge of or encumbrance on the policy, or any reduction in the face amount of the policy that results in a distribution of cash value. Mr. Mohebbi is the owner of the life insurance policy.

Note 20: Commitments and Contingencies

Commitments

Future contractual obligations

The following table summarizes our future contractual cash obligations, including interest due, as of December 31, 2002:

	Payments Due by Period						
	Total	1 Year	Year 2	Year 3	Year 4	Year 5	After 5 Years
	(Dollars in millions)						
Future Contractual Cash Obligations							
Long-term debt (Note 11—Borrowings)	$ 22,496	$ 2,679	$ 1,837	$ 2,133	$ 887	$ 1,076	$ 13,884
Capital lease obligations	176	97	30	12	4	4	29
Operating leases	3,278	304	296	284	251	236	1,907
Purchase commitment obligations:							
Telecommunications commitments	2,735	1,085	840	513	274	4	19
IRU operating and maintenance obligations	1,200	62	59	59	58	57	905
Advertising and promotion	575	168	70	63	32	24	218
Total future contractual cash obligations	$ 30,460	$ 4,395	$ 3,132	$ 3,064	$ 1,506	$ 1,401	$ 16,962

Capital leases

We lease certain office facilities and equipment under various capital lease arrangements. Assets acquired through capital leases during 2002, 2001 and 2000 were $36 million, $1.215 billion and $629 million, respectively. Assets recorded under capitalized lease agreements included in property, plant and equipment consisted of $391 million, $2.011 billion and $965 million of cost less accumulated amortization of $191 million, $362 million and $246 million at December 31, 2002, 2001 and 2000, respectively.

The future minimum payments under capital leases as of December 31, 2002 are reconciled to our balance sheet as follows:

	(Dollars in millions)
Total minimum payments	$ 176
Less: amount representing interest	(25)
Present value of minimum payments	151
Less: current portion	(85)
Long-term portion	$ 66

Operating leases

Certain office facilities, real estate and equipment are subject to operating leases. We also have easement (or right-of-way) agreements with railroads and public transportation authorities that are accounted for as operating leases. Rent expense, net of sublease rentals, under these operating leases was $504 million, $696 million and $528 million during 2002, 2001 and 2000, respectively. Minimum operating lease payments have not been reduced by minimum sublease rentals of $164 million due in the future under non-cancelable subleases. In 2002, 2001 and 2000, contingent rentals representing the difference between the fixed and variable rental payments were not material.

Purchase commitment obligations

We have purchase commitments with CLECs, IXCs and third-party vendors that require us to make payments to purchase network services, capacity and telecommunications equipment primarily through December 31, 2006. These commitments require us to maintain minimum monthly and/or annual billings, in certain cases based on usage. We believe we will meet substantially all minimum payment commitments. In the unlikely event that the requirements are not met, we will record the appropriate charges. Also included in the telecommunications commitments are purchase commitments that we entered into with certain telecommunications services companies, including KMC and Calpoint, in connection with sales of equipment to those entities at the time we entered into facilities management service agreements with them.

In connection with the KMC and Calpoint arrangements, we also agreed to pay the monthly service fees directly to trustees that serve as paying agents on debt instruments issued by special purpose entities sponsored by KMC and Calpoint. These unconditional purchase obligations require us to pay at least 75% of the monthly service fees for the entire term of the agreements, regardless of whether KMC or Calpoint provide us services. Our remaining unconditional purchase obligations under these agreements were $1.04 billion at December 31, 2002.

As part of our internal analysis we have identified additional telecommunications commitments that were not included in the quantification of our telecommunications commitments previously reported by us. Also, we determined that the amounts previously reported for KMC and Calpoint included the unconditional purchase obligation but did not include the additional minimum 25% monthly commitment beyond that. Costs for these additional monthly commitments were appropriately included as cost of goods sold in our consolidated statements of operations or capital expenditures in our consolidated statements of cash flows.

A portion of our fiber optic broadband network includes facilities that were purchased or are leased from third parties. These agreements are generally 20 to 25 years in length and generally include the requirement for us to pay operating and maintenance fees to a third party for the term of the agreement.

Concurrent with the closing of the sale of the Dex East business, we also entered into an advertising and telecommunications purchase commitment with the Buyer. Pursuant to that commitment, we agreed to purchase from the Buyer at least $20 million of advertising per year for 15 years (which did not increase upon the sale of the Dex West business) and the Buyer agreed to exclusively purchase from us those telecommunication services that it uses from time to time during this same period, subject to availability from us. In addition, we have various long-term, non-cancelable purchase commitments for advertising and promotion services, including advertising with online service providers as well as marketing at sports arenas, stadiums and other venues and events through 2015.

Letters of credit and guarantees

We maintain letter of credit arrangements with various financial institutions for up to $67 million. At December 31, 2002, the amount of letters of credit outstanding was $67 million and we had outstanding guarantees of approximately $2 million.

Contingencies

Rights of Way. We have transferred optical capacity assets on our network primarily to other telecommunications service carriers in the form of IRU transactions involving specific channels on our "lit" network or specific dark fiber strands. These IRUs provide for the exclusive right to use a specified amount of capacity or fiber for a specified period reflecting the estimated useful life of the optical capacity asset, typically 20 years or more. Typically, at or before the end of the IRU term, ownership to the optical capacity asset will have passed to the customer. Our fiber optic broadband network is generally located in real property pursuant to an agreement with the property owner or another person with rights to the property. It is possible that we may lose our rights under one or more of such agreements, due to their termination or their expiration. If we lose any such rights of way and are unable to renew them, we may find it necessary to move or replace the affected portions of the network. However, we do not expect any material adverse impacts as a result of the loss of any such rights.

Investigations

On April 3, 2002, the SEC issued an order of investigation that made formal an informal investigation initiated on March 8, 2002. We are continuing in our efforts to cooperate fully with the SEC in its investigation. The investigation includes, without limitation, inquiry into several specifically identified Qwest accounting practices and transactions and related disclosures that are the subject of the various adjustments and restatements described in this Form 10-K. See Note 3—Restatement of Results above for more information about our restatement. The investigation also includes inquiry into disclosure and other issues related to transactions between us and certain of our vendors and certain investments in the securities of those vendors by individuals associated with us.

On July 9, 2002, we were informed by the U.S. Attorney's Office for the District of Colorado of a criminal investigation of us. We believe the U.S. Attorney's Office is investigating various matters that include the subjects of the investigation by the SEC. We are continuing in our efforts to cooperate fully with the U.S. Attorney's Office in its investigation.

While we are continuing in our efforts to cooperate fully with the SEC and the U.S. Attorney's Office in each of their respective investigations, we cannot predict the outcome of those investigations. We are currently in discussions with the SEC staff in an effort to resolve the issues raised in the SEC's investigation of us. Such discussions are preliminary and we cannot predict the likelihood of whether those discussions will result in a settlement and, if so, the terms of such settlement. However, settlements typically involve, among other things, the SEC making claims under the federal securities laws in a complaint filed in United States District Court that, for purposes of the settlement, the

defendant neither admits nor denies. We would expect such claims to address many of the accounting practices and transactions and related disclosures that are the subject of the various restatements we have made as well as additional transactions. In addition, any settlement with the SEC may also involve, among other things, the imposition of a civil penalty, the amount of which could be material, and the entry of a court order that would require, among other things, that we and our officers and directors comply with provisions of the federal securities laws as to which there have been allegations of prior violations.

In addition, as previously reported, the SEC has conducted an investigation concerning our earnings release for the fourth quarter and full year 2000 issued on January 24, 2001. The release provided pro forma normalized earnings information that excluded certain nonrecurring expense and income items resulting primarily from our acquisition of U S WEST. On November 21, 2001, the SEC staff informed us of its intent to recommend that the SEC authorize an action against us that would allege we should have included in the earnings release a statement of our earnings in accordance with GAAP. At the date of this filing, no action has been taken by the SEC. However, we expect that if our current discussions with the staff of the SEC result in a settlement, such settlement will include allegations concerning the January 24, 2001 earnings release.

Also, as previously announced in July 2002 by the General Services Administration ("GSA"), the GSA is conducting a review of all contracts with us for purposes of determining present responsibility. Recently, the Inspector General of the GSA referred to the GSA Suspension/Debarment Official the question of whether Qwest should be considered for debarment. We have been informed that the basis for the referral is last February's indictment against four former employees in connection with a transaction with the Arizona School Facilities Board in June 2001 and a civil complaint filed the same day by the SEC against the same former employees and others relating to the Arizona

School Facilities Board transaction and a transaction with Genuity Inc. in 2000. We are cooperating fully with the GSA and believe that we will remain a supplier of the government, although we cannot predict the outcome of this referral.

Securities actions and derivative actions

Since July 27, 2001, thirteen putative class action complaints have been filed in federal district court in Colorado against us alleging violations of the federal securities laws. One of those cases has been dismissed. By court order, the remaining actions have been consolidated into a consolidated securities action (the "consolidated securities action"). Plaintiffs in the consolidated securities action name as defendants in the Fourth Consolidated Amended Class Action Complaint ("Fourth Consolidated Complaint"), which was filed on or about August 21, 2002, us, our former Chairman and Chief Executive Officer, Joseph P. Nacchio, our former Chief Financial Officers, Robin R. Szeliga and Robert S. Woodruff, other of our former officers and current directors, and Arthur Andersen LLP. The Fourth Consolidated Complaint is purportedly brought on behalf of purchasers of our publicly traded securities between May 24, 1999 and February 14, 2002, and alleges, among other things, that during the putative class period, we and certain of the individual defendants made materially false statements regarding the results of our operations in violation of section 10 (b) of the Securities Exchange Act of 1934 ("Exchange Act"), that certain of the individual defendants are liable as control persons under section 20(a) of the Exchange Act, and that during the putative class period, certain of the individual defendants sold some of their shares of our common stock in violation of section 20A of the Exchange Act. The Fourth Consolidated Complaint also alleges that our financial results during the putative class period and statements regarding those results were false and misleading due to the alleged: (i) overstatement of revenue, (ii) understatement of costs, (iii) manipulation of employee benefits in order to increase profitability, and (iv) misstatement of certain assets and liabilities. The Fourth Consolidated Complaint further alleges that we and certain of the individual defendants violated Section 11 of the Securities Act of 1933, as amended (the "1933 Act"), and that certain of the

individual defendants are liable as control persons under Section 15 of the 1933 Act by preparing and disseminating false registration statements and prospectuses for: (1) the registration of 897,907,706 shares of our common stock to be issued to U S WEST shareholders dated June 21, 1999, as amended August 13, 1999 and September 17, 1999; (2) the exchange of $3.25 billion of our notes dated July 12, 2001; and (3) the exchange of $3.75 billion of our notes dated October 30, 2001. The Fourth Consolidated Complaint seeks unspecified compensatory damages and other relief. However, lead counsel for the plaintiffs has indicated that plaintiffs will seek damages in the billions of dollars. On September 20, 2002, both we and the individual defendants filed motions to dismiss the Fourth Consolidated Complaint. Those motions are currently pending before the court. On November 4, 2002, lead plaintiffs in the consolidated securities action filed a motion for a temporary restraining order and preliminary injunction seeking to enjoin the Dex Sale or, in the alternative, to place the proceeds of such sale in a constructive trust for the benefit of the plaintiffs. The court denied both motions.

On October 22, 2001, an alleged derivative lawsuit was filed in the United States District Court for the District of Colorado, naming as defendants each of the then members of our Board of Directors, and naming us as a nominal defendant. The derivative complaint is based upon the allegations made in the consolidated securities action and alleges, among other things, that the Board members intentionally or negligently breached their fiduciary duties to us by failing to oversee implementation of securities laws that prohibit insider trading. The derivative complaint also alleges that the Board members breached their fiduciary duties to us by causing or permitting us to commit alleged securities violations, thus (i) causing us to be sued for such violations, and (ii) subjecting us to adverse publicity, increasing our cost of raising capital and impairing earnings. The derivative complaint further alleges that certain directors sold shares between April 26, 2001 and May 15, 2001 using non-public information about us. On or about October 31, 2001, the court filed an order consolidating this derivative lawsuit with the consolidated securities action. In December 2001, the derivative lawsuit was stayed, pending further order of the court, based on the fact that the merits of the derivative lawsuit are intertwined with the resolution of the consolidated securities action. In March 2002, plaintiffs filed a first amended derivative complaint. The first amended derivative complaint adds allegations relating to the disclosures of our consolidated financial results from April 2000 through February 2002. On or about November 5, 2002, plaintiffs filed a second amended derivative complaint. The second amended complaint adds as defendants to the lawsuit certain former officers, including Robin R. Szeliga, Robert S. Woodruff, and others. The second amended complaint contains allegations in addition to those set forth in the prior complaints, stating, among other things that (i) certain officers and/or directors traded our stock while in the possession of inside information, and (ii) certain officers and/or directors caused the restatement of more than $1 billion in revenue by concealing improper accounting practices. Plaintiffs seek, among other remedies, disgorgement of alleged insider trading profits. The lawsuit remains stayed.

On March 6, 2002, an alleged derivative lawsuit was filed in the District Court for the City and County of Denver, naming as defendants each of the then members of our Board of Directors, certain former officers of ours and Arthur Andersen LLP. We are named as a nominal defendant. The derivative complaint is based upon the allegations made in the consolidated securities action and alleges that the Board members intentionally or recklessly breached their fiduciary duties to us by causing or allowing us to issue financial disclosures that were false or misleading. Plaintiffs seek unspecified damages on our behalf against the defendants. On July 2, 2002, this state court derivative lawsuit was stayed pending further order of the court. On or about August 1, 2003, the plaintiffs filed an amended derivative complaint, which does not contain claims against our former officers and Arthur Andersen, but continues to assert claims against the Board defendants. In the amended complaint, the plaintiffs allege, among other things, that the individual defendants abdicated their duty to implement and maintain an adequate internal accounting control system and thus allegedly violated (i) their fiduciary duties of loyalty and good faith; (ii) GAAP; and (iii) our Audit Committee's charter (which requires, among other things, that our Audit Committee serve as an independent and objective party to

monitor our financial reporting and internal control system). The amended complaint also states new claims against Mr. Nacchio for his alleged breach of fiduciary duties. Plaintiffs seek a court order requiring that Mr. Nacchio disgorge to us all of his 2001 compensation, including salary, bonus, long-term incentive payouts and stock options. In addition, the plaintiffs contend that Mr. Nacchio breached his fiduciary duties to us by virtue of his sales of our stock allegedly made using his knowledge of material non-public information. The plaintiffs seek the imposition of a constructive trust on any profits Mr. Nacchio obtained by virtue of these sales.

Since March 2002, seven putative class action suits were filed in federal district court in Colorado purportedly on behalf of all participants and beneficiaries of the Qwest Savings and Investment Plan and predecessor plans (the "Plan") from March 7, 1999 until the present. By court order, five of these putative class actions have been consolidated, and the claims made by the plaintiff in the sixth case were subsequently included in the Second Amended and Consolidated Complaint described below. We expect the seventh putative class action to be consolidated with the other cases since it asserts substantially the same claims. The consolidated amended complaint filed on July 5, 2002 (the "consolidated ERISA action") names as defendants, among others, us, several former and current directors, officers and employees, Qwest Asset Management, the Plan's Investment Committee, and the Plan Administrative Committee of the pre-Merger Qwest Communications 401(k) Savings Plan. Plaintiffs filed a Second Amended and Consolidated Complaint on May 21, 2003, naming as additional defendants a former employee and Qwest's Plan Design Committee. The consolidated ERISA action, which is brought under the Employee Retirement Income Security Act ("ERISA"), alleges, among other things, that the defendants breached fiduciary duties to the Plan members by allegedly excessively concentrating the Plan's assets invested in our stock, requiring certain participants in the Plan to hold the matching contributions received from us in the Qwest Shares Fund, failing to disclose to the participants the alleged accounting improprieties that are the subject of the consolidated securities action, failing to investigate the prudence of investing in our stock, continuing to offer our stock as an investment option under the Plan, failing to investigate the effect of the U S WEST Merger on Plan assets and then failing to vote the Plan's shares against it, preventing plan participants from acquiring our stock during certain periods, and, as against some of the individual defendants, capitalizing on their private knowledge of our financial condition to reap profits in stock sales. Plaintiffs seek equitable and declaratory relief, along with attorneys' fees and costs and restitution. Plaintiffs moved for class certification on January 15, 2003, and we have opposed that motion, which is pending before the court. Defendants filed motions to dismiss the consolidated ERISA action on August 22, 2002. Those motions are also pending before the court.

On June 27, 2002, a putative class action was filed in the District Court for the County of Boulder against us, The Anschutz Family Investment Co., Philip Anschutz, Joseph P. Nacchio, and Robin R. Szeliga on behalf of purchasers of our stock between June 28, 2000 and June 27, 2002 and owners of U S WEST stock on June 28, 2000. The complaint alleges, among other things, that we and the individual defendants issued false and misleading statements and engaged in improper accounting practices in order to accomplish the U S WEST Merger, to make us appear successful, and to inflate the value of our stock. The complaint asserts claims under Sections 11, 12, 15 and 17 of the 1933 Act. The complaint seeks unspecified monetary damages, disgorgement of illegal gains, and other relief. On July 31, 2002, the defendants removed this state court action to federal district court in Colorado and subsequently moved to consolidate this action with the consolidated securities action identified above. The plaintiffs have moved to remand the lawsuit back to state court. Defendants have opposed that motion, which is pending before the court.

On August 9, 2002, an alleged derivative lawsuit was filed in the Court of Chancery of the State of Delaware, naming as defendants each of the then members of our Board of Directors and our current Chief Financial Officer, Oren G. Shaffer, and naming us as a nominal defendant. On or about September 16, 2002, an amended complaint was filed in the action, naming the same defendants except

Mr. Shaffer, who is no longer a defendant in the action. A separate alleged derivative lawsuit was filed in the Court of Chancery of the State of Delaware on or about August 28, 2002. That lawsuit names as defendants our former Chairman and Chief Executive Officer, Joseph P. Nacchio, our former Chief Financial Officer, Robert S. Woodruff, former Board member, Marilyn Carlson Nelson, and each of the then members of our Board of Directors and names us as a nominal defendant. On October 30, 2002, these two alleged derivative lawsuits were consolidated, and an amended complaint (the "Second Amended Complaint") was later filed on or about January 23, 2003, and names as defendants the current members of our Board of Directors, former Board member Hank Brown, our former Chief Executive Officer, Joseph P. Nacchio, and our former Chief Financial Officer, Robert Woodruff, and names us as a nominal defendant. In the Second Amended Complaint, the plaintiffs allege, among other things, that the individual defendants (i) breached their fiduciary duties by allegedly engaging in illegal insider trading in our stock; (ii) failed to ensure compliance with federal and state disclosure, anti-fraud and insider trading laws within Qwest, resulting in exposure to us; (iii) appropriated corporate opportunities, wasted corporate assets and self-dealt in connection with investments in initial public offering securities through our investment bankers; and (iv) improperly awarded severance payments of $13 million to our former Chief Executive Officer, Mr. Nacchio. The plaintiffs seek recovery of incentive compensation allegedly wrongfully paid to certain defendants, all severance payments made to Messrs. Nacchio and Woodruff, and all costs including legal and accounting fees. Plaintiffs have also requested, among other things, that the individual defendants compensate us for any insider-trading profits. Plaintiffs likewise allege that we are entitled to contribution and indemnification by each of the individual defendants. Plaintiffs request that the court cancel all unexercised stock options awarded to Messrs. Nacchio and Woodruff to which they were not entitled, that the defendants return to us all salaries and other remuneration paid to them by us during the time they breached their fiduciary duties, and that the court order the defendants to enforce policies, practices and procedures on behalf of us designed to detect and prevent illegal conduct by our employees and representatives. On March 17, 2003, defendants moved to dismiss the Second Amended Complaint, or, in the alternative, to stay the action. That motion is pending before the court.

On November 22, 2002, plaintiff Stephen Weseley IRA Rollover filed a purported derivative lawsuit in Denver District Court, naming as defendants each of the then members of our Board of Directors, certain of our former officers, Anschutz Company and us as a nominal defendant. Plaintiff alleges, among other things, that the director defendants breached their fiduciary duties to us and damaged us by deliberately in bad faith or recklessly (i) implementing a sham system of internal controls completely inadequate to ensure proper recognition of revenue; (ii) causing us to issue false and misleading statements and financial results to the market regarding our earnings, revenues, business and investments; (iii) exposing us to massive liability for securities fraud; (iv) damaging our reputation; and (v) trading our shares while in possession of material, non-public information regarding our true financial condition. The complaint purports to state causes of action for breach of fiduciary duty, gross negligence, unjust enrichment against some of our former officers and breach of contract and breach of the duty of loyalty/insider trader trading against several of our former officers and former and current directors. On or about January 7, 2003, plaintiff's counsel filed a proposed amended complaint which substitutes a new plaintiff, Thomas R. Strauss, and adds another former officer as a defendant. In the amended complaint, plaintiff seeks (i) disgorgement of bonuses and other incentive compensation paid to certain defendants; (ii) any profits that certain defendants made by virtue of their alleged trading on material, inside information; and (iii) other damages. By order dated January 9, 2003, the court permitted the substitution and Strauss became the plaintiff in this lawsuit under the amended complaint.

On December 10, 2002, the California State Teachers' Retirement System ("CalSTRS") filed suit against us, certain of our former officers and certain of our current directors and several other defendants, including Arthur Andersen LLP and several investment banks, in the Superior Court of the State of California in and for the County of San Francisco. CalSTRS alleges that the defendants engaged in fraudulent conduct that caused CalSTRS to lose in excess of $150 million invested in our equity and debt securities. The complaint alleges, among other things, that in press releases and other public statements, defendants represented that we were one of the highest revenue producing telecommunications companies in the world, with highly favorable results and prospects. CalSTRS alleges that defendants were engaged, however, "in a scheme to falsely inflate Qwest's revenues and decrease its expenses so that Qwest would appear more successful than it actually was." The complaint purports to state causes of action against us for (i) violation of California Corporations Code Section 25400 et seq. (securities laws) (seeking, among other damages, the difference between the price at which CalSTRS sold our notes and stock and their true value); (ii) violation of California Corporations Code Section 17200 et seq. (unfair competition); (iii) fraud, deceit and concealment; and (iv) breach of fiduciary duty. Among other requested relief, CalSTRS seeks compensatory, special and punitive damages, restitution, pre-judgment interest and costs. We and the individual defendants filed a demurrer, seeking dismissal of all claims. In response, the plaintiff voluntarily dismissed the unfair competition claim but maintained the balance of the complaint. The court denied the demurrer as to the California securities law and fraud claims, but dismissed the breach of fiduciary duty claim against us with leave to amend. The court also dismissed the claims against Robert S. Woodruff and Robin R. Szeliga on jurisdictional grounds. On or about July 25, 2003, plaintiff filed a First Amended Complaint. The material allegations remain largely the same, but plaintiff no longer alleges claims against Mr. Woodruff and Ms. Szeliga following the court's dismissal of the claims against them, and it has modified its allegation against us for breach of fiduciary duty to an allegation of aiding and abetting breach of fiduciary duty. We have filed a second demurrer, seeking to dismiss the allegation of aiding and abetting breach of fiduciary duty. The court has not ruled on this demurrer.

On November 27, 2002, the State of New Jersey (Treasury Department, Division of Investment) ("New Jersey"), filed a lawsuit similar to the CalSTRS action in New Jersey Superior Court, Mercer County. New Jersey alleges, among other things, that we, certain of our former officers and certain current directors and Arthur Andersen, LLP caused our stock to trade at artificially inflated prices by employing improper accounting practices, and by issuing false statements about our business, revenues and profits. As a result, New Jersey contends that it incurred tens of millions of dollars in losses. New Jersey's complaint purports to state causes of action against us for: (i) fraud; (ii) negligent misrepresentation; and (iii) breach of fiduciary duty. Among other requested relief, New Jersey seeks from defendants, jointly and severally, compensatory, consequential, incidental and punitive damages. In March 2003, we filed a motion to dismiss plaintiff's complaint. That motion has been fully briefed by the parties and is pending before the court.

The consolidated securities action, the consolidated ERISA action, and the CalSTRS and New Jersey actions described above and the State Universities Retirement System of Illinois ("SURSI") action described in Note 21—Subsequent Events—Contingencies present material and significant risk to us. Some of the allegations in these lawsuits include many of the same subjects that the SEC and U.S. Attorney's Office are investigating. Moreover, the size, scope and nature of the restatements that we are making in this report affect the risk presented by these cases. While we intend to defend against these matters vigorously, the ultimate outcomes of these cases are very uncertain, and we can give no assurance as to the impacts on our financial results or financial condition as a result of these matters. Each of these cases is in a preliminary phase. None of the plaintiffs or the defendants has advanced evidence concerning possible recoverable damages, and we have not yet conducted discovery on these and other relevant issues. Thus, we are unable at this time to estimate reasonably a range of loss that we would incur if the plaintiffs in one or more of these lawsuits were to prevail. Any settlement of or judgment on one or more of these claims could be material, and we cannot give any assurance that we would have the resources available to pay such judgments. Also, our ability to meet our debt service obligations and our financial condition could be materially and adversely affected.

Regulatory matters

On February 14, 2002, the Minnesota Department of Commerce filed a formal complaint against us with the Minnesota Public Utilities Commission alleging that we, in contravention of federal and state law, failed to file interconnection agreements with the Minnesota Commission relating to certain of our wholesale customers, and thereby allegedly discriminated against other CLECs. On October 21, 2002, the Minnesota Commission adopted in full a proposal by an administrative law judge that we committed 26 individual violations of federal law by failing to file, as required under Section 252 of the Telecommunications Act, 26 distinct provisions found in 12 separate agreements with individual CLECs for regulated services in Minnesota. The order also found that we agreed to provide and did provide to McLeod USA ("McLeod") and Eschelon Telecom, Inc. ("Eschelon"), discounts on regulated wholesale services of up to 10% that were not made available to other CLECs, thereby unlawfully discriminating against them. The order found we also violated state law, that the harm caused by our conduct extended to both customers and competitors, and that the damages to CLECs would amount to several million dollars for Minnesota alone.

On February 28, 2003, the Minnesota Commission issued its initial, written decision imposing fines and penalties, which was later revised on April 8, 2003 to include a fine of nearly $26 million and ordered us to:

- grant a 10% discount off all intrastate Minnesota wholesale services to all carriers other than Eschelon and McLeod; this discount would be applicable to purchases made by these carriers during the period beginning on November 15, 2000 and ending on May 15, 2002;

- grant all carriers other than Eschelon and McLeod monthly credits of $13 to $16 per UNE-P line (subject to certain offsets) during the months of November 2000 through February 2001;

- pay all carriers other than Eschelon and McLeod monthly credits of $2 per access line (subject to certain offsets) during the months of July 2001 through February 2002; and

- allow CLECs to opt-in to agreements the Minnesota Commission determined should have been publicly filed.

The Minnesota Commission issued its final, written decision setting forth the penalties described above on May 21, 2003. On June 19, 2003, we appealed the Minnesota Commission's orders to the United States District Court for the District of Minnesota. The appeal is pending.

Arizona, Colorado, New Mexico, Washington, Iowa and South Dakota have also initiated formal proceedings regarding our alleged failure to file required agreements in those states. On July 25, 2003, we entered into a settlement with the staff of the Arizona Corporation Commission to settle this and several other proceedings. The proposed settlement, which must be approved by the Arizona Commission, requires that we provide approximately $21 million in consideration in the form of a voluntary contribution to the Arizona State Treasury, contributions to certain organizations and/or infrastructure investments and refunds in the form of bill credits to CLECs. New Mexico has issued an order providing its interpretation of the standard for filing these agreements, identified certain of our contracts as coming within that standard and opened a separate docket to consider further proceedings. Colorado has also opened an investigation into these matters. On June 26, 2003, we received from the Federal Communications Commission ("FCC") a letter of inquiry seeking information about these matters. We submitted our initial response to this inquiry on July 31, 2003. The proceedings and investigations in New Mexico, Colorado, Washington and at the FCC could result in the imposition of fines and other penalties against us. Iowa and South Dakota have concluded their inquiries resulting in no imposition of penalties or obligations to issue credits to CLECs in those states.

Illuminet, Inc., a traffic aggregator, and several of its customers have filed complaints with the regulatory agencies in Idaho, Nebraska, Iowa, North Dakota and New Mexico, alleging that they are

entitled to refunds due to our purported improper implementation of tariffs governing certain signaling services we provide in those states. The commissions in Idaho and Nebraska have ruled in favor of Illuminet and awarded it $1.5 million and $4.8 million, respectively. We have sought reconsideration in both states, which was denied. We have perfected an appeal in Nebraska. The proceedings in the other states and in states where Illuminet has not yet filed complaints could result in agency decisions requiring additional refunds.

As a part of the approval by the FCC of the U S WEST Merger, the FCC required us to engage an independent auditor to perform an attestation review of our compliance with our divestiture of in-region InterLATA services and our ongoing compliance with Section 271 of the 1996 Telecommunications Act. In 2001, the FCC began an investigation of our compliance with the divestiture of in-region InterLATA services and our ongoing compliance with

Section 271 for the audit years 2001 and 2000. In connection with this investigation, we disclosed certain matters to the FCC that occurred in 2000, 2001, 2002, and 2003. These matters were resolved with the issuance of a consent decree on May 7, 2003, by which the investigation was concluded. As part of the consent decree, we made a voluntary payment to the U.S. Treasury in the amount of $6.5 million, and agreed to a compliance plan for certain future activities. Separate from this investigation, we disclosed matters to the FCC in connection with our 2002 compliance audit, including a change in traffic flow related to wholesale transport for operator services traffic and certain toll-free traffic, certain bill mis-labeling for commercial credit card bills, and certain billing errors for public telephone services originating in South Dakota and for toll free services. The FCC has not yet instituted an investigation into the latter categories of matters. If it does so, an investigation could result in the imposition of fines and other penalties against us.

We have other regulatory actions pending in local regulatory jurisdictions which call for price decreases, refunds or both. These actions are generally routine and incidental to our business.

Notice of rescission from insurance carriers and demand for arbitration

On October 17, 2002, we received a Notice and Demand for Arbitration filed with the American Arbitration Association ("AAA") by several of our insurance carriers, including the primary carrier on our Director and Officer ("D&O") Liability insurance policies, the primary carrier on our Employee Benefit Plan Fiduciary Liability insurance policies and several insurance companies that are excess carriers on these policies. The Notice stated that the insurance carriers have determined to rescind their respective policies, and the Demand for Arbitration sought a ruling rescinding the policies based on alleged material misstatements and omissions made in our consolidated financial statements and other publicly filed documents with the SEC. Two other excess carriers filed similar Demands for Arbitration on November 15 and 18, 2002, respectively, and all Demands for Arbitration were consolidated into one AAA proceeding.

On November 5, 2002, we filed a lawsuit in the Court of Chancery of the State of Delaware to compel non-binding mediation of the dispute and enjoin the carriers from arbitrating the matter, pursuant to provisions in the insurance polices which allow us to choose the form of alternative dispute resolution to resolve coverage disputes. By order dated December 20, 2002, the Court of Chancery permanently enjoined the carriers from pursuing arbitration and directed the carriers to submit to mediation. Following the court's decision, we and the carriers postponed formal mediation and entered into informal discussions in an effort to resolve our disputes. Those discussions are ongoing and include two additional excess carriers that were not parties to the AAA arbitration or the Delaware lawsuit, but have subsequently provided notice to us of rescission or denial of coverage of their respective policies.

The insurance policies that the carriers seek to rescind comprise: (i) $225 million of the Qwest D&O Liability Runoff Program (for the policy period June 30, 2000 to June 30, 2006), which otherwise provides coverage of up to $250 million for claims that at least in part involve conduct pre-dating the

U S WEST Merger; (ii) $225 million of the Qwest D&O Liability Ongoing Program (for the policy period June 30, 2000 to June 30, 2003), which otherwise provides coverage of up to $250 million for claims exclusively involving post-Merger conduct; and (iii) the Qwest Fiduciary Liability Program (for the policy period June 12, 1998 to June 30, 2003), which otherwise provides coverage of up to $100 million for claims in connection with Employee Benefit Plans. The insurance carriers are seeking to rescind these policies and any coverage that these policies could provide for, among other things, the consolidated securities action, the actions by CalSTRS, New Jersey and SURSI, the Colorado (federal and state) and Delaware derivative actions, the consolidated ERISA action, the SEC investigation, and the U.S. Attorney's Office investigation, which are described above.

In addition to these attempts to rescind policies issued to us, one carrier that has not attempted to rescind its policies, Twin City Fire Insurance Company, has denied coverage for most of the above-mentioned matters under two excess policies it issued. These two excess policies comprise the remaining $25 million balance of our coverage under each of the D&O Liability insurance programs described in the preceding paragraph. Twin City is also participating in the ongoing discussions between us and our carriers to resolve our disputes.

In connection with the ongoing discussions with our insurance carriers in an effort to resolve our disputes, we recently reached a preliminary, non-binding agreement which provides, among other things, that we would pay an additional premium in exchange for resolution of the carriers' coverage and other defenses. This preliminary, non-binding agreement is subject to the parties entering into a definitive agreement on or before October 30, 2003 and approval by our Board of Directors.

We intend to vigorously oppose the insurance carriers' efforts to rescind or otherwise deny coverage under the policies identified above if we are unable to reach a definitive settlement with the carriers. However, there can be no assurance that we will enter into a definitive settlement agreement with the carriers, or that we will not incur a material loss with respect to these matters. While we believe that, in the event the insurance carriers are successful in rescinding coverage, other insurance policies may provide partial coverage. However, there is risk that none of the claims we have made under the Qwest policies described above will be covered by such other policies. In any event, the terms and conditions of the applicable certificates or articles of incorporation, applicable bylaws, applicable law and any applicable agreements may obligate us to indemnify (and advance legal expenses to) our current and former directors, officers, and employees for any liabilities related to these claims.

Other matters

In January 2001, an amended purported class action complaint was filed in Denver District Court against us and certain current and former officers and directors on behalf of stockholders of U S WEST. The complaint alleges that we have a duty to pay a quarterly dividend to U S WEST stockholders of record as of June 30, 2000. Plaintiffs further claim that the defendants attempted to avoid paying the dividend by changing the record date from June 30, 2000 to July 10, 2000. In September 2002, we filed a motion for summary judgment on all claims. Plaintiffs filed a cross-motion for summary judgment on their breach of contract claims only. On July 15, 2003, the court denied both summary judgment motions.

In August 2001, we filed a complaint in state court in Colorado and an arbitration demand against Touch America, Inc. ("Touch America"). In response, also in August 2001, Touch America filed a complaint against us in federal district court in Montana, which was later dismissed. Touch America also filed answers and counterclaims in the arbitration and in the Colorado lawsuit. The disputes between us and Touch America relate to various billing, reimbursement and other commercial disputes in connection with certain agreements entered into on or about June 30, 2000 for the sale to Touch America of our InterLATA business in our local service area (Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington

and Wyoming). Touch America also alleged that we violated state and federal antitrust laws, the Telecommunications Act (including claims alleging that our sale of indefeasible rights of use is in violation of the Telecommunications Act) and our FCC tariff. Each party seeks damages against the other for amounts billed and unpaid and for other disputes. The Colorado lawsuit has not yet progressed beyond a preliminary stage. On March 26, 2003, we received an interim opinion and award in the arbitration filed by us. The arbitrator determined that Touch America is obligated to pay us a net amount of approximately $59.6 million plus interest (in an amount to be determined). The interim opinion and award resolved the majority of issues in the arbitration. However, the arbitrator retained jurisdiction to decide certain issues raised during or immediately after the arbitration hearing, and in some cases to determine whether any further dispute remains on issues the arbitrator had previously addressed. In addition to the litigation and arbitration, Touch America also filed two administrative complaints at the FCC alleging violations of the Telecommunications Act by us. Touch America and we have agreed to resolve all of these matters in a settlement agreement that must be approved by the United States Bankruptcy Court for the District of Delaware, the terms of which are described below. Touch America and we have requested, and the FCC has granted, requests to stay the two FCC complaints pending approval of the settlement agreement by the Bankruptcy Court.

On June 19, 2003, Touch America filed a voluntary petition commencing a case under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. The aforementioned arbitration, Colorado lawsuit, and FCC complaints were stayed either as a result of the filing of Touch America's bankruptcy petition or by subsequent agreement of the parties. Immediately prior to Touch America's bankruptcy filing, Touch America and Qwest negotiated a settlement agreement, the terms of which are memorialized in a Proposal for Global Settlement between Touch America and us dated June 22, 2003 ("Settlement Proposal"). The Settlement Proposal provides for: (a) the mutual general release of some or all claims known or unknown, suspected or unsuspected as of the effective date of the settlement; (b) the immediate termination of proceedings and dismissal with prejudice of all arbitration proceedings, complaints and other proceedings pending before the FCC, and all litigation between Touch America and us: (c) Touch America's forgiveness of a $23 million obligation due from us to Touch America; (d) the adjustment to zero by Touch America and us of all accounts payable and receivable for services delivered one to the other prior to May 31, 2003; (e) our agreement to loan Touch America $10 million under a debtor in possession financing agreement, the balance of which loan will be forgiven by us if the settlement agreement is approved by the bankruptcy court prior to October 31, 2003 or repaid by Touch America if the settlement is not approved; (f) Touch America's agreement to continue to provide or contract for the provisioning of services currently provided to us; and (g) our agreement to purchase certain fiber assets necessary to our in-region operations from Touch America for a total price of $8 million. The terms of the settlement proposal were further detailed and agreed to in the global settlement and release agreement between the debtors and Qwest, dated August 6, 2003.

A motion for approval of the settlement agreement between Touch America and us was filed August 1, 2003 and is pending. The Creditors Committee has indicated that it has objections to the settlement agreement. In addition, 360 Networks was the successful bidder in a bankruptcy court auction to purchase most of the Touch America assets, including network assets used by Touch America to provide services to Qwest. On September 9, 2003, we reached an interim agreement with 360 Networks, Touch America and the Creditors Committee pursuant to which 360 Networks and Touch America agreed to continue to provide certain of these services. We are working with both the Creditors Committee and 360 Networks to try to address their concerns, while protecting our interests and our customers. However, we can give no assurance that the settlement agreement will be approved on the terms described above or at all.

From time to time we receive complaints and become subject to investigations regarding "slamming" (the practice of changing long-distance carriers without the customer's consent),

"cramming" (the practice of charging a consumer for goods or services that the consumer has not authorized or ordered), and other sales practices. In December 2001, an administrative law judge recommended to the California Public Utilities Commission that we be assessed a $38 million penalty for alleged slamming and cramming violations. On October 24, 2002, the full California Commission issued a decision reducing the fine to $20.3 million. We have appealed that decision, and the appeal was unsuccessful. Through August 2003, we resolved allegations and complaints of slamming and cramming with the Attorneys General for the states of Arizona, Colorado, Florida, Idaho, Oregon, Utah and Washington. In each of those states, we agreed to comply with certain terms governing our sales practices and to pay each of the states between $200,000 and $3.75 million. We may become subject to other investigations or complaints in the future, and any such complaints or investigations could result in further legal action and the imposition of fines, penalties or damage awards.

Several purported class actions were filed in various courts against us on behalf of landowners in Alabama, California, Colorado, Georgia, Illinois, Indiana, Kansas, Louisiana, Mississippi, Missouri, North Carolina, Oregon, South Carolina, Tennessee and Texas. Class certification was denied in the Louisiana proceeding and, subsequently, summary judgment was granted in our favor. A new Louisiana class action complaint has recently been filed. Class certification was also denied in the California proceeding, although plaintiffs have filed a motion for reconsideration. Class certification was granted in the Illinois proceeding. Class certification has not been resolved yet in the other proceedings. The complaints challenge our right to install our fiber optic cable in railroad rights-of-way and in Colorado, Illinois and Texas, also challenge our right to install fiber optic cable in utility and pipeline rights-of-way. In Alabama, the complaint challenges our right to install fiber optic cable in any right-of-way, including public highways. The complaints allege that the railroads, utilities and pipeline companies own a limited property right-of-way that did not include the right to permit us to install our fiber optic cable on the plaintiff's property. The Indiana action purports to be on behalf of a national class of landowners adjacent to railroad rights-of-way over which our network passes. The Alabama, California, Colorado, Georgia, Kansas, Louisiana, Mississippi, Missouri, North Carolina, Oregon, South Carolina, Tennessee and Texas actions purport to be on behalf of a class of such landowners in those states, respectively. The Illinois action purports to be on behalf of landowners adjacent to railroad rights-of-way over which our network passes in Illinois, Iowa, Kentucky, Michigan, Minnesota, Nebraska, Ohio, and Wisconsin. Plaintiffs in the Illinois action have filed a motion to expand the class to a nationwide class. The complaints seek damages on theories of trespass and unjust enrichment, as well as punitive damages. Together with some of the other telecommunication carrier defendants, in September 2002, we filed a proposed settlement of all these matters in the United States District Court for the Northern District of Illinois. On July 25, 2003, the court granted preliminary approval of the settlement and entered an order enjoining competing class action claims, except those in Louisiana. The settlement and the court's injunction are opposed by some, but not all, of the plaintiffs' counsel and are on appeal before the Seventh Circuit Court of Appeals. At this time, we cannot determine whether such settlement will be ultimately approved or the final cost of the settlement if it is approved.

On October 31, 2002, Richard and Marcia Grand, co-trustees of the R.M. Grand Revocable Living Trust, dated January 25, 1991, filed a lawsuit in Arizona Superior Court alleging that the defendants violated state and federal securities laws and engaged in fraudulent behavior in connection with an investment by the plaintiff in securities of KPNQwest. We are a defendant in this lawsuit along with Qwest B.V., Joseph Nacchio, and John McMaster, the former President and Chief Executive Officer of KPNQwest. The plaintiff trust claims to have lost $10 million in its investment in KPNQwest.

We have built our international network outside North America primarily by entering into long-term agreements to acquire optical capacity assets. We have also acquired some capacity from other telecommunications service carriers within North America under similar contracts. Several of the companies from which we have acquired capacity appear to be in financial difficulty or have filed for bankruptcy protection. Bankruptcy courts have wide discretion and could deny us the continued use of

the assets under the optical capacity agreements without relieving us of our obligation to make payments or requiring the refund of amounts previously paid. If such an event were to occur, we would be required to writeoff the cost of the related optical capacity assets and accrue a loss based on the remaining obligation, if any. We believe that we are taking appropriate actions to protect our investments and maintain on-going use of the acquired optical capacity assets. At this time, it is too early to determine what affect the bankruptcies will have with respect to the acquired capacity or our ability to use this acquired optical capacity.

The IRS has proposed a tax adjustment for tax years 1994 through 1996. The principal issue involves our allocation of costs between long-term contracts with customers for the installation of conduit or fiber optic cable and additional conduit or fiber optic cable retained by us. The IRS disputes our allocation of the costs between us and third parties for whom we were building similar network assets during the same time period. Similar claims have been asserted against us with respect to 1997 and 1998, and it is possible that claims could be made against us for other periods. We are contesting these claims and do not believe they will be successful. Even if they are, we believe that any significant tax obligations will be substantially offset as a result of available net operating losses and tax sharing arrangements. However, the ultimate effect of these claims is uncertain.

We have provided for certain of the above matters under this caption "Other Matters" in our consolidated financial statements as of December 31, 2002. We intend to defend against these matters vigorously. However, the ultimate outcomes of these matters are uncertain and we can give no assurance as to whether or not they will have a material effect on our financial results.

Intellectual property

We frequently receive offers to take licenses for patent and other intellectual rights, including rights held by competitors in the telecommunications industry, in exchange for royalties or other substantial consideration. We also regularly are the subject of allegations that our products or services infringe upon various intellectual property rights, and receive demands that we discontinue the alleged infringement. We normally investigate such offers and allegations and respond appropriately, including defending ourself vigorously when appropriate. There can be no assurance that, if one or more of these allegations proved to have merit and involved significant rights, damages or royalties, this would not have a material adverse effect on us. We have provided for certain of the above intellectual property matters in our consolidated financial statements as of December 31, 2002. Although the ultimate resolution of these claims is uncertain, we do not expect any material adverse impacts as a result of the resolution of these matters.

Note 21: Subsequent Events

Contingencies

On January 10, 2003, the State Universities Retirement System of Illinois ("SURSI") filed a lawsuit similar to the CalSTRS and New Jersey lawsuits in the Circuit Court of Cook County, Illinois. SURSI filed suit against us, certain of our former officers and certain current directors, and several other defendants, including Arthur Andersen LLP and several investment banks. SURSI alleges that defendants engaged in fraudulent conduct that caused it to lose in excess of $12.5 million invested in our common stock and debt and equity securities. The complaint alleges, among other things, that in press releases and other public statements, defendants represented that we were one of the highest revenue producing telecommunications companies in the world, with highly favorable results and prospects. SURSI alleges that defendants were engaged, however, in a scheme to falsely inflate our revenues and decrease our expenses. The complaint purports to state causes of action against us under: (i) the Illinois Securities Act; (ii) the Illinois Consumer Fraud and Deceptive Business Practice Act; (iii) common law fraud; (iv) common law negligent misrepresentation; and (v) Section 11 of the 1933

Act. SURSI seeks, among other relief, punitive and exemplary damages, costs, equitable relief including an injunction to freeze or prevent disposition of the defendants' assets and disgorgement. On March 28, 2003, SURSI filed a First Amended Complaint. The amended complaint adds twelve defendants, including one current officer and several of our former officers or employees, Calpoint, KMC, KPNQwest and Koninklijke KPN, N.V. In addition, SURSI supplements its earlier allegations by contending, among other things, that we: (i) improperly recognized $100 million from a transaction involving Genuity in September 2000; (ii) fraudulently recognized $34 million in revenue in the second quarter of 2001 in a transaction involving the Arizona School Facilities Board; and (iii) otherwise improperly accounted for certain revenue in connection with transactions with, among others, Calpoint and KMC. On October 1, 2003, plaintiff filed a motion to dismiss without prejudice its claims against three of the individual defendants and defendant KMC, all of whom had been added as defendants in the First Amended Complaint.

In August 2003, we entered into a services agreement with a subsidiary of Sprint Corporation that allows us to resell Sprint wireless services, including access to Sprint's nationwide PCS wireless network, to consumer and business customers, primarily within our local service area. We plan to begin offering these Sprint services under our brand name in early 2004. Our wireless customers who are currently being serviced through our proprietary wireless network will be transitioned at our cost onto Sprint's network. We are still evaluating both the operational effects of this new wholesale wireless arrangement and the financial effects; however, due to the anticipated decrease in usage of our own wireless network we anticipate that we will record a charge related to additional impairment of our wireless network during 2003. This impairment charge is currently estimated to be in the range of $200 million to $300 million. We have not adjusted our consolidated financial statements for the year ended December 31, 2002 for any potential impacts of this agreement.

Debt-related matters

Subsequent to year-end, through September 30, 2003, we exchanged, through direct transactions, $797 million face amount of debt issued by QCF. In the debt-for-equity exchanges, we issued 50 million shares of our common stock out of treasury as well as newly issued shares with an aggregate value of $194 million and recorded a gain on the debt extinguishment of $43.8 million. The trading prices for our shares at the time the exchange transactions were consummated ranged from $3.22 per share to $5.11 per share. In the other exchanges, we exchanged $406 million of new QSC notes similar to the notes issued in December 2002. The debt-for-debt transactions were accounted for in accordance with the guidance in EITF Issue No. 96-19. On the date of the exchange, the present value of the cash flows under the terms of the revised debt instruments were compared to the present value of the remaining cash flows under the original debt instruments. The cash flows were not considered "substantially" different to that of the exchanged debt; therefore, no gain was realized on the exchanges and the difference between the fair value of the new debt and the carrying amount of the exchanged debt of $83 million is being amortized as a credit to interest expense using the effective interest rate method over the life of the new debt.

On June 9, 2003, QC completed its senior term loan in two tranches for a total of $1.75 billion principal amount of indebtedness. The term loan consists of a $1.25 billion floating rate tranche, due in 2007, and a $500 million fixed rate tranche, due in 2010. The term loan is unsecured and ranks equally with all of QC's current indebtedness. The floating rate tranche is non-prepayable for two years and thereafter is subject to prepayment premiums through 2006. There are no mandatory prepayment requirements. The covenant and default terms are substantially the same as the other senior QC indebtedness. The net proceeds were used to refinance QC debt due in 2003 and fund or refinance QC's investment in telecommunications assets.

The floating rate tranche bears interest at LIBOR plus 4.75% (with a minimum interest rate of 6.50%) per annum and the fixed rate tranche bears interest at 6.95% per annum. The lenders funded

the entire principal amount of the loan subject to original issue discount for the floating rate tranche of 1.00% and for the fixed rate tranche of 1.652%. Also, in connection with this QC issuance, we reduced our obligation under the QSC Credit Facility by approximately $429 million to a balance of $1.57 billion.

On August 12, 2003, the $750 million Dex Term Loan was paid in full.

On September 9, 2003, we completed the sale of the Dex West business. The gross proceeds from the sale of the Dex West business were $4.3 billion and were received in cash. We used approximately $321 million of cash proceeds to reduce our QSC Credit facility obligation to $1.25 billion. We expect to use the balance of the proceeds from the Dex West sale to invest in telecommunications assets and/or to redeem other certain indebtedness.

Other matters

In September 2003, we restructured our arrangements with Calpoint and another vendor that effectively eliminated our services agreements and settled certain claims of the parties. We paid $174 million to restructure these arrangements but will continue to make payments to a trustee related to the Calpoint agreement for 75% of an unconditional purchase obligation. This obligation will be paid to the trustee ratably through 2006. In connection with these transactions, our third quarter 2003 consolidated financial statements will reflect a liability of $346 million and a pretax charge of $393 million. In addition, we expect to realize a cash savings of approximately $118 million in 2004 as a result of these restructurings and additional cash savings through 2006.

Note 22: Quarterly Financial Data (Unaudited)

	Quarterly Financial Data				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	(Dollars in millions, except per share amounts)				
2002(1)					
Revenues	$ 3,985	$ 3,915	$ 3,776	$ 3,709	$ 15,385
Operating (loss) income	(89)	(19,265)	76	381	(18,897
Net (loss) income from continuing operations*	(980)	(17,581)	(118)	1,054	(17,625
	)	)	)		
Net (loss) income	(23,650(2)	(17,554(3)	(2(4)	2,738(5)	(38,468
Net (loss) income per share from continuing operations*:					
Basic and diluted	(0.59)	(10.48)	(0.07)	0.62	(10.48
Net (loss) income per share:					
Basic and diluted	(14.19)	(10.46)	(0.00)	1.61	(22.87
2001					
Revenues	$ 4,110	$ 4,070	$ 4,212	$ 4,132	$ 16,524

Operating loss	(267)	(767)	(90)	(1,250)	(2,374
Net loss from continuing operations*	(609)	(3,835)	(474)	(1,220)	(6,138
	)	)	)	)	
Net loss	(461(6)	(3,711(7)	(338(8)	(1,093(9)	(5,603
Net (loss) income per share from continuing operations*:					
Basic and diluted	(0.37)	(2.31)	(0.29)	(0.73)	(3.69
Net loss per share:					
Basic and diluted	(0.28)	(2.23)	(0.20)	(0.66)	(3.37

* Income (loss) from continuing operations is before results from discontinued operations and cumulative effect of change in accounting principle.

(1) Balances for the quarter ended March 31, 2002 have been restated. See discussion of the restatement in Note 3—Restatement of Results. As we have not previously filed our Quarterly Reports on Form 10-Q for the quarters ended June 30, 2002 and September 30, 2002, these numbers have not been restated. All amounts for 2001 and 2000 have also been restated.

(2) Includes an after-tax charge of $614 million for losses and impairment of investment in KPNQwest; after-tax income of $130 million related to the operation of our directory publishing business which was recorded as income from discontinued operations; and an after-tax charge of $22.800 billion relating to the reduction in the carrying value of goodwill recorded as a cumulative effect of adopting SFAS No. 142 effective January 1, 2002.

(3) Includes an after-tax charge of $8.483 billion for impairment under SFAS No. 142 of the entire remaining balance of goodwill; an after-tax charge of $6.445 billion for the impairment of assets (primarily property, plant and equipment) under SFAS No. 144; an after-tax charge of $452 million for losses and impairment of investment in KPNQwest; a non-cash charge of $1.7 billion to establish a valuation allowance against the 2002 deferred tax assets; and after-tax income of $28 million related to the operation of our directory publishing business which was recorded as income from discontinued operations.

(4) Includes an after-tax charge of $83 million for restructuring charges and after-tax income of $116 million related to the operation of our directory publishing business which was recorded as income from discontinued operations.

(5) Includes an after-tax gain of $1.124 billion on the early retirement of debt, and after-tax income and gain of $1.683 billion related to the operation and partial sale of directory publishing services business which was recorded as income and gain from discontinued operations.

(6) Includes an after-tax amount of $88 million for Merger charges; an after-tax loss of $65 million on sales and write downs on investments; an after-tax loss of $65 million related to the early retirement of debt; and after-tax income of $125 million related to the operation of our directory publishing business which was recorded as income from discontinued operations.

(7) Includes "catch up" depreciation of $136 million (after-tax) for access lines that were reclassified as "held for use"; an after-tax amount of $208 million for Merger charges; an after-tax charge of $3.059 billion for losses and impairment of investment in KPNQwest; and after-tax income of $123 million related to the operation of our directory publishing business which was recorded as income from discontinued operations.

(8) Includes after-tax income of $136 million related to the operation of our directory publishing business which wa recorded as income from Discontinued Operations.

(9) Includes an after-tax charge of $104 million primarily for abandonment of web hosting centers and impairment of capitalized software costs; an after-tax amount of $500 million for restructuring charges; a net after-tax credit of $101 million primarily for accrual reversals relating to Merger legal and severance costs; an after-tax charge of $204 million for losses and impairment of investment in KPNQwest; and after-tax income of $127 million related to the operation of our directory publishing business which was recorded as income from discontinued operations.

The table below reconciles the quarterly information as previously reported to the restated amounts.

	Quarterly Financial Data				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	(Dollars in millions, except per share amounts)				
2002					
Revenues, as previously reported	$ 4,369	$	$	$	$
Restatement adjustments	27				
Reclassification for discontinued operations	(411)				
Revenues	3,985	3,915	3,776	3,709	15,385
Operating income, as previously reported	314				
Restatement Adjustments	(191)				
Reclassification for discontinued operations	(212)				
Operating (loss) income	(89)	(19,265)	76	381	(18,897)
Net loss from continuing operations*, as previously reported	(704)				
Restatement Adjustments	(146)				
Reclassification for discontinued operations	(130)				
Net (loss) income from continuing operations*	(980)	(17,581)	(118)	1,054	(17,625)
Net loss, as previously reported	(698)				
Restatement Adjustments	(22,952)				
Net (loss) income	(23,650)	(17,554)	(2)	2,738	(38,468)
Net (loss) income per share from continuing operations*:					
Basic and diluted, as previously reported	(0.42)				
Restatement Adjustments	(0.09)				
Reclassification for discontinued operations	(0.08)				
Basic and diluted	(0.59)	(10.48)	(0.07)	0.62	(10.48)
Net (loss) income per share:					
Basic and diluted, as previously reported	(0.42)				
Restatement Adjustments	(13.77)				
Basic and diluted	(14.19)	(10.46)	(0.00)	1.61	(22.87)
2001					
Revenues, as previously reported	$ 5,051	$ 5,222	$ 4,766	$ 4,656	$ 19,695
Restatement adjustments	(531)	(752)	(147)	(113)	(1,543)
Reclassification for discontinued operations	(410)	(400)	(407)	(411)	(1,628)
Revenues	4,110	4,070	4,212	4,132	16,524
Operating income, as previously reported	637	135	454	(406)	820
Restatement Adjustments	(700)	(701)	(322)	(632)	(2,355)
Reclassification for discontinued operations	(204)	(201)	(222)	(212)	(839)
Operating loss	(267)	(767)	(90)	(1,250)	(2,374)

Net loss from continuing operations*, as previously reported	(46)	(3,306)	(142)	(529)	(4,023)
Restatement Adjustments	(438)	(406)	(196)	(564)	(1,604)
Reclassification for discontinued operations	(125)	(123)	(136)	(127)	(511)
Net loss from continuing operations*	(609)	(3,835)	(474)	(1,220)	(6,138)
Net loss, as previously reported	(46)	(3,306)	(142)	(529)	(4,023)
Restatement Adjustments	(415)	(405)	(196)	(564)	(1,580)
Net loss	(461)	(3,711)	(338)	(1,093)	(5,603)
Net (loss) income per share from continuing operations*:					
Basic and diluted, as previously reported	(0.03)	(1.99)	(0.09)	(0.32)	(2.42)
Restatement Adjustments	(0.27)	(0.25)	(0.12)	(0.33)	(0.96)
Reclassification for discontinued operations	(0.07)	(0.07)	(0.08)	(0.08)	(0.31)
Basic and diluted	(0.37)	(2.31)	(0.29)	(0.73)	(3.69)
Net loss per share:					
Basic and diluted, as previously reported	(0.03)	(1.99)	(0.09)	(0.32)	(2.42)
Restatement Adjustments	(0.25)	(0.24)	(0.11)	(0.34)	(0.95)
Basic and diluted	(0.28)	(2.23)	(0.20)	(0.66)	(3.37)

* Income (loss) from continuing operations is before results from discontinued operations and cumulative effect of change in accounting principle. These amounts are also adjusted to reclassify a previously reported extraordinary loss of the extinguishment of debt to loss from continuing operations.

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

Prior to May 29, 2002, we had not engaged independent auditors for 2002. Based on the recommendation of the Audit Committee of our Board of Directors, on May 29, 2002 our Board of Directors decided, effective immediately, not to re-engage Arthur Andersen LLP ("Andersen") as our independent auditor.

Effective May 29, 2002, our Board of Directors engaged KPMG LLP to serve as our independent auditor for 2002.

Andersen's reports on our consolidated financial statements for the years ended December 31, 2001 and 2000 did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. During the years ended December 31, 2001 and 2000 and through May 29, 2002, there were (1) no disagreements with Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to Andersen's satisfaction, would have caused it to make reference to the subject matter in connection with its report on our consolidated financial statements, and (2) no reportable events, as listed in Item 304(a)(1)(v) of Regulation S-K.

During the years ended December 31, 2001 and 2000 and prior to May 29, 2002, we did not consult KPMG with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, or any other matters or reportable events listed in Items 304(a)(2)(i) and (ii) of Regulation S-K.

Following our decision not to re-engage Andersen and the engagement of KPMG, we decided to revise certain of our previous accounting practices and policies. Prior to making these revisions, we sought Andersen's input and cooperation and notified Andersen of our determinations prior to their public announcement. During August 2002, we received a letter from Andersen, indicating its disagreement with our proposed restatement to revise the accounting for: (1) contemporaneous sales and purchases of optical capacity; (2) optical capacity asset sales and (3) revenue recognition for our directory publishing business. Although we have continued to seek Andersen's input following Andersen's letter as we made further determinations about the restatement of these and other issues, we have not responded to the August correspondence from Andersen. Following our notification to Andersen of certain restatement issues we contemplated discussing with the staff of the SEC, during February 2003, we received a second letter from Andersen indicating it had not received a response to its positions, noting Andersen's continued disagreement with our proposed restatement for the items listed above and expressing Andersen's disagreement with the other restatement issues that we had identified. Andersen has not withdrawn its previously issued opinion related to our financial statements for the three years ended December 31, 2001.

ITEM 9A. ***CONTROLS AND PROCEDURES***

The effectiveness of our or any system of disclosure controls and procedures is subject to certain limitations, including the exercise of judgment in designing, implementing and evaluating the controls and procedures, the assumptions used in identifying the likelihood of future events, and the inability to eliminate misconduct completely. As a result, there can be no assurance that our disclosure controls and procedures will prevent all errors or fraud or ensure that all material information will be made known to appropriate management in a timely fashion.

We have completed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-14 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This evaluation has allowed us to make conclusions in 2003, as set

forth below, regarding the state of our disclosure controls and procedures as of December 31, 2002. This evaluation included the following actions:

- Beginning in July 2002, our new auditors, KPMG, at the direction of senior management, the Audit Committee and our Board of Directors, conducted a review of our internal controls over financial reporting and communicated to the Audit Committee and senior management its findings with respect to approximately 150 internal control issues.

- Starting in May 2002, our accounting personnel engaged in an extensive effort to analyze and reconcile each of our quarterly balance sheets. These continuing efforts, along with efforts to satisfy the certification requirements under the Sarbanes-Oxley Act of 2002 and related rules, identified a number of the items for review.

- Our internal audit group conducted a comprehensive company-wide risk assessment beginning in the fall of 2002. As part of this assessment, our internal audit group and our controller's organization scrutinized a number of items for potential internal control deficiencies. Our internal audit group also reviewed unresolved issues identified in past internal audits for potential internal control deficiencies.

- Our substantial efforts to restate our 2001 and 2000 financial statements included an effort to identify the internal controls over financial reporting that could or should have prevented or mitigated the error. These efforts and the audit of the restated 2001 and 2000 financial statements were designed to provide reasonable assurance that we have recorded all material adjustments.

As a result of our efforts in 2002 and 2003 to evaluate the effectiveness of the design and operation of our disclosure controls and procedures, we have now concluded that the following internal control deficiencies constituted "material weaknesses" or "significant deficiencies," as defined under standards established by the American Institute of Certified Public Accountants, during the three fiscal years that were the subject of the audit:

- ***Deficiencies related to the structure and design of certain financial information and reporting processes***. These deficiencies related to our complex multiple practices and processes that were not fully integrated following the Merger. Certain of these deficiencies were a consequence of the manual intervention that became necessary as a result of the lack of complete integration. Among the problems evidencing these deficiencies were those that had occurred in our accounting processes for intercompany transactions, and for the recognition of revenue in the Company's wireless business.

- ***Deficiencies related to design of policies and execution of processes related to accounting for operating activities.*** These deficiencies included problems that occurred in our accounting policies and processes for verifying account balances and transactions such as accounts receivable, posting cash to the general ledger, balance sheet reconciliations, facilities costs, and fixed assets and inventory. In 2002 and 2003, we confirmed our restatement findings with detailed activity reconciliations.

- ***Deficiencies related to inadequate or ineffective policies for complex transactions and certain other matters.*** These deficiencies related to problems that occurred in accounting for complex transactions and, in connection with our policies and practices for bad debts and collections, accounting for stock options and other equity transactions. In 2002, we implemented a new policy for the initiation and processing of complex transactions and we introduced interim and mitigating controls that address certain of these other issues.

- ***Deficiencies related to the internal control environment.*** As a result of the various issues raised in connection with the restatement process, current management has also concluded that

deficiencies in the internal control environment (relating to accounting, financial reporting and internal controls) during the three fiscal years subject to audit constituted, at times, a material weakness and, at other times, a significant deficiency. In 2002, the Board appointed new senior management, and the Company undertook subsequent efforts to resolve internal control problems. The Audit Committee and the Company also took steps to address these issues and continue to emphasize the importance of establishing the appropriate environment in relation to accounting, financial reporting and internal controls.

In October 2003, in connection with the delivery of the Statement on Auditing Standards No. 61 report on the audit of our financial statements for 2002 and our restated financial statements for 2001 and 2000, KPMG reported to management and the Audit Committee reportable conditions consistent with the items described above and characterized them as material weaknesses. The Company, in performing its evaluation, also considered KPMG's findings.

We believe that many of the restatement adjustments are the result of the Company's ineffective internal control policies and procedures, as indicated above. We also believe that, in some cases, certain of our employees did not follow our policies, processes and procedures. We have taken these cases into account when evaluating our responsibilities to restate certain matters that otherwise may not have met quantitative standards of materiality.

While performing our internal analysis, we identified various transactions in which employees misapplied policies or procedures in a manner that permitted us to prematurely recognize revenue. Our analysis of contemporaneous transfers of optical capacity assets, for example, led us to believe that in some cases the documentation did not properly reflect the timing of the transaction, and in other cases the documentation may not have appropriately reflected statements made to the other party in the transaction. Several employees were disciplined after we determined that they had engaged in misconduct in transactions that allowed us to prematurely recognize revenue.

We also focused our analysis on instances where some of our employees failed to follow policies, processes and procedures that were in place for transactions involving sales of equipment. The SEC has filed a complaint against some of our former employees, and one current employee, in connection with two of these transactions. In the case of our transaction with Genuity, the SEC has alleged, among other things, that the sale of equipment was not at fair market value and, without the recognition of revenue as previously reported, we would not have met certain analysts' revenue estimates. In our transaction with the Arizona School Facilities Board, the SEC has also alleged, among other things, that without the recognition of the revenue as previously reported we would not have met certain analysts' revenue estimates. We have taken disciplinary action against certain employees who were involved in this transaction.

In our review of the matters leading to the restatement of our wireless revenue, we determined that some of our employees violated our policies by failing to report known errors to proper management personnel and attempting to correct the errors only prospectively. We have taken disciplinary action against the employees who did not follow our policies.

Since mid-2002, we have taken a number of steps that will impact the effectiveness of our internal controls, including the following:

- We appointed a new Chairman and Chief Executive Officer ("CEO"), following the resignation of the former Chairman and Chief Executive Officer.

- We appointed a new Chief Financial Officer, a new Senior Vice President—Finance and Controller, and a number of other new individuals in our finance and controller groups. We also restructured the finance group in a manner that places greater emphasis on control and accountability issues.

- After completing an extensive balance sheet review and reconciliation process, we identified improved processes and procedures that have been or are being implemented.

- We substantially increased the number of employees in our internal audit group.

- We appointed a new Chief Compliance Officer who reports to the CEO.

- We improved the effectiveness of our corporate compliance programs. This effort included the hiring of additional personnel and the establishment of a management compliance committee that is staffed by senior-level business unit employees.

- We amended our Code of Conduct and Compliance Policies to include company-wide principles and procedures for maintaining the integrity of our compliance, accounting and reporting systems. We have established compliance training programs in connection with the amended Code of Conduct.

- We reevaluated prior policies and procedures and established new policies and procedures for such matters as complex transactions, account reconciliation procedures and contract management procedures.

- We established a Disclosure Committee, consisting of senior personnel from the business units and the finance and legal groups, and we now follow an extensive review and certification process in connection with our filings with the SEC.

- We have taken advantage of significant outside resources to supplement our finance and controller groups and to support the preparation of financial statements and reports that are to be filed with the SEC.

- We have developed and implemented interim mitigating controls, involving manual procedures by a substantial number of employees, in order to reduce to a low level the risk of material misstatement in the financial statements.

- We modified our Audit Committee Charter so that it complies with the Sarbanes-Oxley Act of 2002 and the rules issued thereunder.

We believe that these efforts have addressed the material weaknesses and significant deficiencies that affected our internal controls in 2000, 2001 and 2002. The Company continues to improve and refine its internal controls. This process is ongoing, and the Company seeks to foster an exemplary internal control environment. However, the Company can give no assurances that all material weaknesses and significant deficiencies have been entirely corrected.

Our management, including our Chief Executive Officer and Chief Financial Officer, has concluded that, except for the internal control deficiencies as described herein and taking into account the efforts to address those deficiencies described herein, as of the evaluation date, our disclosure controls and procedures are designed, and are effective, to give reasonable assurance that information we must disclose in reports filed with the SEC is properly recorded, processed, and summarized, and then reported within the time periods specified in the rules and forms of the SEC.

Other than as summarized above, since the evaluation date there have been no significant changes in our internal controls over financial reporting or in other factors that could significantly affect the internal controls. We will continue to assess our disclosure controls and procedures as we prepare our remaining delinquent filings and will take any further actions that we deem necessary.

PART III

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

Board of Directors

Below you can find information, including biographical information, about the members of our Board of Directors:

Name	Age(1)	Position	Year Began as Director	Year Term Expires(2)
Philip F. Anschutz(4)(6)(8)	63	Class III Director	1993	2003
Richard C. Notebaert(6)(10)	56	Class III Director	2002	2003
Linda G. Alvarado(3)(9)	52	Class II Director	2000	2005
Craig R. Barrett(6)	64	Class II Director	2000	2005
Thomas J. Donohue(4)(7)(8)	65	Class I Director	2001	2004
Jordan L. Haines(3)(4)(7)(8)(9)	76	Class I Director	1997	2004
Cannon Y. Harvey(7)(8)	62	Class II Director	1996	2005
Peter S. Hellman(3)(9)	53	Class I Director	2000	2004
Vinod Khosla	48	Class I Director	1998	2004
Frank P. Popoff(4)(5)(6)(7)(9)	67	Class III Director	2000	2003
Craig D. Slater(4)(6)(7)	46	Class II Director	1996	2005
W. Thomas Stephens(3)(9)	61	Class II Director	1997	2005

(1) As of September 30, 2003.

(2) The current term of the Class III Directors expires at the 2003 Annual Meeting. The term for persons elected at

the 2003 Annual Stockholders' Meeting as Class III Directors will expire in 2006.

(3) Member of the Audit Committee. Peter S. Hellman is the Chairman of the Audit Committee.

(4) Member of the Compensation and Human Resources Committee. Frank P. Popoff is the Chairman of the Compensation and Human Resources Committee.

(5) Member of the Equity Incentive Plan Subcommittee of the Compensation and Human Resources Committee. Frank P. Popoff is the Chairman of the Equity Incentive Plan Subcommittee of the Compensation and Human Resources Committee.

(6) Member of the Executive Committee. Philip F. Anschutz is the Chairman of the Executive Committee.

(7) Member of the Finance Committee. Craig D. Slater is the Chairman of the Finance Committee.

(8) Member of the Nominating and Governance Committee. Cannon Y. Harvey is the Chairman of the Nominating and Governance Committee.

(9) Member of the Ad Hoc Committee. W. Thomas Stephens is the Chairman of the Ad Hoc Committee.

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(10) Under the terms of Mr. Notebaert's employment agreement dated May 14, 2003, we have agreed that, during the term of the agreement and while Mr. Notebaert is employed by us, we will use our best efforts to cause him to be appointed as one of our Class III directors and to include him in the Board's slate of nominees for election as a Class III director at the applicable annual meeting of our stockholders and will recommend to our stockholders that he be elected as a Class III director. Mr. Notebaert's employment agreement is described more fully in Item 11 below under "Employment Contracts and Termination of Employment and Change-In-Control Arrangements."

Philip F. Anschutz is our founder and served as non-executive Chairman of the Board until June 2002. He has been a director and Chairman of the Board of Anschutz Company, our largest stockholder, for more than five years. Anschutz Company is a holding company for Anschutz's portfolio of companies with holdings in energy, transportation, communications, professional sports, agriculture, entertainment and real estate. Mr. Anschutz is the non-executive Vice Chairman and a director of Union Pacific Corporation, and is a director of Regal Entertainment Group and Pacific Energy GP, Inc., general partner of Pacific Energy Partners, L.P. Mr. Anschutz holds a bachelor's degree in business from the University of Kansas.

Richard C. Notebaert has been our Chairman and Chief Executive Officer since June 2002. From August 2000 to June 2002, Mr. Notebaert was President and Chief Executive Officer of Tellabs, a communications equipment provider. Prior to that, Mr. Notebaert was Chairman and Chief Executive Officer of Ameritech Corporation from April 1994 to December 1999, and, in his 30-year career with that organization, had numerous other appointments including President of Ameritech Mobile Communications (1986), President of Indiana Bell (1989), President of Ameritech Services (1992), and President and Chief Operating Officer (1993) and President and Chief Executive Officer (1994) of Ameritech Corporation. Ameritech Corporation is a telecommunications provider that was acquired by SBC Communications Inc. in 1999. Mr. Notebaert currently serves as a director of Aon Corporation, Cardinal Health, Inc., and the Denver Center for the Performing Arts. Mr. Notebaert received a bachelor of arts degree in 1969 and an M.B.A. in 1983, both from the University of Wisconsin.

Linda G. Alvarado has been President and Chief Executive Officer of Alvarado Construction, Inc., a commercial general contractor, construction management, design and build, development and property management company, since 1978. Ms. Alvarado currently serves as a director of 3M Company, Pepsi Bottling Group, Lennox International and Pitney Bowes, Inc. Ms. Alvarado earned a bachelor's degree from Pomona College.

Craig R. Barrett has been Chief Executive Officer of Intel Corporation since 1998 and a member of the Intel board of directors since 1992. Mr. Barrett held various senior executive positions at Intel from 1984 to 1998, including Executive Vice President and Chief Operating Officer from 1993 to 1997. Mr. Barrett held various technology, engineering and manufacturing management positions with Intel from 1974 to 1984. Intel manufactures computer, networking and communications products. Mr. Barrett was a professor of engineering at Stanford University from 1965 to 1974. Mr. Barrett earned a bachelor's degree, master's degree and a Ph.D. (all in materials science) from Stanford University and is a member of the National Academy of Engineering.

Thomas J. Donohue has been the President and Chief Executive Officer of the U.S. Chamber of Commerce, a business federation in Washington, D.C., since 1997. He was President and Chief Executive Officer of the American Trucking Association from 1984 to 1997 and an executive with the U.S. Postal Service from 1969 to 1976 and Fairfield University from 1967 to 1969. Mr. Donohue serves on the board of directors of Union Pacific Corporation, XM Satellite Radio Holdings Inc., Sunrise Senior Living Corporation and Marymount University. Mr. Donohue earned a bachelor's degree from St. John's University and an M.B.A. from Adelphi University.

Jordan L. Haines was the President, Chairman and Chief Executive Officer of Fourth Financial Corporation, a Kansas-based bank holding company, and its subsidiary, Bank IV Wichita, N.A., from

1968 until 1991. Mr. Haines retired from Fourth Financial Corporation in 1991. Mr. Haines earned a bachelor's degree and a J.D. from the University of Kansas.

Cannon Y. Harvey has been President and Chief Operating Officer of Anschutz Company and The Anschutz Corporation since December 1996. Anschutz Company is the parent company of The Anschutz Corporation and is a holding company for Anschutz's portfolio of companies with holdings in energy, transportation, communications, professional sports, agriculture, entertainment and real estate. From February 1995 until September 1996, he served as Executive Vice President, Finance and Law of Southern Pacific. From March 1989 to February 1995, he held several senior positions at Southern Pacific, including General Counsel. Before joining Southern Pacific, Mr. Harvey was a partner in the law firm of Holme Roberts & Owen LLP for more than 20 years. Mr. Harvey earned a bachelor's degree from the University of Missouri. He also earned a master's degree from Harvard University and an LL.B. degree from Harvard Law School.

Peter S. Hellman has been the Chief Financial and Administrative Officer of Nordson Corp., a designer, manufacturer and marketer of industrial equipment, since 2000 and a director of that entity since 2001. Mr. Hellman was the President and Chief Operating Officer and a director of TRW, Inc. from 1995 to 1999, the Assistant President of TRW from 1994 to 1995, and Chief Financial Officer of TRW from 1991 to 1994. Mr. Hellman held a variety of positions with BP America from 1979 to 1989 and The Irving Trust Company from 1972 to 1979. Mr. Hellman earned a bachelor's degree from Hobart College and an M.B.A. from Case Western Reserve University.

Vinod Khosla was a co-founder of Daisy Systems and founding Chief Executive Officer of Sun Microsystems, where he pioneered open systems and commercial RISC processors. Mr. Khosla has also been a general partner of the venture capital firm Kleiner Perkins Caufield & Byers since 1986. He serves on the board of directors of Juniper Networks, Inc. and SEEC Inc., as well as several private companies. Mr. Khosla earned a bachelor of technology degree in electrical engineering from the Indian Institute of Technology in New Delhi and a master's degree in biomedical engineering from Carnegie Mellon University and an M.B.A. from the Stanford Graduate School of Business.

Frank P. Popoff was Chairman of The Dow Chemical Company, which manufactures chemical, plastic and agricultural products, from 1992 until his retirement in October 2000. From 1987 to 1995, Mr. Popoff served as the Chief Executive Officer of Dow. Mr. Popoff currently serves as a director of American Express Company, Chemical Financial Corporation, Shin-Etsu Chemical Co. Ltd. and United Technologies Corporation. Mr. Popoff earned a bachelor's degree in chemistry and an M.B.A. from Indiana University.

Craig D. Slater has been President of Anschutz Investment Company since August 1997 and Executive Vice President of Anschutz Company and The Anschutz Corporation since August 1995. Mr. Slater served as Corporate

Secretary of Anschutz Company and The Anschutz Corporation from September 1991 to October 1996 and held various other positions with those companies from 1988 to 1995. Anschutz Company is the parent company of Anschutz Investment Company and The Anschutz Corporation and is a holding company for Anschutz's portfolio of companies with holdings in energy, transportation, communications, professional sports, agriculture, entertainment and real estate. He is a director of Forest Oil Corporation and Regal Entertainment Group. Mr. Slater earned a bachelor's degree in accounting from the University of Colorado-Boulder, a master's degree in tax from the University of Denver and a master's degree in finance from the University of Colorado-Denver.

W. Thomas Stephens served as President, Chief Executive Officer and a director of MacMillan Bloedel Limited, Canada's largest forest products company, from 1996 to 1999. He served from 1986 until his retirement in 1996 as President and Chief Executive Officer of Manville Corporation, an international manufacturing and resources company. He also served as a member of the Manville Corporation board of directors from 1986 to 1996, and served as Chairman of the Board from 1990 to 1996. Mr. Stephens is a director of Trans Canada Pipelines, NorskeCanada (formerly Norske Skog

Canada Ltd.), The Putnam Funds, and Xcel Energy Inc. Mr. Stephens earned a bachelor's and a master's degree in industrial engineering from the University of Arkansas.

Executive Officers and Management

Below you can find information, including biographical information, about our current executive officers (other than Mr. Notebaert, whose biographical information appears above):

Name	Age(1)	Position
Oren G. Shaffer	61	Vice Chairman and Chief Financial Officer
Clifford S. Holtz	44	Executive Vice President, Business Markets Group
Richard N. Baer	46	Executive Vice President, General Counsel and Corporate Secretary
Paula Kruger	54	Executive Vice President, Consumer Markets Group

(1) As of September 30, 2003.

Oren G. Shaffer has been our Vice Chairman and Chief Financial Officer since July 2002. Prior to joining Qwest, Mr. Shaffer was President and Chief Operating Officer of Sorrento Networks, a maker of optical products, beginning in 2000. From 1994 to 2000, he was Chief Financial Officer of Ameritech Corporation, a telecommunications provider that was acquired by SBC Communications Inc. in 1999. He has also served as President of Virgo Cap Inc., an investment firm, and from 1968 to 1992 in various positions (including Executive Vice President, Chief Financial Officer and director) at Goodyear Tire & Rubber Co. Mr. Shaffer serves on the board of directors of The Thai Capital Fund, Inc., The Singapore Fund, Inc. and The Japan Equity Fund, Inc. He holds a bachelor of science degree in business administration from the University of California at Berkeley and an M.S. degree in management from the Massachusetts Institute of Technology.

Clifford S. Holtz has been our Executive Vice President, Business Markets Group, since July 2002, and previously served as Executive Vice President of National Business Accounts and, prior to that, as Executive Vice President of Small Business Accounts. Prior to joining Qwest in 2001, Mr. Holtz served as Senior Vice President of consumer business at Gateway, Inc., a computer manufacturer, from February 2000 to January 2001. From January 1997 to February 2000, Mr. Holtz was AT&T's President of Metro Markets, a telecommunications business serving small to mid-sized business customers. From June 1984 to January 1997, he also held a variety of general management, operations, strategy, sales and marketing assignments with AT&T. Mr. Holtz earned a bachelor of science degree in business administration from the State University of New York in Albany and an M.B.A. from the University of Chicago.

Richard N. Baer has been our Executive Vice President, General Counsel and Corporate Secretary since December 2002. Mr. Baer, who joined Qwest in 2001, served as our Deputy General Counsel from January 2001 to July 2002 and as Special Legal Counsel to our Chairman and CEO from July 2002 to December 2002. From 1998 to December 2000, Mr. Baer was chairman of the litigation department at the Denver law firm of Sherman & Howard. Mr. Baer received his bachelor of arts degree from Columbia University in 1979 and his juris doctor degree from Duke University in 1983.

Paula Kruger has served as our Executive Vice President, Consumer Markets, since September 2003. From December 2001 to September 2003, Ms. Kruger served as President of the

Customer Relationship Management service line at Electronic Data Systems Corporation, a technology company. From September 1999 to January 2002, Ms. Kruger was a search consultant for Taylor Winfield and for Heidrick & Struggles, both executive search firms. From March 1997 to September 1999, Ms. Kruger served as Executive Vice President of Operations at Excel Communications, Inc., a provider of integrated media communications. Ms. Kruger earned a bachelor of arts degree in economics from C.W. Post—Long Island University and an M.B.A. from C.W. Post—Roth Graduate School of Business.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors and executive officers, and persons who own more than 10% of a registered class of our equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock and other equity securities. Officers, directors and greater than 10% stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

To our knowledge, based solely on a review of the copies of such reports furnished to us and written representations that no other reports were required, during and for the fiscal year ended December 31, 2002, all Section 16(a) filing requirements applicable to our officers, directors and greater than 10% beneficial owners were complied with, except that each of Afshin Mohebbi, Robin R. Szeliga and Drake S. Tempest filed late a Form 5 reporting the receipt of options to purchase 1,500,000, 350,000 and 1,250,000 shares of common stock, respectively, in July 2002.

ITEM 11. ***EXECUTIVE COMPENSATION***

Director Compensation

Directors who are also our officers or employees do not receive the compensation described below for their service as a director. Mr. Notebaert is our only director who is also an officer or employee of Qwest.

Each director who is neither an officer nor an employee of Qwest is paid $30,000 per year for serving as a director and $2,000 for each meeting of the Board or any committee meeting attended. The chairman of each committee is also paid an additional $5,000 annually, in quarterly installments, with the exception of the chairman of the Audit Committee, who is paid an additional $20,000 annually, in quarterly installments.

Directors may elect, on a quarterly basis, to receive their directors' fees in cash or in shares of our common stock under the Qwest Communications International Inc. Equity Compensation Plan for Non-Employee Directors. In addition, directors may elect to defer their directors' fees for the upcoming year pursuant to the Qwest Communications International Inc. Deferred Compensation Plan for Non-Employee Directors. A director's election to defer fees must be made within 30 days of the director's appointment to the Board (with respect to fees not yet earned) and thereafter either on an annual basis in the calendar year before the director earns the fees or three months before the director's fees would be payable if we ask all of the directors to elect to defer their fees. We match 50% of any fees deferred. As the fees would have been payable, we credit the director's account with "phantom units," which are held in a notational account. Each phantom unit represents a value equivalent to one share of our common stock and is subject to adjustment for cash dividends payable to our stockholders as well as stock dividends and splits, consolidations and the like that affect shares of our common stock outstanding. The account is ultimately distributed at the time elected by the director or at the end of the plan and is paid (at the director's election) either in: (1) a lump-sum cash payment; (2) annual cash installments over a period of up to 10 years; or (3) some other form selected by the Executive Vice President-Human Resources (or his or her designee).

In addition to cash compensation, each year we typically grant stock options covering 5,000 shares of our common stock to each of our non-employee directors. However, during 2002, we did not grant any stock options to our non-employee directors. We also typically grant to each newly appointed, non-employee director a stock option covering 20,000 shares of our common stock concurrent with his or her appointment to the Board.

All options granted to our directors have an exercise price set by the Compensation and Human Resources Committee or its subcommittee, as applicable. The options granted to our directors typically vest over four years at 25% per year or over five years at 20% per year. The options will terminate: (1) if not exercised by the tenth anniversary of the date they were granted; or (2) to the extent not vested, on the director's removal or resignation from the Board. Generally, the options will fully vest upon a change in control, as described below under the caption "Employment Contracts and Termination of Employment and Change-in-Control Arrangements."

Executive Compensation

The following table summarizes for the periods indicated the compensation paid to or accrued for the benefit of each person who served as our Chief Executive Officer during 2002, our next four most highly compensated executive officers serving as of December 31, 2002 and two of our other former executive officers (collectively referred to herein as the "named executive officers"). The position identified in the table for each person is their current position with us unless otherwise indicated.

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long Term Compensation			
					Awards		Payouts	
Name/Principal Position	Year	Salary(1)	Bonus(1)	Other Annual Compensation(2)	Restricted Stock Awards(3)	Number of Securities Underlying Options	LTIP Payouts	All Other Compensation
Executive Officers as of December 31, 2002								
Richard C. Notebaert Chairman and Chief Executive Officer(4)	2002	$ 613,462	$ 825,000	$ 252,126(5)	$ 1,000,000	5,000,000	$ —	$ 3,810(6)

Oren G. Shaffer Vice Chairman and Chief Financial Officer (7)	2002	$ 369,231	$ 600,000	$ 50,000(8)	$ —	2,000,000	$ —	$ 8,603(9)
Clifford S. Holtz Executive Vice President, Business Markets Group(10)	2002	$ 427,885	$ —	$ 50,531(11)	$ 870,000	750,000	$ —	$ 228,741(12)
	2001	$ 259,615	$ 287,500	$ 109,222(11)	$ —	525,000	$ —	$ 5,510
Richard N. Baer Executive Vice President, General Counsel and Corporate Secretary(13)	2002	$ 353,654	$ 617,500(14)	$ 27,166(15)	$ —	1,100,000	$ —	$ 4,202(16)
Annette M. Jacobs Former Executive Vice President, Consumer Markets Group(17)	2002	$ 400,865	$ —	$ 48,044(18)	$ —	350,000	$ —	$ 5,525(19)
Former Executive Officers								
Joseph P. Nacchio Former Chairman and Chief Executive Officer (20)	2002	$ 1,104,808	$ —	$ 479,984(21)	$ —	—	$ —	$ 12,233,288(24)
	2001	$ 1,753,846	$ 2,736,281	$ 329,714(21)	$ —	7,250,000	$ 24,374,091(22)	$ 8,770
	2000	$ 1,279,616	$ 7,949,858	$ 151,592	$ —	—	$ 1,107,913(23)	$ 5,269
Afshin Mohebbi Former President and Chief Operating Officer (25)	2002	$ 1,006,538	$ —	$ 308,685(26)	$ —	1,500,000	$ —	$ 4,806,390(27)
	2001	$ 766,923	$ 593,306	$ 81,549(26)	$ —	2,500,000	$ —	$ 6,018
	2000	$ 561,058	$ 703,279	$ —	$ —	400,000	$ —	$ 965
Drake S. Tempest Former Executive Vice President, General Counsel and Corporate Secretary(28)	2002	$ 692,154	$ —	$ 155,696(29)	$ —	1,250,000	$ —	$ 1,802,908(30)
	2001	$ 475,385	$ 443,080	$ 145,120(29)	$ 3,362,000	600,000	$ —	$ 2,916
	2000	$ 298,077	$ 406,662	$ 73,008(29)	$ —	200,000	$ —	$ 3,308

(1) Amounts shown include salary or bonus earned by each of the named executive officers, including payments made with respect to paid vacation or sick-leave, as well as salary or bonus earned but deferred at the election of the named executive officer. Salary and bonus figures reported for each of Messrs. Nacchio, Mohebbi and Tempest for each of the 2000 and 2001 fiscal years have been adjusted from amounts previously reported to include salary or bonus earned but deferred at the election of the named executive officer. Bonus amounts reported for each year have been adjusted to (a) include amounts earned with respect to performance in the fourth quarter of that year but paid in the following year, and (b) exclude amounts earned with respect to performance in the fourth quarter of the previous year but paid in the year shown.

(2) Amounts shown include the value of perquisites and other personal benefits for the named executive officer in the year indicated. Flexible benefits paid to the named executive officers are cash payments made at the beginning of the year in lieu of various perquisites commonly paid to executive officers. Named executive officers are not required to apply these payments to any particular purpose.

(3) Dollar amounts shown equal the number of shares of restricted stock granted multiplied by the stock price on the grant date, which was $5.00 per share in the case of Mr. Notebaert, $8.70 per share in the case of Mr. Holtz, and $16.81 per share in the case of Mr. Tempest. The valuation does not take into account the diminution in value attributable to the restrictions applicable to the shares. The number and dollar value of shares of restricted stock held by the named executive officers on December 31, 2002, based on the closing price of our common stock on December 31, 2002 ($5.00 per share), were: Mr. Notebaert—200,000 shares ($1,000,000); and Mr. Holtz—100,000 shares ($500,000). The grant of restricted stock to Mr. Notebaert vests 33% each year on the anniversary of the grant, and the grant to Mr. Holtz vests (1) 25% on the earliest to occur of (a) the date on which we are current in our SEC filings, (b) the date on which Mr. Holtz's employment with us terminates, and (c) February 1, 2004, and (2) an additional 25% each year on February 1 from 2004 until 2006. Dividends are paid on all shares of our restricted stock at the same rate as on our unrestricted shares.

(4) Mr. Notebaert joined Qwest in June 2002.

(5) Amount includes $75,000 in flexible benefits paid to Mr. Notebaert and reimbursement of relocation expenses of $99,178 (including tax gross-up).

(6) Represents imputed income on life insurance policy.

(7) Mr. Shaffer joined Qwest in July 2002.

(8) Amount includes $50,000 in flexible benefits paid to Mr. Shaffer.

(9) Amount includes 401(k) company-matching contributions of $5,100 and imputed income on life insurance policy of $3,503.

(10) Mr. Holtz joined Qwest in April 2001.

(11) Amount for 2002 includes $35,000 in flexible benefits paid to Mr. Holtz; and amount for 2001 includes reimbursement of relocation expenses of $74,036 (including tax gross-up).

(12) Amount includes reimbursement of $223,025 forfeited by Mr. Holtz in connection with the termination of his prior employment, 401(k) company-matching contributions of $5,100 and imputed income on life insurance policy of $616.

(13) Mr. Baer joined Qwest in January 2001.

(14) Represents the first two installments of a cash retention bonus paid to Mr. Baer during 2002 in consideration of Mr. Baer's continued employment. The third and final installment of the cash retention bonus, in the amount of $308,750, was paid on January 31, 2003.

(15) Amount includes $25,000 in flexible benefits paid to Mr. Baer.

(16) Amount includes 401(k) company-matching contributions of $3,617 and imputed income on life insurance policy of $585.

(17) Ms. Jacobs became an executive officer in 2002 and resigned from Qwest on September 5, 2003.

(18) Amount includes $35,000 in flexible benefits paid to Ms. Jacobs.

(19) Amount includes 401(k) company-matching contributions of $5,100 and imputed income on life insurance policy of $425.

(20) Mr. Nacchio resigned from Qwest on June 16, 2002.

(21) Amount for 2002 includes payment for unused guard services of $170,759; and amount for 2001 includes imputed income for personal use of corporate aircraft of $140,967.

(22) In accordance with Mr. Nacchio's 1996 employment agreement, we granted Mr. Nacchio 300,000 growth shares in 1996 under our Growth Share Plan, with a five-year performance cycle commencing January 1, 1997. The amount represents what we paid Mr. Nacchio in 2001 under his growth share agreement for the remaining portion of his growth shares that vested in 2001 (the last year of the five-year performance cycle). We paid Mr. Nacchio for these vested shares by issuing to him, net of certain taxes, 356,723 shares of our common stock and by paying $4,500,000 in premiums on two life insurance policies covering the lives of Mr. and Mrs. Nacchio, pursuant to the terms of a split dollar arrangement among us, Mr. and Mrs. Nacchio and their life insurance trust. This amount represents the final payment due to Mr. Nacchio under his growth share agreement.

(23) Amount represents what we paid Mr. Nacchio for his growth shares under his growth share agreement. Mr. Nacchio received shares of our common stock as payment for his growth shares.

(24) Amount includes severance of $12,226,027, 401(k) company-matching contributions of $4,846 and imputed income on life insurance policy of $2,415. Does not include amounts paid out to Mr. Nacchio under Qwest's Pension Plan in connection with the termination of his employment. See "Pension Plans" below.

(25) Mr. Mohebbi served as our President and Chief Operating Officer until December 4, 2002 and resigned from Qwest on December 31, 2002.

(26) Amount for 2002 includes reimbursement of relocation expenses of $206,000; and amount for 2001 includes $35,000 in flexible benefits paid to Mr. Mohebbi and imputed income for personal use of corporate aircraft of $21,004. Amounts for 2001 and 2000 do not include previously disclosed amounts for forgiveness of and imputed interest relating to a loan from us, as such amounts have now been deemed for tax purposes to apply to 1999, the year the loan was made.

(27) Amount includes severance of $4,800,000, 401(k) company-matching contributions of $5,100 and imputed income on life insurance policy of $1,290. Does not include amounts paid out to Mr. Mohebbi under Qwest's Pension Plan in connection with the termination of his employment. See "Pension Plans" below.

(28) Mr. Tempest resigned from Qwest on December 8, 2002.

(29) Amount for 2002 includes $38,952 in flexible benefits paid to Mr. Tempest and $54,480 reimbursement for travel and living expenses; amount for 2001 includes $52,264 reimbursement for travel and living expenses and imputed income for personal use of corporate aircraft of $44,253; and amount for 2000 includes $31,152 reimbursement for travel and living expenses and imputed income for personal use of corporate aircraft of $29,605.

(30) Amount includes severance of $1,800,000 and 401(k) company-matching contributions of $2,908. Does not include amounts paid out to Mr. Tempest under Qwest's Pension Plan in connection with the termination of his employment. See "Pension Plans" below.

Stock Option Grants

The following table provides details regarding the stock options that we granted in 2002 to each of our named executive officers:

OPTION GRANTS IN LAST FISCAL YEAR(1)

Name	Number of Securities Underlying Options Granted(2)	Percent of Total Options Granted to All Employees During 2002	Exercise Price	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Share Price Appreciation for Option Term(3) 5%	10%
Executive Officers as of December 31, 2002						
Richard C. Notebaert	5,000,000	10.1%	$ 5.10	6-16-2012	$ 16,036,813	$ 40,640,433
Oren G. Shaffer	2,000,000	4.0%	$ 2.10	7-8-2012	$ 2,641,357	$ 6,693,718
Clifford S. Holtz	325,000	0.7%	$ 16.81	2-28-2012	$ 3,435,809	$ 8,707,013
	425,000	0.9%	$ 2.10	7-8-2012	$ 561,288	$ 1,422,415
Richard N. Baer	350,000	0.7%	$ 5.03	4-30-2012	$ 1,107,169	$ 2,805,784
	750,000	1.5%	$ 4.62	12-3-2012	$ 2,179,120	$ 5,522,318
Annette M. Jacobs	350,000	0.7%	$ 2.10	7-8-2012	$ 462,238(4)	$ 1,171,401(4)
Former Executive Officers						
Joseph P. Nacchio	—	—	—	—	—	—
Afshin Mohebbi	1,500,000	3.0%	$ 2.10	7-8-2012	$ 1,981,018(5)	$ 5,020,289(5)
Drake S. Tempest	1,250,000	2.5%	$ 2.10	7-8-2012	$ 1,650,848(6)	$ 4,183,574(6)

(1) Options issued under our Equity Incentive Plan are not currently exercisable due to our failure to file our annual and periodic reports under the securities laws.

(2) Each option vests over four years at a rate of 25% per year and vests immediately upon a change in control of Qwest, as more fully described below under "Employment Contracts and Termination of Employment and Change-In-Control Arrangements."

(3) The potential realizable value is based on the appreciated value of our common stock minus the per share exercise price, multiplied by the number of shares subject to the option. The appreciated value of our common stock is calculated assuming that the fair market value of our common stock on the date of grant appreciates at the indicated rate, compounded annually, for the entire term of the option. The 5% and 10% rates of appreciation are set by the Securities and Exchange Commission and do not represent our estimate or projection of future increases in the price of our shares of common stock. The closing price of our stock on September 30, 2003 was $3.40 per share.

(4) The vested portion of this option will be cancelled on or before October 24, 2003 pursuant to a Severance Agreement and General Release, as more fully described below under "Employment Contracts and Termination

of Employment and Change-In-Control Arrangements."

(5) Mr. Mohebbi served as our President and Chief Operating Officer until December 4, 2002 and resigned from Qwest on December 31, 2002. The option expired unexercised on March 31, 2003.

(6) Mr. Tempest resigned from Qwest on December 8, 2002, and the option expired unexercised on March 8, 2003.

Option Exercises and Holdings

The following table provides information for the named executive officers concerning options they exercised during 2002 and unexercised options they held at the end of 2002:

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values(1)

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year End		Value of Unexercised In-the-Money Options at Fiscal Year End(2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Executive Officers as of December 31, 2002						
Richard C. Notebaert	—	—	—	5,000,000	—	—
Oren G. Shaffer	—	—	—	2,000,000	—	$ 5,800,000
Clifford S. Holtz	—	—	131,250	1,143,750	—	$ 1,232,500
Richard N. Baer	—	—	144,500	1,368,500	—	$ 285,000
Annette M. Jacobs	—	—	105,750	732,250	—	$ 1,015,000
Former Executive Officers						
Joseph P. Nacchio	—	—	8,135,351	4,640,902	—	—
Afshin Mohebbi	—	—	3,235,000	3,865,000	—	$ 4,350,000
Drake S. Tempest	—	—	710,000	2,180,000	—	$ 3,625,000

(1) Options issued under our Equity Incentive Plan are not currently exercisable due to our failure to file our annual and periodic reports under the securities laws.

(2) Based on the last sales price of our shares of common stock on December 31, 2002 ($5.00), minus the per share exercise price of the unexercised options, multiplied by the number of shares represented by the unexercised options. The last sales price of our shares of common stock on September 30, 2003 was $3.40 per share.

Pension Plans

Executive officers are eligible to participate in the Qwest Pension Plan. Under this plan, an amount equal to 3% of each officer's eligible pay (generally defined as the executive's salary and bonus) is credited to a hypothetical account balance. At the end of each year, the hypothetical account balance is also credited with interest based on the average 30-year Treasury bond rate. In addition, through the end of 2004, an additional interest credit will be made if the cumulative rate of appreciation in the price of our common stock from the end of the year each pay credit is made is greater than the interest credited using the average 30-year Treasury bond rate. When a participant terminates employment, the amount in the hypothetical account balance is converted to an annuity payable for the participant's life. The participants may also elect to receive their benefit in the form of a lump-sum payment. A non-qualified pension plan also exists which authorizes the payment of benefits which may exceed the limits otherwise imposed under applicable tax and employee benefit regulations.

The following table sets forth the estimated lump-sum benefits payable under the account balance formula in the Qwest Pension Plan assuming the executives continue to be employed at Qwest until age

65, interest credited to the account balances is 6% per year and each executive's eligible compensation under the plan increases at the rate of 4% per year.

Name	Estimated Lump Sum Benefit Payable at Age 65 Under Qwest Account Balance Formula
Richard C. Notebaert	$ 1,235,000
Oren G. Shaffer	$ 355,000
Clifford S. Holtz	$ 1,755,000
Richard N. Baer	$ 1,615,000
Annette M. Jacobs	$ 1,545,000
Joseph P. Nacchio	—
Afshin Mohebbi	—
Drake S. Tempest	—

In addition, the following amounts were paid out to our former executive officers under the plan in connection with the termination of their employment during 2002: Mr. Nacchio, $154,208; Mr. Mohebbi, $98,540; and Mr. Tempest, $51,144.

Pursuant to their employment agreements, Messrs. Notebaert and Shaffer will also receive additional pension benefits equal to the excess of the benefits calculated based on the applicable pension formulas that were in place when they left their previous employer, SBC Communications Inc., including the service they had at SBC, over the benefits they receive under the Qwest plans outlined above and the pension benefits they received from SBC. The following table sets forth the estimated lump-sum value of these additional pension benefits assuming the executives continue to be employed at Qwest until age 65, interest rates are equal to 6% in calculating the lump-sum and each executive's eligible compensation increases at the rate of 4% per year.

Name	Estimated Lump Sum Benefit Payable at Age 65 Under the Provisions of Employment Contracts
Richard C. Notebaert	$ 13,090,000
Oren G. Shaffer	$ 3,295,000

Employment Contracts and Termination of Employment and Change-In-Control Arrangements

The following is a description of the terms and conditions of each employment or change in control agreement that we have (or had during 2002) with our named executive officers:

Richard C. Notebaert. The terms of Mr. Notebaert's employment are governed by an employment agreement dated as of May 14, 2003. The agreement provides for Mr. Notebaert's employment as Chairman and Chief Executive Officer of Qwest, and requires us to use our best efforts to include Mr. Notebaert in the Board's slate of nominees for election as a Class III director at applicable annual meetings. The term of the agreement is for two years beginning on June 17, 2002 and will be automatically extended by twelve months on the first anniversary of June 17, 2002 and on each anniversary thereafter unless one party provides at least 90 days' written notice of non-renewal to the other. The agreement provides for a base salary of $1,100,000 per year, subject to increase (but not decrease) on an annual basis by the Compensation and Human Resources Committee. Mr. Notebaert's target bonus will not be less than 150% of his base salary for the year, provided that we achieve the applicable financial and strategic objectives established for that year, and he must receive a minimum bonus of $825,000 for 2002 and $825,000 for the first six months of 2003. Mr. Notebaert received non-qualified options to purchase 5,000,000 shares of our common stock at an exercise price of $5.10 per share on June 17, 2002. In addition, he will receive options to purchase a minimum of 250,000 shares of our common stock each calendar year during the agreement term, together with additional

options as may be authorized in the discretion of the Compensation and Human Resources Committee, with an exercise price equal to the closing price of our common stock on the applicable award date. Each of the option awards under the agreement will vest in four equal installments on each of the first four anniversaries of the award. Mr. Notebaert also received a grant of 200,000 shares of our restricted stock on June 17, 2002, to vest in equal increments on each of the first three anniversaries thereafter. To the extent not fully vested, on the earliest to occur of a change in control (as defined below), Mr. Notebaert's termination by reason of his death or disability, termination of his employment by us without cause (as defined below), a constructive discharge of Mr. Notebaert, or non-renewal by us of the agreement on any renewal date, all outstanding options and restricted stock will vest immediately. For purposes of Mr. Notebaert's agreement, a "change in control" is defined as any of (1) the intentional acquisition by any person (within the meaning of Section 13(d) or 14(d) of the Exchange Act), other than Qwest, our subsidiaries, any person holding more than 15% of our outstanding common stock as of June 17, 2002 (a "15% Stockholder"), or any of our employee benefit plans, of 20% or more of the combined voting power of our then outstanding voting securities (provided also that this amount is greater than that held by any 15% Stockholder), or (2) at any time during any period of two consecutive years, individuals who at the beginning of such period constitute our Board (and any new director whose election to the Board or whose nomination for election by our stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election and nomination for election was previously so approved) cease for any reason to constitute a majority thereof, or (3) consummation of a reorganization, merger or consolidation or sale or other disposition of substantially all of our assets, unless the holders of our outstanding voting securities before the transaction still hold more than 50% of the combined voting power following the transaction, no person (other than any 15% Stockholder, the company resulting from the transaction or one of our benefit plans) holds 20% or more of the voting power of the resulting company and at least a majority of the board members of the resulting company served on our Board prior to the transaction, or (4) approval by our stockholders of a complete liquidation or dissolution of Qwest; "cause" is defined as conviction of a felony or any crime involving moral turpitude, or a reasonable determination by two-thirds of our directors, after provision of notice and opportunity to be heard, that the executive has willfully and continuously failed to substantially perform his duties or has engaged in gross neglect or gross misconduct resulting in material harm to Qwest; and "constructive discharge" means a reduction in the executive's compensation below levels provided for in the agreement, removal of the executive from the positions provided for in the agreement (including the failure of Mr. Notebaert to be nominated or reelected to our Board), any action by us that results in a significant diminution of the executive's authority, any failure by us to obtain a satisfactory agreement from our successor or assignee to honor our obligations under the agreement, a breach by us of our material obligations under the agreement that is not cured within 30 days, or the occurrence of a change in control.

Mr. Notebaert is also entitled under the agreement to be provided with health and other employee benefits, fringe benefits and perquisites on the same basis as provided to our other senior executives. Mr. Notebaert's benefits also include use of corporate aircraft (including tax gross-up), reimbursement for expenses related to the negotiation of the agreement and temporary housing in Denver (including tax gross-up), pension benefits, business club memberships (including tax gross-up), home security (including tax gross-up), financial planning, and (following termination of his employment for any reason other than cause and only for so long as he fulfills certain non-competition and non-solicitation covenants) payment of reasonable costs for a private office, executive assistant and certain office equipment and services for the rest of his life.

If Mr. Notebaert is terminated without cause, resigns for constructive discharge, or is notified by us of our decision not to renew the agreement upon any expiration date, he is entitled to receive a pro-rated annual bonus for the year of termination and the sum of two years' base salary and annual bonus at the then-current rate. However, if such termination, resignation or notification of non-renewal occurs within two years after a change in control, Mr. Notebaert is entitled to receive (i) pension benefits calculated as if he had two additional years of service at his then-current rate and were two years older and (ii) a pro-rated annual bonus for the year of termination and the sum of three years' base salary and annual bonus at the then-current rate. Mr. Notebaert is also entitled to reimbursement for any excise taxes to which he may be subject in connection with amounts or benefits he receives under the agreement. We have agreed to indemnify Mr. Notebaert against all liabilities and expenses incurred in any proceeding, and to reimburse reasonable expenses incurred by Mr. Notebaert in the defense of or participation in any proceeding, to which Mr. Notebaert is a party because of his service to us.

Mr. Notebaert has agreed that for two years following the termination of his employment for any reason, he will not directly or indirectly (i) engage in any business which is in direct competition with our business or any of our subsidiaries in the telecommunications business, (ii) hire any person who was employed by us or our subsidiaries or affiliates in a non-clerical professional position within the six month period preceding the date of hire or (iii) solicit any person doing business with us or our subsidiaries or affiliates to terminate such relationship.

Oren G. Shaffer. The terms of Mr. Shaffer's employment are governed by an employment agreement dated as of May 14, 2003. The agreement provides for Mr. Shaffer's employment as Vice Chairman and Chief Financial Officer of Qwest. The term of the agreement is for two years beginning on July 8, 2002 and will be automatically extended by twelve months on the first anniversary of July 8, 2002 and on each anniversary thereafter unless one party provides at least 90 days' written notice of non-renewal to the other. The agreement provides for a base salary of $800,000 per year, subject to increase (but not decrease) on an annual basis by the Compensation and Human Resources Committee. Mr. Shaffer's target bonus will not be less than 150% of his base salary for the year, provided that we achieve the applicable financial and strategic objectives established for that year, and he must receive minimum bonuses of $600,000 for 2002 and $600,000 for the first six months of 2003. Mr. Shaffer received non-qualified options to purchase 2,000,000 shares of our common stock at an exercise price of $2.10 per share on July 8, 2002. The option award will vest in four equal installments on each of the first four anniversaries of the award. To the extent not fully vested, on the earliest of a change in control, Mr. Shaffer's termination by reason of his death or disability, termination of his employment by us without cause, a constructive discharge of Mr. Shaffer, or non-renewal by us of the agreement on any renewal date, all outstanding options and restricted stock will vest immediately. The definitions of change in control, cause and constructive discharge are identical to those in Mr. Notebaert's agreement. Mr. Shaffer is also entitled under the agreement to be provided with health and other employee benefits, fringe benefits and perquisites on the same basis as provided to our other senior executives. Mr. Shaffer's benefits also include reimbursement for expenses related to the negotiation of the agreement (including tax gross-up), pension benefits and (following termination of his employment for any reason other than cause) payment of reasonable costs for a private office, executive assistant and certain office equipment and services for a period of five years.

If Mr. Shaffer is terminated without cause, resigns for constructive discharge, or is notified by us of our decision not to renew the agreement upon any expiration date, he is entitled to receive a pro-rated annual bonus for the year of termination and the sum of two years' base salary and annual bonus at the then-current rate. However, if such termination, resignation or notification of non-renewal occurs within two years after a change in control, Mr. Shaffer is entitled to receive (i) pension benefits calculated as if he had two additional years of service at his then-current rate and were two years older and (ii) a pro-rated annual bonus for the year of termination and the sum of three years' base salary and annual bonus at the then-current rate. Mr. Shaffer is also entitled to reimbursement for any excise taxes to which he may be subject in connection with amounts or benefits he receives under the agreement. We have agreed to indemnify Mr. Shaffer against all liabilities and expenses incurred in any

proceeding, and to reimburse reasonable expenses incurred by Mr. Shaffer in the defense of or participation in any proceeding, to which Mr. Shaffer is a party because of his service to us.

Mr. Shaffer has agreed that for two years following the termination of his employment for any reason, he will not directly or indirectly (i) engage in any business which is in direct competition with our business or any of our subsidiaries in the telecommunications business, (ii) hire any person who was employed by us or our subsidiaries or affiliates in a non-clerical professional position within the six month period preceding the date of hire or (iii) solicit any person doing business with us or our subsidiaries or affiliates to terminate such relationship.

Clifford S. Holtz. Mr. Holtz's current base salary is $450,000 per year, and his current target bonus is 100% of his annual base salary. Other terms of Mr. Holtz's employment are governed by a severance agreement dated July 21, 2003, which is described below under "Other Change in Control Arrangements—Severance Agreements."

Richard N. Baer. Mr. Baer's current base salary is $500,000 per year, and his current target bonus is 150% of his annual base salary. Other terms of Mr. Baer's employment are governed by a severance agreement dated July 21, 2003, which is described below under "Other Change in Control Arrangements—Severance Agreements." In addition, on May 8, 2002, Mr. Baer and we entered into a retention agreement that provided for cash payments, each in the amount of $308,750, to be made to Mr. Baer on May 17, 2002, December 6, 2002 and January 31, 2003, provided Mr. Baer remained employed on those dates. These payments were made to Mr. Baer on such dates.

Annette M. Jacobs. Ms. Jacobs served as our Executive Vice President, Consumer Markets until her resignation on September 5, 2003. Prior to her resignation, Ms. Jacobs' base salary was $450,000 per year, and her target bonus was 100% of her annual base salary. In connection with her resignation, Ms. Jacobs and we entered into a Severance Agreement and General Release dated as of September 17, 2003. Pursuant to this agreement, we are required to pay Ms. Jacobs severance of $675,000 and a gross bonus amount of $336,575 on or before October 24, 2003. In addition, we must pay Ms. Jacobs $183,750 on or before October 24, 2003 to compensate her for her inability to exercise 87,500 vested stock options with an exercise price of $2.10 during the 90 day period following her resignation. In exchange for this payment, these vested options will be cancelled. Ms. Jacobs has also agreed that, for one year after her resignation, she will not alone or with others (i) compete with us anywhere in the United States where we do business, (ii) solicit any of our employees to leave our employment, and (iii) disclose or use any of our confidential information or trade secrets.

Joseph P. Nacchio. Prior to Mr. Nacchio's resignation in June 2002, the terms of his employment were governed by an employment agreement dated as of October 24, 2001. In connection with his resignation, Mr. Nacchio and Qwest entered into a Resignation and Consulting Agreement, dated June 16, 2002. Pursuant to this agreement, Mr. Nacchio's resignation was treated as a termination without Cause as defined in, and for purposes of, Mr. Nacchio's employment agreement. As such, Mr. Nacchio received a severance payment in the amount of $10,500,000, equal to two times the sum of his then-current base salary and target bonus under the employment agreement. In addition, Mr. Nacchio received a payment of approximately $1.7 million for accrued obligations of Qwest (including a pro-rated annual bonus for 2002), other benefits payable pursuant to the terms of welfare, pension, deferred compensation and other plans, two years' continuation of retirement and welfare benefits, retiree medical benefits for Mr. Nacchio and his spouse for life and for his current dependents for as long as they remain his dependents, continued indemnification against liabilities and expenses incurred in any proceeding which Mr. Nacchio is a party because of his service to us, reimbursement for financial planning services, ten years' free long-distance and other telecommunications services, and two years' office space and secretarial support.

All of Mr. Nacchio's unvested options were cancelled upon his resignation, and all vested options continue to be governed by the terms of the applicable option agreements, except that the exercise period of certain options received by Mr. Nacchio in 1997 to purchase 4,640,902 shares was extended to June 22, 2007. These latter options may not be exercised until after January 1, 2004 and will be forfeited by Mr. Nacchio if he fails to comply with the terms of the Resignation and Consulting Agreement (including all applicable covenants regarding confidentiality, non-solicitation and non-competition). In addition, Mr. Nacchio has agreed to serve through June 30, 2004 as a consultant to us with respect to transitional matters relating to our business, for which he is to receive a monthly consulting fee of $125,000 (pro-rated for partial months) and reimbursement of expenses.

Mr. Nacchio also agreed that for one year following the termination of his employment, he would not directly or indirectly engage in any activity competitive with our business or the telecommunications businesses of any of our subsidiaries or affiliates, present or future.

Afshin Mohebbi. Mr. Mohebbi served as our President and Chief Operating Officer until December 4, 2002 and resigned from Qwest on December 31, 2002. Prior to his resignation, the terms of Mr. Mohebbi's employment were governed by an amended and restated employment agreement dated January 1, 2002. In accordance with that agreement, we paid Mr. Mohebbi a severance payment in the amount of $4,800,000, accrued vacation pay in the amount of $114,423 and relocation costs of approximately $206,000 (including tax gross-up) in connection with the termination of his employment. In addition, under the agreement, we are required to pay for continued health care coverage for Mr. Mohebbi and his family for a maximum of 30 months or until he accepts other employment and to continue to indemnify Mr. Mohebbi as provided in the agreement.

In connection with the execution of the amended and restated employment agreement, Mr. Mohebbi signed a Non-compete, Non-solicitation and Non-disclosure Agreement. The agreement prohibits Mr. Mohebbi from competing with us anywhere in the United States, soliciting employees from us, or disclosing any confidential information for 30 months after his employment with us terminated. In addition, pursuant to the terms of Mr. Mohebbi's prior employment agreement, we loaned Mr. Mohebbi $600,000 under a promissory note dated May 18, 1999. The loan was unsecured and did not bear interest. The promissory note provided that the principal amount was to be forgiven in 36 equal monthly increments beginning July 1, 1999 and ending on June 1, 2002. Effective April 1, 2002, we loaned Mr. Mohebbi an additional $4 million, which bears interest at the rate of 5.54%, compounded semi-annually. Mr. Mohebbi has agreed to use a portion of the loan to pay the premium on a life insurance policy covering his life. The outstanding principal balance of the loan, together with any accrued and unpaid interest thereon, will be due and payable within 90 days following Mr. Mohebbi's death or earlier upon the occurrence of any transfer or surrender of the life insurance policy, any borrowing against or withdrawals of cash from the policy, any pledge of or encumbrance on the policy, or any reduction in the face amount of the policy that results in a distribution of cash value. Mr. Mohebbi is the owner of the life insurance policy.

Drake S. Tempest. Prior to Mr. Tempest's resignation effective December 8, 2002, the terms of his employment were governed by letter agreements dated October 6, 1998 and October 31, 2001. In connection with Mr. Tempest's resignation and pursuant to a Severance Agreement and General Release dated November 14, 2002, we paid Mr. Tempest $1,800,000, which was the amount due to him under the letter agreements. In addition, Mr. Tempest received discounted medical benefits for a period of 18 months and benefits payable pursuant to the terms of welfare, pension, deferred compensation and other plans.

Mr. Tempest also agreed that for 18 months following his resignation, he will not directly or indirectly induce, solicit, recruit or entice away any person who, at any time during the immediately preceding three months, is a managerial level (or higher) Qwest employee; provided that the foregoing restriction does not apply if the person is no longer employed by us.

Other Change in Control Arrangements

Equity Incentive Plan. Unless otherwise provided by the Compensation and Human Resources Committee, our Equity Incentive Plan provides that, on a "change in control," all awards granted under the Equity Incentive Plan will vest immediately. For this purpose, a "change in control" will be deemed to occur if either (1) any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act), other than Anschutz Company, The Anschutz Corporation, any entity or organization controlled by Philip F. Anschutz, or a trustee or other fiduciary holding securities under an employee benefit plan of Qwest, acquires beneficial ownership of 50% or more of either (A) the then-outstanding shares of common stock or (B) the combined voting power of our then-outstanding voting securities entitled to vote generally in the election of directors or (2) at any time during any period of three consecutive years after June 23, 1997, individuals who at the beginning of such period constitute our Board of Directors (and any new director whose election by our Board of Directors or whose nomination for election by our stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority thereof. Options granted under the plan before June 1, 1998 were subject to a different definition of change in control that was triggered by the U S WEST merger. Options that we granted to our employees from June 1999 to September 2002 typically provide for accelerated vesting if the optionee is terminated without cause following a change in control. Since September 2002, options that we grant to our officers (vice president level and above) typically provide for accelerated vesting and an extended exercise period upon a change of control, and options that we grant to all other employees typically provide for accelerated vesting if the optionee is terminated without cause following a change in control.

Severance Agreements. On July 21, 2003, we entered into Severance Agreements with Messrs. Baer and Holtz. Pursuant to these agreements, if we terminate any of these executives without "cause" (as defined below), the executive is entitled to receive a severance amount equal to one-and-one-half times the executive's highest annual base salary in effect during the preceding 12 months, payable over an 18-month period. In addition, if at the end of the 18-month period the executive has not breached or threatened to breach any part of the agreement, the executive will also receive a lump-sum payment equal to one-and-one half times the executive's highest target annual bonus in effect during the 12 months preceding the termination. If we terminate the executive without cause, or the executive terminates his or her employment with "good reason" (as defined below), in either case within two years following a "change in control" as defined in our Equity Incentive Plan, the executive will receive a severance payment equal to three times the executive's annual base salary in effect at the time of termination (or at the change in control, if greater), plus three times the executive's target annual bonus in effect at the time of termination (or at the change in control, if greater), plus a prorated bonus for the portion of the bonus payment measurement period during which the executive was employed prior to the termination. For the purposes of the severance agreements, "cause" means (1) commission of an act of dishonesty, fraud, misrepresentation or other act of moral turpitude that would reflect negatively upon us or compromise the performance of the executive's duties, (2) unlawful conduct resulting in material injury to us, (3) conviction of a felony or misdemeanor involving moral turpitude, (4) continued failure to perform the executive's duties, or (5) willful violation of our code of conduct or other policies resulting in injury to us; and "good reason" means (i) a reduction of the executive's compensation, (ii) a material reduction of the executive's responsibilities, (iii) our material breach of the agreement, (iv) our failure to obtain the agreement of any successor to honor the terms of the agreement, or (v) a requirement that the executive's primary work location be moved to a location more than 35 miles from the executive's prior primary work location.

In order to receive any severance payment, the executive must execute a full waiver and release agreement with us. The waiver agreement contains a provision requiring the executive to pay back to us

any severance received by the executive if after the payments are made it is determined that the executive engaged in conduct constituting "cause" while employed by us. Under the agreements, in the event of a covered termination we will also be required to pay the executive's premiums for continuing health care coverage under COBRA for up to 18 months, plus an amount necessary to cover any excise taxes to which the executive might become subject as a result of the above benefits. The agreements prohibit the executive from disclosing or making use of our confidential information after a termination of employment, and from competing against us for 18 months, or inducing any of our employees from leaving our employment for twelve months, after such termination.

Compensation Committee Interlocks and Insider Participation

Our Compensation and Human Resources Committee consisted of Philip F. Anschutz, Thomas J. Donohue, Jordan L. Haines, Frank P. Popoff and Craig D. Slater during 2002. Messrs. Haines and Popoff acted as a separate subcommittee of the Compensation and Human Resources Committee that generally considered matters relating to compensation and perquisites that were referred or delegated to it by the Compensation and Human Resources Committee. No member of the Compensation and Human Resources Committee of our Board has been an officer or employee of Qwest or any of our subsidiaries at any time. None of our executive officers serves as a member of the board of directors or compensation committee of any other company that has one or more executive officers serving as a member of our Board or the Compensation and Human Resources Committee of our Board.

Mr. Anschutz is a director and Chairman of Anschutz Company, our largest stockholder. Mr. Slater is the Executive Vice President of Anschutz Company. Mr. Harvey is the President and Chief Operating Officer of Anschutz Company. Certain transactions and relationships that took place or existed in 2002 between us and Anschutz Company or its affiliates are described below. You can find information about transactions and relationships that took place or existed prior to 2002 in our previous filings with the SEC.

An affiliate of Mr. Anschutz and Anschutz Company indirectly provides facilities to us at prevailing market rates. We rent one of our corporate offices in Denver, Colorado from an entity in which Mr. Anschutz holds an interest. The rental charges and related operating expenses paid to the landlord for these facilities totaled approximately $4.6 million for 2002. During 2002, we exercised our rights under the lease to reduce the amount of rented space and terminate the lease with respect to several floors, effective September 30, 2002. We paid the landlord a termination fee of approximately $1.9 million upon entering into the lease amendment.

During 2002, we reimbursed various subsidiaries of Anschutz Company at their cost for approximately $63,000 of transportation, lodging and other business expenses incurred on our behalf. We also paid various Anschutz Company subsidiaries in 2002 approximately $60,000 in travel savings allocations and rebates related to travel discounts from certain airlines and travel agencies and approximately $46,000 in worker's compensation payments. During 2002, various Anschutz Company subsidiaries paid us at prevailing market rates approximately $2.3 million for telephone and related services. In addition, during 2002, an affiliate of Anschutz Company paid us at prevailing market rates approximately $32,000 for web hosting and related services.

In April 1999, we entered into a registration rights agreement with Anschutz Company generally covering all of the shares owned by Anschutz Company and one of its affiliates. The agreement provides for eight demand registrations and unlimited piggyback registrations. Demand registrations must cover at least 5 million shares.

In October 1999, we and Anschutz Digital Media, Inc. ("ADMI"), a subsidiary of Anschutz Company, formed a joint venture called Qwest Digital Media, LLC ("QDM"), which provided advanced digital production, post-production and transmission facilities; digital media storage and distribution services; telephony-based data storage; and enhanced access and routing services. We

contributed capital of approximately $84.8 million in the form of a promissory note payable over nine years at an annual interest rate of 6%. At inception, we and ADMI each owned 50% equity and voting interest in the joint venture. In June 2000, we acquired an additional 25% interest in QDM directly from ADMI and paid $48.2 million for the interest; $4.8 million in cash at closing and the remaining $43.4 million in the form of a promissory note payable in December 2000, with an annual interest rate of 8%. As a result of this transaction, we owned a 75% economic interest and 50% voting interest in QDM, and ADMI owned the remaining 25% economic interest and 50% voting interest. We paid the note associated with this additional 25% interest in full, including approximately $1.8 million in accrued interest, in January 2001.

In October 1999, we entered into a long-term Master Services Agreement with QDM under which QDM agreed to purchase approximately $119 million of telecommunication services through October 2008, and we agreed to extend credit to QDM for the purpose of making payments for the telecommunications services. Each October, QDM was required to pay us an amount equal to the difference between certain specified annual commitment levels and the amount of services actually purchased under the Master Services Agreement at that time. In October 2001, we agreed to terminate the Master Services Agreement and release QDM from its obligation to acquire telecommunications services from us. At the same time, QDM agreed to forgive the remaining balance of $84.8 million that we owed on the promissory note related to our original capital contribution. Prior to the termination of the Master Services Agreement, we advanced QDM $3.8 million, which was the amount it owed to us under the agreement for accrued telecommunications services. QDM used that advance to pay us the amount owed, including interest on amounts past due. Concurrently with terminating the Master Services Agreement, QDM repaid the $3.8 million advance under the Master Services Agreement with interest. QDM made purchases of $0.7 million during 2002.

In September 2001, Anschutz Entertainment Group, Inc., an affiliate of Anschutz Company, purchased furniture and equipment from QDM for $3.4 million in cash, a 3-year $600,000, non-interest bearing note and the assumption of approximately $1.7 million in future lease payment obligations. QDM originally acquired the assets as part of ADMI's contribution to QDM's capital and at the time of the contribution the assets were valued at $6.9 million. At the time of sale, the assets had a book value of $4.2 million. The price of the assets sold was determined based on a competitive bid process that resulted in a sale to the highest bidder. As of December 31, 2002, Anschutz Entertainment Group, Inc. had made payments aggregating $200,000 on the note. The second payment of $200,000 was paid in September 2003, and the final payment of $200,000 is due in September 2004.

In January 2002, ADMI and we each loaned QDM approximately $1.3 million. In February 2002, ADMI and we decided to cease the operations of QDM. During the remainder of 2002, ADMI and we loaned QDM an additional $300,000 and $3.8 million, respectively, in connection with the winding down of QDM's business or in response to loan requests made during 2001. As of December 31, 2002, the aggregate principal balance and accrued interest outstanding on loans to QDM from ADMI and us was $4.4 million and $12.4 million, respectively. During 2002, we also paid QDM approximately $305,000 for digital media products and services provided to us in the ordinary course of business. In addition, during 2002, ADMI and we made capital contributions to, and received capital distributions from, QDM in proportion to our respective economic interests of 25% and 75%.

In October 1999, we agreed to purchase certain telephony-related assets and all of the stock of Precision Systems, Inc., a telecommunications solutions provider, from ADMI in exchange for a promissory note in the amount of $34 million. The note bears interest at 6% annually with semi-annual interest payments and annual principal payments due through 2008. During 2002, we did not pay any interest or principal on the note. At December 31, 2002, the outstanding accrued interest on the note was approximately $2.4 million, and the outstanding principal balance on the note was approximately $33.7 million.

In April 1999, we and KPN Telecom B.V. ("KPN") formed KPNQwest, a joint venture, to create a pan-European Internet Protocol-based fiber optic network, linked to our network in North America, for data and multimedia services. We and KPN each initially owned 50% of KPNQwest. In November 1999, KPNQwest consummated an initial public offering in which 50.6 million shares of common stock were issued to the public generating approximately $1.0 billion in proceeds. As a result of KPNQwest's initial public offering, the public owned approximately 11% of KPNQwest's shares, and the remainder was owned equally by us and KPN. Originally, contractual provisions restricted our ability to sell or transfer any of our shares through 2004. In November 2001, we purchased approximately 14 million additional shares, and Anschutz Company purchased approximately six million shares, of KPNQwest common stock from KPN for $4.58 per share. Anschutz Company's purchase was at our request and with the approval of the disinterested members of our Board of Directors. After giving effect to this transaction, we held approximately 47.5% of KPNQwest's outstanding shares. In connection with this transaction, the restrictions on our ability to transfer shares were removed.

During 2002, we entered into several transactions with KPNQwest for the purchase and sale of optical capacity assets and the provisioning of services, including but not limited to private line, web hosting, IP transit and DIA. In 2002, we made purchases of these assets and services from KPNQwest totaling approximately $169 million and recognized revenue on products and services sold to KPNQwest in the amount of approximately $12 million. At December 31, 2002, we had a receivable from KPNQwest for these products and services of approximately $5 million. Pricing for these services was based on what we believed to be the fair market value at the time the transactions were consummated. Some of KPNQwest's sales to us were in accordance with the distribution agreement with KPNQwest, whereby we were, in certain circumstances, the exclusive distributor of certain of KPNQwest's services in North America. As of December 31, 2001, we had a remaining commitment to purchase up to 81 million Euros (or $72 million based on a conversion rate at December 31, 2001) worth of network capacity through 2002 from KPNQwest. In connection with KPNQwest's bankruptcy, the purchase commitment terminated during June 2002.

In March 2002, KPNQwest acquired certain assets of Global TeleSystems Europe B.V. ("GTS") for convertible notes of KPNQwest with a face amount of 211 million Euros, among other consideration, under an agreement entered into in October 2001. As disclosed to our Board of Directors, a subsidiary of Anschutz Company had become a creditor of GTS in 2001. We understand that in 2001 and 2002, as part of a group of GTS bondholders, the Anschutz Company subsidiary also provided interim financing to GTS. In connection with the consummation of KPNQwest's acquisition of the GTS assets, the Anschutz Company subsidiary received a distribution of such notes with a face amount of approximately 37 million Euros. We understand that the allocation of notes to the Anschutz Company subsidiary was determined by a creditor committee for GTS which did not include any representatives of Anschutz Company, and neither the KPNQwest notes nor the shares referenced above, both of which are still held by Anschutz Company, have any current value.

We are a party to a tax sharing agreement with the Anschutz Company with respect to federal and state income taxes attributable to periods prior to June 1998 and during which we were included in Anschutz Company's consolidated tax returns. During 2002, we incurred approximately $72,000 in legal fees and expenses in connection with litigation currently pending in the United States Tax Court against the Anschutz Company concerning tax liabilities for the 1994 through 1996 fiscal years. We have assumed responsibility for the defense of this action because the matters at issue relate solely to our operations and the outcome of the litigation could affect our tax liability with respect to subsequent tax years.

ITEM 12. ***SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS***

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information regarding the beneficial ownership of our shares of common stock as of September 30, 2003 (except where another date is indicated) by:

- each person known by us to beneficially own more than five percent of our common stock;
- each director and nominee for director;
- each of the named executive officers listed in the Summary Compensation Table in Part III, Item 11 above; and
- all directors and executive officers as a group.

Unless otherwise indicated, the business address of each person shown below is 1801 California Street, Denver, Colorado 80202. Information regarding former executive officers is based on the most recent information available to us.

Name	Address	Amount and Nature of Beneficial Ownership(1)	Percent of Outstanding Shares(2)
5% Owners			
Philip F. Anschutz, Director	555 Seventeenth Street Denver, CO 80202	300,428,004(3)	17.1%
AXA Financial, Inc.	1290 Avenue of the Americas New York, NY 10104	170,336,149(4)	9.7%
FMR Corp.	82 Devonshire Street Boston, MA 02109	166,699,433(5)	9.5%
Legg Mason, Inc.	100 Light Street Baltimore, MD 21202	117,041,118(6)	6.6%
Directors and Executive Officers as of December 31, 2002			
Richard C. Notebaert		1,450,000(7)	*
Linda G. Alvarado		57,168(8)	*
Craig R. Barrett		80,656(9)	*
Thomas J. Donohue		11,024(10)	*
Jordan L. Haines		5,250(11)	*
Cannon Y. Harvey		79,400(12)	*
Peter S. Hellman		58,896(13)	*
Vinod Khosla		5,244(14)	*
Frank P. Popoff		105,415(15)	*
Craig D. Slater		123,400(16)	*
W. Thomas Stephens		18,809(17)	*
Oren G. Shaffer		500,000(18)	*
Clifford S. Holtz		636,250(19)	*
Richard N. Baer		266,500(20)	*
Annette M. Jacobs	c/o Patrick Folan St. John, Wallace, Brennan & Folan LLP 21515 Hawthorne Boulevard, Suite 1120	174,156(21)	*

	Torrance, CA 90503		
Directors and executive officers as a group (16 persons)		304,000,172(22)	17.3%
Former Executive Officers			
Joseph P. Nacchio	c/o Stillman & Friedman 425 Park Avenue New York, NY 10022	8,704,576(23)	*
Afshin Mohebbi	565 5th Avenue, 10th Floor New York, NY 10017	27,458	*
Drake S. Tempest	153 East 53rd Street New York, NY 10022	6,373	*

* Less than one percent.

(1) The number of shares beneficially owned by each entity, person, director or named executive officer is determined under rules of the Securities and Exchange Commission, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, each entity or individual is considered the beneficial owner of any shares as to which they have the sole or shared voting power or investment power. Such persons are also deemed under the same rules to beneficially own any shares that they have the right to acquire by November 29, 2003, through the exercise of stock options or other similar rights. Options issued under our Equity Incentive Plan are not currently exercisable due to our failure to file our annual and periodic reports under the securities laws. The amounts shown also include, where applicable, shares of restricted stock and shares of stock held for the account of each person pursuant to Qwest's 401(k) and Employee Stock Purchase Plans. Unless otherwise indicated, each person has sole investment and voting power (or, under applicable marital property laws, shares such powers with his or her spouse) with respect to the shares set forth in the table above. Figures do not include phantom equity units that we credit to accounts for our non-employee directors, based on their election to defer their director's fees earned in a given year. As of September 30, 2003, the following phantom equity units had been credited to accounts for our non-employee directors: (a) Ms. Alvarado, 119,042.26; (b) Mr. Barrett, 65,793.92; (c) Mr. Donohue, 73,872.39; (d) Mr. Haines, 114,098.51; (e) Mr. Harvey, 75,094.99; (f) Mr. Hellman, 136,875.58; (g) Mr. Khosla, 51,912.15; (h) Mr. Popoff, 110,032.76; (i) Mr. Slater, 88,639.35; and (j) Mr. Stephens, 96,590.70. Each phantom equity unit represents a value equivalent to one share of our common stock.

(2) Ownership percentage is reported based on 1,761,634,561 shares of common stock outstanding on September 30, 2003, plus, as to the holder thereof only and no other person, the number of shares (if any) that the person has the right to acquire by November 29, 2003, through the exercise of stock options or other similar rights.

(3) Includes, as of September 30, 2003, (a) 283,208,000 shares deemed owned by Anschutz Company, a corporation wholly owned by Mr. Anschutz, (b) 17,200,000 shares held by Anschutz Family Investment Company LLC, of which Anschutz Company is the manager and a one percent equity owner, and (c) 20,000 shares held as custodian for Mr. Anschutz's children. Mr. Anschutz disclaims beneficial ownership of the 20,000 shares. Of the 283,208,000 shares shown as owned by Anschutz Company, (a) 6,075,000 are subject to forward sale contracts pursuant to which Anschutz Company holds no investment control but could, under certain circumstances, reacquire voting power, and (b) 19,208,000 are owned by a trust (over which Anschutz Company has no voting control) created in 1998 for holders of Trust Enhanced Distribution Securities ("TrENDS"). The terms of the TrENDS Trust require that Anschutz Company either cause the trust to assign such shares to the TrENDS holders on November 17, 2003 or provide cash to the trust to settle such obligation at the average closing price of the shares in the 20 trading days prior to November 17, 2003. If the TrENDS obligation is settled for cash, Anschutz Company would become the owner of the shares. Because a cash settlement of the TrENDS could occur within 60 days of the date of the information presented in the table above, the shares in the TrENDS trust are shown as owned by Anschutz Company.

(4) Beneficial ownership information is based on information contained in Amendment No. 1 to Schedule 13G filed with the SEC on February 12, 2003 by AXA Financial, Inc. ("Financial") on behalf of itself and affiliated entities. According to the schedule, the shares are also beneficially owned by the following French affiliates of AXA Financial, Inc.: AXA Assurances I.A.R.D. Mutuelle; AXA Assurances Vie Mutuelle; AXA Conseil Vie Assurance Mutuelle; AXA Courtage Assurance Mutuelle; and AXA (collectively with Financial, the "AXA Group"). Of the reported shares, the AXA Group reports that it has sole voting power with respect to 89,519,990 shares, that it shares voting power with respect to 18,907,230 shares, and that is has sole dispositive power with respect to 170,336,149 shares. The AXA Group reports that its shares are deemed to be beneficially owned by the following subsidiaries of AXA: AXA Konzern AG (Germany) (3,108 shares) and AXA Investment Managers Paris (France) (18,200 shares) and by the following subsidiaries of AXA Financial, Inc.: Alliance Capital Management L.P. (170,152,689 shares) and The Equitable Life Assurance Society of the United States (162,152 shares).

(5) Beneficial ownership information is based on information contained in Amendment No. 2 to Schedule 13G filed with the SEC on February 14, 2003 by FMR Corp. on behalf of itself and affiliated persons and entities. The schedule contains the following information regarding beneficial ownership of the shares: (a) Fidelity Management & Research Company (a wholly owned subsidiary of FMR Corp.) is the beneficial owner of 141,927,542 shares. Edward C. Johnson III, FMR Corp. and the Fidelity Funds each has sole power to dispose of the shares. Neither Edward C. Johnson III nor FMR Corp. has the sole power to vote or direct the voting of the shares owned by the Fidelity Funds; such shares are voted by the Board of Trustees for the Fidelity Funds; (b) Fidelity Management Trust Company (a wholly owned subsidiary of FMR Corp.) is the beneficial owner of 10,324,968 shares. Edward C. Johnson III and FMR Corp. each has sole power to dispose of 10,324,968 shares, sole power to vote or direct the voting of 9,753,768 shares and no power to vote or direct the voting of 571,200 shares; (c) Strategic Advisers, Inc. (a wholly owned subsidiary of FMR Corp.) is the beneficial owner of 415 shares. It has the sole power to dispose of the shares and sole power to vote or direct the voting of the shares; (d) Geode Capital Management, LLC (a wholly owned subsidiary of Fidelity

Investors III Limited Partnership, some of whose limited partners and the members of whose general partner are shareholders and employees of FMR Corp.) is the beneficial owner of 6,008 shares; and (e) Fidelity International Limited (a subsidiary of FMR Corp.) is the beneficial owner of 14,440,500 shares. It has sole power to dispose of the shares and sole power to vote or direct the voting of the shares.

(6) Beneficial ownership information is based on information contained in a report on Schedule 13G filed with the SEC on February 13, 2003 by Legg Mason, Inc. ("Legg Mason") as parent holding company for the following subsidiaries: Bartlett & Co.; Berkshire Asset Management, Inc.; Bingham Legg Advisers, LLC; Gray, Seifert & Co., Inc.; Legg Mason Capital Management, Inc.; Legg Mason Focus Capital, Inc.; Legg Mason Funds Management, Inc.; Legg Mason Trust, fsb; and Legg Mason Wood Walker, Inc. According to the schedule, Legg Mason has shared voting and dispositive power over all of the indicated shares.

(7) Includes 1,250,000 shares subject to options that are exercisable on or before November 29, 2003.

(8) Includes 56,130 shares subject to options that are exercisable on or before November 29, 2003.

(9) Includes 56,130 shares subject to options that are exercisable on or before November 29, 2003.

(10) Includes 9,250 shares subject to options that are exercisable on or before November 29, 2003.

(11) Includes 4,250 shares subject to options that are exercisable on or before November 29, 2003.

(12) Includes 54,400 shares subject to options that are exercisable on or before November 29, 2003.

(13) Includes 56,130 shares subject to options that are exercisable on or before November 29, 2003.

(14) Includes 4,250 shares subject to options that are exercisable on or before November 29, 2003.

(15) Includes: (a) 20,000 shares owned as trustee for the Frank P. Popoff Revocable Living Trust, and (b) 61,318 shares subject to options that are exercisable on or before November 29, 2003.

(16) Includes 99,400 shares subject to options that are exercisable on or before November 29, 2003.

(17) Includes 4,250 shares subject to options that are exercisable on or before November 29, 2003.

(18) Includes 500,000 shares subject to options that are exercisable on or before November 29, 2003.

(19) Includes 531,250 shares subject to options that are exercisable on or before November 29, 2003.

(20) Includes 266,500 shares subject to options that are exercisable on or before November 29, 2003.

(21) Includes 170,750 shares subject to options that are exercisable on or before November 29, 2003.

(22) Includes 3,124,008 shares subject to options that are exercisable on or before November 29, 2003 by the directors and executive officers as of December 31, 2002 as a group.

(23) Includes (a) 3,200 shares owned by or for the benefit of Mr. Nacchio's children, (b) 90,000 shares held by the Nacchio Family Limited Partnership, of which Mr. Nacchio and his spouse each own a 1% general partnership interest and the remaining 98% is held in trust for Mr. Nacchio's children, (c) 476,025 shares held by his spouse and (d) 8,135,351 shares subject to options that are exercisable on or before November 29, 2003. Mr. Nacchio disclaims beneficial ownership of the 476,025 shares held by his spouse and the 3,200 shares owned by or for the benefit of his children.

Equity Compensation Plan Information

We currently maintain four compensation plans under which shares of our common stock are authorized for issuance to employees and non-employees: our Equity Incentive Plan; our Employee Stock Purchase Plan; our Nonqualified Employee Stock Purchase Plan and our Equity Compensation Plan for Non-Employee Directors. Our Equity Incentive Plan and Employee Stock Purchase Plan have been approved by our stockholders. Our Nonqualified Employee Stock Purchase Plan and our Equity Compensation Plan for Non-Employee Directors, each of which is described in more detail below, have not been approved by our stockholders. The following table provides information as of December 31, 2002 about outstanding options and shares reserved for future issuance under these plans:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)	Weighted-average exercise price of outstanding options, warrants and rights(1)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	112,320,486	$ 19.81	57,705,931(2)
Equity compensation plans not approved by security holders	—	—	10,083,267(3)
Total	112,320,486		67,789,198

(1) Options issued under our Equity Incentive Plan are not currently exercisable due to our failure to file our annual and periodic reports under the securities laws. Includes 83,355,721 shares issuable upon the exercise of outstanding options originally granted under plans we assumed in connection with acquisitions, including the US WEST merger. The weighted average exercise price of these options is $21.47. We do not intend to grant any new options under these plans.

(2) Does not include shares of our common stock that may be approved for future issuance under our Equity Incentive Plan at our 2003 Annual Stockholders' Meeting. Includes 57,216,076 shares available for future issuance under our Equity Incentive Plan and 489,855 shares available for future issuance under our Employee Stock Purchase Plan.

(3) Includes 10,000,000 shares available for future issuance under our Nonqualified Employee Stock Purchase Plan and 83,267 shares available for future issuance under our Equity Compensation Plan for Non-Employee Directors.

In 1997, our Board of Directors adopted an Equity Compensation Plan for Non-Employee Directors, under which directors who are not officers or employees of Qwest may receive shares of our common stock. Under the plan, eligible directors may elect on a quarterly basis to receive any or all of their annual and meeting fees for that quarter in shares of our common stock. With respect to each quarter for which an election is made, the total number of shares granted to the electing director equals the amount of the director's total annual and meeting fees divided by the fair market value of our common stock on the last business day of that quarter. Shares issued under the plan are to be issued as soon as practicable after the end of each quarter.

In 2002, our Board of Directors adopted a Nonqualified Employee Stock Purchase Plan; however we have not commenced any offers nor issued any shares of our common stock under the plan. If used, the Nonqualified Employee Stock Purchase Plan will provide eligible employees of Qwest with an opportunity to purchase shares of our common stock. The maximum number of shares of common stock that may be purchased under the Nonqualified Employee Stock Purchase Plan is, in the aggregate, 10,000,000. Under the plan, offers to purchase common stock will be made on the first day

of each calendar month and last for a period of one calendar month, unless otherwise determined by the Compensation and Human Resources Committee of our Board of Directors. An eligible employee may participate in any offer under the plan by authorizing payroll deductions of up to 15% of his or her base salary and commissions paid per pay period. Amounts withheld will be held for the credit of the participant as part of our general funds and will not accrue interest. On the last day of each calendar month, the entire account balance of a participating employee will be applied to purchase shares of our common stock at a purchase price equal to 85% of the fair market value of the common stock on the last trading day of that month. In no event, however, will an employee be permitted to purchase more than 20,000 shares of common stock through the plan in any single offer. Participants may not transfer shares of common stock purchased under the plan until after the last day of the sixth month following the month in which the shares were purchased. We have the right to terminate or amend the plan at any time. If not previously terminated by our Board of Directors, the plan will terminate on the date as of which participants have purchased a number of shares equal to or greater than the number of shares then subject to the plan.

ITEM 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS*

See "Compensation Committee Interlocks and Insider Participation" in Part III, Item 12 above for descriptions of certain relationships and transactions between us and Mr. Anschutz, Anschutz Company or one or more of their affiliates.

We loaned Afshin Mohebbi, a former executive officer, $600,000 under a promissory note dated May 18, 1999. The loan was unsecured and did not bear interest. The promissory note provided that the principal amount was to be forgiven in 36 equal monthly increments beginning July 1, 1999 and ending on June 1, 2002. Effective April 1, 2002, we loaned Mr. Mohebbi an additional $4 million, which bears interest at the rate of 5.54%, compounded semi-annually. Mr. Mohebbi has agreed to use a portion of the loan to pay the premium on a life insurance policy covering his life. The outstanding principal balance of the loan, together with any accrued and unpaid interest thereon, will be due and payable within 90 days following Mr. Mohebbi's death or earlier upon the occurrence of any transfer or surrender of the life insurance policy, any borrowing against or withdrawals of cash from the policy, any pledge of or encumbrance on the policy, or any reduction in the face amount of the policy that results in a distribution of cash value. Mr. Mohebbi is the owner of the life insurance policy.

Joseph Nacchio has agreed to serve through June 30, 2004 as a consultant to us with respect to transitional matters relating to our business, for which he is to receive a monthly consulting fee of $125,000 (pro-rated for partial months) and reimbursement of expenses.

Vinod Khosla, one of our directors, is a general partner of Kleiner, Perkins, Caufield and Byers ("KPCB"), a venture capital firm. From time to time, KPCB or entities controlled by it have taken and may take positions (including control positions) in, and have designated and may designate persons (including Mr. Khosla) on the boards of, companies with which we may conduct business.

Marilyn Carlson Nelson, one of our directors from June 2000 until her resignation in June 2002, has been Chairman, President and Chief Executive Officer of Carlson Companies, Inc. ("CCI") since 1998. She is also a member of the Board of Directors of CWT Holdings B.V., in which CCI has, through its affiliates, a 50% interest. CWT Holdings B.V is the parent company of Carlson Wagonlit Travel, Inc. We paid Carlson Wagonlit Travel, Inc. for travel agency services approximately $630,000 in 2002. We also paid the Carlson Marketing Group, Inc., a wholly owned subsidiary of CCI, for marketing and other services supplied by Carlson Marketing Group, Inc., and for goods or travel, hospitality or other services supplied by third parties, approximately $306,000 in 2002, of which we understand $100,000 was the approximate net revenue to the Carlson Marketing Group. During 2002, CCI and its affiliates paid us at prevailing market rates approximately $1.6 million for telephone and related services.

Since September of 2001, W. Thomas Stephens, one of our directors, has been the Deputy Chair of the Board of NorskeCanada (formerly Norske Skog Canada Ltd.). Pacifica Papers, Inc., which was acquired by Norske Skog Canada Ltd. in 2001, is a supplier of paper products to our former directories business, Qwest Dex, under a ten-year contract beginning in 1994. In connection with that contract, which terminates on December 31, 2003, we paid Pacifica Papers approximately $17 million in 2002. Mr. Stephens is also a director of Xcel Energy Inc., a power company that supplies power to us in certain states.

In addition, several of our directors are directors or executive officers of or are otherwise associated with or have investments in companies to which we provide telephone and related services from time to time in the ordinary course.

ITEM 14. *PRINCIPAL ACCOUNTING FEES AND SERVICES*

Pre-Approval Policies and Procedures

The Audit Committee of our Board of Directors is responsible for the appointment, compensation and oversight of the work of our independent public accountant. Pursuant to the Audit Committee's charter, which was amended and restated on May 8, 2003, the Audit Committee pre-approves all auditing and permissible non-auditing services provided by our independent auditor. The approval may be given as part of the Audit Committee's approval of the scope of the engagement of our independent auditor or on an individual basis. The pre-approval of non-auditing services may be delegated to one or more of the Audit Committee's members, but the decision must be presented to the full Audit Committee. Our independent auditor may not be retained to perform the non-auditing services specified in Section 10A(g) of the Exchange Act.

Fees Paid to the Independent Auditor

As indicated in Item 9 of this Form 10-K, we engaged KPMG to be our independent auditor on May 29, 2002. The aggregate fees billed to us for professional accounting services, including the audit of our annual financial statements by KPMG for the fiscal year ended December 31, 2002 (based on fees billed to us through the date of this report) and by Arthur Andersen for the fiscal year ended December 31, 2001, are set forth in the table below. These amounts do not include approximately $4,200,000 of fees billed to us by Arthur Andersen in 2002 related to non-auditing services for management reporting and other matters.

	2002	2001
	(Dollars in thousands)	
Audit fees	$ 28,988	$ 2,765
Audit-related fees	4,806	1,672
Tax fees	645	1,995
Subtotal	34,439	6,432
All other fees	63	6,199
Total fees	$ 34,502	$ 12,631

For purposes of the preceding table, the professional fees are classified as follows:

- Audit Fees—These are fees for professional services performed for the audit of our and certain of our subsidiaries' annual financial statements and review of financial statements included in our 10-Q filings, services that are normally provided by our independent accountant in connection with statutory and regulatory filings or engagements, and services that generally only our independent accountant reasonably can provide, such as comfort letters, statutory audits,

attest services, consents and assistance with and review of documents filed with the SEC. Included in the 2002 category for KPMG are (i) fees for the re-audit of our 2001 and 2000 financial statements and (ii) fees incurred for audits of the financial statements of certain of our subsidiaries performed in connection with acquisitions or dispositions of such subsidiaries, or in compliance with such subsidiaries' independent legal reporting obligations.

- Audit-Related Fees—These are fees for assurance and related services that traditionally are performed by our independent accountant. More specifically, these include: employee benefit plan audits; due diligence related to mergers, acquisitions and dispositions; internal control reviews; attestation services that are not required by statute or regulation; and consultation concerning financial accounting and reporting standards.

- Tax Fees—These are fees for all professional services performed by professional staff in our independent accountant's tax division except those services related to the audit of our financial statements. These include fees for tax compliance, tax planning and tax advice. Tax compliance involves preparation of original and amended tax returns, refund claims and tax payment services. Tax planning and tax advice encompass a diverse range of subjects, including assistance with tax audits and appeals, tax advice related to mergers, acquisitions and dispositions, and requests for rulings or technical advice from taxing authorities.

- All Other Fees (2002 KPMG)—These are fees for other permissible work performed that do not meet the above category descriptions, including assistance with the internal audit department's company-wide risk assessment.

- All Other Fees (2001 Arthur Andersen)—These are fees for other permissible work performed that do not meet the above category descriptions, including consulting services for litigation, information technology, management reporting and other matters. Certain of these fees related to non-auditing services that are no longer permissible as specified in Section 10A(g) of the Exchange Act. KPMG does not perform these types of non-auditing services for the Company.

SEC rules effective as of May 6, 2003 require our Audit Committee to pre-approve all auditing and permissible non-auditing services provided by our independent auditor (with certain limited exceptions). Since the effective date of these rules, all of the services performed by KPMG described above under the captions "Audit-Related Fees," "Tax Fees" and "All Other Fees" were approved in advance by our Audit Committee.

PART IV

ITEM 15. ***EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K***

(a) Documents filed as part of this report:

(b) Reports on Form 8-K:

We filed the following reports on Form 8-K during the fourth quarter of 2002:

(1) On October 29, 2002, we filed a report on Form 8-K to update the status of certain accounting matters.

(2) On October 30, 2002, we filed a report on Form 8-K regarding our results of operations for the third quarter of 2002. Included as exhibits to the Form 8-K were the following financial statements: condensed consolidated statements of operations for the three and nine months ended September 30, 2002 and 2001—as reported and as normalized; condensed consolidated balance sheets as of September 30, 2002 and December 31, 2001; condensed consolidated statements of

cash flows for the nine months ended September 30, 2002 and 2001; and certain selected consolidated financial data.

(3) On November 14, 2002, we filed a report on Form 8-K containing certain financial disclosure including discussions about the expected restatement of our results, results of operations for the three and nine months ended September 30, 2002, liquidity and capital resources, an update on the status of our impairment charges, certain commitments and contingencies and an update on regulatory matters. Included as exhibits to the Form 8-K were the following financial statements: condensed consolidated statements of operations for the three and nine months ended September 30, 2002 and 2001; condensed consolidated balance sheets as of September 30, 2002 and December 31, 2001; and condensed consolidated statements of cash flows for the nine months ended September 30, 2002 and 2001.

(4) On November 15, 2002, we filed a report on Form 8-K to announce the completion of the first phase of the sale of the directory publishing business of our subsidiary, Qwest Dex. We also announced that a portion of the sale proceeds were made available to our subsidiary, Qwest Services Corporation ("QSC"), to pay $1.35 billion in outstanding loans

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under its Amended and Restated Credit Agreement dated as of August 30, 2002, reducing the lending commitments under such revolving credit facility to $2.0 billion.

(5) On November 19, 2002, we filed a report on Form 8-K/A to amend the Form 8-K previously filed on November 15, 2002.

(6) On November 20, 2002, we filed a report on Form 8-K to announce the commencement of a private offer to exchange $12,902,653,000 aggregate principal amount of outstanding debt securities of our subsidiary, Qwest Capital Funding, Inc. ("QCF"), in a private placement for new debt securities.

(7) On November 26, 2002, we filed a report on Form 8-K to announce an agreement with a majority of the lenders in our $2.0 billion syndicated credit facility to amend the agreement governing the facility.

(8) On December 6, 2002, we filed a report on Form 8-K to announce that in connection with our previously announced private offer to exchange outstanding debt securities of QCF in a private placement for new debt securities, a complaint had been filed in the United States District Court for the Southern District of New York against us, QCF and QSC and certain named individual defendants.

(9) On December 23, 2002, we filed a report on Form 8-K to announce the voluntary dismissal of the complaint filed by certain QCF noteholders in connection with our $12.9 billion debt exchange offer and to announce the successful results of our offer to exchange $12.9 billion aggregate principal amount of outstanding debt securities of QCF in a private placement for new debt securities.

(c) Exhibits required by Item 601 of Regulation S-K:

Exhibits identified in parentheses below are on file with the SEC and are incorporated herein by reference. All other exhibits are provided as part of this electronic submission.

Exhibit Number	Description
(2.1)	Separation Agreement, dated June 5, 1998, between U S

WEST, Inc. (renamed "MediaOne Group, Inc.") ("MediaOne Group") and USW-C, Inc (renamed U S WEST, Inc.) ("U S WEST") (incorporated by reference to U S WEST's Current Report on Form 8-K/A dated June 26, 1998, File No. 1-14087).

(2.2) Amendment to the Separation Agreement between MediaOne Group and U S WEST dated June 12, 1998 (incorporated by reference to U S WEST's Annual Report on Form 10-K/A for the year ended December 31, 1998, File No. 1-14087).

(3.1) Amended and Restated Certificate of Incorporation of Qwest (incorporated by reference to Qwest's Registration Statement on Form S-4/A, filed September 17, 1999, File No. 333-81149).

3.2 Amended and Restated Bylaws of Qwest, adopted as of July 1, 2002.

(4.1) Indenture, dated as of October 15, 1997, with Bankers Trust Company (including form of Qwest's 9.47% Senior Discount Notes due 2007 and 9.47% Series B Senior Discount Notes due 2007 as an exhibit thereto)(incorporated by reference to exhibit 4.1 of Qwest's Form S-4 as declared effective on January 5, 1998, File No. 333-42847).

(4.2)** Indenture, dated as of August 28, 1997, with Bankers Trust Company (including form of Qwest's $10^7/_8$% Series B Senior Discount Notes due 2007 as an exhibit thereto).

(4.3)** Indenture, dated as of January 29, 1998, with Bankers Trust Company (including form of Qwest's 8.29% Senior Discount Notes due 2008 and 8.29% Series B Senior Discount Notes due 2008 as an exhibit thereto).

(4.4) Indenture, dated as of November 4, 1998, with Bankers Trust Company (including form of Qwest's 7.50% Senior Discount Notes due 2008 and 7.50% Series B Senior Discount Notes due 2008 as an exhibit thereto) (incorporated by reference to Qwest's Registration Statement on Form S-4, filed February 2, 1999, File No. 333-71603).

(4.5) Indenture, dated as of November 27, 1998, with Bankers Trust Company (including form of Qwest's 7.25% Senior Discount Notes due 2008 and 7.25% Series B Senior Discount Notes due 2008 as an exhibit thereto) (incorporated by reference to Qwest's Registration Statement on Form S-4, filed February 2, 1999, File No. 333-71603).

(4.6) Indenture, dated as of June 23, 1997, between LCI International, Inc. and First Trust National Association, as trustee, providing for the issuance of Senior Debt Securities, including Resolutions of the Pricing Committee of the Board of Directors establishing the terms of the 7.25% Senior Notes due June 15, 2007 (incorporated by reference to LCI's Current Report on Form 8-K, dated June 23, 1997).

(4.7) Indenture, dated as of June 29, 1998, by and among U S WEST Capital Funding, Inc., U S WEST, Inc., and The First National Bank of Chicago (now known as Bank One Trust Company, National Association), as Trustee (incorporated by reference to U S WEST's Current Report on Form 8-K, dated November 18, 1998, File No. 1-14087).

(4.8) First Supplemental Indenture, dated as of June 30, 2000, by and among U S WEST Capital Funding, Inc., U S WEST, Inc., Qwest Communications International Inc., and Bank One Trust Company, as Trustee (incorporated by reference to Qwest's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000).

(4.9) First Supplemental Indenture, dated as of February 16, 2001, to the Indenture, dated as of January 29, 1998, with Bankers Trust Company (including form of Qwest's 8.29% Senior Discount Notes due 2008 and 8.29% Series B Senior Discount Notes due 2008 as an exhibit thereto) (incorporated by reference to Qwest's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001).

(4.10) First Supplemental Indenture, dated as of February 16, 2001, to the Indenture, dated as of October 15, 1997, with Bankers Trust Company (including form of Qwest's 9.47% Senior Discount Notes due 2007 and 9.47% Series B Senior Discount Notes due 2007 as an exhibit thereto) (incorporated by reference to Qwest's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001).

(4.11) First Supplemental Indenture, dated as of February 16, 2001, to the Indenture, dated as of August 28, 1997, with Bankers Trust Company (including form of Qwest's $10^7/8$% Series B Senior Discount Notes due 2007 as an exhibit thereto) (incorporated by reference to Qwest's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001).

(4.12) Indenture, dated as of December 26, 2002, between Qwest, Qwest Services Corporation, Qwest Capital Funding, Inc. and Bank One Trust Company, N.A., as Trustee (incorporated by reference to Qwest's Current Report on Form 8-K filed on January 10, 2003, File No. 1-15577).

(10.1) Growth Share Plan, as amended, effective October 1, 1996 (incorporated by reference to Qwest's Form S-1 as declared effective on June 23, 1997, File No. 333-25391).*

(10.2) Equity Incentive Plan, as amended (incorporated by reference from Qwest's 2000 Proxy Statement for the Annual Meeting of Stockholders).*

(10.3) Employee Stock Purchase Plan (incorporated by reference to Qwest's 2001 Proxy Statement for the Annual Meeting of Stockholders).*

10.4 Nonqualified Employee Stock Purchase Plan.*

(10.5) Deferred Compensation Plan (incorporated by reference to Qwest's Annual Report on Form 10-K for the year ended December 31, 1998).*

(10.6)** Equity Compensation Plan for Non-Employee Directors.*

(10.7) Deferred Compensation Plan for Nonemployee Directors (incorporated by reference to Qwest's Annual Report on Form 10-K for the year ended December 31, 2000).*

(10.8) 401-K Plan (incorporated by reference to Qwest's Annual Report on Form 10-K for the year ended December 31, 1998).*

(10.9) Registration Rights Agreement, dated as of April 18, 1999, with Anschutz Company and Anschutz Family Investment Company LLC (incorporated by reference to Qwest's Current Report on Form 8-K/A, filed April 28, 1999).

(10.10) Common Stock Purchase Agreement, dated as of April 19, 1999, with BellSouth Enterprises, Inc. (incorporated by reference to Qwest's Current Report on Form 8-K/A, filed April 28, 1999).

(10.11) Securities Purchase Agreement, dated January 16, 2001, with BellSouth Corporation (incorporated by reference to Qwest's Annual Report on Form 10-K for the year ended December 31, 2000).

(10.12) Employee Matters Agreement between MediaOne Group and U S WEST, dated June 5, 1998 (incorporated by reference to U S WEST's Current Report on Form 8-K/A, dated June 26, 1998, File No. 1-14087).

(10.13) Tax Sharing Agreement between MediaOne Group and U S WEST, dated June 5, 1998 (incorporated by reference to U S WEST's Current Report on Form 8-K/A, dated June 26, 1998, File No. 1-14087).

(10.14) Purchase Agreement, dated July 3, 2000, among Qwest, Qwest Capital Funding, Inc. and Salomon Smith Barney Inc. (incorporated by reference to Qwest's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000).

(10.15) Purchase Agreement, dated August 16, 2000, among Qwest, Qwest Capital Funding, Inc., Salomon Smith Barney Inc. and Lehman Brothers Inc., as Representatives of the several initial purchasers listed therein (incorporated by reference to Qwest's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).

(10.16) Purchase Agreement, dated February 7, 2001, among Qwest, Qwest Capital Funding, Inc., Banc of America Securities LLC and Chase Securities Inc. as Representatives of the several initial purchasers listed therein (incorporated by reference to Qwest's Annual Report on Form 10-K for the year ended December 31, 2000).

(10.17) Purchase Agreement, dated July 25, 2001, among Qwest, Qwest Capital Funding, Inc., Lehman Brothers Inc. and Merrill Lynch & Co., Inc., as Representatives of the several initial purchasers listed therein (incorporated by reference to Qwest's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001).

(10.18) Registration Rights Agreement, dated July 30, 2001, among Qwest, Qwest Capital Funding, Inc., Lehman Brothers Inc. and Merrill Lynch & Co., Inc., as Representatives of the several initial purchasers listed therein (incorporated by reference to Qwest's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001).

(10.19) Registration Rights Agreement, dated as of December 26, 2002, among Qwest, Qwest Services Corporation, Qwest Capital Funding, Inc. and Bank One Trust Company, N.A., as Trustee (incorporated by reference to Qwest's Current Report on Form 8-K, dated January 10, 2003, File No. 1-15577).

(10.20) Purchase Agreement, dated as of August 19, 2002, between Qwest, Qwest Service Corporation, Qwest Dex, Inc., Qwest Dex Holdings, Inc. and Dex Holdings LLC (incorporated by reference to Qwest's Current Report on Form 8-K, dated August 22, 2002, File No. 1-15577).

(10.21) Purchase Agreement, dated as of August 19, 2002, between Qwest, Qwest Service Corporation, Qwest Dex, Inc., Qwest Dex Holdings, Inc. and Dex Holdings LLC (incorporated by reference to Qwest's Current Report on Form 8-K, dated August 22, 2002, File No. 1-15577).

(10.22) Second Amended and Restated Credit Agreement, dated as of August 30, 2002, by and among Qwest, Qwest Services Corporation, Qwest Dex Holdings, Inc., Qwest Dex, Inc., the Banks listed therein and Bank of America, N.A., as Agent (incorporated by reference to Qwest's Current Report on Form 8-K, dated September 5, 2002, File No. 1-15577).

(10.23) Term Loan Agreement, dated as of August 30, 2002, by and among Qwest Services Corporation, Qwest Dex Holdings, Inc., Qwest Dex, Inc., the Lenders listed therein and Bank of America, N.A., as Agent (incorporated by reference to Qwest's Current Report on Form 8-K, dated September 5, 2002, File No. 1-15577).

(10.24) Security and Pledge Agreement, dated as of August 30, 2002, by and among Qwest Services Corporation, Qwest Dex Holdings, Inc., Qwest Dex, Inc. and Bank of America, N.A., as Agent (incorporated by reference to Qwest's Current Report on Form 8-K, dated September 5, 2002, File No. 1-15577).

(10.25) Amendment No. 1, dated as of November 6, 2002, to Second Amended and Restated Credit Agreement dated as of August 30, 2002, by and among Qwest, Qwest Services Corporation, Qwest

Dex Holdings, Inc., Qwest Dex, Inc., the Banks listed therein and Bank of America, N.A., as Agent (incorporated by reference to Qwest's Current Report on Form 8-K, dated November 26, 2002, File No. 1-15577).

(10.26) Term Loan Agreement, dated as of June 9, 2003, by and among Qwest Corporation, the Lenders listed therein, and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, as sole book-runner, joint lead arranger and syndication agent, and Credit Suisse First Boston, acting through its Cayman Islands branch as joint lead arranger and administrative agent, and Deutsche Bank Trust Company Americas, as documentation agent and Deutsche Bank Securities, Inc. as arranger. (incorporated by reference to Qwest's Current Report on Form 8-K, dated June 10, 2003, File No. 1-15577).

(10.27) Amended and Restated Employment Agreement, dated January 1, 2002, by and between Qwest Services Corporation and Afshin Mohebbi (incorporated by reference to Qwest's Annual Report on Form 10-K for the year ended December 31, 2001).*

10.28 Promissory Note, dated March 18, 2002, payable by Afshin Mohebbi to Qwest Communications International Inc.

(10.29) Employment Agreement, dated October 24, 2001, by and between Qwest and Joseph P. Nacchio (incorporated by reference to Qwest's Annual Report on Form 10-K for the year ended December 31, 2001).*

10.30 Resignation and Consulting Agreement, dated June 16, 2002, by and between Qwest and Joseph P. Nacchio*

(10.31) Letter Agreement, dated October 6, 1998, by and between Qwest and Drake Tempest (incorporated by reference to Qwest's Annual Report on Form 10-K for the year ended December 31, 2000).*

10.32 Letter Agreement, dated October 31, 2001, by and between Qwest and Drake Tempest.*

10.33 Severance Agreement and General Release, dated November 14, 2002, by and between Drake S. Tempest and Qwest Services Corporation.*

10.34 Separation Date Release Agreement, dated December 6, 2002, by and between Drake S. Tempest and Qwest Services Corporation.

10.35 Employment Agreement, dated May 14, 2003, by and between Richard C. Notebaert and Qwest Services Corporation.*

10.36 Employment Agreement, dated May 14, 2003, by and between Oren G. Shaffer and Qwest Services Corporation.*

10.37 Retention Agreement, dated May 8, 2002, by and between Qwest and Richard N. Baer.*

10.38	Severance Agreement, dated July 21, 2003, by and between Qwest and Richard N. Baer.*
10.39	Severance Agreement, dated July 21, 2003, by and between Qwest and Clifford S. Holtz.*
10.40	Letter Agreement, dated April 19, 2001, by and between Qwest and Annette M. Jacobs.*
10.41	Severance Agreement and General Release, dated September 17, 2003, by and between Qwest and Annette M. Jacobs.*
10.42	Letter Agreement, dated August 20, 2003, by and between Qwest and Paula Kruger.*
10.43	Severance Agreement, dated September 8, 2003, by and between Qwest and Paula Kruger.*
12	Calculation of Ratio of Earnings to Fixed Charges.
(16)	Letter from Arthur Andersen LLP to the Securities and Exchange Commission dated June 11, 2002 (incorporated by reference to Qwest's Current Report on Form 8-K/A, filed June 11, 2002, File No. 1-15577).
21	Subsidiaries of Qwest.
24	Power of Attorney.
31.1	Chief Executive Officer Certification.
31.2	Chief Financial Officer Certification.
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

( ) Previously filed.

* Executive Compensation Plans and Arrangements.

** Incorporated by reference in Qwest's Form 10-K for the year ended December 31, 1997.

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 October 16, 2003.

QWEST COMMUNICATIONS INTERNATIONAL INC.,
A DELAWARE CORPORATION

By: /s/ OREN G. SHAFFER

Oren G. Shaffer
Vice Chairman and Chief Financial Officer
(Principal Financial and Accounting 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 the capacities indicated on the 16th day of October, 2003.

Signature	Titles
/s/ RICHARD C. NOTEBAERT Richard C. Notebaert	Director, Chairman and Chief Executive Officer (Principal Executive Officer)
/s/ OREN G. SHAFFER Oren G. Shaffer	Vice Chairman and Chief Financial Officer (Principal Financial and Accounting Officer)
* Philip F. Anschutz	Director
* Linda G. Alvarado	Director
* Craig R. Barrett	Director
* Thomas J. Donohue	Director
* Jordan L. Haines	Director
* Cannon Y. Harvey	Director

* Peter S. Hellman	Director
* Vinod Khosla	Director
*	

Frank P. Popoff	Director
*	
Craig D. Slater	Director
*	
W. Thomas Stephens	Director

*By: /s/ RICHARD C. NOTEBAERT

Richard C. Notebaert
As Attorney-In-Fact

Independent Auditors' Report

The Board of Directors and Stockholders
Qwest Communications International Inc.:

Under date of October 8, 2003, we reported on the consolidated balance sheets of Qwest Communications International Inc. and subsidiaries as of December 31, 2002, 2001, and 2000, and the related consolidated statements of operations, stockholders' (deficit) equity, and cash flows for each of the years then ended, as contained in the annual report on the 2002 Form 10-K. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related accompanying consolidated financial statement schedule, Schedule II—Valuation and Qualifying Accounts. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Notes 3 and 4 to the consolidated financial statements, the Company has restated its consolidated balance sheets as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' (deficit) equity, and cash flows for each of the years then ended, which consolidated financial statements were previously audited by other independent auditors who have ceased operations.

/s/ KPMG LLP

Denver, Colorado
October 8, 2003

QWEST COMMUNICATIONS INTERNATIONAL INC.
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
(DOLLARS IN MILLIONS)

	Balance at		Balance at

	beginning of period(1)	Merger adjustment(2)	Charged to expense	Deductions	end of period
Allowance for uncollectibles:					
2002	$ 402	—	511	553	$ 360
2001	305	—	615	518	402
2000	88	69	388	240	305

(1) January 1, 2000 balance is unaudited.

(2) The Merger adjustment represents pre-Merger Qwest's allowance for uncollectibles at the time of the Merger (June 30, 2000).

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QWEST COMMUNICATIONS INTERNATIONAL INC filed this 10-K on 03/11/2004.

Use these links to rapidly review the document

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

FORM 10-K

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

for the fiscal year ended December 31, 2003

Or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

for the transition period from to

Commission File No. 001-15577

QWEST COMMUNICATIONS INTERNATIONAL INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**84-1339282** (I.R.S. Employer Identification No.)
1801 California Street, Denver, Colorado (Address of principal executive offices)	**80202** (Zip Code)

(303) 992-1400
(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Qwest Common Stock ($0.01 per share, par value)	New York Stock Exchange

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

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 ☒ 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 registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ☐.

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Exchange Act). Yes ☒ No ☐.

On January 31, 2004, 1,771,801,427 shares of Qwest common stock were outstanding. The aggregate market value of the Qwest voting stock held by non-affiliates as of June 30, 2003 was approximately $4.8 billion.

DOCUMENTS INCORPORATED BY REFERENCE

Information required by Part III (Items 10, 11, 12, 13 and 14) is incorporated by reference to portions of Qwest's definitive proxy statement for its 2004 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days of December 31, 2003.

TABLE OF CONTENTS

Unless the context requires otherwise, references in this report to "Qwest," "we," "us" and "our" refer to Qwest Communications International Inc. and its consolidated subsidiaries.

PART I

ITEM 1. BUSINESS

We provide local telecommunications and related services, IntraLATA and InterLATA long-distance services and wireless, data and video services within our local service area, which consists of the 14-state region of Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming. We also provide long-distance services and reliable, scalable and secure broadband data, voice and video communications outside our local service area as well as globally. We also provided, until September 2003, directory publishing services in our local service area. In November 2002, we completed the first half of the sale of our directory publishing business; and in September 2003 we completed the sale of the remaining portion. As a consequence, the results of operations of our directory publishing business are included in income from discontinued operations in our consolidated statements of operations.

We were incorporated under the laws of the State of Delaware in 1997. Pursuant to a merger with U S WEST, Inc. on June 30, 2000, which we refer to as the Merger, we acquired all the operations of U S WEST and its subsidiaries. The Merger has been accounted for as a reverse acquisition under the purchase method of accounting with U S WEST being deemed the accounting acquirer and Qwest (prior to the Merger, "pre-Merger Qwest") the acquired entity. Our principal executive offices are located at 1801 California Street, Denver, Colorado 80202, telephone number (303) 992-1400.

For a discussion of certain risks applicable to our business, financial condition and results of operations, including risks associated with our outstanding legal matters, see the risk factors described in "Special Note Regarding Forward-Looking Statements" in Part II, Item 7 below.

Recent Developments

As we have previously disclosed, we have engaged in preliminary discussions for purposes of resolving certain of the investigations and securities matters to which we are subject. These matters are described in detail in Item 3—Legal Proceedings. We most recently engaged in these preliminary discussions after we announced our 2003 financial results on February 19, 2004. These most recent discussions and further analysis have led us to conclude that a reserve should be provided. Accordingly, we have recorded a reserve in our consolidated financial statements for the estimated minimum liability associated with these matters. However, the ultimate outcomes of these matters are still uncertain and there is a significant possibility that the amount of loss we ultimately incur could be substantially more than the reserve we have provided. At this time, we believe that it is probable that all but $100 million of the recorded reserve will be recoverable out of a portion of the insurance proceeds, but the use and allocation of these proceeds has yet to be resolved between us and individual insureds. See Item 3—Legal Proceedings—Matters Resolved in the Fourth Quarter of 2003 and Note 10—Other Financial Information in Item 8 of this report.

The securities actions are in a preliminary phase and we continue to defend against these matters vigorously. None of the plaintiffs or the defendants in the securities actions has advanced evidence concerning possible recoverable damages and we have not yet conducted discovery on these and other relevant issues. We are currently unable to provide any estimate as to the timing of the resolution of any of these matters. Any settlement of or judgment on one or more of these matters in excess of our recorded reserves could be significant, and we can give no assurance that we will have the resources available to pay any such judgment. In the event of an adverse outcome in one or more of these matters, our ability to meet our debt service obligations and our financial condition could be materially and adversely affected.

Operations

We currently operate in three segments: (1) wireline services; (2) wireless services; and (3) other services. We also maintained, until September 2003, a fourth segment consisting of our directory publishing business. Our remaining directory publishing business was sold in September 2003 to a group of private equity investors. As a result, for purposes of calculating the percentages of revenue of our segments provided below, we have excluded the impact of revenue from our directory publishing business. For additional financial information about our segments see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this report and Note 15—Segment Information to our consolidated financial statements in Item 8 of this report. The segment revenue percentages contained in this section are based upon financial results prepared in accordance with generally accepted accounting principles in the United States of America, or GAAP.

We market and sell our products and services to consumer and business customers. In general, our business customers fall into the following categories: (1) small businesses; (2) national and global businesses; (3) governmental entities; and (4) public and private educational institutions. We also provide our products and services to other telecommunications providers on a wholesale basis. We seek to distinguish ourselves from our competitors through our recent and continuing customer service initiatives.

Wireline Services

We offer a wide variety of wireline products and services in a variety of categories that help people and businesses communicate. Our wireline products and services are offered through our telecommunications network, which consists of both our traditional telephone network and our fiber optic broadband network. The traditional telephone network is defined as all equipment used in processing telecommunications transactions within our local service area and forms a portion of the public switched telephone network, or PSTN. The PSTN refers to the worldwide voice telephone network that is accessible to every person with a telephone and a dial tone. Our traditional telephone network is made up of both copper cables and fiber optic broadband cables and serves approximately 16.2 million access lines. Access lines are telephone lines reaching from a central office to customers' premises.

Our fiber optic broadband network extends over 180,000 miles to major cities worldwide and enables long-distance voice services and data and Internet services. We rely on our completed metropolitan area network, or MAN rings, and in-building rights-of-way to expand service to existing customers and provide service to new customers who have locations on or near a ring or in a building where we have a right-of-way or a physical presence. The MAN fiber rings allow us to provide these customers with end-to-end connectivity for our broadband data services to large and multi-location enterprises and other telecommunications carriers in key United States metropolitan markets. End-to-end connectivity provides customers with the ability to transmit and receive information at high speed through the entire connection path rather than be limited by dial-up connection speeds.

Wireline Products and Services

The following reflects the key categories of our wireline products and services.

Local voice services—consumer, business and wholesale. Through our traditional telephone network, we originate and terminate local voice services within local exchange service territories as defined by the state Public Utility Commissions, or PUCs. These local voice services include:

- basic local exchange services provided through access lines connected to our portion of the PSTN;
- switching services for customers' internal communications through facilities that we own;

- various custom calling features such as Caller ID, Call Waiting, Call Return and 3-Way Calling;
- enhanced voice services, such as voice mail;
- operator services, including directory assistance;
- public telephone service;
- voice customer premises equipment, or CPE; and
- collocation services (i.e. hosting of another provider's telecommunications equipment in our facilities).

Recently, we also began to offer Internet protocol telephony (sometimes referred to as voice over Internet protocol, or VoIP) in Minnesota on a limited basis. This technology allows us to offer more features at reduced costs to customers. We do not expect to recognize a material amount of revenue from our VoIP offerings in 2004.

On a wholesale basis, we provide network transport, billing services and access to our local network within our local service area to competitive local exchange carriers, or CLECs, and wireless carriers. These services allow CLECs to provide telecommunications services using our local network. CLECs are communications companies certified by a state PUC or similar agency that provide local exchange service within a local access transport area, or LATA, including LATAs within our local service area. At times, we sell unbundled network elements, or UNEs, that allow our wholesale customers to build their own networks and interconnect with our network.

Long-distance voice services—consumer, business and wholesale. We provide three types of long-distance communications services to our consumer, business and wholesale customers.

- We provide IntraLATA long-distance service to our customers nationwide including within our local service area. IntraLATA long-distance service refers to services that cross local exchange area boundaries but originate and terminate within the same geographic LATA. These services include calls that terminate outside a caller's local calling area but within their LATA and wide area telecommunications service or "800" services for customers with highly concentrated demand;
- We provide InterLATA long-distance services nationwide. These services include originating long-distance services for communications that cross LATA boundaries and "800" services. Beginning in the fourth quarter of 2003, we satisfied certain Federal Communications Commission, or FCC, requirements that allowed us to begin providing these services throughout our local service area using our proprietary network assets; and
- We also provide international long-distance services for voice calls that terminate or originate with our customers in the United States.

Access services—wholesale. We provide access services primarily to interexchange carriers, or IXCs, for the use of our local network to connect their customers to their data and Internet protocol, or IP, networks. IXCs provide 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 or between exchanges within a LATA. Competitive communications companies often operate as both CLECs and IXCs.

For the years ended December 31, 2003, 2002 and 2001, revenue from voice services (i.e. local voice services, long-distance voice services and access services) accounted for approximately 69%, 71% and 72%, respectively, of our total revenue from continuing operations.

Data and Internet services—consumer, business and wholesale. We offer a broad range of products and professional services to enable our customers to transport voice, data and video telecommunications at speeds ranging from 14.4 kilobits per second to 10 gigabits per second. Our customers use these products and services in a variety of ways. Our business customers use them to facilitate internal and external data transmissions, such as transferring files from one location to another. Our consumer customers use them to access email and the Internet under a variety of connection speeds and pricing packages. We provide our data and Internet services in our local service area, nationally and internationally.

Some of our data and Internet services are described below.

- Digital subscriber line, or DSL, which permits existing consumer and business customer telephone lines to operate at higher speeds necessary for video and high-speed data communications to the Internet or private networks. Substantially all of our DSL customers are currently located within our local service area;

- Asynchronous transfer mode, or ATM, which is a broadband, network transport service that provides a fast, efficient way to move large quantities of information over our highly reliable, scalable and secure fiber optic broadband network;

- Frame relay, which is a switching technology that allows data to travel in individual packets of variable length. The key advantage to this approach is that a frame relay network can accommodate data packets of various sizes associated with virtually any data protocol;

- Private lines, which are direct circuits or channels specifically dedicated to the use of an end-user organization for the purpose of directly connecting two or more sites. Private lines offer a secure solution for frequent communication of large amounts of data between sites;

- Integrated services digital network, or ISDN, is a comprehensive digital network architecture allowing users to transmit voice, data, video and images—separately or simultaneously—over standard telephone lines or fiber optics;

- Dedicated Internet access, or DIA, which offers customers Internet access ranging from 128 kilobits per second to 2.4 gigabits per second;

- Virtual private network, or VPN, which allows businesses with multiple locations to create a private network accessible only by their various offices. VPN provides businesses with a cost-effective alternative to meet their communication needs;

- Internet dial access, which provides Internet service providers, or ISPs, and business customers with a comprehensive, reliable and cost-effective dial-up network infrastructure;

- Web hosting, which provides data center services. In its most basic form, web hosting includes space, power and bandwidth. We also offer a variety of server and application management and professional web design services. We currently operate ten web hosting centers, or CyberCenters^{SM}; and

- Professional services, which include network management, the sale, installation and maintenance of data CPE and the building of proprietary fiber-optic broadband networks for our governmental and other business customers.

On a wholesale basis, we provide collocation services, or hosting of other providers' telecommunications equipment in our facilities. We also provide wholesale private line services primarily to IXCs to allow them use of our local network to connect their customers to their networks.

For the years ended December 31, 2003, 2002 and 2001, revenue from data and Internet services accounted for approximately 27%, 25% and 24%, respectively, of our total revenue from continuing operations.

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Distribution Channels

We sell our retail wireline products and services through a variety of channels, including direct-sales marketing, telemarketing and arrangements with third-party agents. We also provide the use of similar products and services, and the use of our network assets on a wholesale basis, as described above.

Wireline Services Revenue

For the years ended December 31, 2003, 2002 and 2001, revenue from wireline services accounted for approximately 96%, 95% and 96%, respectively, of our total revenue from continuing operations.

Wireless Services

We operate our wireless services segment primarily through our indirect wholly owned subsidiary, Qwest Wireless LLC. In August 2003, Qwest Wireless entered into a service agreement with a subsidiary of Sprint Corporation that allows us to resell Sprint wireless services, including access to Sprint's nationwide personal communication service, or PCS, wireless network, to consumer and business customers, primarily within our local service area. We began offering these Sprint services under our brand name in March 2004. Under the service agreement, we retain control of all sales and marketing, customer service, billing and collection, pricing, promotion and product offerings relating to the Sprint services that we resell. The service agreement provides that Sprint will be our exclusive wireless provider and has an initial term of five years (with automatic renewal for successive one-year terms until either party provides notice of non-renewal). Through Qwest Wireless, we also continue to operate a PCS wireless network that serves select markets within our local service area, including Denver, Seattle, Phoenix, Minneapolis, Portland, Salt Lake City and other smaller markets. Our wireless customers who are currently being serviced through our proprietary wireless network will be transitioned onto Sprint's network over time.

We market our wireless products and services through our website, partnership relationships and our sales/call centers. We offer consumer and business customers a broad range of wireless plans, as well as a variety of custom and enhanced features, such as Call Waiting, Caller ID, 3-Way Calling, Voice Messaging, Enhanced Voice Calling and Two-Way Text Messaging. We also offer integrated service, which enables customers to use the same telephone number and voice mail box for their wireless phone as for their home or business phone.

For the years ended December 31, 2003, 2002 and 2001, revenue from wireless services accounted for approximately 4%, 5% and 4%, respectively, of our total revenue from continuing operations.

Other Services

We provide other services that primarily involve the sublease of some of our unused real estate assets, such as space in our office buildings, warehouses and other properties. The majority of these properties are located in our local service area.

Directory Publishing

Through our wholly owned subsidiary, Qwest Dex, Inc., or Dex, we have historically published telephone directories in our local service area. During 2003, we completed the sale of our directory publishing business.

For the years ended December 31, 2003, 2002 and 2001, revenue from directory publishing was included in income from discontinued operations. For additional information see Note 6—Assets Held for Sale including Discontinued Operations to our consolidated financial statements in Item 8 of this report.

Customer Service Initiatives

With increased levels of competition in the telecommunications industry resulting from statutory and regulatory developments and technology advancements, we believe competitive providers are no longer hindered by historical barriers to entry. As a result, we are seeking to distinguish ourselves from our competitors through a number of customer service initiatives supporting our Qwest Spirit of Service™ brand commitment. These initiatives include expanded product bundling, simplified billing, improved customer support and other ongoing measures. For example, we have entered into strategic relationships with providers of wireless and video communications to improve our product offerings, we are restructuring our pricing packages and we are investing in improved billing and customer communication systems.

Importance, Duration and Effect of Patents, Trademarks and Copyrights

Either directly or through our subsidiaries, we own or have licenses to various patents, trademarks, trade names, copyrights and other intellectual property necessary to the conduct of our business. We do not believe that the expiration of any of our intellectual property rights, or the non-renewal of those rights, would materially affect our results of operations.

Competition

Wireline Services

Local voice services. In providing local voice services to our consumer and business customers within our local service area, we compete with CLECs, including some owned by national carriers, smaller regional providers, competitive access providers, independent telephone companies, Internet telephony providers, wireless providers and cable companies. Technology substitution, such as wireless substitution for wireline, cable telephony substitution for wireline and cable modem substitution for dial-up modem lines and DSL, has been a significant cause for a decrease in our total access lines in 2003. Competition is based primarily on pricing, packaging of services and features, quality of service and increasingly on meeting customer care needs such as simplified billing and timely response to service calls.

The obligation to make number portability available from wireline to wireless service, which was recently mandated by the FCC, is another competitive factor that may increase access line losses. Also, revenue for local voice services may be affected adversely should providers of VoIP services attract a sizable base of customers who use VoIP to bypass traditional local exchange carriers. A related concern is the risk that access charge fees we receive from either IXCs or CLECs will be reduced if phone-to-phone VoIP calls remain unregulated and are not to be subject to intercarrier compensation obligations that apply to traditional telephony.

Our existing infrastructure and long-standing customer relationships make us the market leader in providing local voice services in our local service area. Although our status as an incumbent local exchange carrier, or ILEC, helps make us the leader in providing wireline services within our local service area, increased competition has resulted in recent declines in billable access lines.

Our competitors, mainly CLECs and CLEC/IXC combinations, have accelerated their use of unbundled network element-platforms, or UNE-P. This service, which we are required to provide at wholesale rates as a matter of current federal and state laws and regulations, allows our competitors to purchase all of the elements they need to provide competitive local services to our customers. Bell Operating Companies, or BOCs such as Qwest Communications, are required to make their network elements available to the competitors, which allows CLECs and CLEC/IXC combinations an alternative to building their own telecommunications facilities. Consequently, we believe these competitors are able to provide local service at a cost advantage, allowing them to gain market share. Meanwhile, the

obligation to provide UNEs reduces our revenue and margin. We believe the offering of UNE services will continue to cause downward pressure on our margins and result in incremental retail access line losses.

Long-distance voice services. National carriers, CLECs and other resellers, such as AT&T Corporation, Sprint and MCI Inc. (formerly known as Worldcom, Inc.) compete with us in providing InterLATA and IntraLATA long-distance services both inside and outside our local service area. Other BOCs, such as BellSouth Corporation, Verizon Communications and SBC Communications, Inc., also compete in the InterLATA market nationally and, as they have gained FCC approval, within the states in their respective local service areas. Wireless providers also market both IntraLATA and InterLATA long-distance services as a substitute to traditional wireline service.

Competition in the long-distance consumer market is based primarily on price, customer service, quality and reliability. We are the market share leader in providing IntraLATA long-distance service within our local service area, but face increasing competition from national carriers, which have substantial financial and technical resources. Competition in the business market is based on similar factors, as well as the ability to offer a ubiquitous solution nationwide.

In addition, the emergence of certain competitors, such as MCI, XO Communications, Inc. and McLeodUSA, Inc., from bankruptcy proceedings with substantially reduced debt could precipitate an industry-wide reduction in prices, thereby causing a decline in our revenues.

Access services. Within our local service area, we compete primarily with smaller regional providers, including CLECs, competitive access providers and independent telephone companies. Outside our local service area, we compete primarily with other BOCs and with IXCs. We compete on network quality, customer service, product features, the speed with which we can provide a customer with requested services and price. Although our status as an ILEC helps make us the leader in providing these services within our local service area, increased competition has resulted in a reduction in access minutes of use billed to IXCs and wireless carriers. Also, we earn certain revenues when we originate or terminate calls that are carried by IXCs and wireless carriers that generate carrier access charges for the use of our network. To the extent that VoIP networks or VoIP service providers seek to bypass the traditional methods and obligations to pay this form of intercarrier compensation, or the related "reciprocal compensation" which we earn for use of our network in terminating local calls, these providers could enjoy a competitive advantage versus traditional carriers who must factor the costs of carrier access charges and reciprocal compensation into their charges.

Data and Internet services. Business customers are the primary market for these network-related services, although we are increasing our DSL offerings to both consumer and business customers in several markets in our local service area. In providing these services, we compete with national long-distance carriers (such as AT&T, Sprint and MCI), cable operators, BOCs, CLECs and large integrators (International Business Machines Corporation and Electronic Data Systems Corporation). Large integrators are also competing in a new manner, providing customers with managed network services, which takes inter-site traffic off our network. Customers are particularly concerned with network reach, but are also sensitive to quality, reliability, customer service and price. We also compete with cable operators who offer high-speed broadband facilities over cable modem, a technology directly competitive with the DSL modems that we employ. Cable operators who sell data or Internet services via broadband enjoy a regulatory advantage in that they are not presently subject, at least in the jurisdictions in which we operate, to regulation as "telecommunications" providers which imposes many costs and obligations, such as that to make UNE-P available to competitors or to provide competitive access and interconnect rights.

Outside of our local service area, our investment in improving the reach and quality of our network has helped our competitive position. With regards to our hosting business, while many of our

competitors, such as Global Crossing Ltd. and Sprint, have abandoned or largely reduced their hosting businesses, competition remains high due to over-capacity from large providers such as Cable & Wireless PLC.

Wireless Services

The market for wireless services within our local service area remains highly competitive. We compete with AT&T Wireless Services, Inc., Verizon Communications Inc., T-Mobile International, Cingular Wireless LLC, Sprint and Nextel Communications, among others. Although we expect our competitive position to improve through offering Sprint's nationwide wireless service under our brand name to customers in our local service area, we continue to face heavy competition from national, and some regional, wireless carriers. Competition may increase as additional spectrum is made available within our local service area, both to new competitors and to current wireless providers who may acquire additional spectrum in order to increase their coverage areas and service quality. Competition in the wireless market is based primarily on price, coverage area, services, features, handsets, technical quality and customer service. Our future competitive position will depend on our ability to successfully integrate Sprint services into our branded service offerings and our ability to offer new features and services in packages that meet our customers' needs.

Regulation

As a general matter, we are subject to extensive state and federal regulation, including requirements and restrictions arising under the Federal Communications Act, as modified in part by the Telecommunications Act of 1996, or the Telecommunications Act, state utility laws, and the rules and policies of the FCC, state PUCs and other governmental entities. Federal laws and FCC regulations apply to regulated interstate telecommunications (including international telecommunications that originate or terminate in the United States), while state regulatory authorities have jurisdiction over regulated telecommunications services that are intrastate in nature. Generally, we must obtain and maintain certificates of authority from regulatory bodies in most states where we offer regulated services and must obtain prior regulatory approval of rates, terms and conditions for our intrastate services, where required.

This structure of public utility regulation generally prescribes the rates, terms and conditions of our regulated wholesale and retail products and services (including those sold or leased to CLECs). While there is some commonality among the regulatory frameworks from jurisdiction to jurisdiction, each state has its own unique set of constitutional provisions, statutes, regulations, stipulations and practices that impose restrictions or limitations on the regulated entities' activities. For example, in varying degrees, jurisdictions may provide limited restrictions on the manner in which a regulated entity can interact with affiliates, transfer assets, issue debt and engage in other business activities.

Interconnection

The FCC is continuing to interpret the obligations of ILECs under the Telecommunications Act to interconnect their networks with, and make UNEs available to, CLECs. These decisions establish our obligations in our local service area and affect our ability to compete outside of our local service area. In May 2002, the U.S. Supreme Court issued its opinion in the appeal of the FCC's rules on pricing of UNEs. The Court affirmed the FCC's rules. Since we were following the FCC's then current UNE pricing rules, this decision did not impact the pricing of our UNEs.

In May 2002, the D.C. Circuit Court of Appeals issued an order on the FCC's rules that determined the UNEs are required to be made available to competitors. The court reversed the FCC, finding that the agency had not given adequate consideration to or properly applied the "necessary and impair" standard of the Telecommunications Act. The court also ruled that the FCC impermissibly

failed to take into account the relevance of competition by other types of service providers, including cable and satellite companies. Finally, the court overturned a separate order of the FCC that had authorized "line sharing" where a CLEC purchases only a portion of the copper line connecting the end-user. This enables the CLEC to provide high-speed broadband services utilizing DSL technology. The D. C. Circuit stayed its order vacating the FCC's rules to permit the FCC to complete an ongoing rulemaking to determine what elements should be unbundled.

On August 21, 2003, the FCC issued the triennial review order in response to the court's decision. The triennial review order addressed the regulatory status of a number of UNEs and the obligations of ILECs with respect to them. Among the more significant determinations made by the FCC in the triennial review order were: (i) CLECs are not impaired without access to unbundled switching when serving medium-to-large business and government customers using DS-1 switching capacity and above, but state PUCs are allowed to initiate and conclude proceedings within 90 days of October 2, 2003, to rebut this presumption of no impairment and petition the FCC for a waiver; the Colorado, Minnesota and Oregon PUCs initiated such proceedings but did not petition the FCC for a waiver of the no impairment finding; (ii) CLECs are impaired without access to switching and, concomitantly, the UNE-P, to serve mass market customers, as well as most high capacity loops and dedicated transport services (the transmission facilities between an ILEC's central offices); proceedings before state PUCs to rebut these presumptions of impairment may be initiated and concluded within nine months of October 2, 2003; (iii) state PUCs must initiate and conclude within nine months of October 2, 2003, proceedings to approve a "batch hot cut migration process" (a process by which a CLEC's customers served by the UNE-P would be moved to the CLEC's own switch in the event switching is eliminated from UNE-P) to be implemented by ILECs to address the costs and timeliness of the hot cut process; (iv) ILECs are no longer required to provide other carriers with access to the high frequency portion of a loop that is used by CLECs to provide competing DSL services (referred to as line sharing); however, current line sharing customers are "grandfathered," and the requirement to allow line sharing will be phased out over a three-year period; (v) ILECs are not required to provide CLECs with access to "next generation" networks and facilities used to provide broadband services; and (vi) the FCC modified the prohibition against CLECs using enhanced, extended links, or combinations of unbundled loops, multiplexing and dedicated transport, (referred to as EELs) to provide both local and long-distance services; the FCC established requirements designed to prevent the substitution of EELs for special access services needed by a carrier for the provision of its long-distance services.

We joined with other ILECs in requesting that the D.C. Circuit Court of Appeals invalidate the rules that accompanied and were described in the triennial review order. We argued that the FCC did not comply with the May 2002 ruling by the D.C. Circuit because it failed to properly apply the "necessary and impair" standard and that the FCC impermissibly, and without adequate guidance, delegated to state PUCs its responsibilities under the Telecommunications Act. Other parties challenged various aspects of the triennial review order. On March 2, 2004, consistent with the ILEC's arguments, a three-judge panel of the D.C. Circuit issued a decision vacating and remanding back to the FCC significant portions of the triennial review order. By its terms, the court's mandate will be stayed for 60 days. If the FCC seeks further review of the decision by the D. C. Circuit or the U. S. Supreme Court, the decision may be stayed for a longer period of time.

In addition to proceedings before the D.C. Circuit relating to the triennial review order, we are also participating in proceedings in all of our in-region states, except Wyoming, Montana, Idaho and South Dakota, that were authorized by the FCC's triennial review order. In these proceedings, we are attempting to demonstrate both the adequacy of our batch hot cut migration process as well as that CLECs would not be impaired in their attempts to compete in the mass market if switching were removed as a UNE. The continued viability and necessity for these state proceedings will likely be affected by the ruling of the D.C. Circuit on the matters pending before it. In light of the D.C. Circuit

appeal, Arizona, Colorado, Minnesota, Nebraska, North Dakota, Oregon, Utah and Washington have temporarily suspended their triennial review proceedings.

On September 15, 2003, the FCC released a Notice of Proposed Rulemaking, instituting a comprehensive review of the rules pursuant to which UNEs are priced and on how the discounts to CLECs are established for their intended resale of our services. In particular, the FCC indicated that it will re-evaluate the rules and principles surrounding Total Element Long Run Incremental Cost which is the basis upon which UNE prices are set.

Access Pricing

The FCC has initiated a number of proceedings that could affect the rates and charges for access services that we sell or purchase. These proceedings and related implementation of resulting FCC decisions have not yet been completed. Because there are a number of such proceedings that are inter-related, and because new technologies (such as VoIP) are emerging that pose further complications, it may take some time for the rulemaking to be completed. It is possible that the FCC will recommend a major restructuring of the current system of intercarrier compensation for use of local networks, and this would affect our rights to claim payment for carrier access charges. There has been a national trend towards reducing the amounts charged for "reciprocal compensation" for use of our networks to terminate local, IntraLATA and other intrastate calls, in preference for a "bill and keep" approach, but this is subject to varying decisions and interests by the state agencies that govern these intrastate rates. From time to time, the state PUCs which regulate intrastate access charges conduct proceedings that may affect the rates and charges for those services.

On May 31, 2000, the FCC adopted the access reform and universal service plan developed by the Coalition for Affordable Local and Long-Distance Service, or CALLS. The adoption of the CALLS proposal resolved a number of outstanding issues before the FCC. The CALLS plan has a five-year life and provides for the following: (i) elimination of the residential pre-subscribed IXC charge; (ii) increases in subscriber line charges; (iii) reductions in switched access usage rates; (iv) the removal of certain implicit universal service support from access charges and direct recovery from end-users; and (v) commitments from participating IXCs to pass through access charge reductions to end-users. We have opted into the five-year CALLS plan.

Advanced Telecommunications Services

The FCC has ruled that advanced services provided by an ILEC are covered by those provisions of the Telecommunications Act that govern telephone exchange and exchange access services. In January 2002, the FCC released a Notice of Proposed Rulemaking regarding the Regulatory Requirements for ILEC Broadband Telecommunications Services. In this proceeding the FCC has sought comment on what changes should be made in traditional regulatory requirements to reflect the competitive market and create incentives for broadband services growth and investment. The FCC has not yet issued final rules.

Intercarrier Compensation

On April 27, 2001, the FCC released a Notice of Proposed Rulemaking that commenced a broad inquiry into, and initiated a fundamental re-examination of, all forms of compensation flowing between carriers as a result of their networks being interconnected. There are two primary forms of intercarrier compensation: (i) reciprocal compensation that applies to local traffic; and (ii) access charges that apply to long-distance traffic. The purpose of this FCC proceeding is to examine existing forms of intercarrier compensation and explore alternatives. One form of compensation that is being examined is "bill and keep" under which carriers freely exchange traffic and collect charges from their end-user customers in lieu of the present system in which carriers are obligated to compensate one another for network

utilization. The rules emanating from this rulemaking could result in fundamental changes in the charges we collect from other carriers and our end-users.

On April 27, 2001, the FCC issued an Order with regard to intercarrier compensation for ISP-bound traffic. The Order required carriers serving ISP-bound traffic to reduce reciprocal compensation rates over a 36-month period beginning with an initial reduction to $0.0015 per minute of use and ending with a rate of $0.0007 per minute of use. In addition, a cap was placed on the number of minutes of use on which the terminating carrier may charge such rates. This reduction lowered costs that we paid CLECs for delivering such traffic to other carriers, but has not had, and is not likely to have, a material effect on our results of operations.

On May 3, 2002, the D.C. Circuit Court of Appeals remanded the matter to the FCC to implement a rate methodology that is consistent with the court's ruling. The rules promulgated by the FCC remain in effect while the agency contemplates further action. Modifications in the FCC's rules or prescribed rates could increase our expenses.

Wireless Local Number Portability

On November 10, 2003, the FCC issued an order and further notice of proposed rulemaking on local number portability, or LNP, mandating that wireline carriers must port telephone numbers to wireless carriers. The LNP order provided guidance to both the wireline and wireless industries on matters related to "intermodal" LNP, or the ability of customers to switch from a wireline carrier to a wireless carrier or from a wireless to a wireline carrier without changing telephone numbers.

In the LNP order, the FCC prescribed that porting from a wireline carrier to a wireless carrier is required where the requesting wireless carrier's coverage area overlaps the geographic location in which the wireline number is provisioned, including cases where the wireless carrier does not have point of interconnection or numbering resources in the rate center to which the phone number is assigned. The FCC also sought comment on, and will issue further rules regarding, the facilitation of wireless to wireline porting in cases where the rate center associated with the wireless number is different from the rate center in which the wireline carrier seeks to serve the customer. The LNP order was preceded by an FCC order, dated October 7, 2003, that dealt with issues related to implementation of wireless-to-wireless LNP.

The FCC's rules, particularly those related to wireline-to-wireless LNP, may result in an acceleration of our access-line losses.

Voice Over Internet Protocol

On December 1, 2003, the FCC conducted a public forum hearing to gather information concerning advancements, innovations, and regulatory issues related to VoIP services. Chairman Powell of the FCC has announced an intention to make VoIP a higher priority on the FCC's agenda in the next year. Furthermore, on February 12, 2004, the FCC issued a press release announcing that it would shortly institute a formal rulemaking proceeding addressing many issues related to VoIP. This rulemaking will likely raise issues that overlap, to a degree, with the rulemaking concerning ILEC Broadband Telecommunications Services and the Intercarrier Compensation proceeding. There are a number of issues that have been presented to the FCC that concern VoIP and that could affect our business. One is whether VoIP, and/or other forms of VoIP, should be subject to ordinary intercarrier compensation requirements and other federal or state requirements such as those that impose a fee to support "universal service" and support the extension of telecommunications and Internet facilities to rural areas and to public schools and facilities in inner cities. Another issue is whether VoIP providers should have any exemption or immunity from either federal or state regulation and, if so, what should be the parameters of this exemption or immunity. We are following these developments closely, as our network is capable of VoIP transport and similarly can be used to carry combinations of voice and

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other forms of data in an IP-addressed packet format. We are committed to development of VoIP for our customers, and our VoIP offerings are likely to grow as the technology matures and the regulatory situation is clarified.

Employees

As of December 31, 2003, we employed approximately 47,000 people. This does not include approximately 1,450 of our former employees who were transferred to a new company in September 2003 in connection with the completion of our sale of Dex.

Approximately 27,000 of our employees are represented by collective bargaining agreements with the Communications Workers of America, or CWA, and the International Brotherhood of Electrical Workers, or IBEW. In August 2003, we entered into new two-year collective bargaining agreements with the CWA and the IBEW. Each of these agreements was ratified by union members and expires on August 13, 2005. Among other things, these agreements provide for guaranteed wage levels and continuing employment-related benefits.

Financial Information about Geographic Areas

We provide a variety of telecommunications services on a national and international basis to global and national business, small business, government, consumer and wholesale customers. It is impractical for us to provide financial information about geographic areas.

Website Access

Our website address is *www.qwest.com*. You may obtain free electronic copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports at our investor relations website, *www.qwest.com/about/investor/*, under the heading "SEC Filings." These reports are available on our investor relations' website as soon as reasonably practicable after we electronically file them with the Securities and Exchange Commission, or SEC.

We have adopted written codes of ethics that apply to our directors, officers and employees, including our principal executive officer and senior financial officers, in accordance with Section 406 of the Sarbanes-Oxley Act of 2002, the rules of the SEC promulgated thereunder and the New York Stock Exchange rules. These codes of ethics are available on our website at *www.qwest.com/about/investor/governance* or in print to any stockholder who requests them. In the event that we make any changes to, or provide any waivers from, the provisions of our codes of ethics, we intend to disclose these events on our website or in a report on Form 8-K within five business days of such event.

In addition, copies of our guidelines on significant governance issues and the charters of our audit committee, compensation and human resources committee and nominating and governance committee are available on our website at *www.qwest.com/about/investor/governance* or in print to any stockholder who requests them.

ITEM 2. PROPERTIES

Our principal properties do not lend themselves to simple description by character and location. The percentage allocation of our gross investment in property, plant and equipment consisted of the following:

	December 31,	
	2003	2002
Land and buildings	8%	8%
Communications equipment	42%	42%
Other network equipment	43%	42%
General-purpose computers and other	6%	7%
Construction in progress	1%	1%
Total	100%	100%

Land and buildings consist of land, land improvements, central office and certain administrative office buildings. Communications equipment primarily consists of switches, routers and transmission electronics. Other network equipment primarily includes conduit and cable. General-purpose computers and other consists principally of computers, office equipment, vehicles and other general support equipment. We own substantially all of our telecommunications equipment required for our business. Total gross investment in plant, property and equipment was approximately $45.1 billion and $44.6 billion at December 31, 2003 and 2002, respectively, before deducting accumulated depreciation.

We own and lease sales offices in major metropolitan locations both in the United States and internationally. Our network management centers are located primarily in buildings that we own at various locations in geographic areas that we serve. Substantially all of the installations of central office equipment for our local service business are located in buildings and on land that we own. Our fiber optic broadband network is generally located in real property pursuant to an agreement with the property owner or another person with rights to the property. It is possible that we may lose our rights under one or more of such agreements, due to their termination or their expiration. If we lose any such rights of way and are unable to renew them, we may find it necessary to move or replace the affected portions of the network. However, we do not expect any material adverse impacts as a result of the loss of any such rights.

ITEM 3. LEGAL PROCEEDINGS

Investigations, Securities Actions and Derivative Actions

The investigations and securities actions described below present material and significant risks to us. The size, scope and nature of the recent restatements of our consolidated financial statements for fiscal 2001 and 2000 affect the risks presented by these matters, and we can give no assurance as to the impacts on our financial results or financial condition that may ultimately result from these matters. As we have previously disclosed, we have engaged in preliminary discussions for purposes of resolving certain of these matters. We most recently engaged in these preliminary discussions after we announced our 2003 financial results on February 19, 2004. These most recent discussions and further analysis have led us to conclude that a reserve should be provided. Accordingly, we have recorded a reserve in our consolidated financial statements for the estimated minimum liability associated with these matters. However, the ultimate outcomes of these matters are still uncertain and there is a significant possibility that the amount of loss we ultimately incur could be substantially more than the reserve we have provided.

At this time, we believe that it is probable that all but $100 million of the recorded reserve will be recoverable out of a portion of the insurance proceeds, consisting of cash and letters of credit, which

were placed in a trust to cover our losses and the losses of individual insureds. However, the use and allocation of these proceeds has yet to be resolved between us and individual insureds. See Matters Resolved in the Fourth Quarter of 2003 below and Note 10—Other Financial Information in Item 8 of this report.

The securities actions are in a preliminary phase and we continue to defend against these matters vigorously. None of the plaintiffs or the defendants in the securities actions has advanced evidence concerning possible recoverable damages and we have not yet conducted discovery on these and other relevant issues. We are currently unable to provide any estimate as to the timing of the resolution of any of these matters. Any settlement of or judgment in one or more of these matters in excess of our recorded reserves could be significant, and we can give no assurance that we will have the resources available to pay any such judgment. In the event of an adverse outcome in one or more of these matters, our ability to meet our debt service obligations and our financial condition could be materially and adversely affected.

Investigations

On April 3, 2002, the SEC issued an order of investigation that made formal an informal investigation of Qwest initiated on March 8, 2002. We are continuing in our efforts to cooperate fully with the SEC in its investigation. The investigation includes, without limitation, inquiry into several specifically identified Qwest accounting practices and transactions and related disclosures that are the subject of the various adjustments and restatements described in our annual report on Form 10-K for the year ended December 31, 2002, or the 2002 Form 10-K. The investigation also includes inquiry into disclosure and other issues related to transactions between us and certain of our vendors and certain investments in the securities of those vendors by individuals associated with us.

On July 9, 2002, we were informed by the U.S. Attorney's Office for the District of Colorado of a criminal investigation of Qwest's business. We believe the U.S. Attorney's Office is investigating various matters that include the subjects of the investigation by the SEC. We are continuing in our efforts to cooperate fully with the U.S. Attorney's Office in its investigation.

During 2002, the United States Congress held hearings regarding us and matters that are similar to those being investigated by the SEC and the U.S. Attorney's Office. We cooperated fully with Congress in connection with those hearings.

While we are continuing in our efforts to cooperate fully with the SEC and the U.S. Attorney's Office in each of their respective investigations, we cannot predict the outcome of those investigations. We have engaged in discussions with the SEC staff in an effort to resolve the issues raised in the SEC's investigation of us. Such discussions are preliminary and we cannot predict the likelihood of whether those discussions will result in a settlement and, if so, the terms of such settlement. However, settlements typically involve, among other things, the SEC making claims under the federal securities laws in a complaint filed in United States District Court that, for purposes of the settlement, the defendant neither admits nor denies. Were such a settlement to occur, we would expect such claims to address many of the accounting practices and transactions and related disclosures that are the subject of the various restatements we have made as well as additional transactions. In addition, any settlement with the SEC may also involve, among other things, the imposition of disgorgement and a civil penalty, the amounts of which could be substantially in excess of our recorded reserve, and the entry of a court order that would require, among other things, that we and our officers and directors comply with provisions of the federal securities laws as to which there have been allegations of prior violations.

In addition, as previously reported, the SEC has conducted an investigation concerning our earnings release for the fourth quarter and full year 2000 issued on January 24, 2001. The release provided pro forma normalized earnings information that excluded certain nonrecurring expense and income items resulting primarily from the Merger. On November 21, 2001, the SEC staff informed us

of its intent to recommend that the SEC authorize an action against us that would allege we should have included in the earnings release a statement of our earnings in accordance with GAAP. At the date of this filing, no action has been taken by the SEC. However, we expect that if our current discussions with the staff of the SEC result in a settlement, such settlement will include allegations concerning the January 24, 2001 earnings release.

Also, as previously announced in July 2002 by the General Services Administration, or GSA, the GSA is conducting a review of all contracts with Qwest for purposes of determining present responsibility. On September 12, 2003, we were informed that the Inspector General of the GSA had referred to the GSA Suspension/Debarment Official the question of whether Qwest and its subsidiaries should be considered for debarment. We have been informed that the basis for the referral was the February 2003 indictment against four former Qwest employees in connection with a transaction with the Arizona School Facilities Board in June 2001 and a civil complaint also filed in February 2003 by the SEC against the same former employees and others relating to the Arizona School Facilities Board transaction and a transaction with Genuity Inc. in 2000. We are cooperating fully with the GSA and believe that Qwest and its subsidiaries will remain suppliers of the government, although we cannot predict the outcome of this referral.

Securities Actions and Derivative Actions

Since July 27, 2001, 13 putative class action complaints have been filed in federal district court in Colorado against Qwest alleging violations of the federal securities laws. One of those cases has been dismissed. By court order, the remaining actions have been consolidated into a consolidated securities action, which we refer to herein as the "consolidated securities action".

On August 21, 2002, plaintiffs in the consolidated securities action filed their Fourth Consolidated Amended Class Action Complaint, or the Fourth Consolidated Complaint, which defendants moved to dismiss. On January 13, 2004, the United States District Court for the District of Colorado granted the defendants' motions to dismiss in part and denied them in part. In that order, the court allowed plaintiffs to file a proposed amended complaint seeking to remedy the pleading defects addressed in the court's dismissal order and ordered that discovery, which previously had been stayed during the pendency of the motions to dismiss, proceed regarding the surviving claims. On February 6, 2004, plaintiffs filed a Fifth Consolidated Amended Class Complaint, or the Fifth Consolidated Complaint. The Fifth Consolidated Complaint attempts to expand the putative class period previously alleged in the Fourth Consolidated Complaint, seeks to restore the claims dismissed by the court, including claims against certain individual defendants who were dismissed as defendants by the court's dismissal order, and to add additional individual defendants who have not been named as defendants in plaintiffs' previous complaints. The Fifth Consolidated Complaint also advances allegations related to a number of matters and transactions that were not pleaded in the earlier complaints. The Fifth Consolidated Complaint is purportedly brought on behalf of purchasers of publicly traded securities of Qwest between May 24, 1999 and July 28, 2002, and names as defendants Qwest, Qwest's former Chairman and Chief Executive Officer, Joseph P. Nacchio, Qwest's former Chief Financial Officers, Robin R. Szeliga and Robert S. Woodruff, other of Qwest's former officers and current directors and Arthur Andersen LLP. The Fifth Consolidated Complaint alleges, among other things, that during the putative class period, Qwest and certain of the individual defendants made materially false statements regarding the results of Qwest's operations in violation of section 10(b) of the Securities Exchange Act of 1934, or the Exchange Act, that certain of the individual defendants are liable as control persons under section 20(a) of the Exchange Act and that certain of the individual defendants sold some of their shares of Qwest's common stock in violation of section 20(a) of the Exchange Act. The Fifth Consolidated Complaint further alleges that Qwest and certain other defendants violated section 11 of the Securities Act of 1933, as amended, or the Securities Act, by preparing and disseminating false registration statements and prospectuses for the registration of Qwest common stock to be issued to

U S WEST shareholders in connection with the merger of the two companies, and for the exchange of $3 billion of Qwest's notes pursuant to a registration statement dated January 17, 2001, $3.25 billion of Qwest's notes pursuant to a registration statement dated July 12, 2001, and $3.75 billion of Qwest's notes pursuant to a registration statement dated October 30, 2001. Additionally, the Fifth Consolidated Complaint alleges that certain of the individual defendants are liable as control persons under section 15 of the Securities Act by reason of their stock ownership, management positions and/or membership or representation on the Company's Board of Directors, or the Board. The Fifth Consolidated Complaint seeks unspecified compensatory damages and other relief. However, counsel for plaintiffs has indicated that the purported class will seek damages in the tens of billions of dollars. On March 8, 2004, Qwest and other defendants filed motions to dismiss the Fifth Consolidated Complaint.

Since March 2002, seven putative class action suits were filed in federal district court in Colorado purportedly on behalf of all participants and beneficiaries of the Qwest Savings and Investment Plan and predecessor plans, or the Plan, from March 7, 1999 until the present. By court order, five of these putative class actions have been consolidated and the claims made by the plaintiff in the sixth case were subsequently included in the Second Amended and Consolidated Complaint, or the Second Consolidated Complaint, described below and referred to as the "consolidated ERISA action". Qwest expects the seventh putative class action to be consolidated with the other cases since it asserts substantially the same claims. The Second Consolidated Complaint filed on May 21, 2003, names as defendants, among others, Qwest, several former and current directors, officers and employees of Qwest, Qwest Asset Management, Qwest's Plan Design Committee, the Plan Investment Committee and the Plan Administrative Committee of the pre-Merger Qwest 401(k) Savings Plan. The consolidated ERISA action, which is brought under the Employee Retirement Income Security Act alleges, among other things, that the defendants breached fiduciary duties to the Plan members by allegedly excessively concentrating the Plan's assets invested in Qwest's stock, requiring certain participants in the Plan to hold the matching contributions received from Qwest in the Qwest Shares Fund, failing to disclose to the participants the alleged accounting improprieties that are the subject of the consolidated securities action, failing to investigate the prudence of investing in Qwest's stock, continuing to offer Qwest's stock as an investment option under the Plan, failing to investigate the effect of the Merger on Plan assets and then failing to vote the Plan's shares against it, preventing plan participants from acquiring Qwest's stock during certain periods, and, as against some of the individual defendants, capitalizing on their private knowledge of Qwest's financial condition to reap profits in stock sales. Plaintiffs seek equitable and declaratory relief, along with attorneys' fees and costs and restitution. Plaintiffs moved for class certification on January 15, 2003, and Qwest has opposed that motion, which is pending before the court. Defendants filed motions to dismiss the consolidated ERISA action on August 22, 2002. Those motions are also pending before the court.

On June 27, 2002, a putative class action was filed in the District Court for the County of Boulder against us, The Anschutz Family Investment Co., Philip Anschutz, Joseph P. Nacchio and Robin R. Szeliga on behalf of purchasers of Qwest's stock between June 28, 2000 and June 27, 2002 and owners of U S WEST stock on June 28, 2000. The complaint alleges, among other things, that Qwest and the individual defendants issued false and misleading statements and engaged in improper accounting practices in order to accomplish the Merger, to make Qwest appear successful and to inflate the value of Qwest's stock. The complaint asserts claims under sections 11, 12, 15 and 17 of the Securities Act. The complaint seeks unspecified monetary damages, disgorgement of illegal gains and other relief. On July 31, 2002, the defendants removed this state court action to federal district court in Colorado and subsequently moved to consolidate this action with the consolidated securities action identified above. The plaintiffs have moved to remand the lawsuit back to state court. Defendants have opposed that motion, which is pending before the court.

On December 10, 2002, the, California State Teachers' Retirement System, or CalSTRS, filed suit against Qwest, certain of Qwest's former officers and certain of Qwest's current directors and several other defendants, including Arthur Andersen LLP and several investment banks, in the Superior Court of the State of California in and for the County of San Francisco. CalSTRS alleged that the defendants engaged in fraudulent conduct that caused CalSTRS to lose in excess of $150 million invested in Qwest's equity and debt securities. The complaint alleges, among other things, that defendants engaged in a scheme to falsely inflate Qwest's revenue and decrease its expenses so that Qwest would appear more successful than it actually was during the period in which CalSTRS purchased and sold Qwest securities. The complaint purported to state causes of action against Qwest for (i) violation of California Corporations Code section 25400 et seq. (securities laws); (ii) violation of California Corporations Code section 17200 et seq. (unfair competition); (iii) fraud, deceit and concealment; and (iv) breach of fiduciary duty. Among other requested relief, CalSTRS sought compensatory, special and punitive damages, restitution, pre-judgment interest and costs. Qwest and the individual defendants filed a demurrer, seeking dismissal of all claims. In response, CalSTRS voluntarily dismissed the unfair competition claim but maintained the balance of the complaint. The court denied the demurrer as to the California securities law and fraud claims, but dismissed the breach of fiduciary duty claim against Qwest with leave to amend. The court also dismissed the claims against Robert S. Woodruff and Robin R. Szeliga on jurisdictional grounds. On or about July 25, 2003, plaintiff filed a First Amended Complaint. The material allegations and the relief sought remain largely the same, but plaintiff no longer alleges claims against Mr. Woodruff and Ms. Szeliga following the court's dismissal of the claims against them. CalSTRS reasserted its claim against Qwest for breach of fiduciary duty as a claim of aiding and abetting breach of fiduciary duty. Qwest filed a second demurrer to that claim, and on November 17, 2003, the court dismissed that claim without leave to amend. Discovery is proceeding in the CalSTRS litigation.

On November 27, 2002, the State of New Jersey (Treasury Department, Division of Investment), or New Jersey, filed a lawsuit similar to the CalSTRS action in New Jersey Superior Court, Mercer County. On October 17, 2003, New Jersey filed an amended complaint alleging, among other things, that Qwest, certain of Qwest's former officers and certain current directors and Arthur Andersen LLP caused Qwest's stock to trade at artificially inflated prices by employing improper accounting practices, and by issuing false statements about Qwest's business, revenues and profits. As a result, New Jersey contends that it incurred hundreds of millions of dollars in losses. New Jersey's complaint purports to state causes of action against Qwest for: (i) fraud; (ii) negligent misrepresentation; and (iii) civil conspiracy. Among other requested relief, New Jersey seeks from the defendants, jointly and severally, compensatory, consequential, incidental and punitive damages. On November 17, 2003, Qwest filed a motion to dismiss. That motion is pending before the court.

On January 10, 2003, the State Universities Retirement System of Illinois, or SURSI, filed a lawsuit similar to the CalSTRS and New Jersey lawsuits in the Circuit Court of Cook County, Illinois. SURSI filed suit against Qwest, certain of Qwest's former officers and certain current directors and several other defendants, including Arthur Andersen LLP and several investment banks. On October 29, 2003, SURSI filed a second amended complaint which alleges, among other things, that defendants engaged in fraudulent conduct that caused it to lose in excess of $12.5 million invested in Qwest's common stock and debt and equity securities and that defendants engaged in a scheme to falsely inflate Qwest's revenues and decrease its expenses by improper conduct related to transactions with the Arizona School Facilities Board, Genuity, Calpoint LLC, KMC Telecom Holdings, Inc., KPNQwest N.V., and Koninklijke KPN, N.V. The second amended complaint purports to state the following causes of action against Qwest: (i) violation of the Illinois Securities Act; (ii) common law fraud; (iii) common law negligent misrepresentation; and (iv) violation of section 11 of the Securities Act. SURSI seeks, among other relief, punitive and exemplary damages, costs, equitable relief, including an injunction to freeze or prevent disposition of the defendants' assets, and disgorgement. All the individual defendants moved to dismiss the action against them for lack of personal jurisdiction. To

date, neither Qwest nor the individual defendants have filed a response to the second amended complaint, and the Illinois' court's schedule does not contemplate that answers or motions to dismiss be filed until after the challenges to jurisdiction have been resolved.

On February 9, 2004, the Stichting Pensioenfonds ABP, or SPA, filed suit against us, certain of our current and former directors, officers, and employees, as well as several other defendants, including Arthur Andersen LLP, Citigroup Inc. and various affiliated corporations of Citigroup Inc., in the United States District Court for the District of Colorado. SPA alleges that the defendants engaged in fraudulent conduct that caused SPA to lose more than $100 million related to SPA's investments in Qwest's equity securities purchased between July 5, 2000 and March 11, 2002. The complaint alleges, among other things, that defendants created a false perception of Qwest's revenues and growth prospects. SPA alleges claims against Qwest and certain of the individual defendants for violations of sections 18 and 10(b) of the Exchange Act and SEC Rule 10b-5, violations of the Colorado Securities Act and common law fraud, misrepresentation and conspiracy. The complaint also contends that certain of the individual defendants are liable as "control persons" because they had the power to cause Qwest to engage in the unlawful conduct alleged by plaintiffs in violation of section 20(a) of the Exchange Act, and alleges other claims against defendants other than Qwest. SPA seeks, among other things, compensatory and punitive damages, rescission or rescissionary damages, pre-judgment interest, fees and costs.

On October 22, 2001, a purported derivative lawsuit was filed in the United States District Court for the District of Colorado, or the Federal Derivative Litigation. On February 6, 2004, a third amended complaint was filed in the Federal Derivative Litigation, naming as defendants certain of Qwest's present and former directors and certain former officers and naming Qwest as a nominal defendant. The Federal Derivative Litigation is based upon the allegations made in the consolidated securities action and alleges, among other things, that the defendants breached their fiduciary duties to Qwest by engaging in self-dealing, insider trading, usurpation of corporate opportunities, failing to oversee implementation of securities laws that prohibit insider trading, failing to maintain appropriate financial controls within Qwest, and causing or permitting Qwest to commit alleged securities violations, thus (1) causing Qwest to be sued for such violations and (2) subjecting Qwest to adverse publicity, increasing its cost of raising capital and impairing earnings. The Federal Derivative Litigation has been consolidated with the consolidated securities action. Plaintiff seeks, among other remedies, disgorgement of alleged insider trading profits.

On August 9, 2002, a purported derivative lawsuit was filed in the Court of Chancery of the State of Delaware. A separate alleged derivative lawsuit was filed in the Court of Chancery of the State of Delaware on or about August 28, 2002. On October 30, 2002, these two alleged derivative lawsuits, or collectively, the Delaware Derivative Litigation, were consolidated. The Second Amended Complaint in the Delaware Derivative Litigation was filed on or about January 23, 2003, naming as defendants certain of Qwest's current and former officers and directors and naming Qwest as a nominal defendant. In the Second Amended Complaint the plaintiffs allege, among other things, that the individual defendants: (i) breached their fiduciary duties by allegedly engaging in illegal insider trading in Qwest's stock: (ii) failed to ensure compliance with federal and state disclosure, anti-fraud and insider trading laws within Qwest, resulting in exposure to it; (iii) appropriated corporate opportunities, wasted corporate assets and self-dealt in connection with investments in initial public offering securities through Qwest's investment bankers; and (iv) improperly awarded severance payments to Qwest's former Chief Executive Officer, Mr. Nacchio and Qwest's former Chief Financial Officer, Mr. Woodruff. The plaintiffs seek recovery of incentive compensation allegedly wrongfully paid to certain defendants, all severance payments made to Messrs. Nacchio and Woodruff, disgorgement, contribution and indemnification, repayment of compensation, injunctive relief, and all costs including legal and accounting fees. On March 17, 2003, defendants moved to dismiss the Second Amended

Complaint, or, in the alternative, to stay the action. As described below, a proposed settlement of the Delaware Derivative Litigation has been reached.

On each of March 6, 2002 and November 22, 2002, a purported derivative action was filed in Denver District Court, which we refer to collectively as the Colorado Derivative Litigation. On February 5, 2004, plaintiffs in one of these cases filed an amended complaint naming as defendants certain of Qwest's current and former officers and directors and Anschutz Company, and naming Qwest as a nominal defendant. The two purported derivative actions were consolidated on February 17, 2004. The amended complaint alleges, among other things, that various of the individual defendants breached their legal duties to Qwest by engaging in various kinds of self-dealings, failing to oversee compliance with laws that prohibit insider trading and self-dealing, and causing or permitting Qwest to commit alleged securities laws violations, thereby causing Qwest to be sued for such violations and subjecting Qwest to adverse publicity, increasing its cost of raising capital and impairing earnings.

Beginning in May 2003, the parties to the Colorado Derivative Litigation and the Delaware Derivative Litigation participated in a series of mediation sessions with former United States District Judge Layn R. Phillips. On November 14, 2003, as a result of this process, the parties agreed in principle upon a settlement of the claims asserted in the Colorado Derivative Litigation and the Delaware Derivative Litigation, subject to approval and execution of formal settlement documents, approval by the Denver District Court and dismissal with prejudice of the Colorado Derivative Litigation, the Delaware Derivative Litigation and the Federal Derivative Litigation. From November 14, 2003 until February 17, 2004, the parties engaged in complex negotiations to resolve the remaining issues concerning the potential settlement. On February 17, 2004, the parties reached a formal Stipulation of Settlement, which was filed with the Denver District Court. The stipulation of settlement provides, among other things, that if approved by the Denver District Court and upon dismissal with prejudice of the Delaware Derivative Litigation and the Federal Derivative Litigation, $25 million of the $200 million from the insurance settlement with certain of our insurance carriers (described below in Matters Resolved in the Fourth Quarter of 2003) will be designated for the exclusive use of Qwest to pay losses and Qwest will implement a number of corporate governance changes. The Stipulation of Settlement also provides that the Denver District Court may enter awards of attorneys' fees and costs to derivative plaintiffs' counsel from the $25 million in amounts not to exceed $7.5 million and $125,000, respectively. On February 17, 2004, the Denver District Court entered a Preliminary Approval Order and scheduled a hearing to take place on June 15, 2004, to consider final approval of the proposed settlement and derivative plaintiffs' counsels' request for an award of fees and costs. Pursuant to the Preliminary Approval Order, Qwest mailed, on February 27, 2004, notice of the proposed settlement and hearing to stockholders of its Common stock as of February 17, 2004.

On or about February 23, 2004, plaintiff in the Federal Derivative Litigation filed a motion in the United States District Court for the District of Colorado to enjoin further proceedings relating to the proposed settlement of the Colorado Derivative Litigation, or alternatively, to enjoin the enforcement of a provision in the Preliminary Approval Order of the Denver District Court which plaintiff claims would prevent the Federal Derivative Litigation from being prosecuted pending a final determination of whether the settlement of the Colorado Derivative Litigation shall be approved. On March 8, 2004, the individual defendants in the Federal Derivative Litigation filed a motion to stay all proceedings in that action pending a determination by the Denver District Court whether to approve the proposed settlement of the derivative claims asserted in the Colorado Derivative Litigation, which would resolve the derivative claims asserted in the Federal Derivative Litigation.

Regulatory Matters

On February 14, 2002, the Minnesota Department of Commerce filed a formal complaint against us with the Minnesota Public Utilities Commission, or the Minnesota Commission, alleging that we, in

contravention of federal and state law, failed to file interconnection agreements with the Minnesota Commission relating to certain of our wholesale customers, and thereby allegedly discriminated against other CLECs. On November 1, 2002, the Minnesota Commission issued a written order adopting in full a proposal by an administrative law judge that we committed 26 individual violations of federal law by failing to file, as required under section 252 of the Telecommunications Act, 26 distinct provisions found in 12 separate agreements with individual CLECs for regulated services in Minnesota. The order also found that we agreed to provide and did provide to McLeodUSA and Eschelon Telecom, Inc. discounts on regulated wholesale services of up to 10% that were not made available to other CLECs, thereby unlawfully discriminating against them. The order found we also violated state law, that the harm caused by our conduct extended to both customers and competitors, and that the damages to CLECs would amount to several million dollars for Minnesota alone.

On February 28, 2003, the Minnesota Commission issued its initial written decision imposing fines and penalties, which was later revised on April 8, 2003 to include a fine of nearly $26 million and ordered us to:

- grant a 10% discount off all intrastate Minnesota wholesale services to all CLECs other than Eschelon and McLeodUSA; this discount would be applicable to purchases made by these CLECs during the period beginning on November 15, 2000 and ending on May 15, 2002;
- grant all CLECs other than Eschelon and McLeodUSA monthly credits of $13 to $16 per UNE-P line (subject to certain offsets) purchased during the months of November 2000 through February 2001;
- pay all CLECs other than Eschelon and McLeodUSA monthly credits of $2 per access line (subject to certain offsets) purchased during the months of July 2001 through February 2002; and
- allow CLECs to opt-in to agreements the Minnesota Commission determined should have been publicly filed.

The Minnesota Commission issued its final, written decision setting forth the penalties and credits described above on May 21, 2003. On June 19, 2003, we appealed the Minnesota Commission's orders to the United States District Court for the District of Minnesota. The appeal is pending.

Arizona, Colorado, New Mexico, Washington, Iowa and South Dakota have also initiated formal proceedings regarding our alleged failure to file required agreements in those states. On July 25, 2003, we entered into a settlement with the staff of the Arizona Corporation Commission, or the Arizona Commission, to settle this and several other proceedings. The proposed settlement, which must be approved by the Arizona Commission, requires that we provide approximately $21 million in consideration in the form of a voluntary contribution to the Arizona State Treasury, contributions to certain organizations and/or infrastructure investments and refunds in the form of bill credits to CLECs. On December 1, 2003, an administrative law judge issued a recommended decision denying the proposed settlement. The judge also recommended final orders requiring us to pay approximately $11 million in penalties and to issue credits to CLECs for a 24-month period from October 2000 to September 2002 equal to 10% of all sales of wholesale intrastate services provided by us. We filed exceptions to the recommended decision with the full Arizona Commission. New Mexico has issued an order providing its interpretation of the standard for filing these agreements, identified certain of our contracts as coming within that standard and opened a separate docket to consider further proceedings. Colorado has also opened an investigation into these matters, and on February 27, 2004, the Staff of the Colorado PUC submitted its Initial Comments. The Colorado Staff's Initial Comments recommended that the PUC open a show cause proceeding based upon the Staff's view that Qwest and CLECs had willfully and intentionally violated federal and state law and Commission rules. The Staff also detailed a range of remedies available to the Commission, including but not limited to an

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assessment of penalties and an obligation to extend credits to CLECs. On June 26, 2003, we received from the FCC a letter of inquiry seeking information about related matters. We submitted our initial response to this inquiry on July 31, 2003. The proceedings and investigations in New Mexico, Colorado and Washington and at the FCC could result in the imposition of fines and other penalties against us that could be material. Iowa and South Dakota have concluded their inquiries resulting in no imposition of penalties or obligations to issue credits to CLECs in those states. Also, some telecommunications providers have filed private actions based on facts similar to those underlying these administrative proceedings. These private actions, together with any similar, future actions, could result in additional damages and awards that could be significant.

Illuminet, Inc., a traffic aggregator, and several of its customers have filed complaints with regulatory agencies in Idaho, Nebraska, Iowa, North Dakota and New Mexico, alleging that they are entitled to refunds due to our purported improper implementation of tariffs governing certain signaling services we provide in those states. The commissions in Idaho and Nebraska have ruled in favor of Illuminet and awarded it $1.5 million and $4.8 million, respectively. We sought reconsideration in both states, which was denied and subsequently we perfected appeals in both states. The proceedings in the other states and in states where Illuminet has not yet filed complaints could result in agency decisions requiring additional refunds.

As a part of the approval by the FCC of the Merger, the FCC required us to engage an independent auditor to perform an attestation review of our compliance with our divestiture of in-region InterLATA services and our ongoing compliance with Section 271 of the Telecommunications Act. In 2001, the FCC began an investigation of our compliance with the divestiture of in-region InterLATA services and our ongoing compliance with Section 271 for the audit years 2000 and 2001. In connection with this investigation, Qwest disclosed certain matters to the FCC that occurred in 2000, 2001, 2002 and 2003. These matters were resolved with the issuance of a consent decree on May 7, 2003, by which the investigation was concluded. As part of the consent decree, Qwest made a voluntary payment to the U.S. Treasury in the amount of $6.5 million, and agreed to a compliance plan for certain future activities. Separate from this investigation, Qwest disclosed matters to the FCC in connection with its 2002 compliance audit, including a change in traffic flow related to wholesale transport for operator services traffic and certain toll-free traffic, certain bill mis-labeling for commercial credit card bills, and certain billing errors for public telephone services originating in South Dakota and for toll free services. The FCC has not yet instituted an investigation into the latter categories of matters. If it does so, an investigation could result in the imposition of fines and other penalties against us. The FCC has also instituted an investigation into whether we may have impermissibly engaged in the marketing of InterLATA services in Arizona prior to receiving FCC approval of our application to provide such services in that state.

We have other regulatory actions pending in local regulatory jurisdictions, which call for price decreases, refunds or both. These actions are generally routine and incidental to our business.

Other Matters

In January 2001, an amended purported class action complaint was filed in Denver District Court against Qwest and certain current and former officers and directors on behalf of stockholders of U S WEST. The complaint alleges that Qwest had a duty to pay a quarterly dividend to U S WEST stockholders of record as of June 30, 2000. Plaintiffs further claim that the defendants attempted to avoid paying the dividend by changing the record date from June 30, 2000 to July 10, 2000. In September 2002, Qwest filed a motion for summary judgment on all claims. Plaintiffs filed a cross-motion for summary judgment on their breach of contract claims only. On July 15, 2003, the court denied both summary judgment motions. Plaintiffs' claims for breach of fiduciary duty and breach of contract remain pending. The case is now in the class certification stage, which Qwest is challenging.

From time to time we receive complaints and become subject to investigations regarding "slamming" (the practice of changing long-distance carriers without the customer's consent), "cramming" (the practice of charging a consumer for goods or services that the consumer has not authorized or ordered) and other sales practices. Through December 2003, we resolved allegations and complaints of slamming and cramming with the Attorneys General for the states of Arizona, Colorado, Idaho, Oregon, Utah and Washington. In each of those states, we agreed to comply with certain terms governing our sales practices and to pay each of the states between $200,000 and $3.75 million. We may become subject to other investigations or complaints in the future and any such complaints or investigations could result in further legal action and the imposition of fines, penalties or damage awards.

Several purported class actions relating to the installation of fiber optic cable in certain rights-of-way were filed in various courts against Qwest on behalf of landowners in Alabama, California, Colorado, Georgia, Illinois, Indiana, Kansas, Louisiana, Mississippi, Missouri, North Carolina, Oregon, South Carolina, Tennessee and Texas. Class certification was denied in the Louisiana proceeding and, subsequently, summary judgment was granted in Qwest's favor. A new Louisiana class action complaint has recently been filed. Class certification was also denied in the California proceeding, although plaintiffs have filed a motion for reconsideration. Class certification was granted in the Illinois proceeding. Class certification has not been resolved yet in the other proceedings. The complaints challenge Qwest's right to install its fiber optic cable in railroad rights-of-way and, in Colorado, Illinois and Texas, also challenge Qwest's right to install fiber optic cable in utility and pipeline rights-of-way. In Alabama, the complaint challenges Qwest's right to install fiber optic cable in any right-of-way, including public highways. The complaints allege that the railroads, utilities and pipeline companies own a limited property right-of-way that did not include the right to permit Qwest to install Qwest's fiber optic cable on the plaintiffs' property. The Indiana action purports to be on behalf of a national class of landowners adjacent to railroad rights-of-way over which Qwest's network passes. The Alabama, California, Colorado, Georgia, Kansas, Louisiana, Mississippi, Missouri, North Carolina, Oregon, South Carolina, Tennessee and Texas actions purport to be on behalf of a class of such landowners in those states, respectively. The Illinois action purports to be on behalf of landowners adjacent to railroad rights-of-way over which Qwest's network passes in Illinois, Iowa, Kentucky, Michigan, Minnesota, Nebraska, Ohio and Wisconsin. Plaintiffs in the Illinois action have filed a motion to expand the class to a nationwide class. The complaints seek damages on theories of trespass and unjust enrichment, as well as punitive damages. Together with some of the other telecommunication carrier defendants, in September 2002, Qwest filed a proposed settlement of all these matters (except those in Louisiana) in the United States District Court for the Northern District of Illinois. On July 25, 2003, the court granted preliminary approval of the settlement and entered an order enjoining competing class action claims, except those in Louisiana. The settlement and the court's injunction are opposed by some, but not all, of the plaintiffs' counsel and are on appeal before the Seventh Circuit Court of Appeals. At this time, Qwest cannot determine whether such settlement will be ultimately approved or the final cost of the settlement if it is approved.

On October 31, 2002, Richard and Marcia Grand, co-trustees of the R.M. Grand Revocable Living Trust, dated January 25, 1991, filed a lawsuit in Arizona Superior Court alleging that the defendants violated state and federal securities laws and breached their fiduciary duty in connection with an investment by the plaintiff in securities of KPNQwest. Qwest is a defendant in this lawsuit along with Qwest B.V., Joseph Nacchio and John McMaster, the former President and Chief Executive Officer of KPNQwest. The plaintiff trust claims to have lost $10 million in its investment in KPNQwest. On January 27, 2004, the Arizona Superior Court granted Qwest's motion to dismiss the state and federal securities law claims. The claim for breach of fiduciary duty remains pending.

On October 4, 2002, a putative class action was filed in the federal district court for the Southern District of New York against Willem Ackermans, the former Executive Vice President and Chief

Financial Officer of KPNQwest, in which we were a major shareholder. The complaint alleges, on behalf of certain purchasers of KPNQwest securities, that Ackermans engaged in a fraudulent scheme and deceptive course of business in order to inflate KPNQwest revenue and securities. Ackermans was the only defendant named in the original complaint. On January 9, 2004, plaintiffs filed an amended complaint adding as defendants us, certain of our former executives who were also on the supervisory board of KPNQwest, and others.

We have built our international network outside North America primarily by entering into long-term agreements to acquire optical capacity assets. We have also acquired some capacity from other telecommunications service carriers within North America under similar contracts. Several of the companies from which we have acquired capacity appear to be in financial difficulty or have filed for bankruptcy protection. Bankruptcy courts have wide discretion and could deny us the continued use of the assets under the optical capacity agreements without relieving us of our obligation to make payments or requiring the refund of amounts previously paid. If such an event were to occur, we would be required to write-off the cost of the related optical capacity assets and accrue a loss based on the remaining obligation, if any. We believe that we are taking appropriate actions to protect our investments and maintain ongoing use of the acquired optical capacity assets. At this time, it is too early to determine what effect the bankruptcies will have with respect to the acquired capacity or our ability to use this acquired optical capacity.

The Internal Revenue Service, or the IRS, has proposed a tax adjustment for tax years 1994 through 1996. The principal issue involves our allocation of costs between long-term contracts with customers for the installation of conduit or fiber optic cable and additional conduit or fiber optic cable retained by us. The IRS disputes our allocation of the costs between us and third parties for whom we were building similar network assets during the same time period. Similar claims have been asserted against us with respect to 1997 and 1998, and it is possible that claims could be made against us for other periods. We are contesting these claims and do not believe they will be successful. Even if they are, we believe that any significant tax obligations will be substantially offset as a result of available net operating losses and tax sharing arrangements. However, the ultimate outcomes of these matters are uncertain and we can give no assurance as to whether they will have a material effect on our financial results.

We are subject to a number of environmental matters as a result of our prior operations as part of the Bell System. We believe that expenditures in connection with remedial actions under the current environmental protection laws or related matters will not be material to our business or financial condition.

Matters Resolved in the Fourth Quarter of 2003

Since August 2001, we have been in several disputes with Touch America, Inc. relating to, among other things, various billing, reimbursement and other commercial disputes and allegations by Touch America that we violated certain state and federal antitrust and other laws. We recently agreed to resolve all of these matters in a settlement agreement with Touch America that was approved by the United States Bankruptcy Court for the District of Delaware on November 13, 2003, and which became a final order on November 24, 2003. The settlement agreement, as approved by the Bankruptcy Court, provides for: (a) the mutual general release of claims, except for bills for services provided after September 1, 2003; (b) the termination of all proceedings pending before the FCC, and all litigation between Touch America and us; (c) Touch America's forgiveness of a $23 million obligation due from us to Touch America; (d) the adjustment to zero by Touch America and us of all accounts payable and receivable for services delivered from one to the other prior to September 1, 2003; (e) our forgiveness of a $10 million loan to Touch America under a debtor in possession financing agreement; (f) Touch America's agreement to continue to provide or contract for the provisioning of services currently provided to us; (g) our agreement to purchase certain fiber assets necessary to our in-region operations

from Touch America for a total price of $8 million; (h) our agreement to purchase certain Frame/ATM assets and customers from Touch America; (i) our agreement to give Touch America $3 million in billing credits; and (j) Touch America's agreement to reject and abandon a lit fiber indefeasible rights of use, or IRU, Qwest sold to Touch America in 2000.

As disclosed in our 2002 Form 10-K, we were involved in discussions to resolve disputes with several of our insurance carriers over their attempts to rescind or otherwise deny coverage under our director and officer, or D&O, liability insurance policies and employee benefit plan fiduciary liability insurance policies. The insurance policies that the carriers sought to rescind or otherwise deny coverage comprised: (i) the Qwest D&O Liability Runoff Program (for the policy period June 30, 2000 to June 30, 2006), which otherwise provided coverage of up to $250 million for claims that at least in part involve conduct pre-dating the U S WEST Merger; (ii) the Qwest D&O Liability Ongoing Program (for the policy period June 30, 2000 to June 30, 2003), which otherwise provided coverage of up to $250 million for claims exclusively involving post-Merger conduct; and (iii) the Qwest Fiduciary Liability Program (for the policy period June 12, 1998 to June 30, 2003), which otherwise provided coverage of up to $100 million for claims in connection with Employee Benefit Plans. The insurance carriers sought to rescind these policies and any coverage that these policies could provide for, among other things, the consolidated securities action, the actions by CalSTRS, New Jersey and SURSI, the Colorado (federal and state) and Delaware derivative actions, the consolidated ERISA action, the SEC investigation and the U.S. Attorney's Office investigation, which are described above. These matters involve conduct that could give rise to coverage under policies with collective limits of $350 million.

We reached a settlement of these disputes with the carriers on November 12, 2003, which involved, among other things, an additional payment by us of $157.5 million, and in return, the carriers paid into trust $350 million. Of the $350 million, $150 million in cash is available for our benefit and has been used in large part to reimburse us for defense costs incurred by us in connection with, among other matters, the investigations and securities and derivative actions described above. The remaining $200 million in cash and letters of credit is set aside to cover losses we may incur and the losses of current and former directors and officers and others who have released the carriers in connection with the settlement. The $200 million is comprised of $143 million in cash and $57 million in irrevocable letters of credit.

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

We held our 2003 Annual Meeting of Stockholders on December 16, 2003. Philip F. Anschutz, Richard C. Notebaert and Frank P. Popoff were each elected as a Class III director for a term of three years. Linda G. Alvarado, Craig R. Barrett, Thomas J. Donohue, Jordan L. Haines, Cannon Y. Harvey, Peter S. Hellman, Vinod Khosla, Craig D. Slater and W. Thomas Stephens continue to serve as directors pursuant to their prior elections. At the meeting, stockholders present in person or by proxy voted on the following matters:

1. Election of three Class III directors to the Board to hold office until the third succeeding annual meeting after their election or until their successors are elected and qualified

	Votes For	Votes Withheld
Philip F. Anschutz	1,286,519,107	326,452,958
Richard C. Notebaert	1,550,706,146	62,265,919
Frank P. Popoff	1,456,312,378	156,659,687

2. Approval of our amended and restated Employee Stock Purchase Plan

Votes For	Votes Against	Votes Abstained	Broker Non-Votes
1,317,759,575	45,261,230	14,135,656	235,815,604

3. Stockholder proposal requesting that we exclude as a factor in determining annual or short-term incentive compensation for executive officers any impact on our net income from pension credits

Votes For	Votes Against	Votes Abstained	Broker Non-Votes
1,548,480,762	47,718,100	16,773,203	N/A

4. Stockholder proposal requesting that we take necessary steps to eliminate the classification of terms of the Board

Votes For	Votes Against	Votes Abstained	Broker Non-Votes
1,562,140,860	37,251,094	13,580,111	N/A

5. Stockholder proposal requesting that we seek advance stockholder approval of future employment agreements with our executive officers that provide cash and non-standard benefits exceeding three times the sum of a given executive's base salary plus target bonus

Votes For	Votes Against	Votes Abstained	Broker Non-Votes
1,558,396,355	38,918,821	15,656,889	N/A

6. Stockholder proposal requesting that we adopt a policy of nominating director candidates such that, if elected, a substantial majority of the directors would be "independent"

Votes For	Votes Against	Votes Abstained	Broker Non-Votes
502,150,073	854,704,850	20,301,538	235,815,604

7. Stockholder proposal requesting that we adopt a policy that all future stock option grants to senior executives be performance-based

Votes For	Votes Against	Votes Abstained	Broker Non-Votes
229,280,400	1,128,247,978	19,628,083	235,815,604

8. Stockholder proposal requesting that we adopt a policy that some portion of future stock option grants to senior executives be performance-based

Votes For	Votes Against	Votes Abstained	Broker Non-Votes
621,183,300	733,194,917	22,778,244	235,815,604

9. Stockholder proposal requesting that we establish a policy of expensing in our financial statements the costs of all future stock options issued by us

Votes For	Votes Against	Votes Abstained	Broker Non-Votes
556,841,903	780,274,356	40,040,202	235,815,604

PART II

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

Market for Qwest Common Stock

The United States market for trading in our common stock is the New York Stock Exchange. As of January 31, 2004, our common stock was held by approximately 408,000 stockholders of record. The following table sets forth the high and low sales prices per share of our common stock for the periods indicated.

	Market Price	
	High	Low
2003		
First quarter	$ 6.02	$ 3.10
Second quarter	5.23	3.48
Third quarter	5.09	3.40
Fourth quarter	4.32	3.32
2002		
First quarter	$ 14.93	$ 7.27
Second quarter	8.00	1.79
Third quarter	3.60	1.11
Fourth quarter	5.69	1.95

We did not pay any cash dividends on our common stock in 2003 or 2002 nor do we intend to pay any dividends for the foreseeable future.

For a discussion of restrictions on our subsidiaries' ability to pay dividends to us contained in certain of our debt instruments, see Note 8—Borrowings to our consolidated financial statements in Item 8 of this report.

Sales of Unregistered Securities

During the three months ended December 31, 2003, we issued approximately 2.4 million shares of our common stock that were not registered under the Securities Act in reliance on an exemption pursuant to Section 3(a)(9) of that Act. These shares of common stock were issued in a number of separately and privately negotiated direct exchange transactions occurring on various dates throughout the quarter for $9.8 million in face amount of debt issued by Qwest Capital Funding, Inc., or QCF, a wholly owned subsidiary and guaranteed by Qwest. The trading prices for our shares at the time the exchange transactions were consummated ranged from $3.42 per share to $3.58 per share. No underwriters or underwriting discounts or commissions were involved.

ITEM 6. SELECTED FINANCIAL DATA

On June 30, 2000, we completed the Merger. We accounted for the Merger as a reverse acquisition under the purchase method of accounting, with U S WEST being deemed the accounting acquirer and pre-Merger Qwest the acquired entity. As a result, our consolidated financial statements do not include financial results of pre-Merger Qwest for any period prior to June 30, 2000. The following selected consolidated financial data should be read in conjunction with, and are qualified by reference to, the consolidated financial statements and notes thereto in Item 8 of this report and "Management's Discussion and Analysis of Financial Condition and Results of Operation" in Item 7 of this report. The selected consolidated financial data for the years ended December 31, 2003, 2002 and 2001 are derived from, and are qualified by reference to, our audited consolidated financial statements included in Item 8 of this report.

	Years Ended December 31,				
	2003	2002	2001	2000	1999 (Unaudited)
	(Dollars in million, shares in thousands except per share amounts)				
Operating revenue	$ 14,288	$ 15,371	$ 16,530	$ 14,148	$ 11,746
Operating expenses	14,542	34,288	18,882	14,422	9,101
Operating (loss) income	(254)	(18,917)	(2,352)	(274)	2,645
(Loss) income from continuing operations	(1,313)	(17,618)	(6,117)	(1,442)	884
Net income (loss)(1)	$ 1,512	$ (38,468)	$ (5,603)	$ (1,037)	$ 1,084
(Loss) earnings per share(2)					
Continuing operations:					
Basic	$ (0.76)	$ (10.48)	$ (3.68)	$ (1.13)	$ 1.01
Diluted	$ (0.76)	$ (10.48)	$ (3.68)	$ (1.13)	$ 1.00
Net income (loss):					
Basic	$ 0.87	$ (22.87)	$ (3.37)	$ (0.82)	$ 1.24
Diluted	$ 0.87	$ (22.87)	$ (3.37)	$ (0.82)	$ 1.23
Weighted-average common shares outstanding (in thousands):(2)					
Basic	1,738,766	1,682,056	1,661,133	1,272,088	872,309
Diluted	1,738,766	1,682,056	1,661,133	1,272,088	880,753
Dividends per common share	$ 0.00	$ 0.00	$ 0.05	$ 0.31	$ 1.36
Balance sheet data:					
Total assets	$ 26,216	$ 29,345	$ 72,166	$ 72,816	$ 22,914
Total debt(3)	17,508	22,540	25,037	19,157	13,071
Debt to total capital ratio(4)	106.16%	114.36%	41.42%	31.55%	94.04%
Other data:					
Cash provided by operating activities	$ 2,175	$ 2,388	$ 3,001	$ 3,762	$ 4,546
Cash used for investing activities	(2,340)	(2,738)	(8,152)	(5,256)	(6,462)
Cash (used for) provided by financing activities	(4,856)	(789)	4,660	1,268	1,945
Capital expenditures	2,088	2,764	8,042	7,135	3,944

(1) Amounts that follow in this footnote are on an after-tax basis. Also, as described in footnote (2), all share and per share amounts for the periods 1999 through 2000 assume the conversion of U S WEST common stock into Qwest common stock.

2003. The 2003 net income includes a charge of $140 million ($0.08 per basic and diluted share) for an impairment of assets (primarily cell sites, switches, related tools and equipment inventory and certain information technology systems supporting the wireless network), a net gain of $206 million ($0.12 per basic and diluted share) resulting from the adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations", or SFAS No. 143, relating to the reversal of net

removal costs where there was not a legal removal obligation, a net charge of $241 million ($0.14 per basic and diluted share) resulting from the termination of services arrangements with Calpoint and another service provider, a net charge of $69 million ($0.04 per basic and diluted share) for restructuring charges, a net charge of $61 million ($0.04 per basic and diluted share) for litigation related losses, a net gain of $23 million ($0.01 per basic and diluted share) relating to the early retirement of debt and a net gain on sale of discontinued operations of $2.619 billion ($1.51 per basic and diluted share).

2002. 2002 net loss includes a charge of $22.800 billion ($13.55 per basic and diluted share) for a transitional impairment from the adoption of a change in accounting for goodwill and other intangible assets, charges aggregating $14.927 billion ($8.87 per basic and diluted share) for additional goodwill and asset impairments, a net charge of $112 million ($0.07 per basic and diluted share) for Merger-related, restructuring and other charges, a charge of $1.190 billion ($0.71 per basic and diluted share) for the losses and impairment of investment in KPNQwest, a gain of $1.122 billion ($0.67 per basic and diluted share) relating to the gain on the early retirement of debt and income from and gain on sale of discontinued operations of $1.950 billion ($1.16 per basic and diluted share).

2001. 2001 net loss includes charges aggregating $697 million ($0.42 per diluted share) for Merger-related, restructuring and other charges, a charge of $3.300 billion ($1.99 per basic and diluted share) for the losses and impairment of investment in KPNQwest, a charge of $136 million ($0.08 per basic and diluted share) for a depreciation adjustment on access lines returned to service, a charge of $163 million ($0.10 per basic and diluted share) for investment write-downs, a charge of $154 million ($0.09 per basic and diluted share) for asset impairments, a charge of $65 million ($0.04 per basic and diluted share) for the early retirement of debt and a gain of $31 million ($0.02 per basic and diluted share) for the sale of rural exchanges.

2000. 2000 net loss includes a charge of $907 million ($0.71 per basic and diluted share) for Merger-related costs, a charge of $531 million ($0.42 per basic and diluted share) for the loss on sale of Global Crossing investments and related derivatives, a charge of $208 million ($0.16 per basic and diluted share) for asset impairments and a net gain of $126 million ($0.10 per basic and diluted share) on the sale of investments.

1999. 1999 net income includes expenses of $282 million ($0.32 per basic and diluted share) related to a terminated merger, a loss of $225 million ($0.26 per basic and diluted share) on the sale of marketable securities and a charge of $34 million ($0.04 per basic and diluted share) on the decline in the market value of derivative financial instruments.

(2) In connection with the Merger, each outstanding share of U S WEST common stock was converted into the right to receive 1.72932 shares of Qwest common stock (and cash in lieu of fractional shares). The weighted-average common shares outstanding assume the 1-for-1.72932 conversion of U S WEST shares for Qwest shares for all periods presented. In addition, weighted-average common shares outstanding also assume a one-for-one conversion of U S WEST Communications Group common shares outstanding into shares of U S WEST as of the date of the separation of U S WEST's former parent company.

(3) Amounts include outstanding commercial paper borrowings of $3.165 billion, $2.035 billion and $1.265 billion for 2001, 2000 and 1999, respectively, and exclude future purchase commitments, operating leases, letters of credit and guarantees. There were no commercial paper borrowings outstanding as of December 31, 2003 and 2002. At December 31, 2003, the amount of those future purchase commitments, operating leases, letters of credit and guarantees was approximately $7.359 billion.

(4) The debt to total capital ratio is a measure of the amount of debt in our capitalization. The ratio is calculated by dividing debt by total capital. Debt includes current borrowings and long-term borrowings as reflected on our

consolidated balance sheets in Item 8 of this report. Total capital is the sum of debt and total stockholders' (deficit) equity.

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

Certain statements set forth below under this caption constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. See "Special Note Regarding Forward-Looking Statements" at the end of this Item 7 for additional factors relating to such statements as well as for a discussion of certain risk factors applicable to our business, financial condition and results of operations.

Business Overview and Presentation

We provide local telecommunications and related services, IntraLATA (services provided within the same LATA) and InterLATA (services provided across more than one LATA) long-distance services and wireless, data and video services within our local service area, which consists of the 14-state region of Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming. We also provide InterLATA long-distance services and reliable, scalable and secure broadband data, voice and video communications outside our local service area as well as globally.

We previously provided directory publishing services in our local service area. In 2002, we entered into contracts for the sale of our directory publishing business. In November 2002, we closed the sale of our directory publishing business in 7 of the 14 states in which we offered these services (referred to as Dex East). In September 2003, we completed the sale of the directory publishing business in the remaining states (referred to as Dex West). As a consequence, the results of operations of our directory publishing business are included in income from discontinued operations in our consolidated statements of operations.

Our analysis presented below is organized in a way that provides the information required, while highlighting the information that we believe will be instructive for understanding the relevant trends going forward. Our operating revenues are generated from our wireline, wireless and other services segments. The presentation of "Operating Revenue" includes revenue results for each of our customer channels: business, consumer and wholesale for the wireline segment. An overview of the segment results is provided in "Segment Results" below. The segment discussion below reflects the way we reported our segment results to our Chief Executive Officer in 2003.

Restatement of Prior Years' Consolidated Financial Statements

Our 2002 Form 10-K was filed in October 2003 and contains, among other things, our restated consolidated financial statements for the years ended December 31, 2001 and 2000. In our 2002 Form 10-K, we also attempted to address comments received from the SEC on our previous filings. To date, we have not received comments from the SEC regarding our restatement, the 2002 Form 10-K or the adequacy of our responses to its previous comments.

Business Trends

Our results continue to be impacted by a number of factors influencing the telecommunications industry and our local service area. First, technology substitution and competition are expected to continue to cause additional access line losses. We expect industry-wide competitive factors to continue to impact our results and we have developed new strategies for offering complementary services such as satellite television and wireless. Second, our results continue to be impacted by regulatory responses to the competitive landscape for both our local and long-distance services. Third, the weak economy in our local service area has impacted demand from both our consumer and business customers. We believe demand for our products and services will continue to be affected because of a slow recovery in our local service area.

Revenue Trends

Historically, at least 95% of our revenue comes from our wireline segment, which provides voice services and data and Internet services. In general, we have experienced a decline in local voice-related revenue as a result of a decrease in access lines and our competitors' accelerated use of UNE-P to deliver voice services. Access lines are expected to continue decreasing primarily because of technology substitution, including wireless and cable substitution for wireline telephony, and cable modem substitution for dial-up Internet access lines. UNE-P rules, which require us to sell access to our wireline network to our competitors at wholesale rates, will continue to impact our results. The use of UNE-P is expected to precipitate incremental losses of retail access lines and apply downward pressure on our revenue. We recently re-entered the long-distance market within our local service area; and we expect the anticipated increase in InterLATA long-distance revenue and increases in wireless revenue to offset some of the above mentioned revenue declines. Broadband services have been expanded to allow more of our customers to convert from dial-up Internet connections to our DSL services. In addition, Internet related revenues continue to expand, while offsetting declines in data services have stabilized and, late in 2003, certain data services revenue has shown signs of growth.

We have begun to experience and expect increased competitive pressure from telecommunications providers either emerging from bankruptcy protection or reorganizing their capital structure to more effectively compete against us. As a result of these increased competitive pressures, we have been and may continue to be forced to respond with less profitable product offerings and pricing plans that allow us to retain and attract customers.

Our wireless revenue has declined as a result of reduced marketing efforts, intense industry competition and the impact of the economic slowdown. Starting in late 2003, we expanded our consumer and small business product offerings to bundle wireless services with our local voice services, broadband services, video services and long-distance services. By offering our customers a complete telecommunications solution, we may experience a decrease in the rate of our wireline access line losses. We have redesigned our local services package to provide customers with choice and simplification. Wireless offerings are being expanded through a new arrangement with Sprint. This arrangement will enable utilization of Sprint's nationwide digital wireless network to offer our customers new voice and data capabilities.

Expense Trends

Our expenses continue to be impacted by shifting demand due to increased competition and the expansion of our product offerings. Expenses associated with our new product offerings tend to be more variable in nature. While existing products tend to rely upon our embedded cost structure, the mix of products we expect to sell, combined with regulatory and market pricing stresses, may pressure operating margins. Facility costs are third-party telecommunications expenses we incur to connect customers to networks or to end-user product platforms not owned by us. As revenue decreases, associated facilities costs are not always reduced at the same rate as those revenue declines.

In order to improve operational efficiencies, and in response to continued declines in revenue, we have implemented restructuring plans in which we reduced the number of our employees and consolidated and subleased idle real estate properties. We have also reduced capital expenditures and expect to continue at this reduced level for the foreseeable future. We will continue to evaluate our staffing levels and cost structure and adjust these areas as deemed necessary.

Results of Operations

Overview

Our operating revenues are generated within our segments: wireline, wireless and other services. Our wireline segment includes revenue from the provision of voice services and data and Internet services. Within each of the revenue categories described below, we present the customer channel from which the revenue was earned (consumer, business or wholesale). Certain prior year revenue amounts have been reclassified to conform to the current year presentations. Depending on the product or service purchased, a customer may pay an up-front fee, a monthly fee, a usage charge or a combination of these. The following is a description of the sources of our revenue:

- *Voice services.* Voice services revenue includes local voice services, long-distance voice services and access services. Local voice services revenue includes revenue from basic local exchange services, switching services, custom calling features, enhanced voice services, operator services, public telephone services, collocation services and CPE. Long-distance voice services revenue includes revenue from InterLATA and IntraLATA long-distance services. Access services revenue includes fees charged to other long-distance providers to connect to our network.

- *Data and Internet services.* Data and Internet services revenue includes data services (such as traditional private lines, wholesale private lines, frame relay, ISDN, ATM and related CPE) and Internet services (such as DSL, DIA, VPN, Internet dial access, web hosting, professional services and related CPE).

- *Wireless services.* Our wireless services are provided primarily through our wholly owned subsidiary, Qwest Wireless. We offer wireless services to residential and business customers, providing them the ability to use the same telephone number for their wireless phone as for their home or business phone. In August 2003, Qwest Wireless entered into a services agreement with a subsidiary of Sprint that allows us to resell Sprint wireless services, including access to Sprint's nationwide PCS wireless network, to consumer and business customers, primarily within our local service area. We began offering these Sprint services under our brand name in March 2004.

- *Other services.* Other services revenue is predominantly derived from the sublease of some of our unused real estate assets, such as space in our office buildings, warehouses and other properties.

The following table summarizes our results of operations:

	Years Ended December 31,			Increase/(Decrease)		Percentage Change	
	2003	2002	2001	2003 v 2002	2002 v 2001	2003 v 2002	2002 v 2001
	(Dollars in millions, except per share amounts)						
Operating revenue	$ 14,288	$ 15,371	$ 16,530	$ (1,083)	$ (1,159)	(7)%	(7)%
Operating expenses, excluding goodwill and asset impairment charges	14,312	15,280	18,631	(968)	(3,351)	(6)%	(18)%
Goodwill impairment charge	—	8,483	—	(8,483)	8,483	nm	nm
Asset impairment charges	230	10,525	251	(10,295)	10,274	(98)%	nm
Operating loss	(254)	(18,917)	(2,352)	18,663	(16,565)	99%	nm
Other expense—net	1,578	1,198	5,010	380	(3,812)	32%	(76)%
Loss before income taxes, discontinued operations, and cumulative effect of changes in accounting principles	(1,832)	(20,115)	(7,362)	18,283	(12,753)	91%	(173)%

Income tax benefit	519	2,497	1,245	(1,978)	1,252	(79)%	101%
Loss from continuing operations	(1,313)	(17,618)	(6,117)	16,305	(11,501)	93%	(188)%
Income from and gain on sale of discontinued operations—net of tax	2,619	1,950	490	669	1,460	34%	nm
Income (loss) before cumulative effect of changes in accounting principles	1,306	(15,668)	(5,627)	16,974	(10,041)	nm	(178)%
Cumulative effect of changes in accounting principles—net of tax	206	(22,800)	24	23,006	(22,824)	nm	nm
Net income (loss)	$ 1,512	$ (38,468)	$ (5,603)	$ 39,980	$ (32,865)	nm	nm
Basic and diluted income (loss) per share	$ 0.87	$ (22.87)	$ (3.37)	$ 23.74	$ (19.50)	nm	nm

nm—not meaningful

Operating Revenue

The following table compares operating revenue for 2003, 2002 and 2001:

	Years Ended December 31,			Increase/(Decrease)		Percentage Change	
	2003	2002	2001	2003 v 2002	2002 v 2001	2003 v 2002	2002 v 2001
	(Dollars in millions)						
Operating revenue							
Wireline revenue							
Business local voice	$ 2,277	$ 2,534	$ 2,687	$ (257)	$ (153)	(10)%	(6)%
Consumer local voice	3,933	4,298	4,419	(365)	(121)	(8)%	(3)%
Wholesale local voice	806	888	1,046	(82)	(158)	(9)%	(15)%
Total local voice	7,016	7,720	8,152	(704)	(432)	(9)%	(5)%
Business long-distance	775	809	875	(34)	(66)	(4)%	(8)%
Consumer long-distance	297	335	554	(38)	(219)	(11)%	(40)%
Wholesale long-distance	826	952	1,087	(126)	(135)	(13)%	(12)%
Total long-distance	1,898	2,096	2,516	(198)	(420)	(9)%	(17)%

Business access	87	76	77	11	(1)	14%	(1)%
Consumer access	102	97	100	5	(3)	5%	(3)%
Wholesale access	756	849	1,052	(93)	(203)	(11)%	(19)%
Total access	945	1,022	1,229	(77)	(207)	(8)%	(17)%
Total voice services	9,859	10,838	11,897	(979)	(1,059)	(9)%	(9)%
Business data and Internet	2,291	2,230	1,990	61	240	3%	12%
Consumer data and Internet	216	194	212	22	(18)	11%	(8)%
Wholesale data and Internet	1,284	1,373	1,704	(89)	(331)	(6)%	(19)%
Total data and Internet	3,791	3,797	3,906	(6)	(109)	—	(3)%
Total wireline revenue	13,650	14,635	15,803	(985)	(1,168)	(7)%	(7)%
Wireless revenue	594	694	688	(100)	6	(14)%	1%
Other services revenue	44	42	39	2	3	5%	8%
Total operating revenue	$ 14,288	$ 15,371	$ 16,530	$ (1,083)	$ (1,159)	(7)%	(7)%

Wireline Revenue

Wireline revenue declined by $985 million, or 7%, in 2003 and by $1.168 billion, or 7%, in 2002. Data and Internet revenue, as a percentage of total wireline revenue, increased to 28% in 2003, from 26% in 2002 and 25% in 2001. Voice services revenue, as a percentage of total wireline revenue, declined to 72% in 2003, from 74% in 2002 and 75% in 2001. Changes in the components of wireline revenue are described in more detail below.

Voice Services

Voice services revenue decreased $979 million, or 9%, in 2003 and decreased $1.059 billion, or 9%, in 2002. The voice services decreases were the result of declines in local voice, long-distance, and access service revenue, as described in more detail below.

Local voice

Local voice revenue decreased $704 million, or 9%, in 2003 and decreased $432 million, or 5%, in 2002. Local voice revenue declines were driven by losses of access lines as we have experienced competition from both technology substitution and other telecommunications providers reselling our services by using UNE-Ps. Access lines declined by 797,000, or 5%, in 2003, and by 781,000, or 4%, in 2002. In 2003, we experienced consumer access line declines of 897,000, or 8%, while business retail access lines decreased by 443,000 (which included 145,000 lines lost due to the impact of the MCI bankruptcy), or 9%. UNE-Ps, which are reflected in our wholesale channel, increased by 543,000, or 52%. The increase in UNE-Ps partially offset the loss of retail access lines, but because of the regulated pricing structure of UNE-Ps this applied downward pressure on our revenue. In 2002, we experienced consumer access line declines of 667,000, or 6%, and business retail access line declines of 234,000, or 4%, while UNE-Ps increased by 120,000, or 13%. We also experienced declines in sales of enhanced features and installation and repair services in the consumer channel in both 2003 and 2002, and in the business channel in 2002. Wholesale local voice revenue declined in 2003 and 2002 primarily due to reductions in demand for services such as operator assistance, pay phones, and collocation.

Long-distance

Long-distance revenue decreased $198 million, or 9%, in 2003 and decreased $420 million, or 17%, in 2002. In 2002, we evaluated specific long-distance services sold primarily outside of our local service area. Based upon that evaluation, we de-emphasized and stopped promoting certain products, including IntraLATA long-distance in the consumer and business markets and wholesale long-distance, which resulted in a decline in both our 2003 and 2002 revenue. However, in 2003, we re-entered the long-distance market within our local service area and expanded our offerings to provide complementary local and long-distance services. As a result, InterLATA long-distance revenue within our service area increased due to the addition of 2.3 million new customers, partially offsetting other 2003 long-distance revenue declines. The 2002 decline was also due to downward pressure on our prices by our competitors.

Access services

Access services revenue decreased $77 million, or 8%, in 2003 and decreased $207 million, or 17%, in 2002, primarily due to the access line losses described above as well as the increase in the number of customers using our local service area long-distance services. In 2003, we recorded a reserve, through reduction of revenue, of $34 million for anticipated customer credits resulting from regulatory rulings that redefined tariffs on local calls. The 2002 decline was also due to reduced demand caused by the bankruptcy of several large customers.

Data and Internet Services

Data and Internet services revenue was relatively flat in 2003 and decreased $109 million, or 3%, in 2002.

In 2003, revenue increases in our Internet products were largely offset by declines in data services. Business channel revenue increased primarily due to increases in Internet dial access and VPN. Pursuant to the amendment of our agreement with Microsoft in July 2003, we became responsible for providing broadband services to end-user customers, while we previously provided related services to Microsoft on a wholesale basis. As a result, we are recognizing revenue at higher retail rates rather than the lower wholesale rates we charged Microsoft. We have also increased our DSL subscriber base by 25%. We have also expanded our DSL service area to 45% of our local service area. In addition, wholesale channel revenue declined primarily due to decreases in private data lines resulting from the bankruptcies of large customers such as Touch America and MCI.

In 2002, we experienced revenue increases of $91 million from Internet products. Internet dial access revenue increased primarily from sales to large ISPs and businesses for use in their internal telecommunication networks, while DSL and DIA grew in response to increased demand for access to the Internet. These increases were more than offset by declines of $200 million in data services such as wholesale private line, precipitated in part by the weakened economy.

Wireless Revenue

Revenue from wireless services decreased by $100 million, or 14%, in 2003 and increased by $6 million, or 1%, in 2002. The decrease in wireless revenue in 2003 was due to our strategic decision to de-emphasize marketing of wireless services on a stand-alone basis coupled with tightened credit policies and intense industry competition. Although the wireless industry revenue grew in total in 2002, our wireless revenue was relatively flat in 2002, due in part to our limited ability to offer a competitive wireless product. Our wireless offerings, which were expanded to allow the bundling of wireless and local voice services, will be further enhanced in 2004 through our aforementioned arrangement with Sprint.

Other Services Revenue

Other services revenue consists primarily of sublease income from our owned and leased real estate. Other services revenue increased $2 million, or 5%, in 2003 and increased $3 million, or 8%, in 2002. Through our restructuring and other efforts, we have decreased the amount of real estate we manage by 3.4 million square feet, or

8%, in 2003 and by 4.9 million square feet, or 10%, in 2002.

Operating Expenses

The following table provides further detail regarding our operating expenses:

	Years Ended December 31,			Increase/(Decrease)		Percentage Change	
	2003	2002	2001	2003 v 2002	2002 v 2001	2003 v 2002	2002 v 2001
	(Dollars in millions)						
Operating expenses:							
Cost of sales	$ 6,386	$ 6,032	$ 6,634	$ 354	$ (602)	6%	(9)%
Selling, general and administrative	4,646	5,219	5,496	(573)	(277)	(11)%	(5)%
Depreciation	2,739	3,268	3,704	(529)	(436)	(16)%	(12)%
Goodwill and other intangible amortization	428	579	1,660	(151)	(1,081)	(26)%	(65)%
Goodwill impairment charge	—	8,483	—	(8,483)	8,483	nm	nm
Asset impairment charges	230	10,525	251	(10,295)	10,274	(98)%	nm
Restructuring, Merger-related and other charges	113	182	1,137	(69)	(955)	(38)%	(84)%
Total operating expenses	$ 14,542	$ 34,288	$ 18,882	$ (19,746)	$ 15,406	(58)%	82%

nm—not meaningful

Cost of Sales

The following table shows a breakdown of cost of sales by major component:

	Years Ended December 31,			Increase/(Decrease)		Percentage Change	
	2003	2002	2001	2003 v 2002	2002 v 2001	2003 v 2002	2002 v 2001
	(Dollars in millions)						
Facility costs	$ 3,294	$ 2,962	$ 3,042	$ 332	$ (80)	11%	(3)%
Network costs	391	384	538	7	(154)	2%	(29)%
Employee and service-related costs	1,988	1,888	1,868	100	20	5%	1%
Non-employee related costs	713	798	1,186	(85)	(388)	(11)%	(33)%
Total cost of sales	$ 6,386	$ 6,032	$ 6,634	$ 354	$ (602)	6%	(9)%

Cost of sales includes: facility costs, network costs, salaries and wages directly attributable to products or services, benefits, materials and supplies, contracted engineering services, computer systems support and the cost of CPE sold.

Cost of sales, as a percentage of revenue, was 45% for 2003, 39% for 2002 and 40% for 2001. Total cost of sales increased $354 million, or 6%, in 2003 and decreased $602 million, or 9%, in 2002. The increase in 2003 was caused in part by the deterioration in product margins as retail access line losses were partially offset by lower margin UNE-Ps sold to our competitors at regulated rates. Margins were also adversely impacted by the settlement of certain purchase obligations. More discussion of these changes is provided below.

Facility costs increased $332 million, or 11%, in 2003 and decreased $80 million, or 3%, in 2002. The increase in 2003 was primarily due to a $393 million charge resulting from the termination of our services arrangements with Calpoint and another service provider. Exclusive of this one time charge, facility costs decreased $61 million, or 2%, as the result of reduced third-party network services and declines in our out-of-region long-distance volumes. The decrease in 2002 was due to network optimization savings whereby we eliminated excess capacity from the network and migrated from lower-speed services to more cost efficient higher-speed services where applicable. Beginning in the fourth quarter of 2003, we satisfied certain FCC requirements that allowed us to begin providing in-region InterLATA long-distance using our proprietary network assets, thereby reducing our reliance on third-party facility providers.

Network costs include third-party expenses to repair and maintain our network and supplies to provide services to customers. Our network costs were relatively flat in 2003 and decreased $154 million, or 29%, in 2002. In 2003 we focused on maintenance activities and experienced a slight increase in expense associated with our recent re-entry in to the InterLATA long-distance market. Additionally, the July 2003 amendment of our agreement with Microsoft required that we become responsible for all costs associated with providing broadband services to end-user customers. As a result, the revenue and costs associated with this expanded service offering increased. During 2002, we reduced our reliance on third-party contractors to provide network maintenance services by shifting this work to our employees. We also experienced lower costs associated with wireless handset sales as a result of lower unit prices and decreases in the number of new wireless subscribers.

Employee and service-related costs, such as salaries and wages, benefits, commissions, overtime and third-party customer service increased $100 million, or 5%, in 2003 and were essentially unchanged in 2002. While we have realized savings due to reductions in salaries and wages and professional fees resulting from our restructuring efforts, we continue to experience offsetting increases in costs related to our pension and post-retirement benefit plans due to the change to a net expense of $125 million in 2003 from a net credit of $40 million in 2002, as described more fully below. Additionally, in 2003 we

experienced increased information technology costs as resources were partially shifted to system maintenance activities from development activities, which are generally capitalized. In 2002, we significantly reduced our employee incentive compensation. We did not experience a similar reduction of employee incentive compensation in 2003.

Non-employee related costs, such as real estate, cost of sales for CPE and reciprocal compensation payments decreased $85 million, or 11%, in 2003 and decreased $388 million, or 33%, in 2002. The decrease in 2003 is attributable to lower sales of CPE equipment to customers, corresponding with lower CPE revenue, a decrease in external commissions and a decrease in reciprocal compensation. Reciprocal compensation costs, which are charges we must pay other carriers to terminate IntraLATA local calls, declined in 2003 and 2002 due to the decline in local voice services revenue, and also as a result of regulatory action which limited the amount of charges. The decrease in 2002 is also attributable to lower postage and shipping costs associated with improved management expense controls and lower cost of sales for data and Internet CPE, associated with lower CPE revenue.

Selling, General and Administrative Expenses

The following table shows a breakdown of selling, general and administrative, or SG&A, expenses by major component:

	Years Ended December 31,	Increase/(Decrease)	Percentage Change

	2003	2002	2001	2003 v 2002	2002 v 2001	2003 v 2002	2002 v 2001
	(Dollars in millions)						
Property and other taxes	$ 451	$ 540	$ 437	$ (89)	$ 103	(16)%	24%
Bad debt	304	511	615	(207)	(104)	(41)%	(17)%
Employee and service-related costs	2,464	2,743	3,276	(279)	(533)	(10)%	(16)%
Non-employee related costs	1,427	1,425	1,168	2	257	—	22%
Total SG&A	$ 4,646	$ 5,219	$ 5,496	$ (573)	$ (277)	(11)%	(5)%

SG&A expenses include taxes other than income taxes, bad debt charges, salaries and wages not directly attributable to products or services, benefits, sales commissions, rent for administrative space, advertising, professional service fees and computer systems support.

Total SG&A decreased $573 million, or 11%, in 2003 and decreased $277 million, or 5%, in 2002. SG&A, as a percent of revenue, was 33% for 2003, 34% for 2002 and 33% for 2001. The 2003 decreases primarily result from decreases in professional fees, bad debt expense, and other factors discussed in more detail below.

Property and other taxes, such as taxes on owned or leased assets and real estate, and transactional items such as certain sales, use and excise taxes, decreased $89 million, or 16%, in 2003 and increased $103 million, or 24%, in 2002. The decrease in 2003 is primarily a result of reduced property taxes, which resulted from lower asset valuations related to our impairments. The increase in our 2002 expense is attributable to higher levels of capital expansion for both the traditional telephone network and global fiber optic broadband network that took place during the years ended December 31, 2001 and 2000.

Bad debt expense decreased $207 million, or 41%, in 2003 and decreased $104 million, or 17%, in 2002. Bad debt decreased as a percentage of revenue to 2.1% for 2003 from 3.3% for 2002 and 3.7% for 2001. The decrease in our 2003 expense as compared to 2002 was primarily caused by large provisions associated with uncollectible receivables from MCI, Touch America and others which we recorded in 2002, improved collection practices and tighter credit policies in 2003. The 2002 decrease

as a percentage of revenue was due primarily to improved collections practices and tighter credit policies offset by bankruptcies of certain wholesale customers.

Employee and service-related costs, such as salaries and wages, benefits, sales commissions and professional fees (such as telemarketing and customer service costs) decreased $279 million, or 10%, in 2003 and decreased $533 million, or 16%, in 2002. The decrease in 2003 was due to reduced salaries and wages resulting from staffing reductions implemented in 2003 and 2002, reduced professional fees to third-party vendors as we re-incorporated certain previously outsourced customer service functions into our operations, and reduced sales commissions due to lower revenues and a revision to our sales compensation plan. These cost reductions were partially offset by increases in incentive compensation and increases in our pension and post-retirement benefit plan expenses due to the change to a net benefit expense of $84 million in 2003 from a net credit of $57 million in 2002, as described more fully below. The decrease in 2002 was due to reduced salaries and wages resulting from staffing reductions implemented in 2002 and 2001, reduced professional fees, reduced incentive compensation and reduced sales commissions. Partially offsetting these decreases were expenses associated with the settlement of outstanding litigation and increases in our pension and post-retirement benefit plan expenses.

Non-employee related costs, such as marketing and advertising, rent for administrative space and software expenses, were flat in 2003 and increased $257 million, or 22%, in 2002. Our 2003 expenses declined due to lower real estate expenses and lower maintenance costs, reflecting the reduction in Qwest managed real estate holdings which was partially a result of our restructuring activities. These declines were offset by a net charge of $100 million related to pending litigation. The 2002 increase primarily resulted from software costs related to our re-entry into the InterLATA long-distance market, and a shift of information technology resources to maintenance activities from development activities that were eligible for capitalization. The increase was partially offset by lower postage and shipping costs, reduced customer care costs and lower marketing and advertising expenses.

Pension and Post-Retirement Benefits

Our results include pension credits and post-retirement benefit expenses, which we refer to on a combined basis as a net pension expense or credit. We recorded a net pension expense of $209 million in 2003, a net pension credit of $97 million in 2002 and a net pension credit of $337 million in 2001. The net pension expense or credit is a function of the amount of pension and post-retirement benefits earned, interest on projected benefit obligations, amortization of costs and credits from prior benefit changes and the expected return on the assets held in the various plans. The net pension expense or credit is allocated primarily to cost of sales and the remaining balance to SG&A.

The change to a net pension expense for 2003 from a net pension credit in 2002 was due primarily to a $123 million reduction in the expected return on plan assets, a $122 million reduction in recognized actuarial gains resulting in a change to losses and a $59 million increase in interest costs. These changes are due to lower expected and actual rates of return on plan assets, lower discount rates, and increased medical costs for plan participants. A reduction of $209 million in the expected return on plan assets as well as a reduction of $122 million in recognized actuarial gains, offset by lower service and interest costs of $98 million, accounted for the decrease in the net pension credit in 2002.

We expect that our 2004 net pension expense will be higher than 2003 due to a reduction in the expected rate of return on plan assets, the effect of amortizing losses incurred in the volatile equity market of 2000 through 2002, a lower discount rate and rising healthcare rates.

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003, or the Act, became law in the United States. The Act introduces a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the Medicare benefit. In accordance with Financial

Accounting Standards Board, or FASB, Staff Position FAS No. 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003", we elected to defer recognition of the effects of the Act in any measures of the benefit obligation or cost. Specific authoritative guidance on the accounting for the federal subsidy is pending and that guidance, when issued, could require us to change previously reported information. Currently, we do not believe we will need to amend our plan to benefit from the Act.

For additional information on our pension and post-retirement plans see Note 11—Employee Benefits to our consolidated financial statements in Item 8 of this report. Also, for a discussion of the accounting treatment and assumptions regarding pension and post-retirement benefits, see the discussion of "Critical Accounting Policies and Estimates" below.

Depreciation

Depreciation expense decreased $529 million, or 16%, in 2003 and decreased $436 million, or 12%, in 2002. The decrease in 2003 was primarily the result of the asset impairment charges we recorded as of June 30, 2002 and September 30, 2003 and the resulting decreases in the depreciable basis of our fixed assets as discussed below. The decrease in 2002 was primarily the result of the June 30, 2002 impairment charge. The impact of the June 30, 2002 impairment reduced our annual depreciation expense by approximately $900 million, beginning July 1, 2002. The impact of the September 30, 2003 impairment further reduced our annual depreciation expense by approximately $30 million, beginning October 1, 2003. These savings were partially offset by depreciation on assets acquired during 2003 and 2002.

Goodwill and Other Intangibles Amortization

Amortization expense decreased $151 million, or 26%, in 2003 and decreased $1.081 billion, or 65%, in 2002. The decrease in 2003 was primarily the result of the asset impairment charge we recorded as of June 30, 2002, which included an impairment charge of approximately $1.2 billion to other intangible assets with finite lives, reducing the amortizable basis by that amount. The decrease in 2002 was the result of the adoption of SFAS No. 142 "Goodwill and Other Intangible Assets", or SFAS No. 142, which required us to cease amortization of indefinite-lived intangible assets effective January 1, 2002, and the June 30, 2002 impairment charge. The impact of the impairment reduced our annual amortization expense by approximately $400 million, beginning July 1, 2002. The impact of the discontinuance of amortization on indefinite-lived intangibles reduced our annual amortization expense by approximately $1.0 billion, beginning January 1, 2002.

Goodwill Impairment Charges

As discussed in greater detail under "Critical Accounting Policies and Estimates" below, on January 1, 2002 we adopted the provisions of SFAS No. 142. Prior to the adoption of SFAS No. 142, we reviewed our goodwill and other intangibles with indefinite lives for potential impairment based on the fair value of our entire enterprise using undiscounted cash flows. SFAS No. 142 requires that goodwill impairments be assessed based on allocating our goodwill to reporting units and comparing the net book value of the reporting unit to its estimated fair value. A reporting unit is an operating segment or one level below.

We performed a transitional impairment test of goodwill and intangible assets with indefinite lives on January 1, 2002. Based on this analysis, we recorded a charge for the cumulative effect of adopting SFAS No. 142 of $22.800 billion on January 1, 2002. Changes in market conditions, downward revisions to our projections of future operating results and other factors indicated that the carrying value of the remaining goodwill should be evaluated for impairment as of June 30, 2002. Based on the results of that impairment analysis, we determined that the remaining goodwill balance of $8.483 billion was

completely impaired and we recorded an impairment charge on June 30, 2002 to write-off the remaining balance.

Asset Impairment Charges

During 2003, 2002 and 2001, we recorded asset impairment charges of $230 million, $10.525 billion and $251 million, respectively, detailed as follows:

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in millions)		
Property, plant and equipment and internal use software	$ 230	$ 10,493	$ 134
Real estate assets held for sale	—	28	—
Capitalized software due to restructuring and Merger activities	—	4	101
Other Merger-related	—	—	16
Total asset impairments	$ 230	$ 10,525	$ 251

Pursuant to the agreement with Sprint that allows us to resell Sprint wireless services, our wireless customers who are currently being serviced through our proprietary wireless network will be transitioned onto Sprint's network. Due to the anticipated decrease in usage of our own wireless network following the transition of our customers onto Sprint's network, in the third quarter of 2003 we performed an evaluation of the recoverability of the carrying value of our long-lived wireless network assets.

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets", or SFAS No. 144, we compared gross undiscounted cash flow projections to the carrying value of the wireless network assets and determined that the carrying value of those assets was not expected to be recovered through future projected cash flows. We then estimated the fair value using recent selling prices for comparable assets and determined that our cell sites, switches, related tools and equipment inventory and certain information technology systems that support the wireless network were determined to be impaired by an aggregate amount of $230 million.

The fair value of the impaired assets becomes the new basis for accounting purposes. Approximately $25 million in accumulated depreciation was eliminated in connection with the accounting for the impairments. The impact of the impairments is expected to reduce our annual depreciation and amortization expense by approximately $40 million, beginning October 1, 2003.

Effective June 30, 2002, a general deterioration of the telecommunications market, downward revisions to our expected future results and other factors indicated that our investments in our long-lived assets may have been impaired at that date. We performed an evaluation of the recoverability of the carrying value of our long-lived assets using gross undiscounted cash flow projections. For impairment analysis purposes, we grouped our property, plant and equipment and projected cash flows as follows: traditional telephone network, national fiber optic broadband network, international fiber optic broadband network, wireless network, web hosting and application service provider, or ASP, assets held for sale and out-of-region DSL. Based on the gross undiscounted cash flow projections, we determined that all of our asset groups, except our traditional telephone network, were impaired at June 30, 2002. For those asset groups that were impaired, we then estimated the fair value using a variety of techniques. For the year ended December 31, 2002, we determined that the fair values were less than our carrying amounts by $10.493 billion in the aggregate.

Approximately $1.9 billion in accumulated depreciation was eliminated in connection with the accounting for the impairments. The impact of the impairments reduced our annual depreciation and amortization expense by approximately $1.3 billion, beginning July 1, 2002.

As part of our restructuring activities in 2001, we reviewed all of our existing construction projects. Following this review, we recorded asset impairment charges of $134 million related to the abandonment of certain of the web hosting centers and other internal use construction projects.

We also recorded asset impairment charges of $101 million in 2001 related to internal software projects that we terminated.

Restructuring and Merger-related Charges

During the year ended December 31, 2003, as part of an ongoing effort of evaluating costs of operations, we reviewed employee levels in certain areas of our business. As a result, we established a reserve and recorded a charge to our 2003 consolidated statement of operations for $131 million to cover the related costs of this plan. The 2003 activities include charges of $107 million for severance benefits and other charges pursuant to established severance policies. As part of this plan we identified approximately 2,300 employees from various functional areas to be terminated. Through December 31, 2003, approximately 1,600 of the planned reductions had been completed. The remaining 700 reductions will occur over the next year. Severance payments generally extend for two to 12 months. In addition, we established a reserve of $24 million for real estate obligations, which primarily include estimated future net payments on abandoned operating leases. As a result of these restructuring activities, we expect to realize annual cost savings of approximately $170 million. Also during 2003, we reversed $18 million of the 2001 and 2002 restructuring plan reserves as those plans were complete and the actual cumulative costs associated with those plans were less than had been anticipated.

In response to shortfalls in employee reductions as part of the 2001 restructuring plan (as discussed below), during 2002 we identified employee reductions in several functional areas. As a result, we established a reserve and recorded a charge to our 2002 consolidated statement of operations of $299 million for these restructuring activities. This reserve was comprised of $179 million for severance costs and $120 million for real estate exit costs. The 2002 restructuring plan included the termination of 4,500 employees. During 2002 we recorded an additional charge of $71 million relative to the 2001 restructuring plan, which was associated with higher than originally anticipated real estate exit costs. In addition, during 2002 we reversed $135 million of severance and real estate exit related accruals relative to the 2001 restructuring plan, as actual terminations and real estate exit costs were lower than had been planned. The 2001 plan reversal was comprised of $113 million of severance and $22 million of real estate exit costs. Also during the year ended December 31, 2002, in relation to the Merger, we reversed $53 million of reserves that were originally recorded in 2000. The reversals resulted from favorable developments relative to matters underlying the related contractual settlements.

During the fourth quarter of 2001, a plan was approved to reduce employee levels and consolidate or abandon certain real estate locations and projects. As a result, we established a reserve and recorded a charge to our 2001 consolidated statement of operations of $825 million for these restructuring activities. This reserve was comprised of $332 million for severance costs and $493 million for real estate exit costs. This reserve was partially offset by a reversal of $9 million of leased real estate-related reserves. The 2001 restructuring plan included the anticipated termination of 10,000 employees. In relation to the Merger as earlier described, during 2001, we charged to our consolidated statement of operations $189 million for additional contractual settlements, legal contingencies and other related costs, and $132 million for additional severance charges, net of Merger reversals. The additional provisions and reversals of Merger-related costs were due to additional Merger-related activities and modification to the previously accrued Merger-related activities.

Total Other Expense—Net

Other expense—net. Other expense—net includes interest expense, net of capitalized interest; investment write-downs; gains and losses on the sales of investments and fixed assets; gains and losses

on early retirement of debt; declines in derivative instrument market values; and our share of the investees income or losses for investments accounted for under the equity method of accounting.

	Years Ended December 31,			Increase/(Decrease)		Percentage Change	
	2003	2002	2001	2003 v 2002	2002 v 2001	2003 v 2002	2002 v 2001
	(Dollars in millions)						
Interest expense	$ 1,757	$ 1,789	$ 1,437	$ (32)	$ 352	(2)%	24%
Losses and impairment of investment in KPNQwest	—	1,190	3,300	(1,190)	(2,110)	(100)%	(64)%
Loss on sale of investments and other investment write-downs	13	88	267	(75)	(179)	(85)%	(67)%
(Gain) loss on early retirement of debt	(38)	(1,836)	106	1,798	(1,942)	98%	nm
Gain on sales of fixed assets	—	—	(51)	—	51	nm	nm
Other income—net	(154)	(33)	(49)	(121)	16	nm	33%
Total other expense—net	$ 1,578	$ 1,198	$ 5,010	$ 380	$ (3,812)	32%	(76)%

nm—not meaningful

Interest expense. Interest expense was $1.757 billion for 2003, compared to $1.789 billion for 2002 and

$1.437 billion for 2001. This decrease was primarily due to a reduction of our total outstanding debt by $5.0 billion during 2003 and more specifically due to the reduction of the credit facility held by Qwest Services Corporation, or the QSC Credit Facility, by $750 million in September 2003. As a result of the timing of these repayments, there was only a minimal impact on interest expense for 2003.

Interest expense was $1.789 billion for 2002, compared to $1.437 billion for 2001. The increase in interest expense was attributable to the issuance of new indebtedness during 2002. In March 2002 we issued $1.5 billion of ten-year bonds at an 8.875% interest rate. These bonds ultimately replaced short-term debt, which consisted primarily of commercial paper that had a weighted-average interest rate of 2.59% at December 31, 2001. In the first quarter of 2002, we borrowed $4.0 billion from our syndicated credit facility to fund the repayment of approximately $3.2 billion of outstanding commercial paper, which had a lower interest rate than the new credit facility. Our directory publishing business borrowed $750 million in August 2002. Finally, interest expense in 2002 was higher due to $146 million decrease in capitalized interest as a result of lower capital expenditures.

Losses and impairment of investment in KPNQwest. As more fully discussed in Note 7—Investments to our consolidated financial statements in Item 8 of this report, we reviewed the carrying value of our investment in KPNQwest as of June 30, 2001 and as of December 31, 2001, to evaluate whether the carrying amount of our investment in KPNQwest was impaired. In both instances we determined that there was an other-than-temporary decline in the value of our investment. As a result, we recorded an asset impairment loss of $3.3 billion in our 2001 consolidated statement of operations. In 2002, after KPNQwest filed for bankruptcy and ceased operations, we wrote-off the remaining $1.2 billion of our investment.

Loss (gain) on sale of investments and other investment write-downs. We review our portfolio of equity securities on a quarterly basis to determine whether declines in value on individual securities are other-than-temporary. If we determine that a decline in value of an equity security is other-than-temporary, we record a charge in the statement of operations to reduce the carrying value of the security to its estimated fair value. We recorded write-downs of our investments for other-than-temporary declines of $19 million, $7 million and $115 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Our portfolio of equity securities includes a number of warrants to purchase securities in other entities. We carry these securities at fair market value and include any gains or losses recognized in our consolidated statement of operations. We recorded losses of $1 million, $20 million and $6 million for the years ended December 31, 2003, 2002 and 2001, respectively.

We also have owned a number of other public and private investments. During 2002 and 2001 we recorded charges totaling $8 million and $63 million, respectively, related to other-than-temporary declines in value relating to our investments in publicly traded marketable securities. There were no charges recorded during 2003. During 2002 and 2001 we sold various equity investments. As a result of these sales we received approximately $12 million and $2 million in cash and recognized a loss of $37 million and a loss of $22 million for the years ended December 31, 2002 and 2001, respectively. We had no significant sales of investments in 2003.

Qwest owned an interest in Qwest Digital Media, LLC as discussed in Note 7—Investments to our consolidated financial statements in Item 8 of this report. We accounted for this investment under the equity method of accounting. We recorded charges of $14 million and $20 million in the years ended December 31, 2002 and 2001, respectively, representing primarily our equity share of losses in this investment.

(Gain) loss on early retirement of debt. On December 22, 2003, we completed a cash tender offer for the purchase of $3 billion aggregate face amount of outstanding debt of Qwest, Qwest Services Corporation, or QSC, and QCF for approximately $3 billion in cash. As a result, we recorded a loss of $15 million on the early retirement of this debt. In addition, during 2003, we exchanged $454 million of face amount of existing QCF and Qwest Communications Corporation, or QCC, notes for $198 million of cash and 52.5 million shares of our common stock with an aggregate value of $202 million. As a result, a gain of $53 million was recorded on the early retirement of this debt.

On December 26, 2002, we completed an offer to exchange up to $12.9 billion in aggregate principal face amount of outstanding unsecured debt securities of QCF for new unsecured debt securities of QSC. We received valid tenders of approximately $5.2 billion in total principal amount of the QCF notes and issued in exchange approximately $3.3 billion in face value of new debt securities of QSC. The majority of these debt exchanges were accounted for as debt retirements resulting in the recognition of a $1.8 billion gain. The cash flows for two of the new debt securities were not considered "substantially" different than the exchanged debt and therefore no gain was realized upon exchange. For these two debt instruments, the difference between the fair value of the new debt and the carrying amount of the exchanged debt of approximately $70 million was recorded as a premium and is being amortized as a credit to interest expense using the effective interest method over the life of the new debt.

In March 2001, we completed a tender offer to buy back certain outstanding debt. In the tender offer, we repurchased approximately $995 million in principal of the outstanding debt for $1.1 billion in cash. As a result, a loss of $106 million was recorded on the early retirement of this debt.

Other (income) expense—net. Other (income) expense—net, which primarily includes interest income and early contract termination income, decreased $121 million in 2003 and increased $16 million in 2002. Interest income increased $19 million to $47 million in 2003 as compared to $28 million in 2002 due to increases in our cash balances resulting from the Dex proceeds. Interest income was essentially flat in 2002 as compared to 2001.

Included in other (income) expense—net for 2003 were gains totaling $82 million related to the early termination of services contracts and IRU arrangements with certain customers. Under these arrangements, we received cash up-front and we were recognizing revenue over the multi-year terms of the related agreements. In these cases where the customers elected to terminate the agreements prior

to their contractual end and we had no continuing obligations, we recognized the remaining portion of the deferred revenue as other income as of the termination date.

Income Tax Benefit

Our continuing operations effective tax benefit rate was 28.3% in 2003, 12.4% in 2002 and 16.9% in 2001. Our 2003 effective tax benefit rate was less than the expected rate of 38.9% because of an increase in beginning of year valuation allowance of $195 million. Our 2003 effective tax benefit increased primarily because 2002 included significant non-deductible impairments that were not included in our 2003 income tax benefit. Our 2002 effective tax benefit rate also decreased compared to 2001, due to the non-deductible charges we recorded related to the impairment of our goodwill, and the deferred tax asset valuation allowance we recorded in the second quarter of 2002. We recorded a non-cash charge of $1.677 billion to establish a valuation allowance against the 2002 net federal and state deferred tax assets. The valuation allowance is determined in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes", or SFAS No. 109, which requires an assessment of both negative and positive evidence when measuring the need for a valuation allowance. Our losses in recent years represented sufficient negative evidence to require a valuation allowance beginning in 2002 under SFAS No. 109. We intend to maintain the valuation allowance until sufficient positive evidence exists to support realization of the federal and state deferred tax assets in excess of deferred tax liabilities. In the future, until we generate taxable income, we do not expect to record any significant net tax benefit in our consolidated statement of operations.

Income from and gain on sale of Discontinued Operations—net of tax

Income from discontinued operations increased $669 million, or 34%, in 2003 and increased $1.460 billion, or 298%, in 2002. Income from discontinued operations in all years predominately relates to our directory publishing business, Dex, and has been adjusted to reflect a change in the composition of our other discontinued operations. The increase in income from discontinued operations in 2003 is primarily the result of the completion of the sale of the Dex West business resulting in a gain on sale of $4.3 billion ($2.5 billion after tax). The increase in income from discontinued operations in 2002 is primarily the result of the completion of the sale of the Dex East business resulting in a gain on sale of $2.6 billion ($1.6 billion after tax).

Segment Results

We report select information about operating segments, that offer similar products and services. Our three segments are (1) wireline, (2) wireless and (3) other services. Until September 2003, we operated a fourth segment, our directory publishing business which, as described in Note 6—Assets Held for Sale including Discontinued Operations to our consolidated financial statements in Item 8 of this report, has been classified as discontinued operations and accordingly is not presented in our segment results below. Our chief operating decision maker, or CODM, regularly reviews the results of operations at a segment level to evaluate the performance of each segment and allocate capital resources based on segment income as defined below.

The wireline segment utilizes our traditional telephone and our fiber optic broadband networks to provide voice services and data and Internet services to consumer and business customers. The wireless segment, which operates a PCS wireless network, serves consumer and business customers in a select area within our local service area. The August, 2003 services agreement with Sprint will allow us to expand our wireless service by reselling access to Sprint's nationwide PCS wireless network, primarily within our local service area. The other services segment primarily contains results of sublease activities of unused real estate assets.

Segment income consists of each segment's revenue and direct expenses. Segment revenue is based on the types of products and services offered as described in "Results of Operations" above. Segment expenses include employee and service-related costs, facility costs, network expenses and non-employee related costs such as customer support, collections and marketing. We manage indirect administrative services costs such as finance, information technology, real estate and legal centrally; consequently, these costs are allocated to the other services segment. Our network infrastructure is designed to be scalable and flexible to handle multiple products and services. As a result, we do not allocate network infrastructure costs, which include all engineering expense, design, repair and maintenance costs and all third-party facilities costs, to individual products. We evaluate depreciation, amortization, interest expense, interest income, and other income (expense) on a total company basis. As a result, these charges are not allocated to any segment.

SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", or SFAS No. 146, establishes standards for reporting information about restructuring activities. Effective for exit or disposal activities initiated after December 31, 2002, SFAS No. 146 requires disclosure of the total amount of costs expected to be incurred in connection with these activities for each reportable segment. The 2003 restructuring provisions for our wireline, wireless and other services segments were $87 million, $0 million and $44 million, respectively. We do not include restructuring costs in the segment results which are reviewed by our CODM. As a result, we have excluded restructuring costs from our presentation below. For additional information on restructuring costs by segment please see Note 9—Restructuring and Merger-related Charges to our consolidated financial statements in Item 8 of this report.

Set forth below is revenue and operating expense information for the years ended December 31, 2003, 2002 and 2001. Since all expenses have not been allocated to the segments, we have disclosed segment expenses without distinguishing between cost of sales and SG&A.

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in millions)		
Operating revenue:			
Wireline	$ 13,650	$ 14,635	$ 15,803
Wireless	594	694	688
Other services	44	42	39
Total operating revenue	$ 14,288	$ 15,371	$ 16,530

Operating expenses:			
Wireline	$ 7,840	$ 8,130	$ 8,996
Wireless	349	507	751
Other services	2,843	2,614	2,383
Total segment expenses	$ 11,032	$ 11,251	$ 12,130
Segment income (loss):			
Wireline	$ 5,810	$ 6,505	$ 6,807
Wireless	245	187	(63)
Other services	(2,799)	(2,572)	(2,344)
Total segment income	$ 3,256	$ 4,120	$ 4,400

Wireline

Wireline Revenue

For a discussion of wireline revenue please see "Results of Operations—Operating Revenue—Wireline Revenue" above. Since it is expected to continue to be by far the largest component of our business, this segment will continue to be our primary focus going forward.

Wireline Expenses

The following table sets forth additional expense information to provide greater detail as to the composition of wireline expenses for the years of 2003, 2002 and 2001.

	Years Ended December 31,			Increase/(Decrease)		Percentage Change	
	2003	2002	2001	2003 v 2002	2002 v 2001	2003 v 2002	2002 v 2001
	(Dollars in millions)						
Facility costs	$ 3,289	$ 2,955	$ 2,999	$ 334	$ (44)	11%	(1)%
Network expenses	268	252	312	16	(60)	6%	(19)%
Bad debt	252	440	531	(188)	(91)	(43)%	(17)%
Employee and service-related costs	2,999	3,205	3,696	(206)	(491)	(6)%	(13)%
Non-employee related costs	1,032	1,278	1,458	(246)	(180)	(19)%	(12)%
Total wireline operating expenses	$ 7,840	$ 8,130	$ 8,996	$ (290)	$ (866)	(4)%	(10)%

Wireline operating expenses decreased $290 million, or 4%, in 2003 and decreased $866 million, or 10%, in 2002. The decreases were due primarily to reduced outlays in employee and service-related costs and non-employee related costs. These factors and other items are discussed in more detail below.

Facility costs increased $334 million, or 11%, in 2003 and decreased $44 million, or 1%, in 2002. The 2003 increase was primarily due to the termination of services contracts with Calpoint and another service provider. Exclusive of this one-time charge, facilities costs decreased in both 2003 and 2002 as we eliminated excess capacity that had been provided by third-party vendors.

Network expenses increased $16 million, or 6%, in 2003 and decreased $60 million, or 19%, in 2002. In 2003 we focused on maintenance activities and experienced a slight increase in activity associated with our recent re-entry in to the InterLATA long-distance market. In 2002 we reduced our reliance on third-party vendors to provide network maintenance services, by shifting this work to our employees.

Bad debt expense decreased $188 million, or 43%, in 2003 and decreased $91 million, or 17%, in 2002. Wireline bad debt expense declined to 1.8% of revenue in 2003 from 3.0% of revenue in 2002 and 3.4% of revenue in 2001. The 2003 decrease in bad debt expense was primarily due to improved collection practices and the 2002 provisions for bankrupt customers.

Employee and service-related costs, such as salaries and wages, benefits, commissions and overtime, decreased $206 million, or 6%, in 2003 and decreased $491 million, or 13%, in 2002. Reduced headcount levels resulting from our recent restructuring activities have reduced salaries and wages in both 2003 and 2002. The reduced staffing requirements resulted from efficiently managing resources to repair and maintain our network and reduced demand for our services. Additionally, we re-incorporated certain previously outsourced functions into our operations, resulting in a reduction of professional fees. Commission expense has declined due to lower revenue and the implementation of a new commission plan in 2003. The 2003 reductions were partially offset by increases in the combined benefits and post-retirement plan expenses, discussed previously.

Non-employee related costs, such as network real estate, cost of sales for CPE and reciprocal compensation payments, decreased $246 million, or 19%, in 2003 and decreased $180 million, or 12%, in 2002. Reciprocal compensation costs, which are charges we must pay other carriers to terminate local calls, declined in 2003 and 2002 due to the decrease in local voice services revenue. In 2003 we experienced a decline in CPE revenue, thus precipitating reductions in our CPE costs. In addition, we experienced reductions in our per unit cost of CPE. In 2002 we reduced marketing and advertising efforts due to cost cutting measures, which partially offset settlement charges we recorded which related to outstanding litigation.

Wireless

Wireless Revenue

For a discussion of wireless revenue please see "Results of Operations—Operating Revenue—Wireless Revenue" above.

Wireless Expenses

The following table sets forth additional expense information to provide greater detail as to the composition of wireless expenses for the years of 2003, 2002 and 2001.

	Years Ended December 31,			Increase/(Decrease)		Percentage Change	
	2003	2002	2001	2003 v 2002	2002 v 2001	2003 v 2002	2002 v 2001
	(Dollars in millions)						
Network expenses	$ 118	$ 126	$ 230	$ (8)	$ (104)	(6)%	(45)%
Bad debt	52	71	84	(19)	(13)	(27)%	(15)%

Employee and service-related costs	100	206	310	(106)	(104)	(51)%	(34)%
Non-employee related costs	79	104	127	(25)	(23)	(24)%	(18)%
Total wireless operating expenses	$ 349	$ 507	$ 751	$ (158)	$ (244)	(31)%	(32)%

Wireless operating expenses decreased $158 million, or 31%, in 2003 and decreased $244 million, or 32%, in 2002.

Network expenses, such as handset costs, roaming fees, and third-party expenses to repair and maintain the network, decreased $8 million, or 6%, in 2003 and decreased $104 million, or 45%, in 2002. The 2003 decline was associated with lower purchases of handsets due to fewer new customers. The 2002 decline was associated with purchasing handsets at more competitive prices and lower costs associated with fewer new subscribers. Additionally, in 2002 we reduced our reliance on third-party contractors to provide network maintenance services. Pursuant to the agreement with Sprint, our wireless customers who are currently being serviced through our proprietary wireless network will be transitioned onto Sprint's network over time. The cost to complete the transition of our customers to Sprint's network is estimated to be $55 million, of which $10 million had been incurred as of December 31, 2003. Some of these costs may be capitalized.

Bad debt expense decreased $19 million, or 27%, in 2003 and decreased $13 million, or 15%, in 2002. Wireless bad debt as a percentage of revenue declined to 8.8% in 2003 from 10.2% in 2002 and 12.2% in 2001. The decreases in bad debt expense can be attributed to lower customer acquisitions and tighter credit policies.

Employee and service-related costs, such as salaries and wages, benefits, commissions, overtime, telemarketing and customer service costs, decreased $106 million, or 51%, in 2003 and decreased $104 million, or 34%, in 2002. The 2003 reduction was primarily a result of reduced sales activity and

reduced reliance on third-party vendors for customer care services. The 2002 reduction was due to reduced salaries and wages and reduced professional fees for customer care services.

Non-employee related costs, such as real estate and marketing and advertising expense, decreased $25 million, or 24%, in 2003 and decreased $23 million, or 18%, in 2002. The 2003 decrease was primarily a result of lower postage and shipping costs and a decrease in the costs associated with providing wireless accessories to our customers. The 2002 decrease resulted from lower marketing and advertising costs associated with our strategic decision to de-emphasize the sale of wireless services on a stand-alone basis.

Other Services

Other Services Revenue

For a discussion of other services revenue please see "Results of Operations—Operating Revenue—Other Services Revenue" above.

Other Services Expense

As previously noted, other services includes unallocated corporate expenses for functions such as finance, information technology, real estate, legal, marketing services and human resources, which we centrally manage. The following table sets forth additional expense information to provide greater detail as to the composition of other services expenses for the years of 2003, 2002 and 2001.

Years Ended December 31,	Increase/(Decrease)	Percentage Change

	2003	2002	2001	2003 v 2002	2002 v 2001	2003 v 2002	2002 v 2001
	(Dollars in millions)						
Property and other taxes	$ 451	$ 540	$ 437	$ (89)	$ 103	(16)%	24%
Real estate costs	409	422	436	(13)	(14)	(3)%	(3)%
Employee and service-related costs	1,354	1,220	1,137	134	83	11%	7%
Non-employee related costs	629	432	373	197	59	46%	16%
Total other services expenses	$ 2,843	$ 2,614	$ 2,383	$ 229	$ 231	9%	10%

Other services operating expenses increased $229 million, or 9%, in 2003 and increased $231 million, or 10%, in 2002.

Property and other taxes decreased $89 million, or 16%, in 2003 and increased $103 million, or 24%, in 2002. The decrease in 2003 was primarily a result of reduced property taxes, which resulted from lower asset valuations. The increase in 2002 was attributable to valuations for capital expansion to local telephone and global fiber optic broadband networks that occurred during the years ended December 31, 2001 and 2000.

Real estate costs decreased $13 million, or 3%, in 2003 and decreased $14 million, or 3%, in 2002 due to reduced administrative space needs attributable to lower staffing requirements and our decision to abandon certain properties which no longer supported our business plan.

Employee and service-related costs, such as salaries and wages, benefits and overtime, increased $134 million, or 11%, in 2003 and increased $83 million, or 7%, in 2002. The increase was primarily due to the increase in the combined benefits and post-retirement plan expenses as discussed above and increased employee incentive compensation costs. Additionally, in 2002 we incurred professional fees as part of our re-entry into the InterLATA long-distance market.

Non-employee related costs increased $197 million, or 46%, in 2003 and increased $59 million, or 16%, in 2002. The 2003 increase was driven by losses related to litigation, increases in marketing and

advertising costs and a shift of information technology resources to maintenance activities from development activities that were eligible for capitalization. The 2002 increase primarily resulted from software costs related to our re-entry into the InterLATA long-distance market and a shift of information technology resources to maintenance activities from development activities that were eligible for capitalization.

Liquidity and Capital Resources

Near-Term View

Our working capital deficit, or the amount by which our current liabilities exceed our current assets, was $1.132 billion, $510 million and $5.522 billion as of December 31, 2003, 2002 and 2001, respectively. Our working capital deficit increased $622 million in 2003 compared to 2002 and decreased by $5.012 billion in 2002 compared to 2001. Our working capital deficit increased during 2003 primarily due to payments on long-term borrowings, which were partially funded by proceeds from sale of the Dex West business. Our working capital position improved during 2002, primarily due to refinancing of current borrowings to long-term and receipt of proceeds from sale of the Dex East business. As described below, in early 2004 we refinanced a portion of our borrowings that were due in 2004. Consequently, even if we are unable to access capital markets to refinance our current portion of debt, we believe that our cash on hand together with our cash flows from operations would be sufficient to meet our cash needs for the remainder of 2004. However, if we become subject to significant judgments and/or settlements as further discussed in "Legal Proceedings" in Item 3 of this report, we may need to obtain additional financing or explore other methods to generate cash. Therefore, in the event of an adverse outcome in one or more of these matters, our ability to meet our debt service obligations and our financial condition could be materially and adversely affected. In addition, the 2004 QSC Credit Facility contains various limitations, including a restriction on using any proceeds from the facility to pay settlements or judgments relating to investigations and securities actions discussed in "Legal Proceedings" in Item 3 of this report.

The wireline segment provides over 95% of our total operating revenue with the balance attributed to wireless and other services segments. Accordingly, the wireline segment provides all of the consolidated cash flows from operations. Cash flows used in operations of our wireless segment are not expected to be significant in the near term. Cash flows used in operations of our other services segment are significant, however, we expect that the cash flows provided by the wireline segment will be sufficient to fund these operations in the near term.

We expect that our 2004 capital expenditures will approximate 2003 levels, with the majority being used in our wireline segment.

We continue to pursue our strategy to improve our near-term liquidity and our capital structure in order to reduce financial risk. Since December 31, 2003, we have taken the following measures to improve our near term financial position:

- On February 5, 2004, Qwest issued a total of $1.775 billion of notes which consisted of $750 million in floating rate notes due in 2009 with interest at London Interbank Offered Rates, or LIBOR, plus 3.50%, $525 million in fixed rate notes due in 2011 with an interest rate of 7.25%, and $500 million in fixed rate notes due in 2014 with an interest rate of 7.50%;

- Also in February 2004, QSC paid off in full the outstanding balance of $750 million and terminated the QSC Credit Facility. QSC established a new three-year revolving credit facility, or the 2004 QSC Credit Facility, providing for $750 million of availability. If drawn, the 2004 QSC Credit Facility bears interest, at our election, at adjusted LIBOR or a base rate, in each case plus an applicable margin. The margin varies based on the credit ratings of the debt issued under the facility, and is currently 3.0% for LIBOR based borrowings and 2.0% for base rate

borrowings. The QSC Credit Facility has a variable interest rate based on the credit ratings of the facility; and

- On February 26, 2004, we completed a cash tender offer for the purchase of $921 million aggregate principal face amount of QCF's 5.875% notes due in August 2004 with $939 million in cash. A loss of $21 million was recorded for the early retirement of debt which will be included in 2004 results.

Long-Term View

We have historically operated with a working capital deficit as a result of our highly leveraged position. We expect this trend to continue. Given the long-term payment obligations reflected below, we believe that without significant improvement, our cash provided by operations alone will not be sufficient to meet both our anticipated capital expenditures and debt obligations. However, we believe that cash provided by operations, combined with our current cash position and continued access to capital markets to refinance our current portion of debt, should allow us to meet our cash requirements for the foreseeable future.

In addition to our periodic need to obtain financing in order to meet our debt obligations as they come due, we may also need to obtain additional financing or investigate other methods to generate cash (such as further cost reductions or the sale of non-strategic assets) if cash provided by operations does not improve, if revenue and cash provided by operations continue to decline, if economic conditions do not improve or if we become subject to significant judgments and/or settlements as further discussed in "Legal Proceedings" in Item 3 of this report. Therefore, in the event of an adverse outcome in one or more of these matters, our ability to meet our debt service obligations and our financial condition could be materially and adversely affected. In addition, the 2004 QSC Credit Facility contains various limitations, including a restriction on using any proceeds from the facility to pay settlements or judgments relating to investigations and securities actions discussed in "Legal Proceedings" in Item 3 of this report.

Payment Obligations and Contingencies

Payment obligations

The following table summarizes our future contractual cash obligations as of December 31, 2003:

	Payments Due by Period						
	2004	2005	2006	2007	2008	Thereafter	Total
	(Dollars in millions)						
Future Contractual Obligations:(1)(2)							
Long-term debt	$ 1,834	$ 1,391	$ 491	$ 2,246	$ 592	$ 10,859	$ 17,413
Interest on debt (3)	1,421	1,301	1,247	1,160	1,032	8,215	14,376
Capital lease and other obligations	47	28	5	5	5	34	124
Operating leases	325	313	268	247	219	1,534	2,906
Purchase commitment obligations:							
Telecommunications commitments	706	517	158	65	60	10	1,516
IRU operating and maintenance obligations	54	52	52	52	52	776	1,038
Advertising and promotion	53	50	32	26	26	219	406
Services	282	259	234	199	196	254	1,424
Total future contractual cash obligations	$ 4,722	$ 3,911	$ 2,487	$ 4,000	$ 2,182	$ 21,901	$ 39,203

(1) This table does not include our pension and other post-employment benefit obligations, as we cannot presently determine when such payments will be made.

(2) This table does not include accounts payable of $759 million, accrued expenses and other current liabilities of $2.3 billion, deferred income taxes of $121 million and other long-term liabilities of $1.8 billion all of which are recorded on our December 31, 2003 consolidated balance sheet. This table does not include our open purchase orders as of December 31, 2003 as they are primarily cancelable without penalty and, therefore, do not represent a contractual obligation.

(3) Interest expense in all years will differ due to refinancing of debt. In February 2004, we have refinanced long-term debt. See Note 18—Subsequent Events to our consolidated financial statements in Item 8 of this report for additional information. Interest on our floating rate debt was calculated for all years using the rates effective as of December 31, 2003.

Purchase Commitment Obligations. We have telecommunications commitments with CLECs, IXCs and third-party vendors that require us to make payments to purchase network services, capacity and telecommunications equipment. These commitments generally require us to maintain minimum monthly and/or annual billings, based on usage.

Included in the telecommunications commitments are purchase commitments that we entered into with KMC in connection with sales of equipment to KMC. At that time we also entered into facilities management services agreements with them. In connection with the KMC arrangements, we also agreed to pay the monthly service fees directly to trustees that serve as paying agents on debt instruments issued by special purpose entities sponsored by KMC. These unconditional purchase obligations require us to pay at least 75% of the monthly service fees for the entire term of the agreements, regardless of whether KMC provides us services. Our remaining unconditional purchase obligations under this agreement were $418 million as of December 31, 2003.

A portion of our fiber optic broadband network includes facilities that were purchased or are leased from third parties in the form of IRUs. These agreements are generally 20 to 25 years in length and generally include the requirement for us to pay operating and maintenance fees to a third party for the term of the agreement.

We also have various long-term, non-cancelable purchase commitments for advertising and promotion services, including advertising and marketing at sports arenas and other venues and events. We also have service related commitments with various vendors for data processing, technical and software support. Future payments under certain services contracts will vary depending on our actual usage. In the table above we estimated payments for these service contracts based on the level of services we expect to use.

Letters of Credit and Guarantees

At December 31, 2003, we had letters of credit of approximately $67 million and guarantees of approximately $2 million.

Contingencies

We are a defendant in a number of legal actions and the subject of a number of investigations by federal and state agencies. While we intend to defend against these matters vigorously, the ultimate outcomes of these cases are very uncertain, and we can give no assurance as to the impacts on our financial results or financial condition as a result of these matters. For a description of these legal actions and the potential impact on our liquidity, please see "Legal Proceedings" in Item 3 of this report and the "Near-Term View" and the "Long-Term View" above.

Historical View

Operating activities. We generated cash from continuing operating activities of $2.175 billion, $2.388 billion and $3.001 billion in 2003, 2002 and 2001, respectively. The $213 million decrease in cash

provided by continuing operating activities in 2003 compared to 2002 resulted primarily from a decrease in income from continuing operations of $1.098 billion after adjusting for non-cash items including depreciation, amortization, cumulative effect of changes in accounting principles and asset impairments. The decrease in income from continuing operations was primarily due to the continued trend of decreasing revenues. The 7% annualized decrease in revenue over the last two years is attributed to increasing competition and general downturn in the economy and telecommunications industry evidenced by access line losses, pricing declines and reduction in access services revenue. During 2003 the reduction in cash from declines in revenue was partially offset by reductions in cash outlays for operating expenditures.

The $613 million decrease in cash provided by continuing operating activities in 2002 compared to 2001 was the result of lower income from continuing operations of $194 million after adjusting for non-cash items such as depreciation, amortization, cumulative effect of changes in accounting principles and asset impairments. The decrease in income from continuing operations was primarily due to the continued trend of decreasing revenues. Also contributing to the decrease in cash provided by continuing operating activities in 2002 was the higher level of cash outlays attributed to non-recurring merger and restructuring expenditures.

Cash provided by continuing operating activities in 2001 was negatively impacted by the payment of $492 million in accounts payable and accrued expenses and the build-up in accounts receivable of $439 million due to higher sales resulting from the Merger, and an overall slowdown in receipts from customers as a result of the weak economic environment.

Investing activities. Cash used in continuing investing activities was $2.340 billion, $2.738 billion and $8.152 billion in 2003, 2002 and 2001, respectively. Cash used in continuing investing activities in 2003 decreased $398 million compared to 2002 primarily as a result of a $676 million reduction in capital expenditures in 2003 partially offset by the purchase of marketable securities investments of $198 million during 2003.

Cash used in continuing investing activities in 2002 decreased $5.414 billion compared to 2001 primarily as a result of a $5.278 billion reduction in capital expenditures in 2002. The decrease in capital expenditures was the result of our decision to reduce our expansion efforts as a result of the general economic downturn and the completion of many of our major capital projects in 2001.

Financing activities. Cash (used) provided by financing activities was ($4.856) billion in 2003, ($789) million in 2002 and $4.660 billion in 2001. During 2003, we were able to obtain new debt, refinance current debt with long-term debt and retire some long-term debt with cash, new long-term debt or stock. At December 31, 2003 we were in compliance with all provisions or covenants of our borrowings. For additional information regarding the covenants of our existing debt instruments, see Note 8—Borrowings to our consolidated financial statements in Item 8 of this report.

2003 Financing activities

On June 9, 2003, Qwest Corporation, or QC, entered into a senior term loan with two tranches for a total of $1.75 billion principal amount of indebtedness. The term loan consists of a $1.25 billion floating rate tranche, due in 2007, and a $500 million fixed rate tranche, due in 2010. The term loan is unsecured and ranks equally with all of QC's current indebtedness. The floating rate tranche is non-prepayable for two years and thereafter is subject to prepayment premiums through 2006. There are no mandatory prepayment requirements. The covenant and default terms are substantially the same as other senior QC indebtedness. The net proceeds were used to refinance QC's debt that was due in 2003 and to fund or refinance QC's investment in telecommunications assets. Concurrently with this issuance, our obligation under the QSC Credit Facility was paid down by $429 million to a balance of $1.57 billion.

The floating rate tranche bears interest at LIBOR plus 4.75% (with a minimum interest rate of 6.50%) and the fixed rate tranche bears interest at 6.95% per annum. The interest rate on the floating rate tranche was 6.5% at December 31, 2003. The lenders funded the entire principal amount of the loan subject to the original issue discount for the floating rate tranche of 1.00% and for the fixed rate tranche of 1.652%.

On August 12, 2003 we used cash to pay the outstanding balance of $750 million of the Dex Term loan in full.

On September 9, 2003, we completed the sale of the Dex West business. The gross proceeds from the sale of the Dex West business were $4.3 billion and were received in cash. We used $321 million of the cash proceeds to reduce our QSC Credit Facility obligation to $1.25 billion. We have used some of the proceeds from the Dex West sale to redeem indebtedness in December 2003. We expect to use the remainder of the proceeds from the Dex West sale to invest in telecommunications assets and/or to redeem other indebtedness.

On December 22, 2003, we completed a cash tender offer for the purchase of $3 billion aggregate principal face amount of outstanding debt of Qwest, QSC and QCF for approximately $3 billion in cash.

In December of 2003, the QSC Credit Facility was reduced by an additional $500 million. At December 31, 2003 the outstanding balance of the QSC Credit Facility was $750 million. The QSC Credit Facility was paid in full and terminated in February 2004 as discussed above.

During 2003, we exchanged $454 million of existing QCF and QCC notes for $198 million of cash and 52.5 million shares of our common stock with an aggregate value of $202 million. The trading prices of our shares at the time the exchange transactions were consummated ranged from $3.22 to $5.11 per share. During 2003, we also exchanged $406 million of new QSC notes for $560 million face amount of QCF notes. The new QSC notes have interest rates ranging from 13.0% to 13.5% with maturities of 2007 and 2010 while the QCF notes had interest rates ranging from 6.875% to 7.90%.

We paid no dividends in 2003.

2002 Financing activities

Until February 2002, we maintained commercial paper programs to finance our short-term operating cash needs. We had a $4.0 billion syndicated credit facility, or the Credit Facility, available to support our commercial paper program. As a result of reduced demand for our commercial paper, in February 2002 we borrowed the full amount under the Credit Facility and used the proceeds to repay the $3.2 billion of commercial paper outstanding and terminated our commercial paper program. The remainder of the proceeds was used to pay maturities and capital lease obligations and to fund operations.

In March 2002, we amended the Credit Facility and converted the $4.0 billion balance into a one-year term loan due May 2003, with $3.0 billion designated to QCF and $1.0 billion designated to QC. QC used approximately $608 million of the proceeds from its March 2002 bond offering discussed below to reduce the total amount outstanding under the Credit Facility. Following this repayment, the Credit Facility had $3.39 billion outstanding as of March 31, 2002, all of which was allocated to QCF.

Also in March 2002, QC issued $1.5 billion in bonds with a ten-year maturity and an 8.875% interest rate. At December 31, 2003, the interest rate was 9.125%. Once we have registered the notes with the SEC, the interest rate will return to 8.875%, the original stated rate. The proceeds from the sale of the bonds were used to repay $608 million on the Credit Facility, short-term obligations and currently maturing long-term borrowings.

During the first quarter of 2002, we exchanged, through private transactions, $97 million in face amount of debt issued by QCF. In exchange for the debt, we issued approximately 9.88 million shares of our common stock with a fair value of $87 million. The trading prices for our shares at the time the exchange transactions were consummated ranged from $8.29 per share to $9.18 per share.

In August 2002, we amended the Credit Facility a second time. In connection with the second amendment, we reconstituted the Credit Facility as a revolving credit facility with QSC as the primary borrower. The term of this reconstituted facility, or the QSC Credit Facility, was extended to May 2005. The QSC Credit Facility contains financial reporting covenants that require delivery of annual and quarterly periodic reports. We obtained extensions under the QSC Credit Facility for the delivery of certain annual and quarterly financial information. The waivers extended the compliance date to provide certain annual and quarterly financial information to March 31, 2004. On February 5, 2004, the QSC Credit Facility was paid off and terminated (See Note 18—Subsequent Events, Debt-related matters in Item 8 of this report).

In August 2002, Dex borrowed $750 million under a term loan agreement, or the Dex Term Loan, due September 2004 to fund costs in connection with the construction, installation, acquisition and improvement of telecommunications assets. We classified this term loan as a current liability based upon the requirement to pay this debt in full upon the sale of the Dex West business. On August 12, 2003, this loan was paid in full. See Note 6—Assets Held for Sale including Discontinued Operations to our consolidated financial statements in Item 8 of this report, for further discussion of the terms of the Dex sale.

On November 8, 2002, we completed the sale of the Dex East business. The gross proceeds from the sale of the Dex East business were approximately $2.75 billion and were received in cash. We used approximately $1.4 billion of the cash proceeds we received from the sale of the Dex East business to reduce our obligations under the QSC Credit Facility to $2.0 billion.

On December 26, 2002, we completed an exchange of approximately $5.2 billion in total face amount of QCF notes for approximately $3.3 billion of new debt securities of QSC. The new QSC notes consist of 13.0% notes due 2007, 13.5% notes due 2010 and 14.0% notes due 2014 that were issued on December 26, 2002.

We paid no dividends in 2002.

2001 Financing activities

In January 2001, we repurchased 22.22 million shares of our common stock from BellSouth for $1.0 billion in cash. As part of this transaction, we entered into an agreement with BellSouth under which BellSouth agreed to purchase services valued at $250 million from us over a five-year period, or the 2001 Agreement. The 2001 Agreement provided that BellSouth could pay for the services with our common stock based upon share values specified in the 2001 Agreement.

During the first quarter of 2002, we received approximately 278,000 shares of our common stock valued at $13 million from BellSouth in partial satisfaction of the $16 million accounts receivable outstanding at December 31, 2001. In addition, in accordance with the 2001 Agreement, we used $12 million of the $18 million in cash received from certain BellSouth affiliates to purchase approximately 253,000 shares of our common stock. The fair value of the stock tendered in the first quarter of 2002 of $5 million was recorded in treasury stock. The $20 million difference between (i) the fair value of the shares and (ii) the value assigned to the shares in the 2001 Agreement of $25 million was recorded as a reduction to additional paid-in capital. For additional information concerning transactions with BellSouth, see Note 15—Stockholders' Equity to the consolidated financial statements in Item 8 of this report.

In February 2001, QCF issued a total of $3.25 billion in notes which consisted of $2.25 billion in notes due 2011 with an interest rate of 7.25% and $1.0 billion in notes due 2031 with an interest rate of 7.75%. The net proceeds from the notes were used to repay outstanding commercial paper and for general corporate purposes.

In March 2001, we completed a cash tender to buy back certain outstanding debt. In the tender offer, we repurchased approximately $995 million in principal of outstanding debt using $1.1 billion of cash. In connection with this tender offer, the indentures were amended to eliminate restrictive covenants and certain default provisions.

In July 2001, QCF issued a total of $3.75 billion in notes which consisted of $1.25 billion in notes due 2004 with an interest rate of 5.875%, $2.0 billion in notes due 2009 with an interest rate of 7.0%, and $500 million in notes due 2021 with an interest rate of 7.625%. The net proceeds from the notes were used to repay outstanding commercial paper and maturing debt.

On May 2, 2001, our Board approved a dividend of $0.05 per share on our common stock which was paid to stockholders of record as of the close of business on June 1, 2001 in satisfaction of any prior statement by us in connection with or following the Merger regarding the payment or declaration of dividends. As a result, dividends of $83 million were paid on common stock in 2001.

Credit ratings

Our credit ratings were lowered by Moody's Investor Services, Standard and Poor's and Fitch Ratings on multiple occasions during 2002. The table below summarizes our ratings for the years ended December 31, 2003 and 2002.

	December 31, 2003			December 31, 2002		
	Moody's	S&P	Fitch	Moody's	S&P	Fitch
Corporate rating	NA	B-	NA	NA	B-	NA
Qwest Corporation	Ba3	B-	B	Ba3	B-	B
Qwest Services Corporation	NR	CCC+	NR	NR	CCC+	NR
Qwest Communications Corporation	Caa1	CCC+	CCC+	Caa1	CCC+	CCC+

Qwest Capital Funding, Inc.	Caa2	CCC+	CCC+	Caa2	CCC+	CCC+
Qwest Communications International Inc.	Caa1	CCC+	CCC+	Caa1	CCC+	CCC+

NA = Not applicable

NR = Not rated

On January 30, 2004, Moody's assigned a senior implied rating of B2 to Qwest and a B3 rating to the new Qwest senior notes guaranteed by QSC issued in February 2004. They also assigned a B2 rating to the 2004 QSC Credit Facility and a Caa1 rating to the senior subordinate notes of QSC. At the same time, Moody's confirmed ratings of other entities and lowered the rating on Qwest's outstanding unguaranteed senior secured notes to Caa2. In addition, on March 3, 2004, S&P assigned a B- to the 2004 QSC Credit Facility. All other ratings are still in effect and represent ratings of long-term debt and loans of each entity.

With respect to Moody's, a Ba rating is judged to have speculative elements, meaning that the future of the issuer cannot be considered to be well-assured. Often the protection of interest and principal payments may be very moderate, and thereby not well safeguarded during both good and bad times. Issuers with Caa ratings are in poor standing with Moody's. These issuers may be in default, according to Moody's, or there may be present elements of danger with respect to principal and interest. The "1,2,3" modifiers show relative standing within the major categories, 1 being the highest, or best, modifier in terms of credit quality.

With respect to S&P, any rating below BBB indicates that the security is speculative in nature. A B- rating indicates that the issuer currently has the capacity to meet its financial commitment on the obligation, but adverse business, financial or economic conditions will likely impair the issuers' capacity or willingness to meet its financial commitment on the obligation. A CCC+ indicates that the obligation is currently vulnerable to nonpayment and the issuer is dependent on favorable business, financial and economic conditions in order to meet its financial commitment on the obligation. The plus and minus symbols show relative standing within the major categories.

With respect to Fitch, any rating below BBB is considered speculative in nature. A B rating is considered highly speculative, meaning that significant credit risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment. A CCC+ rating indicates default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. The plus and minus symbols show relative standing within major categories.

Debt ratings by the various rating agencies reflect each agency's opinion of the ability of the issuers to repay debt obligations as they come due. In general, lower ratings result in higher borrowing costs and/or impaired ability to borrow. A security rating is not a recommendation to buy, sell, or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organization.

Given our current credit ratings, as noted above, our ability to raise additional capital under acceptable terms and conditions may be negatively impacted.

Critical Accounting Policies and Estimates

We have identified the policies and estimates below as critical to our business operations and the understanding of our results of operations. For a detailed discussion on the application of these and other significant accounting policies, see Note 2—Summary of Significant Accounting Policies to the consolidated financial statements in Item 8 of this report. These policies and estimates are considered "critical" because they have the potential to have a material impact on our financial statements, and because they require significant judgments and estimates. Note that our preparation of this annual report on Form 10-K requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

Estimates and Other Reserves

Our consolidated financial statements are prepared in accordance with GAAP. These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions made when accounting for items and matters such as long-term contracts, customer retention patterns, allowance for bad debts, depreciation, amortization, asset valuations, internal labor capitalization rates, recoverability of assets, impairment assessments, employee benefits, taxes, reserves and other provisions and contingencies are reasonable, based on information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements, as well as the reported amounts of revenue and expenses during the periods presented. We also assess potential losses in relation to pending litigation. If a loss is considered probable and the amount can be reasonably estimated, we recognize an expense for the estimated loss. See Item 3—Legal Proceedings in this report. To the extent there are material differences between these estimates and actual results, our consolidated financial statements are affected.

Restructuring

Periodically, we commit to exit certain business activities, eliminate office or facility locations and/or reduce our number of employees. The charge to record such a decision depends upon various assumptions, including future severance costs, sublease income or disposal costs, length of time on market for abandoned rented facilities, contractual termination costs and so forth. Such estimates are inherently judgmental and may change materially based upon actual experience. The number of employees and the related estimate of severance costs for employees combined with the estimate of future losses on sublease income and disposal activity generally has the most significant impact. Due to the estimates and judgments involved in the application of each of these accounting policies, changes in our plans and these estimates and market conditions could materially impact our financial condition or results of operations.

Revenue Recognition and Related Reserves

Revenue from services is recognized when the services are provided. Up-front fees received, primarily activation fees and installation charges, as well as the associated customer acquisition costs, are deferred and recognized over the expected customer relationship period, generally one to ten years. Payments received in advance are deferred until the service is provided. Customer arrangements that include both equipment and services are evaluated to determine whether the elements are separable based on objective evidence. If the elements are separable and separate earnings processes exist, total consideration is allocated to each element based on the relative fair values of the separate elements and the revenue associated with each element is recognized as earned. If separate earnings processes do not exist, total consideration is deferred and recognized ratably over the longer of the contractual period or the expected customer relationship period. We believe that the accounting estimates related to customer relationship periods and to the assessment of whether a separate earnings process are "critical accounting estimates" because: (1) it requires management to make assumptions about how long we will retain customers; (2) the assessment of whether a separate earnings process exists can be subjective; (3) the impact of changes in actual retention periods versus these estimates on the revenue amounts reported in our consolidated statements of operations could be material; and (4) the assessment of whether a separate earnings process exists may result in revenues being reported in different periods than significant portions of the related costs. As the telecommunications market experiences greater competition and customers shift from traditional land based telephony services to mobile services, our estimated customer relationship periods will likely decrease and when customers terminate their relationship with us, we may recognize revenue that had previously been deferred under the expectation that services would be provided to that customer over a longer period.

GAAP requires us to record reserves against our receivable balances based on estimates of future collections and to not record revenue for services provided or equipment sold if collectibility of the revenue is not reasonably assured. We believe that the accounting estimates related to the establishment of reserves for uncollectible amounts in the results of operations is a "critical accounting estimate" because: (1) it requires management to make assumptions about future collections, billing adjustments and unauthorized usage; and (2) the impact of changes in actual performance versus these estimates on the accounts receivable balance reported on our consolidated balance sheets and the results reported in our consolidated statements of operations could be material. In selecting these assumptions, we use historical trending of write-offs, industry norms, regulatory decisions and recognition of current market indicators about general economic conditions that might impact the collectibility of accounts.

Software Capitalization

Internally used software, whether purchased or developed, is capitalized and amortized using the straight-line method over an estimated useful life of 18 months to five years. In accordance with

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American Institute of Certified Public Accountants Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use", we capitalize certain costs associated with internally developed software such as payroll costs of employees devoting time to the projects and external direct costs for materials and services. Costs associated with internally developed software to be used internally are expensed until the point at which the project has reached the development stage. Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred. The capitalization of software requires judgement in determining when a project has reached the development stage and the period over which we expect to benefit from the use of that software. Further, the recovery of software projects is periodically reviewed and may result in significant write-offs.

Pension and Post-Retirement Benefits

Pension and post-retirement health care and life insurance benefits earned by employees during the year, as well as interest on projected benefit obligations, are accrued currently. Prior service costs and credits resulting from changes in plan benefits are amortized over the average remaining service period of the employees expected to receive benefits. Pension and post-retirement costs are recognized over the period in which the employee renders service and becomes eligible to receive benefits as determined using the projected unit credit method.

In computing the pension and post-retirement benefit costs, we must make numerous assumptions about such things as employee mortality and turnover, expected salary and wage increases, discount rates, expected rate of return on plan assets and expected future cost increases. Two of these items generally have the most significant impact on the level of cost: the discount rate and the expected rate of return on plan assets.

Annually, we set our discount rate primarily based upon the yields on high-quality fixed-income investments available at the measurement date and expected to be available during the period to maturity of the pension benefits. In making this determination we consider, among other things, the yields on Moody's AA corporate bonds as of year-end.

The expected rate of return on plan assets is the long-term rate of return we expect to earn on the trust assets. The rate of return is determined by the investment composition of the plan assets and the long-term risk and return forecast for each asset category. The forecasts for each asset class are generated using historical information as well as an analysis of current and expected market conditions. The expected risk and return characteristics for each asset class are reviewed annually and revised, as necessary, to reflect changes in the financial markets.

We have a noncontributory defined benefit pension plan, or the Pension Plan, for substantially all management and occupational (union) employees. To compute the expected return on Pension Plan assets, we apply our expected rate of return to the market-related value of the Pension Plan assets. The market-related asset value is a computed value that recognizes changes in fair value of Pension Plan assets over a period of time, not to exceed five years. In accordance with SFAS No. 87, "Employers' Accounting for Pensions", we elected to recognize actual returns on our Pension Plan assets ratably over a five year period when computing our market-related value of Pension Plan assets. This method has the effect of reducing the annual market volatility that may be experienced from year to year. As a result, our expected return is not significantly impacted by the actual return on Pension Plan assets experienced in the current year.

Changes in any of the assumptions we made in computing the pension and post-retirement benefit costs could have a material impact on various components that comprise these expenses. Factors to be considered include the strength or weakness of the investment markets, changes in the composition of

the employee base, fluctuations in interest rates, significant employee hirings or downsizings and medical cost trends. Changes in any of these factors could impact cost of sales and SG&A in the consolidated statement of operations as well as the value of the asset or liability on our consolidated balance sheet. If our assumed expected rate of return of 9.0% for 2003 was 100 basis points lower, the impact would have been to increase the net pension expense by $110 million. In response to current and expected market conditions, effective January 1, 2004, we lowered our assumed expected long-term rate on plan assets to 8.5%. If our assumed discount rate of 6.75% for 2003 was 100 basis points lower, the impact would have been to increase the net expense by $56 million.

Goodwill and Other Intangible Assets

We adopted SFAS No. 142 in January 2002, which requires companies to cease amortizing goodwill and certain intangible assets with indefinite useful lives. Instead, SFAS No. 142 requires that goodwill and indefinite-lived intangible assets be reviewed for impairment upon adoption on January 1, 2002 and at least annually thereafter. Goodwill impairment is deemed to exist if the carrying value of the reporting unit exceeds its estimated fair value.

We performed our initial impairment analysis of goodwill and indefinite-lived intangible assets as of January 1, 2002. The implementation involved the determination of the fair value of each reporting unit, where a reporting unit is defined as an operating segment or one level below.

We estimated the fair value of each significant reporting unit based on discounted forecasts of future cash flows. Significant judgments and assumptions were required in the preparation of the estimated future cash flows, including long-term forecasts of revenue growth, gross margins and capital expenditures.

Two of the most significant assumptions underlying the determination of the fair value of goodwill and other intangible assets upon our initial implementation were the cash flow forecasts and discount rates used. In connection with the measurement we performed at the date we adopted SFAS No. 142 (January 1, 2002), we determined that a 10% increase in the cash flow forecasts would have decreased the transitional impairment charge by approximately $1.5 billion, resulting in a transitional impairment charge of approximately $21.3 billion instead of $22.8 billion. In contrast, a 10% decrease in the cash flow forecasts would have increased the transitional impairment charge by approximately $1.2 billion, resulting in an impairment charge of approximately $24.0 billion. A 100 basis point increase in the discount rate we used would have resulted in a transitional impairment charge of approximately $25.2 billion instead of $22.8 billion, while a 100 basis point decrease in the discount rate would have resulted in a transitional impairment charge of approximately $17.1 billion.

Subsequent to adoption on January 1, 2002 of SFAS No. 142, we determined that circumstances indicated that it was more likely than not that an impairment loss was incurred, and as a result, we tested the remaining goodwill for possible impairment. Our impairment analysis as of June 30, 2002, resulted in an impairment of the remaining goodwill of approximately $8.483 billion. As a result of recording the cumulative effect of the change in accounting for the transitional impairment of $22.8 billion and the additional impairment of $8.483 billion, there is no goodwill remaining on our balance sheet as of and subsequent to June 30, 2002. A hypothetical 10% increase or decrease in the fair value estimates used in our June 30, 2002 measurement would have had no impact on the impairment recorded.

Impairments of Long-lived Assets

Pursuant to the 2003 services agreement with Sprint that allows us to resell Sprint wireless services, our wireless customers who are currently being serviced through our proprietary wireless network will be transitioned onto Sprint's network. Due to the anticipated decrease in usage of our own wireless network following the transition of our customers onto Sprint's network, in the third quarter of 2003 we performed an evaluation of the recoverability of the carrying value of our long-lived wireless network assets.

We compared gross undiscounted cash flow projections to the carrying value of the long-lived wireless network assets and determined that certain asset groups were not expected to be recovered through future projected cash flows. For those asset groups that were not recoverable, we then estimated the fair value using estimates of market prices for similar assets. Cell sites, switches, related tools and equipment inventory and certain information technology systems that support the wireless network were determined to be impaired by $230 million.

Estimating the fair value of the asset groups involved significant judgment and a variety of assumptions. Comparable market data was obtained by reviewing recent sales of similar asset types. However, the market for cell sites and switches is not highly developed or liquid. As such, our estimates of the fair value of such assets are highly subjective and the amounts we might receive from an orderly liquidation of such assets could differ by $25 million or more from our estimates of the fair value of these assets used to record the impairment.

Effective June 30, 2002, the general deterioration of the telecommunications market, the downward revisions to our expected future results of operations and other factors indicated that our investments in long-lived assets may have been impaired at that date. We performed an evaluation of the recoverability of the carrying value of our long-lived assets using gross undiscounted cash flow projections. For impairment analysis purposes, we grouped our property, plant and equipment and projected cash flows as follows: traditional telephone network, national fiber optic broadband network, international fiber optic broadband network, wireless network, web hosting and ASP, assets held for sale, and out-of-region DSL. Based on this assessment of recoverability, we concluded that our traditional telephone network was not impaired. However, this analysis revealed that the remaining asset groups were impaired. We then estimated the fair value of these asset groups and, as a result, we recorded a total of $10.493 billion in asset impairment charges during the year ended December 31, 2002 as more fully described below.

Following is a summary of impairment charges recognized by asset group for the year ended December 31, 2002 net of $120 million for certain web hosting centers that have been reclassified to income from and gain on sale of discontinued operations to our consolidated statements of operations in Item 8 of this report.

Asset Group	Impairment Charge	Fair Value Methodology
	(Dollars in millions)	
National fiber optic broadband network	$ 8,505	Discounted cash flows
International fiber optic broadband network	685	Comparable market data
Wireless network	825	Comparable market data and discounted cash flows
Web hosting and ASP assets	88	Comparable market data
Assets held for sale	348	Comparable market data
Out-of-region DSL	42	Discounted cash flows
Total impairment charges	$ 10,493	

The national fiber optic broadband network provides long-distance voice services, data and Internet services, and wholesale services to business, consumer and wholesale customers outside of our local service area. The international fiber optic broadband network provides the same services to the same types of customers only outside of the United States. The wireless network provides PCS in select markets in our local service area. Our web hosting and ASP asset group provides business customers both shared and dedicated hosting on our servers as well as application hosting services to help design and manage the customer's website and their hosting applications. Assets held for sale primarily consist of excess network supplies. Our out-of-region DSL assets provide DSL service to customers outside our local service area.

Calculating the estimated fair value of the asset groups as listed above involves significant judgments and a variety of assumptions. For calculating fair value based on discounted cash flows, we forecasted future operating results and future cash flows, which included long-term forecasts of revenue growth, gross margins and capital expenditures. We also used a discount rate based on an estimate of the weighted-average cost of capital for the specific asset groups as of June 30, 2002. Comparable market data was obtained by reviewing recent sales of similar asset types in third-party market transactions. Relative to the above excluding the wireless network, a hypothetical increase or decrease in the estimated future cash flows of 10% would have changed the impairment charge by approximately \$105 million. Also excluding wireless, a hypothetical increase or decrease in the discount rate used of 100 basis points would have changed the impairment charge by approximately \$40 million. In respect to the wireless assets, a hypothetical 10% increase or decrease in the current cost factors would have changed the impairment charge by \$17.1 million. Also relative to the wireless assets, a hypothetical 100 basis point change in the discount factors related to physical deterioration, functional obsolescence and economic obsolescence would have changed the impairment charge by \$10.4 million.

Recently Adopted Accounting Pronouncements and Cumulative Effect of Adoption

FASB Interpretation, or FIN, No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", was issued in November 2002. The interpretation provides guidance on the guarantor's accounting and disclosure of guarantees, including indirect guarantees of indebtedness of others. We have adopted the disclosure requirements of the interpretation as of December 31, 2002. The accounting guidelines are applicable to certain guarantees, excluding affiliate guarantees, issued or modified after December 31, 2002, and require that we record a liability for the fair value of such guarantees on our consolidated balance sheet. The adoption of this interpretation did not have a material effect on our consolidated financial statements.

On January 1, 2003, we adopted SFAS No. 143 which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs, generally referred to as asset retirement obligations. SFAS No. 143 requires entities to record the fair value of a legal liability for an asset retirement. If a reasonable estimate of fair value can be made, the fair value of the liability shall be recognized in the period it is incurred, or if not, in the period a reasonable estimate of fair value can be made. This cost is initially capitalized and then amortized over the estimated remaining useful life of the asset. We have determined that we have legal asset retirement obligations associated with the removal of a limited group of long-lived assets and recorded a cumulative effect of a change in accounting principle charge upon adoption of SFAS No. 143 of \$28 million (an asset retirement obligation of \$43 million net of an incremental adjustment to the historical cost of the underlying assets of \$15 million) in 2003.

Prior to the adoption of SFAS No. 143, we included in our group depreciation rates estimated net removal costs (removal costs less salvage). These costs have historically been reflected in the calculation of depreciation expense and therefore recognized in accumulated depreciation. When the assets were actually retired and removal costs were expended, the net removal costs were recorded as a reduction to accumulated depreciation. While SFAS No. 143 requires the recognition of a liability for asset

retirement obligations that are legally binding, it precludes the recognition of a liability for asset retirement obligations that are not legally binding. Therefore, upon adoption of SFAS No. 143, we reversed the net removal costs within accumulated depreciation for those fixed assets where the removal costs exceeded the estimated salvage value and we did not have a legal removal obligation. This resulted in income from the cumulative effect of a change in accounting principle of \$365 million before taxes upon adoption of SFAS No. 143. The net income impact of the adoption is \$206 million (\$365 million less the \$28 million charge disclosed above, net of income taxes of \$131 million) in 2003. Beginning January 1, 2003, the net costs of removal related to these assets are charged to our consolidated statement of operations in the period in which the costs are incurred.

In January 2003 and December 2003, the FASB issued and then revised FIN No. 46, "Consolidation of Variable Interest Entities", or FIN No. 46, which is effective immediately for all variable interest entities created after

January 31, 2003. FIN No. 46 must be applied for the first fiscal year or interim period ending after March 15, 2004 for variable interest entities, or the first quarter 2004 for us. FIN No. 46 requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among the parties involved. A primary beneficiary absorbs the majority of the entity's expected losses, if they occur, receives a majority of the entity's expected residual returns, if they occur, or both. Where it is reasonably possible that the information about our variable interest entity relationships must be disclosed or consolidated, we must disclose the nature, purpose, size and activity of the variable interest entity and the maximum exposure to loss as a result of our involvement with the variable interest entity in all financial statements issued after January 31, 2003. We believe that it is unlikely that the adoption of FIN No. 46 will require consolidation of any significant unconsolidated entities.

Risk Management

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 may also employ financial derivatives to hedge foreign currency exposures associated with particular debt.

As of December 31, 2003 and 2002, approximately $2.0 billion and $2.2 billion, respectively, of floating-rate debt was exposed to changes in interest rates. This exposure is linked to LIBOR. A hypothetical increase of 100 basis points in LIBOR and commercial paper rates would increase annual pre-tax interest expense by $20 million. As of December 31, 2003 and 2002, we also had approximately $1.8 billion and $1.2 billion 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. We had $13.5 billion and $19.0 billion of long-term fixed rate debt at December 31, 2003 and 2002, respectively. A 100 basis point increase in interest rates would result in a decrease in the fair value of these instruments of $900 million and $700 million at December 31, 2003 and 2002, respectively. A 100 basis point decrease in interest rates would result in an increase in the fair value of these instruments of $1.0 billion and $800 million at December 31, 2003 and 2002, respectively.

As of December 31, 2003, we had $1.756 billion of cash invested in money market and other short-term investments. Most cash investments are invested at floating rates. As interest rates change so will the interest income derived from these accounts.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-K contains or incorporates by reference "forward-looking statements," as that term is used in federal securities laws, about our financial condition, results of operations and business. These statements include, among others:

- statements concerning the benefits that we expect will result from our business activities and certain transactions we have completed, such as increased revenue, decreased expenses and avoided expenses and expenditures; and
- statements of our expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts.

These statements may be made expressly in this document or may be incorporated by reference to other documents we will file with the SEC. You can find many of these statements by looking for words such as "believes," "expects," "anticipates," "estimates," or similar expressions used in this report or incorporated by reference in this report.

These forward-looking statements are subject to numerous assumptions, risks and uncertainties that may cause our actual results to be materially different from any future results expressed or implied by us in those statements. Some of these risks are described below under "Risk Factors." These risk factors should be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue. We do not undertake any obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events. Further, the information contained in this document is a statement of our intention as of the date of this filing and is based upon, among other things, the existing regulatory environment, industry conditions, market conditions and prices, the economy in general and our assumptions as of such date. We may change our intentions, at any time and without notice, based upon any changes in such factors, in our assumptions or otherwise.

RISK FACTORS

Risks Affecting Our Business

We face pressure on profit margins as a result of increasing competition, including product substitution, which could adversely affect our operating results and financial performance.

We compete in a rapidly evolving and highly competitive market, and we expect competition to intensify. We have faced greater competition in our core local business from cable companies, wireless providers (including ourselves), facilities-based providers using their own networks as well as those leasing parts of our network (unbundled network elements), and resellers. Regulatory developments have generally increased competitive pressures on our business, such as the recent decision allowing for number portability from wireline to wireless phones.

Due to these and other factors, we believe competitive telecommunications providers are no longer hindered by historical barriers to entry. As a result, we are seeking to distinguish ourselves from our competitors through a number of customer service initiatives. These initiatives include expanded product bundling, simplified billing, improved customer support and other ongoing measures. However, these initiatives are new and untested. We may not have sufficient resources to distinguish our service levels from those of our competitors, and we may not be successful in integrating our product offerings, especially products for which we act as a reseller, such as Sprint's wireless services and the video services of our satellite provider partners. Even if we are successful, these initiatives may not be sufficient to offset our continuing loss of access lines.

We have also begun to experience and expect further increased competitive pressure from telecommunications providers either emerging from bankruptcy protection or reorganizing their capital structure to more effectively compete against us. As a result of these increased competitive pressures, we have been and may continue to be forced to respond with lower profit margin product offerings and pricing schemes that allow us to retain and attract customers. These pressures could adversely affect our operating results and financial performance.

Continued downturn in the economy in our local service area could adversely affect our operating results.

Our operations in our local service area of Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming have been impacted by the continuing weakness in that region's economy. Because customers have less discretionary income, demand for second lines or additional services has declined. This economic downturn has also led to an increased customer disconnection rate. In addition, several of the companies with which we do business appear to be in financial difficulty or have filed for bankruptcy protection. Some of these have requested renegotiation of long-term agreements with us because of their financial circumstances and because they believe the terms of these agreements are no longer appropriate for their needs. Our revenues have been and are likely to continue to be adversely affected by the loss or reduction of business with many of our customers as a result of this downturn and our continued efforts to accommodate our customers' needs in this changing business environment.

Rapid changes in technology and markets could require substantial expenditure of financial and other resources in excess of contemplated levels, and any inability to respond to those changes could reduce our market share.

The telecommunications industry is experiencing significant technological changes, and our ability to execute on our business plans and compete depends upon our ability to develop new products and accelerate the deployment of advanced new services, such as broadband data, wireless services, video services and VoIP services. The development and deployment of new products could require substantial expenditure of financial and other resources in excess of contemplated levels. If we are not able to

develop new products to keep pace with technological advances, or if such products are not widely accepted by customers, our ability to compete could be adversely affected and our market share could decline. Any inability to keep up with changes in technology and markets could also adversely affect the trading price of our securities and our ability to service our debt.

Risks Relating to Our Legal and Regulatory Matters

Any adverse outcome of investigations currently being conducted by the SEC and the U.S. Attorney's Office or the assessment being undertaken by the GSA could have a material adverse impact on us, on the trading price for our debt and equity securities, and on our ability to access the capital markets.

On April 3, 2002, the SEC issued an order of investigation that made formal an informal investigation initiated on March 8, 2002. We are continuing in our efforts to cooperate fully with the SEC in its investigation. The investigation includes, without limitation, inquiry into several specifically identified accounting practices and transactions and related disclosures that are the subject of the various adjustments and restatements described in our 2002 Form 10-K. The investigation also includes inquiry into disclosure and other issues related to transactions between us and certain of our vendors and certain investments in the securities of those vendors by individuals associated with us.

On July 9, 2002, we were informed by the U.S. Attorney's Office for the District of Colorado of a criminal investigation of Qwest. We believe the U.S. Attorney's Office is investigating various matters that include the subjects of the investigation by the SEC.

While we are continuing in our efforts to cooperate fully with the SEC and the U.S. Attorney's Office in each of their respective investigations, we cannot predict the outcome of those investigations. We have engaged in discussions with the SEC staff in an effort to resolve the issues raised in the SEC's investigation of us. While our most recent discussions and further analysis have led us to conclude that a reserve should be provided for this matter and our securities actions (see Item 3—Legal Proceedings in this report), such discussions are preliminary and we cannot predict the likelihood of whether those discussions will result in a settlement and, if so, the terms of such settlement. However, settlements typically involve, among other things, the SEC making claims under the federal securities laws in a complaint filed in United States District Court that, for purposes of the settlement, the defendant neither admits nor denies. Were such a settlement to occur, we would expect such claims to address many of the accounting practices and transactions and related disclosures that are the subject of the various restatements we have made as well as additional transactions. In addition, any settlement with the SEC may also involve, among other things, the imposition of disgorgement and a civil penalty, the amounts of which could be materially in excess of our recorded reserve, and the entry of a court order that would require, among other things, that we and our officers and directors comply with provisions of the federal securities laws as to which there have been allegations of prior violations.

In addition, the SEC has conducted an investigation concerning our earnings release for the fourth quarter and full year 2000 issued on January 24, 2001. The release provided pro forma normalized earnings information that excluded certain nonrecurring expense and income items resulting primarily from the Merger. On November 21, 2001, the SEC staff informed us of its intent to recommend that the SEC authorize an action against us that would allege we should have included in the earnings release a statement of our earnings in accordance with GAAP. At the date of this filing, no action has been taken by the SEC. However, we expect that if our current discussions with the staff of the SEC result in a settlement, such settlement would include allegations concerning the January 24, 2001 earnings release.

Also, the GSA is conducting a review of all contracts with us for purposes of determining present responsibility. On September 12, 2003, we were informed that the Inspector General of the GSA had referred to the GSA Suspension/Debarment Official the question of whether we should be considered for debarment. We are cooperating fully with the GSA and believe that we will remain a supplier of the government, although we cannot predict the outcome of this referral.

An adverse outcome with respect to one or more of the SEC investigations, the U.S. Attorney's Office investigation or the GSA evaluation could have a material and significant adverse impact upon us.

Further review by the SEC could result in additional adjustments to our annual and quarterly reports.

We have engaged in discussions with the staff of the SEC's Division of Corporation Finance regarding our periodic filings. They have reviewed and commented upon our 2001 Form 10-K and March 2002 Form 10-Q. As appropriate, we have attempted to address the Staff's comments in our current filings and have provided responses to those other comments that we could address. It is also possible that these comments may lead to further investigations from the SEC's Division of Enforcement. We may receive additional comments from the staff of the Division of Corporation Finance and may be required to make further adjustments or additional disclosures.

While we have attempted to address all the matters identified in our internal analysis of our accounting policies, practices and procedures, due to the breadth of this analysis, the passage of time and the turnover in accounting personnel employed by us, we may have overlooked some matters in our internal analysis.

Major lawsuits have been brought against us involving our accounting practices and other matters. The outcomes of these lawsuits and other lawsuits affecting us may have a material adverse effect on our business, financial condition and operating results.

Several lawsuits have been filed against us, as well as certain of our past and present officers and directors. These lawsuits include putative class action lawsuits in which the plaintiffs allege numerous violations of securities laws. In one of these actions, lead counsel for the plaintiffs has indicated that plaintiffs will seek damages in the tens of billions of dollars. For a description of these legal actions, please see "Legal Proceedings" in Item 3 of this report.

The consolidated securities action, the consolidated ERISA action, the CalSTRS, New Jersey, SURSI and SPA actions described in "Legal Proceedings" in Item 3 of this report present material and significant risk to us. Some of the allegations in these lawsuits include many of the same subjects that the SEC and U.S. Attorney's Office are investigating. The size, scope and nature of the recent restatements of our consolidated financial statements for fiscal 2001 and 2000 affect the risks presented by these matters, and we can give no assurance as to the impacts on our financial results or financial condition that may ultimately result from these matters. As we have previously disclosed, we have engaged in preliminary discussions for purposes of resolving certain of these matters. Our most recent preliminary discussions and further analysis have led us to conclude that a reserve should be provided. Accordingly, we have recorded a reserve in our consolidated financial statements for the estimated minimum liability associated with these matters. However, the ultimate outcomes of these matters are still uncertain and there is a significant possibility that the amount of loss we ultimately incur could be substantially more than the reserve we have provided.

The securities actions are in a preliminary phase and we continue to defend against these matters vigorously. None of the plaintiffs or the defendants in the securities actions has advanced evidence concerning possible recoverable damages and we have not yet conducted discovery on these and other relevant issues. We are currently unable to provide any estimate as to the timing of the resolution of any of these matters. Any settlement of or judgment in one or more of these matters in excess of our recorded reserves could be significant, and we can give no assurance that we will have the resources available to pay any such judgment. In the event of an adverse outcome in one or more of these

matters, our ability to meet our debt service obligations and our financial condition could be materially and adversely affected.

Further, given the size and nature of our business, we are subject from time to time to various other lawsuits which, depending on their outcome, may have a material adverse effect on our financial position. Thus, we can give no assurances as to the impacts on our financial results or financial condition as a result of these matters.

Increased scrutiny of financial disclosure, particularly in the telecommunications industry in which we operate, could reduce investor confidence and affect our business opportunities.

As a result of our accounting issues and the increased scrutiny of financial disclosure, investor confidence in us has suffered and could suffer further. Congress, the SEC, other government authorities and the media are intensely scrutinizing a number of financial reporting issues and practices. In addition, as discussed earlier, the SEC and the U.S. Attorney's Office are currently conducting investigations including, without limitation, inquiries into several specifically identified accounting practices and transactions and related disclosures and our earnings release for the fourth quarter and full year 2000.

A criminal trial of former Qwest executives is taking place in the first quarter of 2004. Additional civil and criminal trials could take place in the future. Evidence that is introduced at such trials may result in further scrutiny by governmental authorities and others.

The existence of this heightened scrutiny and these pending investigations could adversely affect investor confidence and cause the trading price for our securities to decline.

Our 2002 Form 10-K was filed in October of 2003 and contains our restated consolidated financial statements for the years ended December 31, 2001 and 2000. These restatements involved, among other matters, revenue recognition issues related to optical capacity asset transactions, equipment sales, directory publishing and purchase accounting and resulted in, among other things, an aggregate reduction in revenue of approximately $2.5 billion. We cannot assure you that the information in our 2002 Form 10-K or in this annual report will not be subject to change upon receipt of any such comments from the SEC, and any such changes could be material. In addition, we cannot assure you that we will not have to further restate earnings for prior periods as a result of any formal actions or the SEC's review of our filings. Any such restatement could further impact our ability to access the capital markets and the trading price of our securities.

We operate in a highly regulated industry, and are therefore exposed to restrictions on our manner of doing business and a variety of claims relating to such regulation.

Our operations are subject to extensive federal regulation, including the Communications Act of 1934, as amended, and FCC regulations thereunder. We are also subject to the applicable laws and regulations of various states, including regulation by PUCs and other state agencies. Federal laws and FCC regulations generally apply to interstate telecommunications (including international telecommunications that originate or terminate in the United States), while state regulatory authorities generally have jurisdiction over telecommunications that originate and terminate within the same state. Generally, we must obtain and maintain certificates of authority from regulatory bodies in most states where we offer intrastate services and must obtain prior regulatory approval of rates, terms and conditions for our intrastate services in most of these jurisdictions. Our businesses are subject to numerous, and often quite detailed, requirements under federal, state and local laws, rules and regulations. Accordingly, we cannot ensure that we are always in compliance with all these requirements at any single point in time.

Regulation of the telecommunications industry is changing rapidly, and the regulatory environment varies substantially from state to state. All of our operations are also subject to a variety of environmental, safety, health and other governmental regulations. There can be no assurance that future regulatory, judicial or legislative activities will not have a material adverse effect on our operations, or that domestic or international regulators or third parties will not raise material issues with regard to our compliance or noncompliance with applicable regulations.

We monitor our compliance with federal, state and local regulations governing the discharge and disposal of hazardous and environmentally sensitive materials, including the emission of electromagnetic radiation. Although we believe that we are in compliance with such regulations, any such discharge, disposal or emission might expose us to claims or actions that could have a material adverse effect on our business, financial condition and operating results.

Risks Affecting Our Liquidity

Our high debt levels, the restrictive terms of our debt instruments and the substantial litigation pending against us pose risks to our viability and may make us more vulnerable to adverse economic and competitive conditions, as well as other adverse developments.

We are highly leveraged. As of December 31, 2003, our consolidated debt was approximately $17.5 billion. As shown above in "Liquidity and Capital Resources—Payment Obligations and Contingencies" in Item 7 of this report, a considerable amount of our debt obligations come due over the next few years. While we currently believe we will have the financial resources to meet our obligations when they come due, we cannot anticipate what our future condition will be. We may have unexpected costs and liabilities and we may have limited access to financing.

In addition to our periodic need to obtain financing in order to meet our debt obligations as they come due, we may also need to obtain additional financing or investigate other methods to generate cash (such as further cost reductions or the sale of non-strategic assets) if cash provided by operations does not improve, if revenue and cash provided by operations continue to decline, if economic conditions do not improve or if we become subject to significant judgments and/or settlements as further discussed in "Legal Proceedings" in Item 3 of this report and in "Liquidity and Capital Resources" above. In addition, the 2004 QSC Credit Facility contains various limitations, including a restriction on using any proceeds from the facility to pay settlements or judgments relating to investigations and securities actions discussed in "Legal Proceedings" in Item 3 of this report.

If we fail to repay indebtedness in respect to any our indebtedness when due, or fail to comply with the financial maintenance covenants contained in the 2004 QSC Credit Facility, if and when drawn, the applicable creditors or their representatives could declare the entire amount owed under such indebtedness immediately due and payable. Any such event could adversely affect our ability to conduct business or access the capital markets and could adversely impact our credit ratings.

Additionally, the degree to which we are leveraged may have important limiting consequences, including the following:

- Our ability to obtain additional financing in the future for working capital, capital expenditures or general corporate purposes may be impaired;
- Our leverage may place us at a competitive disadvantage as compared with our less leveraged competitors, including some who have significantly reduced their debt through a bankruptcy proceeding;
- Our leverage may make us more vulnerable to the current or future downturns in general economic conditions or in any of our businesses;

- Our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate may be limited; and
- Our high debt levels could adversely impact our credit ratings.

We may be unable to significantly reduce the substantial capital requirements or operating expenses necessary to continue to operate our business, which may in turn affect our operating results.

We anticipate that our capital requirements relating to maintaining and routinely upgrading our network will continue to be significant in the coming years. We also may be unable to significantly reduce the operating expenses associated with our future contractual cash obligations, including future purchase commitments, which may in turn affect our operating results. As we will need to maintain the quality of our products and services in the future, we may be unable to further significantly reduce such capital requirements or operating expenses, even if revenues are decreasing. Such non-discretionary capital outlays may lessen our ability to compete with other providers who face less significant spending requirements.

If we are unable to renegotiate a significant portion of our future purchase commitments, we may suffer related losses.

As of December 31, 2003, our aggregate future purchase commitments totaled approximately $4.4 billion. We entered into these commitments, which obligate us to purchase network services and capacity, hardware or advertising from other vendors, with the expectation that we would use these commitments in association with projected revenues. We currently do not expect to generate revenues in the near-term that are sufficient to offset the costs associated with some of these commitments. Although we are attempting to renegotiate and restructure certain of these contracts, there can be no assurance that we will be successful to any material degree. If we cannot renegotiate or restructure a significant portion of these contracts on terms that are favorable to us, we will continue to have substantial ongoing expenses without sufficient revenues to offset the expenses related to these arrangements. In addition, we may incur substantial losses in connection with these restructurings and renegotiations.

Declines in the value of pension plan assets could require us to provide significant amounts of funding for our pension plan.

While we do not expect to be required to make material cash contributions to our defined benefit pension plan in the near-term based upon current actuarial analyses and forecasts, a significant decline in the value of pension plan assets in the future or unfavorable changes in laws or regulations that govern pension plan funding could materially change the timing and amount of required pension funding. As a result, we may be required to fund our benefit plans with cash from operations, perhaps by a material amount.

If we pursue and are involved in any business combinations, our financial condition could be affected.

On a regular and ongoing basis, we review and evaluate other businesses and opportunities for business combinations that would be strategically beneficial. As a result, we may be involved in negotiations or discussions that, if they were to result in a transaction, could have a material effect on our financial condition (including short-term or long-term liquidity) or short-term or long-term results of operations.

Should we make an error in judgment when identifying an acquisition candidate, or should we fail to successfully integrate acquired operations, we will likely fail to realize the benefits we intended to

derive from the acquisition and may suffer other adverse consequences. Acquisitions involve a number of other risks, including:

- incurrence of substantial transaction costs;
- diversion of management's attention from operating our existing business;
- charges to earnings in the event of any write-down or write-off of goodwill recorded in connection with acquisitions;
- depletion of our cash resources or incurrence of additional indebtedness to fund acquisitions; and
- assumption of liabilities of an acquired business (including unforeseen liabilities).

We can give no assurance that we will be able to successfully complete and integrate strategic acquisitions.

Other Risks Relating to Qwest

If conditions or assumptions differ from the judgments, assumptions or estimates used in our critical accounting policies, the accuracy of our financial statements and related disclosures could be affected.

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. Our critical accounting policies, which are described in this Form 10-K, describe the significant accounting policies and methods used in the preparation of our condensed consolidated financial statements. These accounting policies are considered "critical" because they require judgments, assumptions and estimates that materially impact our consolidated financial statements and related disclosures. As a result, if future events differ significantly from the judgments, assumptions and estimates in our critical accounting policies or different assumptions are used in the future, such events or assumptions could have a material impact on our consolidated financial statements and related disclosures.

Taxing authorities may determine we owe additional taxes relating to various matters, which could adversely affect our financial results.

As a significant taxpayer, we are subject to frequent and regular audits from the IRS, as well as from state and local tax authorities. These audits could subject us to risk due to adverse positions that may be taken by these tax authorities.

For example, the IRS has proposed a tax adjustment for tax years 1994 through 1996. The principal issue involves our allocation of costs between long-term contracts with customers for the installation of conduit or fiber optic cable and additional conduit or fiber optic cable retained by us. The IRS disputes our allocation of the costs between us and third parties for whom we were building similar network assets during the same time period. Similar claims have been asserted against us with respect to 1997 and 1998, and it is possible that claims could be made against us for other periods. We are contesting these claims and do not believe the IRS will be successful. Even if they are, we believe that any significant tax obligations will be substantially offset as a result of available net operating losses and tax sharing agreements. However, the ultimate effect of these claims is uncertain.

Because prior to 1999 Qwest was a member of an affiliated group filing a consolidated U.S. federal income tax return, we could be severally liable for tax examinations and adjustments not directly applicable to current members of the Qwest affiliated group. Tax sharing agreements have been executed between us and previous affiliates, and we believe the liabilities, if any, arising from adjustments to tax liability would be borne by the affiliated group member determined to have a

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deficiency under the terms and conditions of such agreements and applicable tax law. We have not provided for the liability of former affiliated members in our financial statements.

As a result of the restatement of our financial results, previously filed returns and reports may be required by legal, regulatory, or administrative provisions to be amended to reflect the tax related impacts, if any, of such restatements. Where legal, regulatory or administrative rules would require or allow us to amend our previous tax filings, we intend to comply with our obligations under applicable law. To the extent that tax authorities do not accept the tax consequences of restatement entries, liabilities for taxes could differ materially from what has been recorded in our consolidated financial statements.

While we believe we have adequately provided for taxes associated with these restatements, risks and contingencies, tax audits and examinations may result in liabilities that differ materially from those we have recorded in our consolidated financial statements.

If we fail to extend or renegotiate our collective bargaining contracts with our labor unions as they expire from time to time, or if our unionized employees were to engage in a strike or other work stoppage, our business and operating results could be materially harmed.

We are a party to collective bargaining contracts with our labor unions, which represent a significant number of our employees. Although we believe that our relations with our employees are satisfactory, no assurance can be given that we will be able to successfully extend or renegotiate our collective bargaining agreements as they expire from time to time. If we fail to extend or renegotiate our collective bargaining agreements, if disputes with our unions arise, or if our unionized workers engage in a strike or other work stoppage, we could incur higher ongoing labor costs or experience a significant disruption of operations, which could have a material adverse effect on our business. In August 2003 we reached agreements with the CWA and the IBEW on new two-year labor contracts. Each of these agreements was ratified by union members and expires on August 13, 2005.

The trading price of our securities could be volatile.

In recent years, the capital markets have experienced extreme price and volume fluctuations. The overall market and the trading price of our securities may fluctuate greatly. The trading price of our securities may be significantly affected by various factors, including:

- quarterly fluctuations in our operating results;
- changes in investors' and analysts' perception of the business risks and conditions of our business;
- broader market fluctuations; and
- general economic or political conditions.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information under the caption "Risk Management" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" is incorporated herein by reference.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Independent Auditors' Report

The Board of Directors and Stockholders
Qwest Communications International Inc.:

We have audited the accompanying consolidated balance sheets of Qwest Communications International Inc. and subsidiaries as of December 31, 2003, and 2002, and the related consolidated statements of operations, stockholders' (deficit) equity and cash flows for each of the years in the three-year period ended December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Qwest Communications International Inc. and subsidiaries as of December 31, 2003, and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2 to the accompanying consolidated financial statements, effective January 1, 2003, the Company adopted Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations*. Also, as discussed in note 2, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, and Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, and effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

/s/ KPMG LLP

Denver, Colorado
March 2, 2004

QWEST COMMUNICATIONS INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in millions except per share amounts, shares in thousands)		
Operating revenue	$ 14,288	$ 15,371	$ 16,530
Operating expenses:			
Cost of sales (exclusive of depreciation and amortization)	6,386	6,032	6,634
Selling, general and administrative	4,646	5,219	5,496
Depreciation	2,739	3,268	3,704
Goodwill and other intangible assets amortization	428	579	1,660
Goodwill impairment charge	—	8,483	—
Asset impairment charges	230	10,525	251
Restructuring and other charges	113	235	816
Merger-related (credits) charges	—	(53)	321
Total operating expenses	14,542	34,288	18,882
Operating loss	(254)	(18,917)	(2,352)
Other expense (income):			
Interest expense—net	1,757	1,789	1,437
Losses and impairment of investment in KPNQwest	—	1,190	3,300
Loss on sale of investments and other investment write-downs—net	13	88	267
(Gain) loss on early retirement of debt	(38)	(1,836)	106
Gain on sales of fixed assets	—	—	(51)
Other income—net	(154)	(33)	(49)
Total other expense	1,578	1,198	5,010

Loss before income taxes, discontinued operations and cumulative effect of changes in accounting principles	(1,832)	(20,115)	(7,362)
Income tax benefit	519	2,497	1,245
Loss from continuing operations	(1,313)	(17,618)	(6,117)
Income from and gain on sale of discontinued operations, net of taxes of $1,658, $1,235 and $311, respectively	2,619	1,950	490
Income (loss) before cumulative effect of changes in accounting principles	1,306	(15,668)	(5,627)
Cumulative effect of changes in accounting principles, net of taxes of $131, $0 and $15, respectively	206	(22,800)	24
Net income (loss)	$ 1,512	$ (38,468)	$ (5,603)
Basic and diluted income (loss) per share:			
Loss from continuing operations	$ (0.76)	$ (10.48)	$ (3.68)
Discontinued operations, net of taxes	1.51	1.16	0.30
Income (loss) before cumulative effect of changes in accounting principles	0.75	(9.32)	(3.38)
Cumulative effect of changes in accounting principles, net of taxes	0.12	(13.55)	0.01
Basic and diluted income (loss) per share	$ 0.87	$ (22.87)	$ (3.37)
Basic and diluted weighted-average shares outstanding	1,738,766	1,682,056	1,661,133

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

QWEST COMMUNICATIONS INTERNATIONAL INC.

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2003	2002
	(Dollars in millions, shares in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,756	$ 2,253
Accounts receivable—net	1,835	2,344
Inventories	82	68
Deferred income taxes	159	898
Prepaid and other assets	584	494
Assets held for sale	—	315
Total current assets	4,416	6,372
Property, plant and equipment—net	18,149	19,012
Intangible assets—net	1,549	1,612
Deferred income taxes	—	398
Other assets	2,102	1,951
Total assets	$ 26,216	$ 29,345

LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Current borrowings	$ 1,869	$ 2,772
Accounts payable	759	921
Accrued expenses and other current liabilities	2,266	2,191
Deferred revenue and advance billings	654	773
Liabilities associated with discontinued operations	—	225
Total current liabilities	5,548	6,882
Long-term borrowings (net of unamortized debt discount of $3 and $129, respectively—See Note 8)	15,639	19,768
Post-retirement and other post-employment benefit obligations	3,325	3,075
Deferred income taxes	121	—
Deferred revenue	762	957
Other long-term liabilities	1,837	1,493
Total liabilities	27,232	32,175
Commitments and contingencies (Note 17)		
Stockholders' deficit:		
Preferred stock-$1.00 par value, 200 million shares authorized, none issued or outstanding	—	—
Common stock-$0.01 par value, 5 billion shares authorized; 1,770,223 and 1,713,592 issued, respectively	18	17
Additional paid-in capital	42,925	43,225
Treasury stock-327 and 14,477 shares, respectively (including 327 and 387 shares, respectively, held in Rabbi trust—Note 13)	(15)	(618)
Accumulated deficit	(43,927)	(45,439)
Accumulated other comprehensive loss	(17)	(15)
Total stockholders' deficit	(1,016)	(2,830)
Total liabilities and stockholders' deficit	$ 26,216	$ 29,345

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

QWEST COMMUNICATIONS INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in millions)		
OPERATING ACTIVITIES			
Net income (loss)	$ 1,512	$ (38,468)	$ (5,603)
Adjustments to net income (loss):			
Income from and gain on sale of discontinued operations—net of tax	(2,619)	(1,950)	(490)
Depreciation and amortization	3,167	3,847	5,364
Loss on sale of investments and other investment write-downs—net	13	1,278	3,567
Provision for bad debts	304	511	615
Cumulative effect of changes in accounting principles—net of	(206)	22,800	(24)

taxes			
Goodwill impairment charge	—	8,483	—
Asset impairment charges	230	10,525	251
Tax benefit from stock options	—	—	165
Deferred income taxes	(532)	(2,252)	(733)
Gain on sales of fixed assets	—	—	(51)
(Gain) loss on early retirement of debt—net	(38)	(1,836)	106
Other non-cash charges—net	199	290	255
Changes in operating assets and liabilities:			
Accounts receivable	205	57	(439)
Inventories	(13)	117	(62)
Prepaid and other current assets	78	81	(111)
Accounts payable and accrued expenses	(186)	(1,189)	(492)
Current deferred revenue and advanced billings	(314)	14	72
Other non-current assets and liabilities	375	80	611
Cash provided by operating activities	2,175	2,388	3,001
INVESTING ACTIVITIES			
Expenditures for property, plant and equipment	(2,088)	(2,764)	(8,042)
Proceeds from sale of property and equipment	7	115	117
Proceeds from sale of rural exchanges	—	—	94
Purchase of investment securities	(198)	(5)	(82)
Payments on derivative contracts	—	—	(97)
Other	(61)	(84)	(142)
Cash used for investing activities	(2,340)	(2,738)	(8,152)
FINANCING ACTIVITIES			
Proceeds from long-term borrowings	1,729	1,476	6,911
Repayments of long-term borrowings, including current maturities	(5,792)	(2,890)	(2,659)
Net (payments of) proceeds from short-term debt	(750)	809	1,247
Proceeds from issuance of common stock	—	14	286
Repurchase of common stock	—	(12)	(1,000)
Dividends paid on common stock	—	—	(83)
Debt issuance costs	(43)	(186)	(42)
Cash (used for) provided by financing activities	(4,856)	(789)	4,660
CASH AND CASH EQUIVALENTS			
Decrease in cash	(5,021)	(1,139)	(491)
Net cash generated by discontinued operations	234	452	470
Proceeds from sale of directory publishing business	4,290	2,754	—
Beginning balance	2,253	186	207
Ending balance	$ 1,756	$ 2,253	$ 186

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

QWEST COMMUNICATIONS INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' (DEFICIT) EQUITY

	Shares of Common Stock	Common Stock and Additional Paid-in Capital	Treasury Stock, at cost	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total	Comprehensive Loss
	(Shares in thousands)			(Dollars in millions)			
Balance, December 31, 2000	1,671,279	$ 42,951	$ (38)	$ (1,285)	$ (61)	$ 41,567	
Net loss	—	—	—	(5,603)	—	(5,603)	$ (5,603)
Other comprehensive loss—net of taxes	—	—	—	—	—	—	—
Total comprehensive loss	—	—	—	—	—	—	$ (5,603)
Dividends declared on common stock	—	—	—	(83)	—	(83)	
Common stock issuances:							
Stock options exercised	12,280	250	—	—	—	250	
Employee stock purchase plan	1,761	36	—	—	—	36	
Other	1,898	77	—	—	—	77	
Tax benefit from stock options	—	165	—	—	—	165	
Stock-based compensation expense	—	34	—	—	—	34	
Repurchase of stock—BellSouth	(23,439)	(5)	(1,015)	—	—	(1,020)	
Rabbi Trust treasury share issuance	187	(6)	12	—	—	6	
Share repurchase commitment	—	(16)	—	—	—	(16)	
Balance, December 31, 2001	1,663,966	43,486	(1,041)	(6,971)	(61)	35,413	
Net loss	—	—	—	(38,468)	—	(38,468)	$ (38,468)
Other comprehensive income—net of taxes	—	—	—	—	46	46	46
Total comprehensive loss	—	—	—	—	—	—	$ (38,422)
Common stock issuances:							
Stock options exercised	34	1	—	—	—	1	
Employee stock purchase plan	3,680	13	—	—	—	13	
401(k) plan match	21,682	77	—	—	—	77	
Other	239	6	—	—	—	6	
Stock-based compensation expense	—	18	—	—	—	18	
Repurchase of stock—BellSouth	(531)	(20)	(5)	—	—	(25)	
Extinguishment of debt	9,880	(333)	420	—	—	87	
Rabbi Trust treasury share issuance	165	(6)	8	—	—	2	
Cancellation of share repurchase commitment	—	16	—	—	—	16	
Other	—	(16)	—	—	—	(16)	
Balance, December 31, 2002	1,699,115	43,242	(618)	(45,439)	(15)	(2,830)	
Net income	—	—	—	1,512	—	1,512	$ 1,512
Other comprehensive loss—net of							

taxes	—	—	—	—	(2)	(2)	(2)
Total comprehensive income	—	—	—	—	—	—	$ 1,510
Common stock issuances:							
401(k) plan match	18,260	76	—	—	—	76	
Other	(21)	—	—	—	—	—	
Stock-based compensation expense	—	6	—	—	—	6	
Extinguishment of debt	52,482	(396)	598	—	—	202	
Rabbi Trust treasury share issuance	60	(5)	5	—	—	—	
Other	—	20	—	—	—	20	
Balance, December 31, 2003	1,769,896	$ 42,943	$ (15)	$ (43,927)	$ (17)	$ (1,016)	

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

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2003, 2002 and 2001

Unless the context requires otherwise, references in this report to "Qwest," "we," "us," the "Company" and "our" refer to Qwest Communications International Inc. and its consolidated subsidiaries.

Note 1: Business and Background

Description of business

We provide local telecommunications and related services, IntraLATA and InterLATA long-distance services and wireless, data and video services within our local service area, which consists of the 14-state region of Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming. We also provide InterLATA long-distance services and reliable, scalable and secure broadband data, voice and video communications services outside our local service area as well as globally. We also provided, until September 2003, directory publishing services in our local service area. In November 2002, we completed the first half of the sale of our directory publishing business; and in September 2003, we completed the sale of the remaining portion. As a consequence, the results of operations of our directory publishing business are included in income from discontinued operations in our consolidated statements of operations.

On June 30, 2000, we completed the acquisition of U S WEST, Inc. ("U S WEST") (the "Merger"). U S WEST (our pre-Merger parent) was deemed the accounting acquirer and its historical financial statements, including those of its wholly owned subsidiaries, have been carried forward as the predecessor of the combined company. The Merger has been accounted for as a reverse acquisition under the purchase method of accounting with U S WEST being deemed the accounting acquirer and Qwest (prior to the Merger, "pre-Merger Qwest") the acquired entity.

Note 2: Summary of Significant Accounting Policies

Basis of presentation. The accompanying consolidated financial statements include the accounts of Qwest Communications International Inc. and its subsidiaries over which we exercise control. All intercompany amounts and transactions have been eliminated. Investments where we exercise significant influence, but do not control the investee, are accounted for under the equity method of accounting.

Use of estimates. Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions made when accounting for items and matters such as long-term contracts, customer retention patterns, allowance for bad debts, depreciation, amortization, asset valuations, internal labor capitalization rates, recoverability of assets, impairment assessments, employee benefits, taxes, reserves and other provisions and contingencies are reasonable, based on information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements, as well as the reported amounts of revenue and expenses during the periods presented. We also assess potential losses in relation to pending litigation and if a loss is considered probable and the amount can be reasonably estimated, we recognize an expense for the estimated loss. Actual results could differ from these estimates. See Note 17—Commitments and Contingencies.

Reclassifications. Certain prior year balances have been reclassified to conform to the current year presentation.

Revenue recognition. Revenue for services is recognized when the related services are provided. Payments received in advance are deferred until the service is provided. Up-front fees received, primarily activation fees and installation charges, as well as the associated customer acquisition costs, are deferred and recognized over the expected customer relationship period, which ranges from one to ten years. Expected customer relationship periods are estimated using historical data of actual customer retention patterns. Termination fees or other fees on existing contracts that are negotiated in conjunction with new contracts are deferred and recognized over the new contract term.

We have periodically transferred optical capacity assets on our network to other telecommunications service carriers. These transactions are structured as indefeasible rights of use, commonly referred to as IRUs, which are the exclusive right to use a specified amount of capacity or fiber for a specified term, typically 20 years. We account for the consideration received on transfers of optical capacity assets for cash and on all of the other elements deliverable under an IRU as revenue ratably over the term of the agreement. We do not recognize revenue on contemporaneous exchanges of our optical capacity assets for other optical capacity assets. See our accounting policy for contemporaneous transactions in our property, plant and equipment policy below.

Revenue related to equipment sales is recognized upon acceptance by the customer and when all the conditions for revenue recognition have been satisfied. Customer arrangements that include both equipment and services are evaluated to determine whether the elements are separable based on objective evidence. If the elements are separable and separate earnings processes exist, total consideration is allocated to each element based on the relative fair values of the separate elements and the revenue associated with each element is recognized as earned. If separate earnings processes do not exist, total consideration is deferred and recognized ratably over the longer of the contractual period or the expected customer relationship period.

Directory publishing accounting. Directory publishing revenue and costs are recognized ratably over the life of each directory, which is generally one year, commencing in the month of delivery. Such revenue and costs are included in our accompanying consolidated statements of operations as income from discontinued operations.

Advertising costs. Costs related to advertising are expensed as incurred. Advertising expense was $335 million, $344 million and $378 million for the years ended December 31, 2003, 2002 and 2001, respectively, and is included in selling, general and administrative on our consolidated statements of operations.

Legal costs. In our normal course of business, we incur costs to hire and retain external legal counsel to advise us on regulatory and litigation matters. We expense these costs as such services are received.

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. Investment tax credits are accounted for under the deferral method and are amortized as reductions in income tax expense over the lives of the assets which gave rise to the credits and are included in other long-term liabilities in our consolidated balance sheets. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement and tax basis of assets and

liabilities as well as for operating loss and tax credit carryforwards using enacted tax rates expected to apply in the year in which the differences are expected to affect taxable income. The effect on deferred income tax assets and liabilities of a change in tax rate is recognized in operations in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred income tax assets to the amounts expected to be recovered.

We use the deferral method of accounting for investment tax credits earned prior to the repeal of such credits in 1986. We also defer certain transitional investment tax credits earned after the repeal, as well as investment tax credits earned in certain states. We amortize these credits over the estimated service lives of the related assets as an increase to our income tax benefit in our consolidated statement of operations.

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. As a result, the carrying amount of cash and cash equivalents approximates fair value. To preserve capital and maintain liquidity, we invest with financial institutions we deem to be of sound financial condition and in high quality and relatively risk-free investment products. Our cash investment policy limits the concentration of investments with specific financial institutions or among certain products and includes criteria related to credit worthiness of any particular financial institution.

Allowance for doubtful accounts. The allowance for doubtful accounts receivable reflects our best estimate of probable losses inherent in our receivable portfolio determined on the basis of historical experience, specific allowances for known troubled accounts and other currently available evidence.

Inventories. Inventories, primarily wireless handsets and customer premises equipment ("CPE"), are carried at the lower of cost or market on a first-in, first-out basis. Market is determined based upon estimated replacement cost.

Assets held for sale and discontinued operations. Assets to be disposed of that meet all of the criteria to be classified as held for sale are reported at the lower of their carrying amounts or fair values less cost to sell. Assets are not depreciated while they are classified as held for sale. Assets held for sale that have operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of our assets are reported in discontinued operations when (a) it is determined that the operations and cash flows of the assets will be eliminated from our ongoing operations and (b) we will not have any significant continuing involvement in the operations of the assets after the disposal transaction.

Property, plant and equipment. Property, plant and equipment is carried at cost and, effective January 1, 2003, with our adoption of Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations", ("SFAS No. 143"), is adjusted for legal retirement obligations. Property, plant and equipment is depreciated using the straight-line group method. Under the straight-line group method, assets dedicated to providing regulated telecommunications services (which comprise the majority of our property, plant and equipment) that have similar physical characteristics, use and expected useful lives are categorized in the year acquired on the basis of equal life groups of similar assets for purposes of depreciation and tracking. Generally, under the straight-line 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. A gain or

loss is recognized in our consolidated statements of operations only if a disposal is abnormal; unusual; when a sale involves land; assets associated with the sale of customer contracts; or assets constructed or acquired for sale. Leasehold improvements are amortized over the shorter of the useful lives of the assets or the lease term. Expenditures for maintenance and repairs are expensed as incurred. Interest is capitalized during the construction phase of network and other internal-use capital projects. Employee-related costs directly related to construction of internal use assets are also capitalized during the construction phase. Property, plant and equipment supplies used internally are carried at average cost, except for significant individual items for which cost is based on specific identification.

We have periodically entered into agreements to acquire optical capacity assets from other telecommunications service carriers. These acquisitions of optical capacity assets expanded our fiber optic broadband network both domestically and internationally and enables us to provide broadband communications services to our customers. Several of these other carriers have also acquired optical capacity from us, principally in the United States of America. Optical capacity transactions in which we transfer capacity to and acquire capacity from the same third party at or about the same time are referred to as "contemporaneous transactions." We record the contemporaneous transactions as non-monetary exchanges of similar assets at book value, as these transactions do not represent the culmination of an earnings process. Contemporaneous transactions do not result in the recognition of revenue. Net cash or other monetary assets paid or received in contemporaneous transactions are recorded as an adjustment to the book value of the transferred property. The adjusted book value becomes the carrying value of the transferred property, plant and equipment.

Impairment of long-lived assets. We review long-lived assets, other than goodwill and other intangible assets with indefinite lives, for impairment whenever facts and circumstances indicate that the carrying amounts of the assets may not be recoverable. An impairment loss is recognized only if the carrying amount of the asset is not recoverable and exceeds its fair value. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to the estimated undiscounted future net cash flows expected to be generated by the asset. If the asset's carrying value is not recoverable, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds its fair value. We determine fair values by using a combination of comparable market values and discounted cash flows, as appropriate.

Prior to the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets", ("SFAS No. 142") and SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets", ("SFAS No. 144"), on January 1, 2002, we reviewed our long-lived assets, such as goodwill, intangibles and property, plant and equipment for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", ("SFAS No. 121"). Under SFAS No. 121, we reviewed our long-lived assets for impairment whenever events or changes in circumstances indicated that the carrying amount of an asset might not be recoverable. We evaluated the recoverability of our long-lived assets based on estimated undiscounted future cash flows and provided for impairment when such undiscounted cash flows were insufficient to recover the carrying amount of the long-lived asset.

Software capitalization. Internally used software, whether purchased or developed, is capitalized and amortized using the straight-line method over an estimated useful life of 18 months to five years. In accordance with American Institute of Certified Public Accountants Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use", we capitalize certain costs associated with internally developed software such as costs of employees

devoting time to the projects and external direct costs for materials and services. Costs associated with internally developed software to be used internally are expensed until the point at which the project has reached the development stage. Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred. The capitalization of software requires judgment in determining when a project has reached the development stage and the period over which we expect to benefit from the use of that software. Capitalized software development costs are included in intangible assets in our consolidated balance sheets.

Goodwill and other intangible assets. Intangible assets arising from business combinations, such as goodwill, customer lists, trademarks and trade names, are initially recorded at fair value. Other intangible assets not arising from business combinations, such as wireless spectrum licenses and capitalized software, are recorded at cost.

Intangible assets with finite lives are amortized on a straight-line basis over that life. Where there are no legal, regulatory, contractual or other factors that would reasonably limit the useful life of an intangible asset, we classify the intangible asset as indefinite lived and such intangible assets are not amortized. Prior to the adoption of SFAS No. 142, intangible assets were amortized on a straight-line basis over their estimated useful lives.

Impairment of goodwill and other indefinite-lived intangible assets. Goodwill and other long-lived intangible assets with indefinite lives, such as trademarks, trade names and wireless spectrum licenses are reviewed for impairment annually or whenever an event occurs or circumstances change that would more likely than not reduce fair value below carrying value. These assets are carried at historical cost if their estimated fair value is greater than their carrying amounts. However, if their estimated fair value is less than the carrying amount, goodwill and other indefinite lived intangible assets are reduced to their estimated fair value through an impairment charge to our consolidated statements of operations.

Investments. Investments where we exercise significant influence, but do not control the investee are accounted for under the equity method of accounting. Under the equity method, investments are recorded at initial cost and are adjusted for contributions, distributions and our share of the investee's income or losses as well as impairment write-downs for other-than-temporary declines in value.

Equity investments where we cannot exercise significant influence over the investee are carried at cost or, if the security is publicly traded, at fair-market value. For publicly traded securities, unrealized gains or losses, net of taxes, are included in other comprehensive income (loss) until realized upon sale or other disposition of the securities. Realized gains and losses on securities and other-than-temporary declines in value are determined on the specific identification method and are reclassified from other comprehensive income (loss) and included in the determination of net income (loss).

We review our equity investments on a quarterly basis to determine whether a decline in value on individual securities is other-than-temporary. Many factors are considered in assessing whether a decline in value is other-than-temporary, including, as may be appropriate: earnings trends and asset quality; near-term prospects and financial condition of the issuer; financial condition and prospects of the issuer's region and industry; the cause and severity of the decline in market price; analysts' recommendations and stock price projections; the length of time (generally six to nine months) that fair value has been less than the carrying value; stock-price volatility and near-term potential for recovery; and our intent and ability to retain the investment. If we conclude that a decline in value of an equity

investment is other-than-temporary, we record a charge to our consolidated statement of operations to reduce the carrying value of the security to its estimated fair value.

Marketable debt securities are classified as held-to-maturity as we have intent and ability to hold the securities to maturity. Held-to-maturity securities are carried at amortized cost, adjusted for amortization of premiums and accretion of discounts to maturity.

Derivative instruments. Effective January 1, 2001, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", ("SFAS No. 133"). SFAS No. 133 requires that all derivatives be measured at fair value and recognized as either assets or liabilities on our consolidated balance sheets. Changes in the fair values of derivative instruments that do not qualify as hedges and/or any ineffective portion of hedges are recognized as a gain or loss in our consolidated statement of operations in the current period. Changes in the fair values of derivative instruments used effectively as fair value hedges are recognized in earnings (losses), along with the change in the value of the hedged item. Changes in the fair value of the effective portions of cash flow hedges are reported in other comprehensive income (loss) and recognized in earnings (losses) when the hedged item is recognized in earnings (losses).

Restructuring and Merger-related charges. Periodically, we commit to exit certain business activities, eliminate administrative and network locations and/or reduce our number of employees. At the time a restructuring plan is approved, we record a charge to our consolidated statement of operations for our estimated costs associated with the plan. Charges associated with these exit or restructuring plans incorporate various estimates, including severance costs, sublease income and costs, disposal costs, length of time on market for abandoned rented facilities and contractual termination costs. We also record a charge when we permanently cease use of a leased location. Estimates of charges associated with abandoned operating leases, some of which entail long-term lease obligations, are based on existing market conditions and net amounts that we estimate we will pay in the future. In accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", ("SFAS No. 146") charges associated with abandoned operating leases recorded in 2003 were measured using the present value of the estimated net amounts we will pay and charges recorded in 2002 and 2001 were measured on an undiscounted basis. We utilize real estate brokers to assist in assessing market conditions and net amounts that we expect to pay.

Fair value of financial instruments. Our financial instruments consist of cash and cash equivalents, accounts receivable, investments, accounts payable and borrowings. The carrying values of cash and cash equivalents, accounts receivable, marketable debt securities, accounts payable and short-term borrowings approximate their fair values because of their short-term nature. Our equity investments are also recorded at their estimated fair market value. Our borrowings had a fair value of approximately $18.8 billion and $18.5 billion at December 31, 2003 and 2002, respectively. The fair values of our borrowings are based on quoted market prices where available or, if not available, based on discounted future cash flows using current market interest rates.

Stock-based compensation. Our stock option plans are accounted for using the intrinsic-value method allowed under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", ("APB No. 25") under which no compensation expense is recognized for our options granted to employees when the exercise price of those options equals or exceeds the value of the underlying security on the measurement date. Any excess of the stock price on the measurement date over the exercise price is recorded as deferred compensation and amortized over the service period

during which the stock option award vests using the accelerated method described in Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans", ("FIN No. 28").

Had compensation cost for our stock-based compensation plans been determined under the fair-value method in accordance with the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", ("SFAS No. 123"), our net loss and basic and diluted loss per share would have been changed to the pro forma amounts indicated below:

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in millions, except per share amounts)		
Net income (loss):			
As reported	$ 1,512	$ (38,468)	$ (5,603)
Add: Stock-based employee compensation expense included in net income (loss), net of related tax effects	6	71	21
Deduct: Total stock-based employee compensation expense determined under the fair-value-based method for all awards, net of related tax effects	(104)	(201)	(203)
Pro forma	$ 1,414	$ (38,598)	$ (5,785)
Earnings (loss) per share:			
As reported—basic and diluted	$ 0.87	$ (22.87)	$ (3.37)
Pro forma—basic and diluted	$ 0.81	$ (22.95)	$ (3.48)

The pro forma amounts reflected above may not be representative of the effects on our reported net income or loss in future years because the number of future shares to be issued under these plans is not known and the assumptions used to determine the fair value can vary significantly. See Note 12—Stock Incentive Plans for further information.

Recently Adopted Accounting Pronouncements and Cumulative Effects of Adoption

FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", was issued in November 2002. The interpretation provides guidance on the guarantor's accounting and disclosure of guarantees, including indirect guarantees of indebtedness of others. We adopted the disclosure requirements of FIN No. 45 as of December 31, 2002. The accounting guidelines are applicable to certain guarantees, excluding affiliate guarantees, issued or modified after December 31, 2002, and required that we record a liability for the fair value of such guarantees on our consolidated balance sheet. The adoption of this interpretation had no material effect on our consolidated financial statements.

On January 1, 2003, we adopted SFAS No. 143. This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs, generally referred to as asset retirement obligations. SFAS No. 143 requires entities to record the fair value of a legal liability for an asset retirement obligation. If a reasonable estimate of fair value can be made, the fair value of the liability will be recognized in the period it is incurred, or if not, in the period a reasonable estimate of fair value can be made. This cost is initially

capitalized and then amortized over the estimated remaining useful life of the asset. We have determined that we have legal asset retirement obligations associated with the removal of a limited group of long-lived assets and recorded a cumulative effect of a change in accounting principle charge upon adoption of SFAS No. 143 of $28 million (an asset retirement obligation of $43 million, net of an incremental adjustment to the historical cost of the underlying assets of $15 million) in 2003.

Prior to the adoption of SFAS No. 143, we included in our group depreciation rates estimated net removal costs (removal costs less salvage). These costs have historically been reflected in the calculation of depreciation expense and therefore recognized in accumulated depreciation. When the assets were actually retired and removal costs were expended, the net removal costs were recorded as a reduction to accumulated depreciation. While SFAS No. 143 requires the recognition of a liability for asset retirement obligations that are legally binding, it precludes the recognition of a liability for asset retirement obligations that are not legally binding. Therefore, upon adoption of SFAS No. 143, we reversed the net removal costs within accumulated depreciation for those fixed assets where the removal costs exceeded the estimated salvage value and we did not have a legal removal obligation. This resulted in income from the cumulative effect of a change in accounting principle of $365 million before taxes upon adoption of SFAS No.143. The net income impact of the adoption is $206 million ($365 million less the $28 million charge disclosed above, net of income taxes of $131 million) in 2003. Beginning January 1, 2003, the net costs of removal related to these assets are charged to our consolidated statement of operations in the period in which the costs are incurred.

In January and December 2003, the FASB issued and then revised FIN No. 46, "Consolidation of Variable Interest Entities" ("FIN No. 46"), which is effective immediately for all variable interest entities created after January 31, 2003. FIN No. 46 must be applied for the first fiscal year or interim period ending after March 15, 2004 for variable interest entities or the first quarter of 2004 for us. FIN No. 46 requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among the parties involved. A primary beneficiary absorbs the majority of the entity's losses or receives a majority of the entity's residual returns, if they occur, or both. Where it is reasonably possible that the information about our variable interest entity relationships must be disclosed or consolidated, we must disclose the nature, purpose, size and activity of the variable interest entity and the maximum exposure to loss as a result of our involvement with the variable interest entity in all financial statements issued after January 31, 2003. We believe that it is unlikely that the adoption of FIN No. 46 will require consolidation of any significant unconsolidated entities.

Note 3: Accounts Receivable

The following table presents details of our accounts receivable balances:

	December 31, 2003	December 31, 2002
	(Dollars in millions)	
Trade receivables	$ 1,485	$ 1,991
Earned and unbilled receivables	337	353
Purchased receivables	88	104
Other receivables	205	256
Total accounts receivables	2,115	2,704
Less: Allowance for bad debts	(280)	(360)
Accounts receivable, net	$ 1,835	$ 2,344

We are exposed to concentrations of credit risk from customers within our local service area and from other telecommunications service providers. We generally do not require collateral to secure our receivable balances. We have agreements with other telecommunications service providers whereby we agree to bill and collect on their behalf for services rendered by those providers to our customers within our local service area. We purchase accounts receivable from other telecommunications service providers on a non-recourse basis and include these amounts in our accounts receivable balance. We have not experienced any significant losses related to these purchased receivables.

Note 4: Property, Plant and Equipment

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

	Depreciable Lives	December 31, 2003	December 31, 2002
		(Dollars in millions)	
Land	N/A	$ 113	$ 116
Buildings	30-38 years	3,559	3,532
Communications equipment	2-25 years	18,913	18,947
Other network equipment	8-57 years	19,324	18,642
General purpose computers and other	3-11 years	2,942	3,008
Construction in progress	N/A	243	352
Total property, plant and equipment		45,094	44,597
Less: accumulated depreciation		(26,945)	(25,585)
Property, plant and equipment—net		$ 18,149	$ 19,012

A summary of asset impairments recognized is as follows:

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in millions)		
Property, plant and equipment and internal use software projects	$ 230	$ 10,493	$ 134
Real estate assets held for sale	—	28	—
Capitalized software due to restructuring and Merger activities (Note 5—Goodwill and Intangible Assets)	—	4	101
Other Merger-related	—	—	16
Total asset impairments	$ 230	$ 10,525	$ 251

2003 Activities

In August 2003, Qwest Wireless LLC ("Qwest Wireless") entered into a services agreement with a subsidiary of Sprint Corporation ("Sprint") that allows us to resell Sprint wireless services, including access to Sprint's nationwide personal communications service ("PCS") wireless network, to consumer and business customers, primarily within our local service area. We began offering these Sprint services under our brand name in March 2004. Under the services agreement, we retain control of all sales and marketing, customer service, billing and collection, pricing, promotion and product offerings relating to the Sprint services that we resell. The services agreement provides that Sprint will be our exclusive wireless provider and has an initial term of five years (with automatic renewal for successive one-year terms until either party provides notice of non-renewal). Through Qwest Wireless, we continue to operate a PCS wireless network that serves select markets within our local service area, including Denver, Seattle, Phoenix, Minneapolis, Portland, Salt Lake City and other smaller markets. Our wireless customers who are currently being serviced through our proprietary wireless network will be transitioned onto Sprint's network over time. Due to the anticipated decrease in usage of our own wireless network following the transition of our customers onto Sprint's network, in the third quarter of 2003 we performed an evaluation of the recoverability of the carrying value of our long-lived wireless network assets.

In accordance with SFAS No. 144, we compared gross undiscounted cash flow projections to the carrying value of the wireless network assets and determined that the carrying value of those assets were not expected to be recovered through future projected cash flows. We then estimated the fair value using recent selling prices for comparable assets and determined that our cell sites, switches, related tools and equipment inventory and certain capitalized software that support the wireless network were impaired by an aggregate amount of $230 million.

In accordance with SFAS No. 144, the fair value of the impaired assets becomes the new basis for accounting purposes. As such, approximately $25 million in accumulated depreciation was eliminated in connection with the accounting for the impairments. The impact of the impairments is expected to reduce our annual depreciation and amortization expense by approximately $40 million, beginning October 1, 2003.

2002 Activities

Effective June 30, 2002, a general deterioration of the telecommunications market, downward revisions to our expected future results of operations and other factors indicated that our investments

in long-lived assets may have been impaired at that date. We performed an evaluation of the recoverability of the carrying value of our long-lived assets using gross undiscounted cash flow projections. For impairment analysis purposes, we grouped our property, plant and equipment, capitalized software and customer lists and then projected cash flows as follows: traditional telephone network, national fiber optic broadband network, international fiber optic broadband network, wireless network, web hosting and application service provider ("ASP"), assets held for sale and out-of-region digital subscriber line ("DSL"). Based on the gross undiscounted cash flow projections, we determined that all of our asset groups, except our traditional telephone network, were impaired at June 30, 2002. For those asset groups that were impaired, we then estimated the fair value using a variety of techniques, which are presented in the table below. For those asset groups that were impaired, we determined that the fair values were less than our carrying amount by $10.613 billion in the aggregate of which $120 million has been reclassified to income from and gain on sale of discontinued operations for certain web hosting centers in our consolidated statements of operations for the year ending December 31, 2002.

Asset Group	Impairment Charge (Dollars in millions)	Fair Value Methodology
National fiber optic broadband network	$ 8,505	Discounted cash flows
International fiber optic broadband network	685	Comparable market data
Wireless network	825	Comparable market data and discounted cash flows
Web hosting and ASP assets	88	Comparable market data
Assets held for sale	348	Comparable market data
Out-of-region DSL	42	Discounted cash flows
Total impairment charges	$ 10,493	

Calculating the estimated fair value of the asset groups as listed above involved significant judgment and a variety of assumptions. For calculating fair value based on discounted cash flows, we forecasted future operating results and future cash flows, which included long-term forecasts of revenue growth, gross margins and capital expenditures. We also used a discount rate based on an estimate of the weighted-average cost of capital for the specific asset groups. Comparable market data was obtained by reviewing recent sales of similar asset types in third-party market transactions.

A brief description of the underlying business purpose of each of the asset groups that were impaired as a result of our analysis as of June 30, 2002 is as follows:

- Our national fiber optic broadband network provides long-distance voice services, data and Internet services and wholesale services to business, residential and wholesale customers outside of our local service area;
- Our international fiber optic broadband network ("International Network") provides the same services to the same types of customers, only outside of the United States;
- Our wireless network provides PCS in select markets in our local service area;

- Our web hosting and ASP assets provide business customers shared and dedicated hosting on our servers as well as application hosting services to help design and manage customers' websites and hosting applications;
- Assets held for sale primarily consist of excess network supplies; and
- Our out-of-region DSL assets provide DSL service to customers outside our local service area.

In accordance with SFAS No. 144, the fair value of the impaired assets becomes the new basis for accounting purposes. As such, approximately $1.9 billion in accumulated depreciation was eliminated in connection with the accounting for the impairments. The impact of the impairments reduced our annual depreciation and amortization expense by approximately $1.3 billion, beginning July 1, 2002.

In 2002, we recorded other asset impairment charges of $28 million associated with the write-down of other real estate assets that were held for sale.

2001 Activities

As part of our restructuring activities in 2001, we analyzed the feasibility of our web hosting centers and other internal use construction projects. As a result of this analysis, we decided to abandon certain web hosting centers and terminate certain projects that were no longer feasible. We recorded an asset impairment charge of $134 million related to the abandonment of web hosting centers and termination of certain internal use construction projects.

Subsequent to the Merger, we re-evaluated all of our assets for potential impairment and, in certain instances, we concluded that the fair value of some of our assets were below their carrying value. As a result, we recorded impairment charges in 2001 of $16 million, writing off the full carrying value of certain internal use construction projects and equipment.

Asset Retirement Obligations

As discussed in Note 2—Summary of Significant Accounting Policies, we adopted SFAS No. 143 on January 1, 2003.

Our asset retirement obligations primarily relate to the costs of removing circuit equipment and wireless towers from leased properties when the leases expire. The following table reconciles the change in asset retirement obligations during the year:

	Change in Asset Retirement Obligations	
	(Dollars in millions)	
Liability recognized upon adoption on January 1, 2003	$	43
Liability incurred		—
Liability settled		—
Accretion expense		6
Balance as of December 31, 2003	$	49

If the provisions of SFAS No. 143 had been adopted for the prior years presented, net loss would have increased by approximately $50 million and $45 million for the years ended December 31, 2002 and 2001, respectively, and loss per share would have increased by $0.03 and $0.03, respectively. The asset retirement obligation would have been approximately $37 million and $31 million at December 31, 2001 and December 31, 2000, respectively.

Note 5: Goodwill and Intangible Assets

The components of intangible assets are as follows:

		December 31,			
		2003		2002	
	Amortizable Lives	Carrying Cost	Accumulated Amortization	Carrying Cost	Accumulated Amortization
		(Dollars in millions)			
Intangibles with indefinite lives:					
Wireless spectrum licenses and other		$ 152	$ —	$ 146	$ —
Intangibles with finite lives:					
Capitalized software	1.5-5 years	2,351	(961)	2,032	(577)
Customer lists and other	5 years	35	(28)	33	(22)
Total intangibles with finite lives		2,386	(989)	2,065	(599)
Total intangible assets		$ 2,538	$ (989)	$ 2,211	$ (599)

We recorded amortization expense of $428 million in 2003 for intangibles assets with finite lives. Based on the current amount of intangible assets subject to amortization, the estimated amortization for each of the succeeding 5 years is as follows:

	Estimated Amortization Expense
	(Dollars in millions)
2004	$ 489
2005	394
2006	296
2007	162
2008	56
Total	$ 1,397

Adoption of SFAS No. 142

Effective January 1, 2002, we adopted SFAS No. 142, which requires companies to cease amortizing goodwill and intangible assets which have indefinite useful lives. SFAS No. 142 also requires that goodwill and indefinite-lived intangible assets be reviewed for impairment upon adoption and annually thereafter, or more often if events or circumstances warrant. Under SFAS No. 142, goodwill impairment may exist if the carrying value of the reporting unit to which it is allocated exceeds its estimated fair value.

We ceased amortizing our intangible assets with indefinite lives, including trademarks, trade names and wireless spectrum licenses on January 1, 2002. Upon adoption of SFAS No. 142, we reviewed the useful lives of our amortizable intangible assets, primarily capitalized software and customer lists, and determined that they remained appropriate.

In accordance with SFAS No. 142, we performed a transitional impairment test of goodwill and intangible assets with indefinite lives as of January 1, 2002. The first step of the transitional test of impairment was performed by comparing the fair value of our reporting units to the carrying values of the reporting units to which goodwill was assigned. Because we do not maintain balance sheets at the reporting unit level, we allocated all assets and liabilities to each of our reporting units based on various methodologies that included specific identification and allocations based primarily on revenue, voice grade equivalents (the amount of capacity required to carry one telephone call) and relative number of employees. Goodwill was allocated to reporting units based on the relative fair value of each reporting unit. We did not allocate any goodwill to our wireless and directory publishing reporting units because they were not expected to benefit significantly from the synergies of the Merger and are not considered sources of the goodwill which arose from the Merger.

Upon implementation of SFAS No. 142, we identified 13 reporting units. Goodwill was allocated to four of these reporting units on a relative fair value basis. Reporting units that were non-revenue producing or that were not expected to benefit significantly from the synergies of the Merger were not allocated goodwill. In addition, insignificant reporting units were not allocated goodwill. As discussed in Note 15—Segment Information, operating segments were changed in the fourth quarter of 2002 after goodwill had already been reduced to zero through the impairments discussed in the following paragraphs.

We estimated the implied fair value of goodwill for each reporting unit by subtracting the fair value of the reporting unit's assets, including any unrecognized intangibles, from the total fair value of the reporting unit. The excess was deemed the implied fair value of goodwill. The implied fair value of the goodwill was then compared to the carrying amount of goodwill for the reporting unit. Based on this analysis, we recorded a charge for the cumulative effect of adopting SFAS No. 142 of $22.8 billion on January 1, 2002. This charge related to the reporting units in the table below:

Reporting Unit	Impairment Charge
	(Dollars in millions)
Global	$ 5,151
National	2,147
Consumer	4,856
Wholesale	10,646
Total	$ 22,800

Due to changes in market conditions, downward revisions to our projections of future operating results and other factors, we preformed an impairment analysis as of June 30, 2002 and determined that goodwill was impaired. We recorded an impairment charge to write-off the remaining goodwill balance of $8.483 billion on June 30, 2002. We performed the annual impairment test for 2003 and no further impairment was indicated.

The following table adjusts loss from continuing operations, net loss and the related per share amounts in 2001 to exclude amortization, net of any related tax effects, of goodwill and indefinite lived intangible assets.

	Year Ended December 31, 2001
	(Dollars in millions, except per share amounts)

Reported loss from continuing operations	$	(6,117)
Amortization associated with goodwill		797
Amortization associated with excess basis in investment in KPNQwest		205
Amortization associated with trade name		9
Amortization associated with assembled workforce		20
Amortization associated with wireless spectrum licenses		1
Total amortization associated with intangible assets with indefinite lives		1,032
Adjusted loss from continuing operations	$	(5,085)
Reported net loss	$	(5,603)
Amortization associated with goodwill		797
Amortization associated with excess basis in investment in KPNQwest		205
Amortization associated with trade name		9
Amortization associated with assembled workforce		20
Amortization associated with wireless spectrum licenses		1
Total amortization associated with intangible assets with indefinite lives		1,032
Adjusted net loss	$	(4,571)
Basic and diluted loss per share:		
Reported loss per share from continuing operations	$	(3.68)
Amortization associated with goodwill		0.48
Amortization associated with excess basis in investment in KPNQwest		0.12
Amortization associated with trade name		0.01
Amortization associated with assembled workforce		0.01
Amortization associated with wireless spectrum licenses		—
Total amortization associated with intangible assets with indefinite lives		0.62
Adjusted loss per share from continuing operations	$	(3.06)
Reported net loss per share	$	(3.37)
Amortization associated with goodwill		0.48
Amortization associated with excess basis in investment in KPNQwest		0.12
Amortization associated with trade name		0.01
Amortization associated with assembled workforce		0.01
Amortization associated with wireless spectrum licenses		—
Total amortization associated with intangible assets with indefinite lives		0.62
Adjusted net loss per share	$	(2.75)

Intangible Asset Impairment

In June 2002, as discussed in Note 4—Property, Plant and Equipment, we recorded an asset impairment charge to property, plant and equipment of $10.493 billion which includes impairment to capitalized software development costs of $411 million and customer lists of $812 million. Also, in September 2003, as discussed in Note 4—Property, Plant and Equipment, we recorded an asset impairment charge to property, plant and equipment for $230 million which includes impairment to capitalized software development costs of $15 million.

We recorded asset impairment charges of $4 million and $101 million in 2002 and 2001, respectively, related to internal software projects that we terminated.

In 2002, realization of a $396 million tax benefit ($647 million on a pre-tax basis) became probable as a result of the completion of the first phase of the sale of our directory publishing business. The tax benefit existed at the time of the Merger, but was not recognized in the purchase because at that time it was not apparent that the temporary difference would be realized in the foreseeable future. In 2002, in accordance with SFAS No. 109, "Accounting for Income Taxes", ("SFAS No. 109"), we recorded the tax benefit, on a pre-tax basis, as a $555 million reduction to our trade name intangible asset and as a $92 million reduction to our customer lists intangible asset. The tax benefits were applied to these two non-current intangible assets because these assets were created in connection with the original purchase price allocation.

Note 6: Assets Held for Sale Including Discontinued Operations

The following table presents the summarized results of operations for each of the years in the three-year period ended December 31, 2003 related to our discontinued operations. These results primarily relate to our directory publishing business.

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in millions)		
Revenue	$ 648	$ 1,549	$ 1,621
Costs and expenses:			
Cost of sales	232	524	586
Selling, general and administrative	93	400	198
Depreciation and amortization	—	29	31
Income from operations	323	596	806
Gain on sale of directory publishing business	4,065	2,615	—
Other expense	(111)	(26)	(5)
Income before income taxes	4,277	3,185	801
Income tax provision	1,658	1,235	311
Income from and gain on sale of discontinued operations	$ 2,619	$ 1,950	$ 490

The following table presents the assets and liabilities associated with our discontinued operations, primarily our directory publishing business, as of December 31, 2003 and 2002:

December 31,

	2003	2002
	(Dollars in millions)	
Current assets held for sale	$ —	$ 239
Property, plant and equipment, net	—	58
Other assets	—	18
Total assets held for sale	$ —	$ 315
Current portion of liabilities associated with discontinued operations	$ —	$ 175
Other long-term liabilities	—	50
Total liabilities associated with discontinued operations	$ —	$ 225

Discontinued Directory Publishing Business

During the second quarter of 2002, we began actively pursuing the sale of our directory publishing business ("Dex"). On November 8, 2002, we completed the first stage of the sale of our directory publishing business to a new entity formed by the private equity firms of The Carlyle Group and Welsh, Carson, Anderson & Stowe (the "Dex Sale"). The sales price for the first stage of the Dex Sale, which involved the sale of Dex operations in the states of Colorado, Iowa, Minnesota, Nebraska, New Mexico, North Dakota and South Dakota ("Dex East") was $2.75 billion and was paid in cash. We recognized a gain of $1.6 billion (net of $1.0 billion in taxes) from the Dex East sale.

The sale of Dex in the remaining states of Arizona, Idaho, Montana, Oregon, Utah, Washington and Wyoming ("Dex West") was completed in September 2003. We received approximately $4.3 billion in gross cash proceeds and recognized a gain of $2.5 billion (net of $1.6 billion in taxes) from the Dex West sale.

Excess Network Supplies Held for Sale

We periodically review our network supplies against our usage requirements to identify potential excess supplies for disposal. During the second quarter of 2002, we identified $359 million of excess supplies and engaged a third-party broker to conduct a sale of those assets. An impairment charge of $348 million was recorded on June 30, 2002 to reduce the carrying amount of the supplies to their net estimated fair value. Fair value was based upon market values of similar equipment. The impairment charge of $348 million is included in asset impairment charges in our 2002 consolidated statement of operations.

Other Assets Held for Sale

Prior to and during 2000, U S WEST agreed to sell approximately 800,000 access lines to third-party telecommunications services providers, including approximately 570,000 access lines in nine states to Citizens Communications Company ("Citizens"). Because these access lines were "held for sale", U S WEST discontinued recognizing depreciation expense on the related assets and carried them at the

lower of their cost or fair value, less estimated cost to sell. These access lines are part of our wireline segment.

On July 20, 2001, we terminated the agreement with Citizens under which the majority of the remaining access lines in eight states were to have been sold and ceased actively marketing the remaining access lines. As a result, the remaining access lines and related assets were reclassified to "held for use" as of June 30, 2001. In connection with the change in use and this reclassification, the access lines and related assets were measured individually at the lower of their (a) carrying value before they were classified as held for sale, adjusted for any depreciation expense or impairment losses that would have been recognized had the assets been continuously classified as held for use, or (b) their fair value at June 30, 2001. This resulted in a charge to depreciation in 2001 of $222 million to "catch up" the depreciation on these access lines and related assets for the period they were classified as held for sale. The required adjustments to the carrying value of the individual access lines and related assets were included in our 2001 consolidated statement of operations.

In 2001, we sold approximately 41,000 access lines in Utah and Arizona resulting in $94 million in cash proceeds and a gain of $51 million.

Note 7: Investments

The following table summarizes the carrying value of our investments as of December 31, 2003 and 2002:

	December 31, 2003	December 31, 2002
	(Dollars in millions)	
Short-term publicly traded marketable debt securities	$ 174	$ —
Non-current investments:		
Publicly traded marketable debt securities	24	—
Publicly traded marketable equity securities	—	1
Investments in private companies	6	22
Total investments	$ 204	$ 23

Equity Method Investments

As discussed in Note 2—Summary of Significant Accounting Policies, investments where we exercise significant influence, but do not control the investee, are accounted for under the equity method of accounting. Under the equity method, investments are stated at initial cost and are adjusted for contributions, distributions, our share of the investee's income or losses as well as impairment write-downs for other-than-temporary declines in value. The following table summarizes the 2002 and 2001

changes in our investments that were accounted for using the equity method of accounting. At December 31, 2003, we did not have any significant equity method investments.

	KPNQwest	Qwest Digital Media	Total
	(Dollars in millions)		
Balance as of December 31, 2000	$ 7,803	$ 113	$ 7,916
Equity share of loss	(96)	(20)	(116)
Purchase price allocation adjustment	(3,180)	—	(3,180)
Impairment charges	(3,204)	(9)	(3,213)
Capital contributions	65	12	77
Forgiveness of promissory note	—	(85)	(85)
Amortization of excess basis	(205)	—	(205)
Currency translation	(33)	—	(33)

Balance as of December 31, 2001	1,150	11	1,161
Equity share of loss	(131)	(14)	(145)
Impairment charges	(1,059)	(2)	(1,061)
Capital contributions	—	5	5
Currency translation	40	—	40
Balance as of December 31, 2002	$ —	$ —	$ —

Investment in KPNQwest. In April 1999, pre-Merger Qwest and KPN Telecom B.V. ("KPN") formed a joint venture, KPNQwest N.V. ("KPNQwest"), to create a pan-European Internet Protocol-based fiber optic broadband network, linked to our North American network, for data and multimedia services. We and KPN each initially owned 50% of KPNQwest. In November 1999, KPNQwest consummated an initial public offering in which 50.6 million shares of common stock were issued to the public generating approximately $1.0 billion in proceeds. As a result of KPNQwest's initial public offering, the public owned approximately 11% of KPNQwest's shares and the remainder was owned equally by us and KPN. Originally, contractual provisions restricted our ability to sell or transfer any of our shares through 2004. In November 2001, we purchased approximately 14 million additional shares and Anschutz Company purchased approximately six million shares of KPNQwest common stock from KPN for $4.58 per share. Anschutz Company's stock purchase was at our request and with the approval of the disinterested members of our Board of Directors (the "Board"). After giving effect to this transaction, we held approximately 47.5% of KPNQwest's outstanding shares. Because we have never had the ability to designate a majority of the members of the supervisory board or to vote a majority of the voting securities, we have accounted for our investment in KPNQwest using the equity method of accounting.

In connection with the allocation of the Merger purchase price, we assigned a preliminary value of $7.935 billion to our investment in KPNQwest at June 30, 2000. Prior to the Merger, Qwest's investment in KPNQwest had a book value of $552 million. In accordance with APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock", the excess basis related to our investment in KPNQwest of $7.383 billion was attributed to goodwill. This goodwill was initially assigned an estimated life of 40 years and was being amortized ratably over that period. The final determination of the estimated fair value of our investment in KPNQwest was completed in June 2001. This final determination resulted in an estimated fair value of $4.755 billion, or $3.180 billion less than

our preliminary estimate of fair value. As a result, we recorded a $3.180 billion reduction to our investment in KPNQwest effective in the second quarter of 2001. Also at that time we changed the estimated life of the revised goodwill balance of $4.203 billion from 40 years to 10 years. Beginning January 1, 2002, in accordance with the adoption of SFAS No. 142, we ceased amortization of goodwill and other intangible assets with indefinite lives. In addition, as of December 31, 2002, all goodwill has been fully impaired. See discussion at Note 5—Goodwill and Intangible Assets.

Beginning in June 2001, we performed periodic evaluations of our investment in KPNQwest and concluded that there had been a decline in fair value that was other than temporary. Factors considered in reaching our conclusions that the decline was other -than -temporary included, among others, the following: a decline in the price of KPNQwest's publicly traded stock and the period of time over which such price had been below the carrying value of our investment; the change in analysts' expectations released during the second quarter of 2001 indicating significant declines from their first quarter expectations; and the severe deterioration of the European telecommunications sector that began during the second quarter of 2001, including a number of bankruptcies, making the near-term prospects of a recovery of KPNQwest's stock less certain beginning on June 30, 2001. As a result of those evaluations, we recorded an impairment loss of $3.048 billion in June 2001 to write down the carrying amount of our investment in KPNQwest.

After a similar evaluation in December 2001, we again concluded that a further other-than-temporary decline in value had occurred and recorded an additional impairment of $156 million, reducing the estimated fair value of our KPNQwest investment to $1.150 billion as of December 31, 2001.

In 2002, we recorded a further impairment to our investment for an other-than-temporary decline in value in the first quarter of 2002. In May 2002, KPNQwest filed for bankruptcy protection and ceased operations. Consequently, we did not expect to recover any of our investment in KPNQwest and in the second quarter of 2002, we wrote-off our remaining investment in KPNQwest to our consolidated statement of operations.

Investment in Qwest Digital Media, LLC. In October 1999, pre-Merger Qwest and Anschutz Digital Media, Inc. ("ADMI"), a subsidiary of Anschutz Company, formed a joint venture called Qwest Digital Media, LLC ("QDM"), which provided advanced digital production, post-production and transmission facilities; digital media storage and distribution services; and telephony-based data storage and enhanced access and routing services. Pre-Merger Qwest contributed capital of approximately $84.8 million in the form of a promissory note payable over nine years at an annual interest rate of 6%. At inception, pre-Merger Qwest and ADMI each owned 50% equity and voting interest in QDM. In June 2000, pre-Merger Qwest acquired an additional 25% interest in QDM directly from ADMI and paid $48.2 million for the interest; $4.8 million in cash at closing and the remaining $43.4 million in the form of a promissory note payable in December 2000, with an annual interest rate of 8%. As a result of this transaction, subsequent to the Merger, we owned a 75% economic interest and 50% voting interest in QDM, and ADMI owned the remaining 25% economic interest and 50% voting interest. We paid the note associated with this additional 25% interest in full, including approximately $1.8 million in accrued interest, in January 2001. Because we have never controlled QDM, we have accounted for our investment in QDM using the equity method of accounting for all periods presented.

Also in October 1999, pre-Merger Qwest entered into a long-term Master Services Agreement with QDM under which QDM agreed to purchase approximately $119 million of telecommunication services through October 2008 and we agreed to extend credit to QDM for the purpose of making payments to

us for the telecommunications services provided. Each October, QDM was required to pay an amount equal to the difference between certain specified annual commitment levels and the amount of services actually purchased under the Master Services Agreement at that time. In October 2001, we agreed to terminate the Master Services Agreement and release QDM from its obligation under such agreement to acquire telecommunications services from us. At the same time, QDM agreed to forgive the $84.8 million that we owed on the promissory note related to the original capital contribution from pre-Merger Qwest. Prior to the termination of the Master Services Agreement, we advanced QDM $3.8 million which was the amount owed to us under the agreement for accrued telecommunications services. QDM used that advance to pay us the amount owed, including interest on amounts past due. Concurrent with termination of the Master Services Agreement, QDM repaid us the $3.8 million advance under the Master Services Agreement with interest.

Marketable Securities

We have investments in publicly traded equity securities and private company equity securities, which are classified as "available-for-sale" under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115"). In accordance with SFAS No. 115, we are required to carry these investments at their fair value. Unrealized gains and losses on these securities are recorded in other comprehensive income (loss), net of related income tax effects, in the consolidated statement of stockholders' (deficit) equity.

We also had investments in publicly traded debt securities made during 2003 which are classified as "held-to-maturity." In accordance with SFAS No. 115, held-to-maturity securities are stated at amortized cost, adjusted for amortization of premiums and accretion of discounts to maturity.

In addition, we have investments in certain derivative instruments on marketable securities. As discussed in Note 2—Summary of Significant Accounting Policies, derivative financial instruments are measured at fair value and recognized as either assets or liabilities on our consolidated balance sheets. Changes in the fair values of derivative instruments that do not qualify as hedges and/or any portion of a hedge that is not effective as a hedge, are recognized as a gain or loss in the consolidated statement of operations in the current period.

The following table summarizes information related to our investments in marketable equity securities for the years ended December 31, 2003, 2002 and 2001.

	Publicly Traded	Private Company	Total
	(Dollars in millions)		
Balance as of December 31, 2000	$ 87	$ 144	$ 231
Additions	13	3	16
Dispositions	(21)	(3)	(24)
Unrealized mark-to-market gains	62	—	62
Unrealized mark-to-market losses	(29)	—	(29)
Other-than-temporary declines in value and mark-to-market adjustment of warrants	(69)	(115)	(184)
Balance as of December 31, 2001	43	29	72
Dispositions	(50)	—	(50)
Unrealized mark-to-market gains	41	—	41
Unrealized mark-to-market losses	(5)	—	(5)
Other-than-temporary declines in value and mark-to-market adjustment of warrants	(28)	(7)	(35)
Balance as of December 31, 2002	1	22	23
Additions	198	—	198
Unrealized mark-to-market gains	—	3	3
Other-than-temporary declines in value and mark-to-market adjustment of warrants	(1)	(19)	(20)
Balance as of December 31, 2003	$ 198	$ 6	$ 204

Investments in Publicly Traded Securities

As of December 31, 2003, our portfolio of publicly traded marketable securities consisted principally of U.S. Government Agency debt securities which had an amortized cost and a fair market value of approximately $198 million. In accordance with SFAS No. 115, we accrete the discount of these bonds and recognize interest income in our consolidated statement of operations. Bonds of $174 million are classified as short-term and are included in prepaids and other current assets and $24 million is included as non-current in other assets on our consolidated balance sheet as of December 31, 2003.

As of December 31, 2002 our portfolio of publicly traded marketable securities consisted principally of the warrants we held to purchase various public company equity securities. In accordance with SFAS No. 133 and SFAS No. 115, we mark the warrants to market and any changes in the fair value of these warrants are charged to the consolidated statement of operations. We recorded losses of $1 million, $20 million and $6 million, for the years ended December 31, 2003, 2002 and 2001, respectively, related to changes in the fair value of these warrants. We had no other significant derivative financial instruments as of December 31, 2003 or 2002.

We recorded charges related to other-than-temporary declines in value relating to our investments in publicly traded marketable securities during 2002 and 2001 totaling $8 million and $63 million, respectively. There were no charges recorded during 2003. During 2002 and 2001, we sold various holdings in our public and non-public investments for approximately $12 million and $2 million, respectively. We recorded a loss of $37 million in 2002 and a loss of $22 million in 2001 associated with these sales. We had no significant sales of investments in 2003.

Note 8: Borrowings

Current Borrowings

As of December 31, 2003 and 2002, our current borrowings consisted of:

	December 31,	
	2003	2002
	(Dollars in millions)	
Short-term notes	$ —	$ 750
Current portion of credit facility	—	750
Current portion of long-term borrowings	1,834	1,180
Current portion of capital lease obligations and other	35	92
Total current borrowings	$ 1,869	$ 2,772

In August 2002, Dex borrowed $750 million under a term loan agreement ("Dex Term Loan") due September 2004. Borrowings under the Dex Term Loan were completed in two tranches: Tranche A and Tranche B. As of December 31, 2002, Tranche A borrowings were $213 million and Tranche A bore interest at either (i) an adjusted London interbank offered rates ("LIBOR") plus 11.50% per annum, as calculated in accordance with the term loan agreement; or (ii) the base rate under the agreement plus 8.75% per annum. Tranche B borrowings were $537 million and bore a fixed interest rate of 14.0%. On August 12, 2003, the $750 million Dex Term Loan was paid in full. See Note 18—Subsequent Events—Debt-related matters, for a description of transactions affecting our current borrowings that occurred subsequent to December 31, 2003.

Long-term Borrowings

At December 31, 2003, $133 million of our long-term borrowings, including the current portion, were held at Qwest and the remainder was held in four of our wholly owned subsidiaries: Qwest Corporation ("QC"), Qwest Services Corporation ("QSC"), Qwest Communications Corporation ("QCC") and Qwest Capital Funding ("QCF"). See Note 18—Subsequent Events—Debt-related matters, for a description of transactions affecting our long-term borrowings that occurred subsequent to December 31, 2003.

As of December 31, 2003 and 2002, long-term borrowings consisted of the following (for all notes with unamortized discount or premium, the face amount of the notes and the unamortized discount or premium are presented separately):

	December 31,	
	2003	2002
	(Dollars in millions)	

Qwest Corporation:		
Notes with various rates ranging from 5.50% to 9.125% including LIBOR + 4.75% and maturities from 2004 to 2043	$ 7,887	$ 7,316
Unamortized discount and other	(157)	(142)
Capital lease obligations and other	25	97
Less: current portion	(881)	(1,255)
Qwest Services Corporation:		
Notes with various rates ranging from 13.00% to 14.00% and maturities from 2007 to 2014	3,377	3,298
Unamortized premium	174	70
Credit facility due 2005 with rate of LIBOR + 3.50%	750	2,000
Less: current portion	—	(750)
Qwest Communications Corporation:		
7.25% Senior Notes due in 2007	314	350
Unamortized discount and other	(7)	(7)
Capital lease obligations and other	40	50
Less: current portion	(2)	(6)
Qwest Capital Funding:		
Notes with various rates ranging from 5.875% to 7.90% and maturities from 2004 to 2031	4,952	7,665
Unamortized discount	(11)	(20)
Less: current portion	(963)	—
Qwest Communications International Inc.:		
7.50% Senior Notes due in 2008	62	750
7.25% Senior Notes due in 2008	8	300
Unamortized discount and other	(2)	(30)
Senior Notes with various rates ranging from 8.29% to 10.875% and maturities from 2007 to 2008	33	33
Note payable to ADMI (Note 16—Related Party Transactions)	30	35
Less: current portion	(4)	(1)
Other:		
Capital lease obligations	33	25
Less: current portion	(19)	(10)
Total—net long-term borrowings	$ 15,639	$ 19,768

Our long-term borrowings had the following interest rates and maturities at December 31, 2003:

Interest Rates	Maturities 2004	2005	2006	2007	2008	Thereafter	Total
	(Dollars in millions)						
Up to 5%	$ —	$ 750	$ —	$ —	$ —	$ —	$ 75C
Above 5% to 6%	1,084	46	6	77	328	—	1,541
Above 6% to 7%	—	595	—	1,340	171	2,872	4,978
Above 7% to 8%	750	—	485	314	71	3,364	4,984
Above 8% to 9%	—	—	—	—	22	250	272

Above 9% to 10%	—	—	—	11	—	1,500	1,511
Above 10%	—	—	—	504	—	2,873	3,377
Total	$ 1,834	$ 1,391	$ 491	$ 2,246	$ 592	$ 10,859	17,413
Capital leases and other							98
Unamortized discount and other							(3
Less current borrowings							(1,869
Total long-term debt							$ 15,639

QC Notes

At December 31, 2003 and 2002, QC had notes with aggregate principal amounts outstanding of $7.887 billion and $7.316 billion, excluding unamortized discounts of $157 million and $142 million, respectively, of unsecured notes at interest rates ranging from 5.50% to 9.125% including floating rate debt at LIBOR + 4.75% and with maturities from 2004 to 2043. The indentures governing these QC notes contain certain covenants including, but not limited to: (i) a prohibition on certain liens on the assets of QC and (ii) a limitation on mergers or sales of all, or substantially all, of the assets of QC, which limitation requires that a successor assume the obligation with regard to these notes. These indentures do not contain any cross-default provisions. We were in compliance with all of the covenants at December 31, 2003. Included in the amounts listed above are the following issuances:

On June 9, 2003, QC completed a senior term loan in two tranches for a total of $1.75 billion principal amount of indebtedness. The term loan consists of a $1.25 billion floating rate tranche, due in 2007, and a $500 million fixed rate tranche, due in 2010. The term loan is unsecured and ranks equally with all of QC's current indebtedness. The floating rate tranche cannot be prepaid for two years and thereafter is subject to prepayment premiums through 2006. There are no mandatory prepayment requirements. The covenant and default terms are substantially the same as those associated with QC's other long-term debt. The net proceeds were used to refinance approximately $1.1 billion of QC's debt due in 2003 and fund or refinance our investment in telecommunications assets. Also, in connection with this QC issuance, we reduced the QSC Credit Facility (as described below) by approximately $429 million to a balance of $1.57 billion.

The floating rate tranche bears interest at LIBOR plus 4.75% (with a minimum interest rate of 6.50%) and the fixed rate tranche bears interest at 6.95% per annum. The interest rate on the floating rate tranche was 6.50% at December 31, 2003. The lenders funded the entire principal amount of the loan subject to the original issue discount for the floating rate tranche of 1.00% and for the fixed rate tranche of 1.652%.

In March 2002, QC issued $1.5 billion in bonds with a ten-year maturity and an 8.875% interest rate. At December 31, 2003, the interest rate was 9.125%. Once we have registered the notes with the Securities and Exchange Commission, ("SEC"), the interest rate will return to 8.875%, the original stated rate.

QSC Notes

At December 31, 2003 and 2002, QSC had notes with aggregate principal amounts outstanding of $3.377 billion and $3.298 billion, consisting of 13.0% Notes due in 2007 ("2007 Notes"), 13.5% Notes due in 2010 ("2010 Notes") and 14.0% Notes due in 2014 ("2014 Notes") pursuant to an indenture issued on December 26, 2002. The total unamortized premium for these notes was $174 million and $70 million at December 31, 2003 and 2002, respectively. Since December 26, 2003, we have been incurring additional interest of 0.25% per annum on these notes. Once we register the notes with the SEC, the interest rates will return to the original stated rates. We will be required to pay an additional 0.25% per annum of interest starting March 25, 2004, for a total of 0.50% of additional interest, until the notes are registered. The 2007 Notes, 2010 Notes and 2014 Notes are callable on December 15 of 2005, 2006 and 2007 at 106.5%, 106.75% and 107%, respectively. The QSC notes are subordinated in right of payment to all senior debt of QSC, including the 2004 QSC Credit Facility, and the QSC guarantee of the 2009, 2011 and 2014 Qwest notes. The QSC notes are secured by a lien on the stock of QC, which lien is junior to the liens on such collateral securing QSC's senior debt, including the 2004 QSC Credit Facility and QSC's guarantee of the 2009, 2011 and 2014 Qwest notes (See Note 18—Subsequent Events, Debt-related matters, for a discussion of new debt issued in 2004). The QSC notes are guaranteed by QCF and Qwest on a senior basis and the guarantee by Qwest is secured by liens on the stock of QSC and QCF.

The QSC indenture contains certain covenants including, but not limited to: (i) limitations on incurrence of indebtedness; (ii) limitations on restricted payments; (iii) limitations on dividends and other payment restrictions; (iv) limitations on asset sales; (v) limitations on transactions with affiliates; (vi) limitations on liens; and (vii) limitations on business activities. Under the QSC indenture we must repurchase the notes upon certain changes of control. This indenture also contains provisions for cross acceleration relating to any of our other debt obligations and the debt obligations of our restricted subsidiaries in the aggregate in excess of $100 million. We were in compliance with all of the covenants as of December 31, 2003.

On December 22, 2003, we completed a cash tender offer (the "December 2003 Tender Offer") for the purchase of approximately $3 billion aggregate face amount of outstanding debt of Qwest, QSC and QCF for approximately $3 billion in cash. As a result, we recorded a loss of $15 million on the early retirement of this debt. In connection with the December 2003 Tender Offer, QSC purchased $327 million face amount of its debt for $386 million in cash resulting in a loss of $42 million. QSC also offered to purchase its notes for par under the asset sale repurchase requirement as required by the indentures governing the QSC notes. The details relating to Qwest's and QCF's portion of the December 2003 Tender Offer are discussed below in their respective sections.

During 2003, we also exchanged $406 million of new QSC notes for $560 million face amount of QCF notes. These debt-for-debt exchanges were accounted for in accordance with the guidance in Emerging Issues Task Force Issue No. 96-19, "Debtors Accounting for a Modification or Exchange of Debt Instruments", ("EITF Issue No. 96-19"). On the date of the exchanges, the present value of the cash flows under the terms of the revised debt instruments were compared to the present value of the

remaining cash flows under the original debt instruments. The cash flows were not considered "substantially" different to that of the exchanged debt; therefore, no gain was recognized on the exchanges and the difference of $144 million between the face amount of the new debt and the carrying amount of the exchanged debt is being amortized as a credit to interest expense using the effective interest rate method over the life of the new debt. The new QSC notes have interest rates ranging from 13.0% to 13.5% with maturities of 2007 and 2010, while the QCF notes had interest rates ranging from 6.875% to 7.90%.

QSC Credit Facility

Until February 2002, we maintained commercial paper programs to finance the short-term operating cash needs of our business. We had a $4.0 billion syndicated credit facility available to support our commercial paper programs. As a result of reduced demand for our commercial paper, in February 2002 we borrowed the full amount under this credit facility and used the proceeds to repay $3.2 billion or all of the commercial paper outstanding and terminated our commercial paper program. The remainder of the proceeds was used to pay maturities and capital lease obligations and to fund operations.

At December 31, 2003 and 2002, we had $750 million and $2.0 billion, respectively, outstanding under the credit facility, which had been reconstituted as a revolving credit facility in August 2002, with QSC as the primary borrower ("QSC Credit Facility"). The QSC Credit Facility was secured by a senior lien on the stock of QC. The QSC Credit Facility was paid down by $429 million concurrently with QC's $1.75 billion term loan completed in June 2003. Proceeds from the completed sale of the Dex West business during September 2003 were used to reduce the QSC Credit Facility by another $321 million. In December 2003, the QSC Credit facility was reduced by an additional $500 million. At December 31, 2003, the QSC Credit Facility bore interest of 4.65%. We obtained extensions under the QSC Credit Facility for the delivery of certain annual and quarterly financial information. The waivers extended the compliance date to provide certain annual and quarterly financial information to March 31, 2004. On February 5, 2004, the QSC Credit Facility was paid off and terminated (See Note 18—Subsequent Events, Debt related matters, for a discussion of the payoff of the QSC Credit Facility).

QCC Notes

At December 31, 2003 and 2002, QCC had notes with aggregate principal amounts outstanding of $314 million and $350 million, respectively, excluding unamortized discount of $7 million, in each year, of unsecured 7.25% Senior Notes, due 2007. During 2003, $36 million of these notes were exchanged for $33 million of cash resulting in a gain of $3 million.

The indenture governing these notes contains certain covenants including, but not limited to: (i) a prohibition on certain liens on assets of QCC and (ii) a limitation on mergers or sales of all, or substantially all, of the assets of QCC, which requires that a successor assume the obligation with regard to these notes. This indenture contains provisions relating to acceleration upon an acceleration of any other debt obligations of QCC in the aggregate in excess of $25 million. We were in compliance with all of the covenants as of December 31, 2003.

QCF Notes

At December 31, 2003 and 2002, QCF had notes with aggregate principal amounts outstanding of $4.952 billion and $7.665 billion, excluding unamortized discounts of $11 million and $20 million, respectively, of unsecured notes at rates ranging from 5.875% to 7.9% and with maturities from 2004 to 2031. The QCF notes are guaranteed by Qwest on a senior unsecured basis. The indentures governing these QCF notes contain certain covenants including, but not limited to: (i) a prohibition on certain liens on the assets of QCF and (ii) a limitation on mergers or sales of all, or substantially all, of the assets of QCF or us, which limitation requires that a successor assume the obligation with regard to these notes. These indentures do not contain any cross-default provisions. We were in compliance with all of the covenants as of December 31, 2003.

In connection with the December 2003 Tender Offer, QCF purchased $1.735 billion face amount of its debt for $1.637 billion in cash resulting in a gain of $79 million.

During 2003, we also exchanged $418 million face amount of existing QCF notes for $165 million of cash and 52.5 million shares of our common stock with an aggregate value of $202 million. The trading prices for our shares at the time the exchange transactions were consummated ranged from $3.22 per share to $5.11 per share. As a result, a gain of $50 million was recorded on this debt extinguishment. We also exchanged $406 million of new QSC notes for $560 million face amount of QCF notes. See the QSC section above for a discussion of this debt for debt exchange.

On December 26, 2002, we completed an offer to exchange up to $12.9 billion in aggregate face amount of outstanding unsecured debt securities of QCF for new unsecured debt securities of QSC and Qwest. (Because of the amount tendered no Qwest notes were required to be issued.) We received valid tender offers of approximately $5.2 billion in total principal amount of the QCF notes and issued in exchange $3.3 billion in face amount of new debt securities of QSC under the indenture described above. This transaction was accounted for in accordance with the guidance in EITF Issue No. 96-19. On December 26, 2002, the present value of the cash flows under the terms of the revised debt instruments were compared to the present value of the remaining cash flows under the original debt instruments. The cash flows for nine of the new debt securities were considered "substantially" different to that of the exchanged debt securities. Accordingly, these debt exchanges were accounted for as debt extinguishments resulting in the recognition of a $1.8 billion gain in 2002. The cash flows for two of the new debt securities were not considered "substantially" different to that of the exchanged debt and therefore no gain was realized upon exchange. For these two debt instruments, the difference between the fair value of the new debt and the carrying amount of the exchanged debt of approximately $70 million is being amortized as a credit to interest expense using the effective interest method over the life of the new debt.

During the first quarter of 2002, we exchanged $97 million in face amount of debt that was issued by QCF. In exchange for the debt, we issued approximately 9.88 million shares of our common stock with a fair value of $87 million. The trading prices for our shares at the time the exchange transactions were consummated ranged from $8.29 per share to $9.18 per share. As a result, a gain of $9 million was recorded on this extinguishment of debt.

Qwest 2008 Notes

At December 31, 2003 and 2002, we had notes with aggregate principal amounts outstanding of $70 million and $1.05 billion, respectively, of senior notes due in 2008, excluding unamortized discount

of $2 million and $30 million, respectively. At December 31, 2002, these notes consisted of $750 million issued with an interest rate of 7.50% and $300 million issued with an interest rate of 7.25%. As of December 26, 2002, these senior notes have been secured equally and ratably with the QSC notes discussed above by a lien on the stock of QSC and QCF. These notes are also guaranteed on a senior basis by QCF and QSC and the QSC guarantee is secured by a junior lien on the stock of QC. In connection with the December 2003 Tender Offer, we purchased $981 million face amount of our 2008 notes for $1.006 billion in cash resulting in a loss of $52 million and amended the indentures governing the notes that remain outstanding to eliminate restrictive covenants and certain default provisions. At the same time, Qwest also offered to purchase these notes for par under the asset sale repurchase requirement as required by the indentures governing these notes and accepted $32 million that was tendered under this offer, which is included in the purchase and loss amounts above.

Other Qwest Notes

At December 31, 2003 and 2002 we had notes with aggregate principal amounts of other notes outstanding of $33 million, consisting of 8.29% Senior Notes due in 2008, 9.47% Senior Notes due in 2007 and 10.875% Senior Notes due in 2007. In March 2001, we completed a cash tender offer to buy back some of these notes. In this tender offer, we purchased $995 million in principal of the outstanding notes in exchange for $1.1 billion in cash, resulting in a loss of $106 million. In connection with this tender offer, the remaining outstanding indentures governing the notes were amended to eliminate restrictive covenants and certain default provisions.

Interest

The following table presents the amount of gross interest expense, capitalized interest and cash paid for interest during 2003, 2002 and 2001:

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in millions)		
Gross interest expense	$ 1,776	$ 1,830	$ 1,624
Capitalized interest	(19)	(41)	(187)
Net interest expense	$ 1,757	$ 1,789	$ 1,437
Cash interest paid	$ 1,839	$ 1,829	$ 1,260

Note 9: Restructuring and Merger-related Charges

The restructuring reserve balances discussed below are included in our consolidated balance sheets in the category of accrued expenses and other current liabilities for the current portion and other long-term liabilities for the long-term portion. As of December 31, 2003 and 2002, the amounts included as current liabilities are $147 million and $127 million and the long-term portions are $377 million and $420 million, respectively.

2003 Activities

During the year ended December 31, 2003, as part of an ongoing effort of evaluating costs of operations, we reviewed employee levels in certain areas of our business. As a result, we established a

reserve and recorded a charge to our 2003 consolidated statement of operations for $131 million to cover the costs associated with these actions, as more fully described below.

An analysis of activity associated with the 2003 restructuring reserve, as well as prior period restructuring and Merger reserves, is as follows:

	January 1, 2003 Balance	Year Ended December 31, 2003 Provisions	Utilization	Reversals	December 31, 2003 Balance
	(Dollars in millions)				
2003 restructuring plan	$ —	$ 131	$ 14	$ —	$ 117
2002 restructuring plan	164	—	62	6	96
2001 restructuring plan	361	—	38	12	311
Merger-related	22	—	22	—	—
Total	$ 547	$ 131	$ 136	$ 18	$ 524

The 2003 restructuring reserve included charges of $107 million for severance benefits pursuant to established severance policies and $24 million for real estate exit obligations, which primarily include estimated future net payments on abandoned operating leases. We identified approximately 2,300 employees from various functional areas to be terminated as part of this restructuring. Through December 31, 2003, approximately 1,600 of the planned reductions had been completed. The remaining 700 reductions are expected to occur over the next year, with severance payments generally extending from two to 12 months. The real estate exit costs include the net present value of rental payments due over the remaining term of the leases, net of estimated sublease rentals and estimated costs to terminate the leases. Through December 31, 2003 we had utilized $12 million of the 2003 restructuring reserves for severance payments and $2 million for real estate exit costs.

SFAS No. 146 establishes standards for reporting information about restructuring activities. Effective for exit or disposal activities initiated after December 31, 2002, SFAS No. 146 requires disclosure of the total amount of costs expected to be incurred in connection with these activities for each reportable segment. The 2003 restructuring provisions for our wireline, wireless and other segments are $87 million, $0 million and $44 million, respectively.

During the year ended December 31, 2003, we utilized $43 million of the 2002 restructuring plan (as described below) reserves for employee severance payments and $19 million for real estate exit-related payments. We had identified 4,500 employees to be terminated as part of the 2002 restructuring plan and as of December 31, 2003, these employee reductions were complete. As the 2002 plan was complete and actual costs were less than originally estimated, we reversed $6 million of the restructuring reserve during the year ended December 31, 2003. This reversal included $4 million of severance reserves and $2 million of real estate exit reserves. The remaining restructuring reserve for the 2002 restructuring plan includes $7 million for severance payments, which we expect to utilize during 2004, and $89 million for real estate exit costs. The real estate exit costs are to be utilized over the next several years.

During the year ended December 31, 2003, we utilized $38 million of the 2001 restructuring plan reserves. This utilization includes $4 million for severance-related costs and $34 million for real estate exit costs. As the employee severance-related activities related to the 2001 restructuring plan were complete and as actual costs were less than originally estimated, the remaining severance-related reserve of $11 million as well as $1 million of over-accrued real estate exit-related reserves were reversed during the year ended December 31, 2003. The remaining restructuring reserve for 2001 of $311 million represents remaining real estate exit obligations, which will be utilized over the next several years.

During the year ended December 31, 2003, we utilized the remaining Merger-related reserve established during 2000.

2002 Activities

During the year ended December 31, 2002, in response to shortfalls in employee reductions as part of the 2001 restructuring plan (as discussed below) and due to continued declines in our revenue and general economic conditions, we identified employee reductions in various functional areas and permanently exited a number of operating and administrative facilities. In connection with that restructuring, we established a restructuring reserve and recorded a charge of $299 million to our 2002 consolidated statement of operations to cover the costs associated with these actions, as more fully described below.

	January 1, 2002	Year Ended December 31, 2002			December 31, 2002
	Balance	Provisions	Utilization	Reversals	Balance
	(Dollars in millions)				
2002 restructuring plan	$ —	$ 299	$ 135	$ —	$ 164
2001 restructuring plan	790	71	365	135	361
Merger-related	111	—	36	53	22
Total	$ 901	$ 370	$ 536	$ 188	$ 547

The 2002 restructuring reserve included $179 million related to severance and $120 million for real estate exit costs. During the year ended December 31, 2002, $123 million of the reserve was utilized for severance benefits and $12 million was utilized for real estate exit costs. Relative to our 2001 plan, $172 million of the reserve was utilized for severance payments and $193 million was utilized for real estate exit costs. Also, during the year ended December 31, 2002, we accrued an additional $71 million for additional 2001 restructuring plan real estate exit costs and reversed $135 million of the 2001 restructuring plan reserves. The 2001 restructuring plan reversal was comprised of $113 million of severance costs and $22 million of over accrued real estate exit costs. The 2001 plan included 10,000 anticipated terminations and as of December 31, 2002, we had terminated 7,000 employees.

During the year ended December 31, 2002, we utilized $36 million of Merger-related reserves established during 2000, primarily for contractual and legal settlements and reversed $53 million of the Merger-related reserves as the employee reductions and contractual settlements were complete. The remaining Merger-related reserve represents contractual obligations paid in 2003.

2001 Activities

During the year ended December 31, 2001, we established a reserve and charged to our consolidated statement of operations $825 million for restructuring activities in conjunction with our 2001 restructuring plan. This reserve was comprised of $332 million for severance-related costs and $493 million for real estate exit costs. This reserve was partially offset by a reversal of $9 million of other restructure-related real estate exit costs. During the year ended December 31, 2001, in relation to the Merger as earlier described, we charged to our consolidated statement of operations $321 million, which is comprised of $115 million for additional contractual settlement, legal contingency and other related costs, $132 million for additional severance charges and $74 million for other Merger-related costs, net of reserve reversals. The additional provisions and reversals of Merger-related costs were due to additional Merger-related activities and modifications to previously accrued Merger-related activities.

The following table outlines our cumulative utilization of the 2003, 2002 and 2001 restructuring and Merger-related plans through December 31, 2003.

	December 31, 2003— Cumulative Utilization		
	Severance and Related	Real Estate Exit and Related	Total
	(Dollars in millions)		
2003 restructuring plan	$ 12	$ 2	$ 14
2002 restructuring plan	166	31	197
2001 restructuring plan	208	230	438
Merger-related	736	1,013	1,749
Total cumulative utilization	$ 1,122	$ 1,276	$ 2,398

Note 10: Other Financial Information

Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

	December 31,	
	2003	2002
	(Dollars in millions)	
Accrued interest	$ 285	$ 402
Employee compensation	543	333
Accrued property and other taxes	392	456
Accrued facilities costs	358	199
Current portion of state regulatory and legal liabilities	196	182
Restructuring and Merger-related reserves	147	127
Other	345	492
Total accrued expenses and other current liabilities	$ 2,266	$ 2,191

Other Long-Term Liabilities

Other long-term liabilities include a deferred credit associated with our November 12, 2003 settlement of the disputes with certain of our insurance carriers related to, among other things, the investigations and securities and derivative actions described in Note 17—Commitments and Contingencies. The settlement involved, among other things, an additional payment by us of $157.5 million, and in return, the insurance carriers paid $350 million into trust. Of the $350 million, $150 million in cash is available for our benefit and has been used in large part to reimburse defense costs incurred by us in connection with these matters. Another $143 million in cash and $57 million in irrevocable letters of credit, totaling $200 million, is set aside to cover losses we may incur and the

losses of current and former directors and officers and others who have released the insurance carriers in connection with the settlement. The use and allocation of these proceeds has yet to be resolved between us and individual insureds. We consolidated the trust assets and related deferred credit into our consolidated balance sheet as of December 31, 2003. We have also recorded a reserve in our consolidated financial statements for the estimated minimum liability associated with certain of these matters. We have classified the assets, deferred credit and loss reserve as non-current.

Other long-term liabilities also includes $221 million related to the termination of our Calpoint LLC ("Calpoint") services agreement. We entered into a services agreement with Calpoint in 2001. In connection with this arrangement, we also agreed to pay monthly services fees directly to the trustee that serves as a paying agent on debt instruments issued by special purpose entities sponsored by Calpoint. This unconditional purchase obligation required us to pay at least 75% of the monthly service fees for the entire term of the agreement, regardless of whether Calpoint provided us service. In September 2003, we terminated our services arrangement with Calpoint. We paid to terminate the services agreement, but will continue to make payments to a trustee related to the unconditional purchase obligation. As a result of this transaction, in September 2003, we recorded a liability of $346 million for the net present value of the remaining obligation which will be paid through 2006. Our total remaining liability related to the Calpoint transaction is $322 million as of December 31, 2003.

Note 11: Employee Benefits

Pension, Post-retirement and Other Post-employment Benefits

We have a noncontributory defined benefit pension plan (the "Pension Plan") for substantially all management and occupational (union) employees. In addition to this qualified Pension Plan we also operate a non-qualified pension plan for certain highly compensated employees and executives (the "Non-Qualified Pension Plan"). We maintain post-retirement healthcare and life insurance plans that provide medical, dental, vision and life insurance benefits for certain retirees. We also provide post-employment benefits for certain other former employees. As of December 31, 2003 and 2002, shares of our common stock and ownership of our debt accounted for less than 0.5% of the assets held in the pension plans and post-retirement benefit plans.

Management employees who retain the retiree medical and life benefits and retire after September 6, 2000 will begin paying contributions toward retiree medical and life benefits in 2004. The current collective bargaining agreement for our occupational (union) employees provides that those who retire after December 31, 1990 will begin paying contributions toward retiree medical benefits once they exceed our healthcare cost caps, but no sooner than January 2006.

We modified the Pension Plan benefits, effective January 1, 2001, for all former U S WEST management employees who did not have 20 years of service by December 31, 2000 or who would not be service pension eligible by December 31, 2003. For employees who did not meet these criteria (the "unprotected group"), no additional years of service will be credited under the defined lump sum formula for years worked after December 31, 2000. These employees' pension benefits will only be adjusted for changes in the employees' future compensation levels. Future benefits for the unprotected group are based on 3% of pay while actively employed plus a return as defined in the Pension Plan. The minimum return an employee can earn on their account in a given year is based upon the Treasury Rate and the employee's account balance at the beginning of the year. All management employees, other than those who remain eligible under the previous formulas, will be eligible to participate in the 3%-of-pay plan.

Effective August 11, 2000, the Pension Plan was amended to provide additional pension benefits to certain plan participants who were involuntarily separated from us between August 11, 2000 and June 30, 2001. The Pension Plan was subsequently amended to provide termination benefits through June 30, 2003. The amount of the benefit is based on pay and years of service. For 2003, 2002 and 2001, the amounts of additional termination benefits paid were $73 million, $226 million and $154 million, respectively. In addition, special termination benefits of $0 million, $3 million and $6 million were paid from the Non-Qualified Pension Plan to certain executives during 2003, 2002 and 2001, respectively.

Pension and post-retirement health care and life insurance benefits earned by employees during the year, as well as interest on projected benefit obligations, are accrued currently. Prior service costs and credits resulting from changes in plan benefits are amortized over the average remaining service period of the employees expected to receive benefits. Pension and post-retirement costs are recognized over the period in which the employee renders services and becomes eligible to receive benefits as determined using the projected unit credit method.

Our funding policy is to make contributions with the objective of accumulating sufficient assets to pay all qualified pension benefits when due. No pension funding was required in 2003 or 2002 and as of December 31, 2003 and 2002, the fair value of the assets in the qualified pension trust exceeded the accumulated benefit obligation of the qualified Pension Plan. During 2003, we made contributions of $8 million to the post-retirement healthcare plan; however, we did not contribute to the post-retirement healthcare or life insurance plans in 2002. We expect to contribute approximately $13 million to the post-retirement healthcare plan during 2004.

The components of the net pension credit, non-qualified pension benefit cost and post-retirement benefit cost are as follows:

	Pension Cost (Credit) Years Ended December 31,			Non-Qualified Pension Cost Years Ended December 31,			Post-retirement Benefit Cost Years Ended December 31,		
	2003	2002	2001	2003	2002	2001	2003	2002	2001
	(Dollars in millions)								
Service Cost	$ 170	$ 154	$ 187	$ 4	$ 3	$ 2	$ 23	$ 27	$ 29
Interest Cost	601	601	686	3	5	5	389	328	307
Expected return on plan assets	(858)	(925)	(1,101)	—	—	—	(135)	(191)	(224)
Amortization of transition asset	(71)	(76)	(79)	2	2	2	—	—	—
Amortization of prior service cost	—	—	—	—	—	—	(20)	(20)	(20)
Plan settlement	—	11	—	—	2	6	—	—	—
Special termination benefits	—	—	—	—	3	6	—	—	—
Recognized net actuarial (gain) loss	—	—	(53)	—	2	1	101	(23)	(91)
Net (credit) cost included in current earnings (loss)	$ (158)	$ (235)	$ (360)	$ 9	$ 17	$ 22	$ 358	$ 121	$ 1

The net pension cost (credit) is allocated between cost of sales and selling, general and administrative expense in the consolidated statements of operations.

The measurement dates used to determine pension and other postretirement benefit measurements for the plans are December 31, 2003, 2002 and 2001. The actuarial assumptions used to compute the

net pension cost (credit), non-qualified pension benefit cost and post-retirement benefit cost are based upon information available as of the beginning of the year, as presented in the following table.

	Pension Cost (Credit)			Non-Qualified Pension Cost			Post-retirement Benefit Cost		
	2003	2002	2001	2003	2002	2001	2003	2002	2001
Beginning of the year:									
Discount rate	6.75%	7.25%	7.75%	6.75%	7.25%	7.75%	6.75%	7.25%	7.75%

Rate of compensation increase	4.65%	4.65%	4.65%	4.65%	4.65%	4.65%	N/A	N/A	N/A
Expected long-term rate of return on plan assets	9.00%	9.40%	9.40%	N/A	N/A	N/A	9.00%	9.40%	9.40%
Initial healthcare cost trend rate	N/A	N/A	N/A	N/A	N/A	N/A	10.00%	8.25%	8.25%
Ultimate healthcare cost trend rate	N/A	N/A	N/A	N/A	N/A	N/A	5.00%	5.00%	5.00%
Year ultimate trend rate is reached	N/A	N/A	N/A	N/A	N/A	N/A	2013	2007	2007

N/A—not applicable

Following is an analysis of the change in the projected benefit obligation for the pension, non-qualified pension plans and post-retirement benefit plan obligation for the years ended December 31, 2003 and 2002:

	Pension Plan Years Ended December 31,		Non-Qualified Pension Plan Years Ended December 31,		Post-retirement Benefit Plan Years Ended December 31,	
	2003	2002	2003	2002	2003	2002
	(Dollars in millions)					
Benefit obligation accrued at beginning of year	$ 8,741	$ 9,625	$ 71	$ 70	$ 5,708	$ 4,700
Service cost	170	154	4	3	23	27
Interest cost	601	601	3	5	389	328
Actuarial loss (gain)	513	(164)	(18)	3	378	1,012
Plan amendments	(40)	—	—	—	(15)	—
Special termination benefits	73	226	—	3	—	—
Plan settlements	8	—	—	—	—	—
Business divestitures	(91)	(88)	—	—	(24)	(27)
Benefits paid	(1,015)	(1,613)	(12)	(13)	(383)	(332)
Benefit obligation accrued at end of year	$ 8,960	$ 8,741	$ 48	$ 71	$ 6,076	$ 5,708
Accumulated benefit obligation	$ 8,470	$ 8,129	$ 41	$ 41	$ 6,076	$ 5,708

The actuarial assumptions used to compute the funded (unfunded) status for the plans are based upon information available as of the end of the respective year and are as follows:

	Pension Plan		Non-Qualified Pension Plan		Post-retirement Benefit Plan	
	2003	2002	2003	2002	2003	2002
End of the year:						
Discount rate	6.25%	6.75%	6.25%	6.75%	6.25%	6.75%
Rate of compensation increase	4.65%	4.65%	4.65%	4.65%	N/A	N/A
Initial healthcare cost trend rate	N/A	N/A	N/A	N/A	10.00%	10.00%
Ultimate healthcare cost trend rate	N/A	N/A	N/A	N/A	5.00%	5.00%
Year ultimate trend rate is reached	N/A	N/A	N/A	N/A	2014	2013

N/A—not applicable

Following is an analysis of the change in the fair value of plan assets for the pension, non-qualified pension and post-retirement benefit plans for the years ended December 31, 2003 and 2002:

	Pension Plan Years Ended December 31,		Non-Qualified Pension Plan Years Ended December 31,		Post-retirement Benefit Plan Years Ended December 31,	
	2003	2002	2003	2002	2003	2002
	(Dollars in millions)					
Fair value of plan assets at beginning of year	$ 8,427	$ 11,121	$ —	$ —	$ 1,565	$ 2,045
Actual gain (loss) on plan assets	1,702	(1,001)	—	—	333	(191)
Net employer contributions	—	—	12	13	144	43
Business divestitures	(104)	(80)	—	—	—	—
Benefits paid	(1,015)	(1,613)	(12)	(13)	(383)	(332)
Fair value of plan assets at year end	$ 9,010	$ 8,427	$ —	$ —	$ 1,659	$ 1,565

The following table presents the funded status of the pension, non-qualified pension and post-retirement benefit plans as of December 31, 2003 and 2002:

	Pension Plan Years Ended December 31,		Non-Qualified Pension Plan Years Ended December 31,		Post-retirement Benefit Plan Years Ended December 31,	
	2003	2002	2003	2002	2003	2002
	(Dollars in millions)					
Funded (unfunded) status	$ 50	$ (314)	$ (48)	$ (71)	$ (4,417)	$ (4,143)
Unrecognized net actuarial loss	1,142	1,460	6	24	1,312	1,257
Unamortized prior service cost (benefit)	(40)	—	1	1	(113)	(118)
Unrecognized transition (asset) obligation	(63)	(134)	7	9	—	—
Prepaid benefit (accrued cost)	$ 1,089	$ 1,012	$ (34)	$ (37)	$ (3,218)	$ (3,004)

The weighted-average asset allocations for the benefit plans at December 31, 2003 and 2002, by asset category are as follows:

	Pension Plan Years Ended December 31,		Non-Qualified Pension Plan Years Ended December 31,		Post-Retirement Benefit Plan Years Ended December 31,	
	2003	2002	2003	2002	2003	2002
Equity Securities	63%	59%	N/A	N/A	59%	57%
Debt Securities	24%	29%	N/A	N/A	35%	38%
Real Estate	6%	6%	N/A	N/A	1%	1%
Other	7%	6%	N/A	N/A	5%	4%

Total	100%	100%	N/A	N/A	100%	100%

N/A—not applicable

The investment objective for the benefit plans is to provide an attractive risk-adjusted return that will ensure the payment of benefits and protect against the risk of substantial investment losses. The asset mix, or the percent of the trust held in each asset class, is the primary determinant of the total fund return. The asset mix takes into account benefit obligations, risk/return requirements and the outlook for the financial markets. As of year-end, the actual asset mix is within the 50%-70% policy allocation range for equities and 30%-50% for non-equities (debt, real estate and other).

In computing the pension and post-retirement benefit costs, we must make numerous assumptions about such things as employee mortality and turnover, expected salary and wage increases, discount rate, expected rate of return on plan assets and expected future cost increases. Two of these items generally have the most significant impact on the level of cost: (1) discount rate and (2) expected rate of return on plan assets.

Annually, we set our discount rate primarily based upon the yields on high-quality fixed-income investments available at the measurement date and expected to be available during the period to maturity of the pension benefits. In making this determination we consider, among other things, the yields on Moody's AA corporate bonds as of year-end.

The expected rate of return on plan assets is the long-term rate of return we expect to earn on trust assets. The rate of return is determined by the investment composition of the plan assets and the long-term risk and return forecast for each asset category. The forecasts for each asset class are generated using historical information as well as an analysis of current and expected market conditions. The expected risk and return characteristics for each asset class are reviewed annually and revised, as necessary, to reflect changes in the financial markets.

To compute the expected return on Pension Plan assets, we apply an expected rate of return to the market-related asset value of the Pension Plan assets. The market-related asset value is a computed value that recognizes changes in fair value of plan assets over a period of time, not to exceed five years. This method has the effect of smoothing market volatility that may be experienced from year to year. As a result, our expected return is not significantly impacted by the actual return on Pension Plan assets experienced in any given year.

A change of one percent in the assumed initial healthcare cost trend rate would have had the following effects in 2003:

	One Percent Change	
	Increase	Decrease
	(Dollars in millions)	
Effect on the aggregate of the service and interest cost components of net periodic post-retirement benefit cost (statement of operations)	$ 27	$ (23)
Effect on accumulated post-retirement benefit obligation (balance sheet)	$ 459	$ (389)

On January 5, 2001, we announced an agreement with our major unions, the Communications Workers of America ("CWA") and the International Brotherhood of Electrical Workers ("IBEW"), to extend the existing union contracts for another two years, through August 2003. The extensions include a 3.5% wage increase in 2001, a 5% wage increase in 2002, a 6% pension increase in 2002 and a 10% pension increase in 2003. The appropriate changes were reflected in the pension and post-retirement benefit computations. In August 2003, we reached an agreement with the CWA and IBEW on a new two-year contract expiring on August 13, 2005. The new agreements did not have a material impact on our pension and post-retirement benefit computations.

Medicare Prescription Drug, Improvement and Modernization Act of 2003

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("the Act") became law in the United States. The Act introduces a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the Medicare benefit. In accordance with FASB Staff Position No. 106-1. "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003", we elected to defer recognition of the effects of the Act in any measures of the benefit obligation or cost. Specific authoritative guidance on the accounting for the federal subsidy is pending and that guidance, when issued, could require us to change previously reported information. Currently, we do not believe we will need to amend our plan to benefit from the Act. The measurement date used to determine pension and other postretirement benefit measures for the pension plan and the postretirement benefit plan is December 31.

Other Benefit Plans

401(k) Plan

We currently sponsor a defined contribution benefit plan covering substantially all management and occupational (union) employees. Under this plan, employees may contribute a percentage of their annual compensation to the plan up to certain maximums, as defined by the plan and by the Internal Revenue Service ("IRS"). Currently, we match a percentage of employee contributions in our common stock. As a result of our failure to file in a timely manner various of our quarterly reports on Form 10-Q and our failure to file our Annual Report on Form 10-K, beginning in August 2002, we temporarily suspended the investment of employee contributions in our common stock. During the fourth quarter of 2003, we filed with the SEC our 2003 quarterly reports on Form 10-Q and our annual report on Form 10-K for the year ended December 31, 2002, (the "2002 Form 10-K"). We then

restored the discretionary investment of employee contributions in our common stock beginning in February 2004. As of December 31, 2003, the assets of the plan included approximately 88 million shares of our common stock as a result of the combination of our employer match and participant directed contributions. We made cash contributions in connection with our 401(k) plan of $8 million and $83 million for 2002 and 2001, respectively. In addition, we made contributions of our common stock of $76 million and $77 million in 2003 and 2002, respectively.

Deferred Compensation Plans

We sponsor several deferred compensation plans for a group that includes certain of our current and former management and highly compensated employees, certain of which are open to new participants. Participants in these plans may, at their discretion, invest their deferred compensation in various investment choices including our common stock.

Our deferred compensation obligation is included in our consolidated balance sheet in other long-term liabilities. Shares of our common stock owned inside the plans are treated as treasury stock and are included at cost in the consolidated balance sheet in treasury stock. Investment earnings, administrative expenses, changes in investment values and increases or decreases in the deferred compensation liability resulting from changes in the investment values are recorded in our consolidated statement of operations. The deferred compensation liability as of December 31, 2003 and 2002 was $24 million and $36 million, respectively. The value of the deferred compensation plans' assets were $33 million and $41 million at December 31, 2003 and 2002, respectively and are included in other long-term assets in the consolidated balance sheets.

Deferred Compensation Plan for Non-employee Directors

We sponsor a deferred directors' fees plan for members of our current and former Board. Under this plan, directors may, at their discretion, elect to defer all or any portion of the directors' fees for the upcoming year for services they perform as directors of the Company. In the plan for the members of the current Board, we match 50% of the fees that are contributed to the plan. Participants in the plan are fully vested in both their deferred fees and the matching contribution. Participants can suspend or change the amount of deferred fees at their discretion.

Quarterly, we credit the director's account with "phantom units", which are held in a notational account. Each phantom unit represents a value equivalent to one share of our common stock and is subject to adjustment for cash dividends payable to our stockholders as well as stock dividends and splits, consolidations and the like that affect shares of our common stock outstanding. The account is ultimately distributed at the time elected by the director or at the end of the plan and is paid, at the director's election, either in: (1) a lump-sum payment; (2) annual cash installments over periods up to 10 years; or (3) some other form selected by our Executive Vice President—Human Resources (or his or her designee). A change in our stock price of one dollar would not result in a significant expense impact to our consolidated financial statements.

Investment earnings, administrative expenses, changes in investment values and increases or decreases in the deferred compensation liability resulting from changes in the value of our common stock are recorded in our consolidated statement of operations. The deferred compensation liability as of December 31, 2003, for the plan was \$6 million and the expense associated with this plan was not significant during 2003. However, depending on the extent of appreciation in the value of our common stock, expenses incurred under this plan could become significant in subsequent years.

Note 12: Stock Incentive Plans

Stock Options

Prior to the Merger, U S WEST adopted stock plans under which it could grant awards in the form of stock options, stock appreciation rights, restricted stock and phantom units, as well as substitute stock options and restricted stock awards. In connection with the Merger, all U S WEST options outstanding prior to the Merger announcement became fully vested. Options granted after that date and prior to June 30, 2000 continue to vest according to the vesting requirements in the plan.

On June 23, 1997, pre-Merger Qwest adopted the Equity Incentive Plan. This plan was most recently amended and restated on October 4, 2000 and permits the grant of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, stock units and other stock grants. The maximum number of shares of our common stock that may be issued under the Equity Incentive Plan at any time pursuant to awards is equal to 10% of the aggregate number of our common shares issued and outstanding reduced by the aggregate number of options and other awards then outstanding under the Equity Incentive Plan or otherwise. Issued and outstanding shares are determined as of the close of trading on the New York Stock Exchange on the preceding trading day. Since the Merger, all option grants have been issued from this plan. As of December 31, 2003, the maximum number of shares of our common stock available for issuance under the Equity Incentive Plan was 177 million, with 126 million shares underlying outstanding options and 51 million shares available for issuance pursuant to new awards.

As a result of our failure to file with the SEC various of our quarterly reports on Form 10-Q and our failure to file our 2002 Form 10-K, beginning in August 2002, we temporarily suspended the ability of option holders to exercise their vested options. During the fourth quarter of 2003, we filed with the SEC our 2003 quarterly reports on Form 10-Q and our 2002 Form 10-K. We then restored the ability of option holders to exercise vested options beginning in January 2004.

The Compensation and Human Resources Committee of our Board, or its delegate, approves the exercise price for each option. Stock options generally have an exercise price that is at least equal to the fair market value of the common stock on the date the stock option is granted, subject to certain restrictions. Stock option awards generally vest in equal increments over the vesting period of the granted option (generally three to five years). Unless otherwise provided by the Compensation and Human Resources Committee, our Equity Incentive Plan provides that, on a "change in control", all awards granted under the Equity Incentive Plan will vest immediately. Options that we granted to our employees from June 1999 to September 2002 typically provide for accelerated vesting if the optionee is terminated without cause following a change in control. Since September 2002, options that we grant to our executive officers (vice president level and above) typically provide for accelerated vesting and an extended exercise period upon a change of control and options that we grant to all other employees typically provide for accelerated vesting if the optionee is terminated without cause following a change in control. Options granted in 2003, 2002 and 2001 have ten-year terms.

On October 31, 2001, we announced a voluntary stock option exchange offer. Under the terms of the offer and subject to certain restrictions, our employees could exchange all or a portion of their stock options that had an exercise price of $35 or more. The offer was available only to our full-time, non-union employees (excluding 15 senior executives), for options granted by us or U S WEST. Options surrendered by employees were cancelled on November 30, 2001 and new options were issued on June 3, 2002 on a share-for-share basis. On June 3, 2002, 9,655 employees received 26 million stock

options in the exchange. The exercise price on the new options is $5.10, the closing market price on the day the new options were granted. The new options vest ratably over a four-year period commencing on June 3, 2002.

Our stock incentive plans are accounted for using the intrinsic-value method under which no compensation expense is recognized for options granted to employees with a strike price that equals or exceeds the value of the underlying security on the measurement date. In certain instances, the strike price has been established prior to the measurement date, in which event any excess of the stock price on the measurement date over the exercise price is recorded as deferred compensation and amortized over the service period during which the stock option award vests, in accordance with FIN No. 28. We recorded stock-based compensation expense of $6 million, $18 million and $34 million in the years ended December 31, 2003, 2002 and 2001, respectively.

Summarized below is the activity of our stock option plans for the three years ended December 31, 2003:

	Number of Shares	Weighted Average Exercise Price
	(in thousands)	
Outstanding January 1, 2001	133,610	$ 32.32
Granted	33,015	24.21
Exercised	(12,280)	20.62
Tendered for cancellation	(29,129)	43.45
Canceled or expired	(19,722)	37.92
Outstanding December 31, 2001	105,494	27.01
Granted	49,701	4.66
Exercised	(34)	5.90
Canceled or expired	(42,841)	19.97
Outstanding December 31, 2002	112,320	19.81
Granted	31,549	3.60
Exercised	—	—
Canceled or expired	(18,145)	18.13
Outstanding December 31, 2003	125,724	$ 15.98

Options to purchase 54.0 million, 49.3 million and 45.4 million shares of Qwest common stock at weighted-average exercise prices of $25.38, $28.62 and $28.40 were exercisable at December 31, 2003, 2002 and 2001, respectively.

The outstanding options at December 31, 2003 have the following characteristics (shares in thousands):

	Outstanding Options			Exercisable Options	
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.01 - $ 5.00	35,379	9.10	$ 3.36	1,997	$ 2.69
$ 5.01 - $10.00	30,501	7.65	5.22	6,602	5.25
$10.01 - $20.00	15,090	4.84	16.58	11,422	16.83
$20.01 - $30.00	18,484	4.97	27.33	11,268	26.74
$30.01 - $40.00	16,381	5.87	33.41	14,269	33.30
$40.01 - $60.00	9,889	6.30	43.34	8,467	42.79
Total	125,724	6.99	$ 15.98	54,025	$ 25.38

As required by SFAS No. 123 and SFAS No. 148, "Accounting for Stock-based Compensation—Transition and Disclosure—an Amendment of FASB Statement No. 123", we have disclosed in Note 2—Summary of Significant Accounting Policies the pro forma amounts as if the fair value method of accounting had been used. These pro forma amounts may not be representative of the effects on reported net income or loss in future years because, the number of future shares to be issued under these plans is not known and the assumptions used to determine the fair value can vary significantly.

Following are the weighted-average assumptions used with the Black-Scholes option-pricing model to estimate the fair value of options granted in 2003, 2002 and 2001:

	Years Ended December 31,		
	2003	2002	2001
Risk-free interest rate	2.7%	4.1%	4.1%
Expected dividend yield	0.0%	0.0%	0.2%
Expected option life (years)	4.4	4.4	4.4
Expected stock price volatility	88.0%	57.6%	41.4%
Weighted-average grant date fair value	$ 2.37	$ 2.25	$ 9.40

Two of the more significant assumptions used in this estimate are the expected option life and the expected volatility, both of which we estimated based on historical information.

Restricted Stock

In 2003, we did not grant any shares of restricted stock under the Equity Incentive Plan. In 2002 and 2001, we granted 400,000 and 650,000 shares of restricted stock under the Equity Incentive Plan with weighted-average grant date fair values of $6.85 and $16.81 per share, respectively. Restricted stock awards granted in 2002 and 2001 generally vest ratably over four years. Compensation expense of $2 million, $13 million and $6 million was recognized for restricted stock grants in 2003, 2002 and 2001, respectively.

Growth Share Plan

Pre-Merger Qwest had a Growth Share Plan for certain of its employees and directors. A "Growth Share" was a unit of value based on the increase in value of our common stock over a specified measurement period. Upon vesting, settlement of each Growth Share was made in our common stock. All Growth Share grants were made based on a beginning value of our common stock that was greater than or equal to the fair value of our common stock at the grant date.

Due to the change in control as a result of the Merger, all Growth Shares were vested at June 30, 2000. In the first quarter of 2001, we issued 356,723 shares of our common stock in settlement of all remaining vested Growth Shares.

Employee Stock Purchase Plan

We have an Employee Stock Purchase Plan ("ESPP") that we are authorized to issue shares of our common stock to eligible employees. As a result of our failure to file with the SEC various of our quarterly reports on Form 10-Q and our failure to file our 2002 Form 10-K, we temporarily suspended the ESPP in August 2002. In December 2003, an amended and restated ESPP was approved by the shareholders. Under the amended plan, we are authorized to issue 27 million shares of our common stock to eligible employees. Enrollment in the amended ESPP plan began in January 2004, with the first distribution of stock scheduled to occur during the first week of March 2004. Under the terms of the ESPP, eligible employees may authorize payroll deductions of up to 15% of their base compensation, as defined, to purchase our common stock at a price of 85% of the fair market value of our common stock on the last trading day of the month in which our common stock is purchased. No shares were purchased under this plan in the year ended December 31, 2003 due to the suspension; however, 3,680,443 and 1,761,470 shares were purchased under this plan at weighted-average purchase prices of $4.12 and $21.24 per share, respectively, during the years ended December 31, 2002 and 2001, respectively. In accordance with APB No. 25, we do not recognize compensation expense for the difference between the employees' purchase price and the fair market value of the stock.

Note 13: Stockholders' Equity

Common Stock ($0.01 par value)

We are authorized to issue up to 5.0 billion shares of common stock, par value $0.01 per share. As of December 31, 2003 and 2002, there were 1.770 billion and 1.714 billion shares issued and 1.770 billion and 1.699 billion shares outstanding, respectively.

Preferred Stock ($1.00 par value)

Under our charter, our Board has the authority, without stockholder approval, to (1) create one or more classes or series within a class of preferred stock, (2) issue shares of preferred stock in such class or series up to the maximum number of shares of the relevant class or series of preferred stock authorized and (3) determine the preferences, rights, privileges and restrictions of any such class or series, including the dividend rights, voting rights, the rights and terms of redemption, the rights and terms of conversion, liquidation preferences, the number of shares constituting any such class or series and the designation of such class or series. One of the effects of authorized but unissued and unreserved shares of capital stock may be to render more difficult or discourage an attempt by a potential acquirer to obtain control of us by means of a merger, tender offer, proxy contest or

otherwise and thereby protect the continuity of our management. The issuance of such shares of capital stock may have the effect of delaying, deferring or preventing a change in control of us without any further action by our stockholders. We have no present intention to adopt a stockholder rights plan, but could do so without stockholder approval at any future time.

As of December 31, 2003, 2002 and 2001, there were 200 million shares of preferred stock authorized but no shares issued or outstanding.

Treasury Stock

BellSouth Repurchase

In January 2001, we repurchased 22.22 million shares of our common stock at fair value from BellSouth Corporation ("BellSouth") for $1.0 billion in cash. As part of this transaction, we entered into an agreement with BellSouth in January 2001 under which BellSouth agreed to purchase services valued at $250 million from us over a five-year period (the "2001 Agreement"). The 2001 Agreement included provisions that allowed for termination of the arrangement prior to satisfaction of the entire purchase commitment. The 2001 Agreement also provided that BellSouth could make payments for the services in our common stock based upon values as specified in the 2001 Agreement. This provision in the 2001 Agreement represented a written put option. For accounting purposes the written put option vests as we provide services pursuant to the 2001 Agreement. Based on services performed, the value of put options vested in 2001 was $38 million, which was recorded in our consolidated statement of operations as a reduction in revenue and an increase in additional paid-in capital in our consolidated statement of stockholders' (deficit) equity.

During 2001, BellSouth acquired services valued at approximately $92 million related to the 2001 Agreement. We recognized net revenue for such services of approximately $54 million. BellSouth paid for these services by remitting cash throughout the year of $18 million and, on December 10, 2001, tendering 1.2 million shares of our common stock. The fair value of the tendered shares at December 10, 2001 of $15 million was recorded in treasury stock. The $43 million difference between (i) the fair value of the shares at December 10, 2001 and (ii) the value of $58 million assigned to the shares under the 2001 Agreement was recorded as a reduction to additional paid-in capital. The unpaid balance of $16 million was recorded in accounts receivable. At December 31, 2001, we reclassified $16 million from stockholders' equity to share repurchase commitment, a temporary equity classification in our consolidated balance sheet, to reflect the value of receivables that could be satisfied by BellSouth delivering shares of our common stock.

During the first quarter of 2002, we received approximately 278,000 shares of our common stock valued at $13 million from BellSouth in partial satisfaction of the $16 million accounts receivable outstanding at December 31, 2001. In addition, in accordance with the 2001 Agreement, we used $12 million of the $18 million in cash received from certain BellSouth affiliates to purchase approximately 253,000 shares of our common stock. The fair value of the stock tendered in the first quarter of 2002 of $5 million was recorded in treasury stock. The $20 million difference between (i) the fair value of the shares and (ii) the value assigned to the shares in the 2001 Agreement of $25 million was recorded as a reduction to additional paid-in capital.

The 2001 Agreement was cancelled as of January 16, 2002. At that time, we entered into a second agreement with BellSouth under which BellSouth committed to purchase from us $350 million in services payable in cash over a four-year period. In consideration for terminating the 2001 Agreement,

we gave BellSouth a non-cash credit of $71 million that we have included in our consolidated balance sheet as a deferred sales discount. The deferred sales discount will reduce revenue from BellSouth proportionately as we provide services under the new agreement. We reduced our revenue by $17 million in 2003 and 2002 related to the amortization of the deferred sales discount.

Debt for Equity Exchange

During the first quarter of 2002, we issued 9.88 million shares of our common stock in exchange for certain outstanding debt. During 2003, the remaining treasury shares related to the BellSouth repurchase were issued in connection with certain debt-for-stock exchanges. The weighted-average cost of treasury shares issued was $42.53 per share.

During 2003, we issued 52.5 million shares of our common stock with an aggregate value of $202 million in exchange for certain outstanding debt.

Deferred Compensation—Rabbi Trust

Rabbi trusts established in 2000 for two of our deferred compensation plans held 327,000 and 387,000 shares of our common stock with a cost of $15 million and $18 million at December 31, 2003 and 2002, respectively. Our shares held by the Rabbi trusts are accounted for as treasury stock, which are considered outstanding for legal purposes.

Other Comprehensive (Loss) Income

Other comprehensive (loss) income in the consolidated statement of stockholders' (deficit) equity includes the following components:

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in millions)		
Unrealized gains on available-for-sale marketable securities, net of reclassification adjustments	$ 3	$ 36	$ 33
Foreign currency translation (losses) gains	(4)	40	(33)
Income tax (provision) benefit related to items of other comprehensive income	(1)	(30)	—
Other comprehensive (loss) income	$ (2)	$ 46	$ —

Embedded in net unrealized gains and losses on available-for-sale marketable securities are reclassification adjustments. Reclassification adjustments are comprised of amounts that have been removed from other comprehensive income (loss) in the consolidated statement of stockholders' deficit

and recognized in income or loss from operations in our consolidated statements of operations during the periods cited below:

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in millions)		
Reversal of unrealized net gains on investments sold during the period	$ 3	$ 39	$ 19
Other-than-temporary gains charged to income or loss	—	—	44
Reversal of foreign currency translation gain	—	40	—
Income tax expense related to items reclassified into income or loss	(1)	(31)	(24)
Total reclassification adjustments	$ 2	$ 48	$ 39

Earnings Per Share

The weighted-average number of shares used in computing basic and diluted income (loss) per share for the years ended December 31, 2003, 2002 and 2001 was 1.739 billion, 1.682 billion and 1.661 billion, respectively. For the years ended December 31, 2003, 2002 and 2001, the effect of approximately 126 million, 112 million and 105 million, respectively of outstanding stock options were excluded from the calculation of diluted income (loss) per share because the effect was anti-dilutive.

Dividends

We did not declare any dividends during 2003 and 2002. We declared and paid dividends of $0.05 per share of common stock during 2001.

Note 14: Income Taxes

The components of the income tax benefit from continuing operations are as follows:

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in millions)		
Current tax (benefit) provision:			
Federal	$ —	$ (239)	$ (492)
State and local	6	6	—
	6	(233)	(492)
Deferred tax (benefit) provision:			
Federal	(607)	(3,299)	(569)
State and local	(113)	(642)	(184)
Change in valuation allowance	195	1,677	—
	(525)	(2,264)	(753)
Income tax benefit	$ (519)	$ (2,497)	$ (1,245)

The effective tax rate for our continuing operations differs from the statutory tax rate as follows:

	Years Ended December 31,		
	2003	2002	2001
	(in percent)		
Federal statutory income tax rate	35.0%	35.0%	35.0%
State income taxes—net of federal effect	3.8	2.1	1.6
Non-deductible KPNQwest investment write down and losses	—	(1.5)	(16.7)
Non-deductible goodwill impairment and			

amortization	—	(14.8)	(3.8)
Other	0.1	(0.1)	0.8
Change in valuation allowance, state and federal	(10.6)	(8.3)	—
Effective income tax rate	28.3%	12.4%	16.9%

The components of the deferred tax assets and liabilities are as follows:

	December 31,	
	2003	2002
	(Dollars in millions)	
Net operating loss carryforwards	$ 1,615	$ 2,028
Post-retirement benefits and pensions	822	737
State deferred taxes-net of federal effect	281	372
Property, plant and equipment	—	164
Other	648	496
	3,366	3,797
Valuation allowance on deferred tax assets	(1,872)	(1,677)
Net deferred tax assets	1,494	2,120
Property, plant and equipment	(805)	—
State deferred taxes-net of federal effect	(126)	(80)
Other	(525)	(744)
Total deferred tax liabilities	(1,456)	(824)
Net deferred tax assets	$ 38	$ 1,296

We received $67 million, $272 million and $574 million in net income tax refunds in 2003, 2002 and 2001, respectively.

As of December 31, 2003, we had a net operating loss carryforward of $4.6 billion that will expire between 2004 and 2023. Unused net operating losses generated by pre-Merger Qwest are subject to special rules in the Internal Revenue Code ("IRC"). IRC Section 382 limits the amount of income that may be offset each year by unused net operating losses arising prior to a merger. The annual limitations are based upon the value of the acquired company at the time of the Merger multiplied by the federal long-term tax-exempt interest rate in effect at that date. Any unused limitation may be carried forward and added to the next year's limitations. We do not expect this limitation to impact Qwest's ability to utilize its net operating losses against future taxable income.

Prior to the purchase of an additional equity interest in KPNQwest in November 2001, our investment in KPNQwest was deemed a foreign corporate joint venture whose basis difference was exempt from the recording of a deferred tax liability. At the end of 2001, the remaining unrecorded deferred tax liability associated with that exempt basis difference was $320 million. In 2002, the remaining book investment in KPNQwest was written off resulting in a $124 million recognized deferred tax asset. We also own a foreign subsidiary with a deductible temporary basis difference for which a $19 million deferred tax asset has not been recorded because the basis difference is essentially permanent in duration and it is not apparent that it will be deducted in the foreseeable future.

In the second quarter of 2002, we recorded a non-cash charge of $1.677 billion, to establish a valuation allowance against the 2002 net federal and state deferred tax assets. In 2003, we charged an additional $195 million to maintain the valuation allowance at a level sufficient to reduce our 2003 deferred tax assets to an amount we believe is recoverable. The valuation allowance is determined in accordance with the provisions of SFAS No. 109, which requires an assessment of both negative and positive evidence when measuring the need for a valuation allowance.

We had unamortized investment tax credits of $97 million and $104 million as of December 31, 2003 and 2002, respectively, included in other long-term liabilities on our consolidated balance sheets and as discussed in Note 2—Summary of Significant Accounting Policies. These investment tax credits are amortized over the lives of the related assets. At the end of 2003 we also have $62 million ($38 million net of federal income tax) of state investment tax credit carryforwards that will expire between 2010 and 2016, if not utilized.

Note 15: Segment Information

Our three segments are (1) wireline, (2) wireless and (3) other services. Until September 2003, we operated a fourth segment, our directory publishing business which, as described in Note 6—Assets Held for Sale including Discontinued Operations, has been classified as discontinued operations and accordingly is not presented in our segment results below. Our chief operating decision maker ("CODM"), regularly reviews the results of operations at a segment level to evaluate the performance of each segment and allocate capital resources based on segment income as defined below.

Segment income consists of each segment's revenue and direct expenses. Segment revenue is based on the types of products and services offered as described below. Segment expenses include employee and service-related costs, facility costs, network expenses and non-employee related costs such as customer support, collections and marketing. We manage indirect administrative services costs such as finance, information technology, real estate and legal centrally; consequently, these costs are allocated to the other services segments. Our network infrastructure is designed to be scalable and flexible to handle multiple products and services. As a result, we do not allocate network infrastructure costs, which include all engineering expense, design, repair and maintenance costs and all third-party facilities costs, to individual products. We manage depreciation, amortization, interest expense, interest income and other income (expense) on a total company basis. As a result, these charges are not allocated to any segment.

SFAS No. 146 establishes standards for reporting information about restructuring activities. Effective for exit or disposal activities initiated after December 31, 2002, SFAS No. 146 requires disclosure of the total amount of costs expected to be incurred in connection with these activities for each reportable segment. We do not include restructuring costs in the segment results which are reviewed by our CODM. As a result, we have excluded restructuring costs from our presentation below.

For additional information on restructuring costs by segment, see Note 9—Restructuring and Merger-related Charges.

Our wireline segment includes revenue from the provision of voice services and data and Internet services. Voice services consist of local voice services (such as basic local exchange services), long-distance voice services (such as IntraLATA long-distance services and InterLATA long-distance services) and other voice services (such as operator services, public telephone service, enhanced voice services, CPE and collocation services). Voice services revenue is also generated on a wholesale basis from network transport and billing services, wholesale long-distance service revenue (included in long-distance services revenue) and wholesale access revenue (included in local voice services revenue). Data and Internet services include data services (such as traditional private lines, wholesale private lines, frame relay, asynchronous transfer mode and related CPE) and Internet services (such as DSL, dedicated Internet access ("DIA"), virtual private network ("VPN"), Internet dial access, web hosting, professional services and related CPE). Revenue from optical capacity transactions are also included in revenue from data services. Depending on the product or service purchased, a customer may pay an up-front fee, a monthly fee, a usage charge or a combination of these fees and charges.

Our wireless services are provided through our wholly owned subsidiary, Qwest Wireless. In August 2003, Qwest Wireless entered into a services agreement with a subsidiary of Sprint that allows us to resell Sprint wireless services, including access to Sprint's nationwide PCS wireless network, to consumer and business customers, primarily within our local service area. We began offering these Sprint services under our brand name in March 2004. Through Qwest Wireless, we continue to operate a PCS wireless network that serves select markets within our local service area, including Denver, Seattle, Phoenix, Minneapolis, Portland, Salt Lake City and other smaller markets. Our wireless customers who are currently being serviced through our proprietary wireless network will be transitioned onto Sprint's network over time.

Our other services segment consists of revenue and expenses from other operating segments and functional departments that do not meet quantitative threshold requirements. Other services revenue is predominately derived from subleases of some of our unused real estate assets, such as space in our office buildings, warehouses and other properties. Our other services segment expenses include unallocated corporate expenses for functions such as finance, information technology, real estate, legal, marketing services and human resources, which we centrally manage.

Other than as already described herein, the accounting principles used are the same as those used in our consolidated financial statements. The revenue shown below for each segment is derived from transactions with external customers. Internally, we do not separately track the total assets of our wireline or other segments. As such, total asset information for the three segments shown below is not presented.

Segment information for the three years ended December 31, 2003 is summarized as follows:

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in millions)		
Operating revenues:			
Wireline	$ 13,650	$ 14,635	$ 15,803
Wireless	594	694	688
Other services	44	42	39
Total operating revenue	$ 14,288	$ 15,371	$ 16,530
Operating expenses:			
Wireline	$ 7,840	$ 8,130	$ 8,996
Wireless	349	507	751
Other services	2,843	2,614	2,383
Total segment expenses	$ 11,032	$ 11,251	$ 12,130
Segment income (loss):			
Wireline	$ 5,810	$ 6,505	$ 6,807
Wireless	245	187	(63)
Other services	(2,799)	(2,572)	(2,344)
Total segment income	$ 3,256	$ 4,120	$ 4,400
Capital expenditures:			
Wireline	$ 1,560	$ 1,833	$ 7,146
Wireless	13	55	310
Other services	554	903	967

Total capital expenditures	2,127	2,791	8,423
Non-cash investing activities	(39)	(27)	(381)
Total cash capital expenditures	$ 2,088	$ 2,764	$ 8,042

The following table reconciles segment operating income to net loss for each of the years ended December 31, 2003, 2002 and 2001:

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in millions)		
Segment income	$ 3,256	$ 4,120	$ 4,400
Depreciation	(2,739)	(3,268)	(3,704)
Goodwill and other intangible assets amortization	(428)	(579)	(1,660)
Goodwill impairment charge	—	(8,483)	—
Asset impairment charges	(230)	(10,525)	(251)
Restructuring and other charges	(113)	(235)	(816)
Merger-related (charges) credits	—	53	(321)
Total other expense—net	(1,578)	(1,198)	(5,010)
Income tax benefit	519	2,497	1,245
Income and gain from sale of discontinued operations	2,619	1,950	490
Cumulative effect of accounting change	206	(22,800)	24
Net income (loss)	$ 1,512	$ (38,468)	$ (5,603)

Set forth below is revenue information for the years ended December 31, 2003, 2002 and 2001 for revenue derived from external customers for our products and services.

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in millions)		
Operating revenues:			
Wireline voice services	$ 9,859	$ 10,838	$ 11,897
Wireline data and Internet services	3,791	3,797	3,906
Wireless services	594	694	688
Other services	44	42	39
Total operating revenues	$ 14,288	$ 15,371	$ 16,530

We provide a variety of telecommunications services on a national and international basis to global and national businesses, small businesses, governmental agencies and residential customers. It is impractical for us to provide revenue information about geographic areas.

We do not have any single major customer that provides more than ten percent of the total of our revenues derived from external customers.

Note 16: Related Party Transactions

As discussed in Note 7—Investments, pre-Merger Qwest and ADMI, a subsidiary of Anschutz Company, formed QDM in October 1999. At inception, pre-Merger Qwest and ADMI each owned 50% equity and voting interest in QDM. In June 2000, pre-Merger Qwest acquired an additional 25% interest in QDM directly from ADMI. Following this transaction, pre-Merger Qwest owned a 75% economic interest and 50% voting interest in QDM and ADMI owned the remaining 25% economic interest and 50% voting interest. During 2002 and 2001, in connection with the operation and

subsequent shutdown of QDM's business, ADMI and we made several loans to QDM generally in accordance with our respective economic interests in QDM. Neither ADMI or us made any loans to QDM during 2003. As of December 31, 2003, the aggregate principal balance and accrued interest outstanding on loans to QDM from ADMI and us was $4.4 million and $12.3 million, respectively. All outstanding balances on loans we made to QDM have been written off as of December 31, 2002.

Also in October 1999, pre-Merger Qwest entered into a long-term Master Services Agreement with QDM under which QDM agreed to purchase approximately $119 million of telecommunication services through October 2008 and we agreed to extend credit to QDM for the purpose of making payments to us for the telecommunications services provided. Each October, QDM was required to pay an amount equal to the difference between certain specified annual commitment levels and the amount of services actually purchased under the Master Services Agreement at that time. In October 2001, we agreed to terminate the Master Services Agreement and release QDM from its obligation under such agreement to acquire telecommunications services from us. At the same time, QDM agreed to forgive the $84.8 million that we owed on the promissory note related to the original capital contribution from pre-Merger Qwest. Prior to the termination of the Master Services Agreement, we advanced QDM $3.8 million which was the amount owed to us under the agreement for accrued telecommunications services. QDM used that advance to pay us the amount owed, including interest on amounts past due. Concurrent with termination of the Master Services Agreement, QDM repaid us the $3.8 million advance under the Master Services Agreement with interest. QDM made purchases of $700,000 and $3.3 million during 2002 and 2001, respectively.

In October 1999, we agreed to purchase certain telephony-related assets and all of the stock of Precision Systems, Inc., a telecommunications solutions provider, from ADMI in exchange for a promissory note in the amount of $34 million. The note bears interest at 6% annually with semi-annual interest payments and annual principal payments due through 2008. During 2003, 2002 and 2001, respectively, we paid $4.0 million, $0 and $2.0 million in interest and $3.4 million, $0 and $340,000 in principal, on the note. At December 31, 2003, the outstanding accrued interest on the note was approximately $350,000 and the outstanding principal balance on the note was $30.3 million.

As discussed in Note 7—Investments, pre-Merger Qwest and KPN formed a joint venture, KPNQwest, in April 1999. In November 2001, we purchased approximately 14 million additional shares and Anschutz Company purchased approximately six million shares of KPNQwest common stock from KPN for $4.58 per share. Anschutz Company's stock purchase was at our request and with the approval of the disinterested members of our Board. After giving effect to this transaction, we held approximately 47.5% of KPNQwest's outstanding shares.

During 2002 and 2001, we entered into several transactions with KPNQwest for the purchase and sale of optical capacity assets and the provisioning of services, including but not limited to private line, web hosting, Internet protocol transit and DIA. We made purchases of these assets and services from KPNQwest totaling $169 million and $218 million in 2002 and 2001, respectively. We recognized revenue on products and services sold to KPNQwest in the amount of $12 million and $18 million in 2002 and 2001, respectively. Pricing for these services was based on what we believed to be the fair market value at the time the transactions were consummated. Some of KPNQwest's sales to us were in accordance with the distribution agreement with KPNQwest, whereby we were, in certain circumstances, the exclusive distributor of certain of KPNQwest's services in North America. As of December 31, 2001, we had a remaining commitment to purchase up to 81 million Euros (or $72 million based on a conversion rate at December 31, 2001) worth of network capacity through 2002

from KPNQwest. In connection with KPNQwest's bankruptcy, as discussed in Note 7—Investments, the purchase commitment terminated during June 2002.

In March 2002, KPNQwest acquired certain assets of Global TeleSystems Europe B.V. ("GTS") for convertible notes of KPNQwest with a face amount of 211 million Euros ($186 million based on a conversion rate at March 18, 2002), among other consideration, under an agreement entered into in October 2001. As disclosed to our Board, a subsidiary of Anschutz Company had become a creditor of GTS in 2001. We understand that in 2002 and 2001, as part of a group of GTS bondholders, an Anschutz Company subsidiary also provided interim financing to GTS. In connection with the consummation of KPNQwest's acquisition of the GTS assets, the Anschutz Company subsidiary received a distribution of notes with a face amount of approximately 37 million Euros ($33 million based on a conversion rate at March 18, 2002). We understand that the allocation of notes to the Anschutz Company subsidiary was determined by a creditor committee for GTS which did not include any representatives of Anschutz Company and neither the KPNQwest notes nor the shares referenced above, both of which are still held by Anschutz Company, have any current value.

Note 17: Commitments and Contingencies

Commitments

Future Contractual Obligations

The following table summarizes our future commitments, excluding repayments of debt, as of December 31, 2003:

	Payments Due by Period						
	2004	2005	2006	2007	2008	Thereafter	Total
	(Dollars in millions)						
Capital leases and other	$ 47	$ 28	$ 5	$ 5	$ 5	$ 34	$ 124
Operating leases	325	313	268	247	219	1,534	2,906
Purchase commitment obligations:							
Telecommunications commitments	706	517	158	65	60	10	1,516
IRU operating and maintenance obligations	54	52	52	52	52	776	1,038
Advertising and promotion	53	50	32	26	26	219	406
Services	282	259	234	199	196	254	1,424
Total commitments	$ 1,467	$ 1,219	$ 749	$ 594	$ 558	$ 2,827	$ 7,414

Capital Leases

We lease certain office facilities and equipment under various capital lease arrangements. Assets acquired through capital leases during 2003, 2002 and 2001 were $36 million, $36 million and $1.215 billion, respectively. Assets recorded under capitalized lease agreements included in property, plant and equipment consisted of $183 million, $391 million and $2.011 billion of cost less accumulated amortization of $80 million, $191 million and $362 million at

December 31, 2003, 2002 and 2001, respectively.

The future minimum payments under capital leases as of December 31, 2003 are reconciled to our balance sheet as follows:

	Capital Lease Obligations
	(Dollars in millions)
Total minimum payments	$ 124
Less: amount representing interest	(26)
Present value of minimum payments	98
Less: current portion	(35)
Long-term portion	$ 63

Operating Leases

Certain office facilities, real estate and equipment are subject to operating leases. We also have easement (or right-of-way) agreements with railroads and public transportation authorities that are accounted for as operating leases. Rent expense under these operating leases was $479 million, $504 million and $696 million during 2003, 2002 and 2001, respectively, net of sublease rentals of $33 million, $25 million and $21 million respectively. Minimum operating lease payments have not been reduced by minimum sublease rentals of $173 million due in the future under non-cancelable subleases. In 2003, 2002 and 2001, contingent rentals representing the difference between the fixed and variable rental payments were not material.

Purchase Commitment Obligations

We have purchase commitments with competitive local exchange carriers ("CLECs"), interexchange carriers ("IXCs") and third-party vendors that require us to make payments to purchase network services, capacity and telecommunications equipment. These commitments require us to maintain minimum monthly and/or annual billings, in certain cases based on usage.

Also included in the telecommunications commitments are purchase commitments that we entered into with KMC Telecom Holdings, Inc. ("KMC") in connection with sales of equipment at the time we entered into facilities management service agreements with them. In connection with the KMC arrangements, we also agreed to pay the monthly service fees directly to a trustee that serves as paying agent on debt instruments issued by special purpose entities sponsored by KMC. These unconditional purchase obligations require us to pay at least 75% of the monthly service fees for the entire term of the agreements, regardless of whether KMC provides us services. Our remaining unconditional purchase obligations under these agreements were $418 million as of December 31, 2003.

A portion of our fiber optic broadband network includes facilities that were purchased or are leased from third parties in the form of IRUs. These agreements are generally 20 to 25 years in length and generally include the requirement for us to pay operating and maintenance fees to a third party for the term of the agreement.

We have various long-term, non-cancelable purchase commitments for advertising and promotion services, including advertising and marketing at sports arenas, and other venues and events. We have service-related commitments with various vendors for data processing, technical and software support.

Future payments under certain services contracts will vary depending on our actual usage. In the table above, we estimated payments for these service contracts based on the level of services we expect to use.

Letters of Credit and Guarantees

We maintain letter of credit arrangements with various financial institutions for up to $67 million. At December 31, 2003, the amount of letters of credit outstanding was $67 million and we had outstanding guarantees of approximately $2 million.

Contingencies

Investigations, Securities Actions and Derivative Actions

The investigations and securities actions described below present material and significant risks to us. The size, scope and nature of the recent restatements of our consolidated financial statements for fiscal 2001 and 2000 affect the risks presented by these matters, and we can give no assurance as to the impacts on our financial results or financial condition that may ultimately result from these matters. As we have previously disclosed, we have engaged in preliminary discussions for purposes of resolving certain of these matters. Our most recent preliminary discussions and further analysis have led us to conclude that a reserve should be provided. Accordingly, we have recorded a reserve in our consolidated financial statements for the estimated minimum liability associated with these matters. However, the ultimate outcomes of these matters are still uncertain and there is a significant possibility that the amount of loss we ultimately incur could be substantially more than the reserve we have provided.

At this time, we believe that it is probable that all but $100 million of the recorded reserve will be recoverable out of a portion of the insurance proceeds, consisting of cash and letters of credit, which were placed in a trust to cover our losses and the losses of individual insureds. However, the use and allocation of these proceeds has yet to be resolved between us and individual insureds. See Note 10—Other Financial Information.

The securities actions are in a preliminary phase and we continue to defend against these matters vigorously. None of the plaintiffs or the defendants in the securities actions has advanced evidence concerning possible recoverable damages and we have not yet conducted discovery on these and other relevant issues. We are currently unable to provide any estimate as to the timing of the resolution of any of these matters. Any settlement of or judgment in one or more of these matters in excess of our recorded reserves could be significant, and we can give no assurance that we will have the resources available to pay any such judgment. In the event of an adverse outcome in one or more of these matters, our ability to meet our debt service obligations and our financial condition could be materially and adversely affected.

Investigations

On April 3, 2002, the SEC issued an order of investigation that made formal an informal investigation of Qwest initiated on March 8, 2002. The investigation includes, without limitation, inquiry into several specifically identified Qwest accounting practices and transactions and related disclosures that are the subject of the various adjustments and restatements described in our 2002 Form 10-K. The investigation also includes inquiry into disclosure and other issues related to transactions between us

and certain of our vendors and certain investments in the securities of those vendors by individuals associated with us.

On July 9, 2002, we were informed by the U.S. Attorney's Office for the District of Colorado of a criminal investigation of Qwest's business. We believe the U.S. Attorney's Office is investigating various matters that include the subjects of the investigation by the SEC.

During 2002, the United States Congress held hearings regarding us and matters that are similar to those being investigated by the SEC and the U.S. Attorney's Office.

We have engaged in discussions with the SEC staff in an effort to resolve the issues raised in the SEC's investigation of us, and we continue to evaluate any possible range of loss. Such discussions are preliminary and we cannot predict the likelihood of whether those discussions will result in a settlement and, if so, the terms of such settlement. However, settlements typically involve, among other things, the SEC making claims under the federal securities laws in a complaint filed in United States District Court that, for purposes of the settlement, the defendant neither admits nor denies. Were such a settlement to occur, we would expect such claims to address many of the accounting practices and transactions and related disclosures that are the subject of the various restatements we have made as well as additional transactions. In addition, any settlement with the SEC may also involve, among other things, the imposition of disgorgement and a civil penalty, the amounts of which could be substantially in excess of our recorded reserve, and the entry of a court order that would require, among other things, that we and our officers and directors comply with provisions of the federal securities laws as to which there have been allegations of prior violations.

In addition, as previously reported, the SEC has conducted an investigation concerning our earnings release for the fourth quarter and full year 2000 issued on January 24, 2001. The release provided pro forma normalized earnings information that excluded certain nonrecurring expense and income items resulting primarily from the Merger. On November 21, 2001, the SEC staff informed us of its intent to recommend that the SEC authorize an action against us that would allege we should have included in the earnings release a statement of our earnings in accordance with GAAP. At the date of this filing, no action has been taken by the SEC. However, we expect that if our current discussions with the staff of the SEC result in a settlement, such settlement will include allegations concerning the January 24, 2001 earnings release.

Also, as previously announced in July 2002 by the General Services Administration, ("GSA"), the GSA is conducting a review of all contracts with Qwest for purposes of determining present responsibility. On September 12, 2003, we were informed that the Inspector General of the GSA had referred to the GSA Suspension/Debarment Official the question of whether Qwest and its subsidiaries should be considered for debarment. We have been informed that the basis for the referral was the February 2003 indictment against four former Qwest employees in connection with a transaction with the Arizona School Facilities Board in June 2001 and a civil complaint also filed in February 2003 by the SEC against the same former employees and others relating to the Arizona School Facilities Board transaction and a transaction with Genuity Inc. ("Genuity") in 2000. We are cooperating fully with the GSA and believe that Qwest and its subsidiaries will remain suppliers of the government, although we cannot predict the outcome of this referral.

Securities Actions and Derivative Actions

Since July 27, 2001, 13 putative class action complaints have been filed in federal district court in Colorado against Qwest alleging violations of the federal securities laws. One of those cases has been dismissed. By court order, the remaining actions have been consolidated into a consolidated securities action, which we refer to herein as the "consolidated securities action."

On August 21, 2002, plaintiffs in the consolidated securities action filed their Fourth Consolidated Amended Class Action Complaint ("Fourth Consolidated Complaint"), which defendants moved to dismiss. On January 13, 2004, the United States District Court for the District of Colorado granted the defendants' motions to dismiss in part and denied them in part. In that order, the court allowed plaintiffs to file a proposed amended complaint seeking to remedy the pleading defects addressed in the court's dismissal order and ordered that discovery, which previously had been stayed during the pendency of the motions to dismiss, proceed regarding the surviving claims. On February 6, 2004, plaintiffs filed a Fifth Consolidated Amended Class Complaint ("Fifth Consolidated Complaint"). The Fifth Consolidated Complaint attempts to expand the putative class period previously alleged in the Fourth Consolidated Complaint, seeks to restore the claims dismissed by the court, including claims against certain individual defendants who were dismissed as defendants by the court's dismissal order, and to add additional individual defendants who have not been named as defendants in plaintiffs' previous complaints. The Fifth Consolidated Complaint also advances allegations related to a number of matters and transactions that were not pleaded in the earlier complaints. The Fifth Consolidated Complaint is purportedly brought on behalf of purchasers of publicly traded securities of Qwest between May 24, 1999 and July 28, 2002, and names as defendants Qwest, Qwest's former Chairman and Chief Executive Officer, Joseph P. Nacchio, Qwest's former Chief Financial Officers, Robin R. Szeliga and Robert S. Woodruff, other of Qwest's former officers and current directors and Arthur Andersen LLP. The Fifth Consolidated Complaint alleges, among other things, that during the putative class period, Qwest and certain of the individual defendants made materially false statements regarding the results of Qwest's operations in violation of section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), that certain of the individual defendants are liable as control persons under section 20(a) of the Exchange Act and that certain of the individual defendants sold some of their shares of Qwest's common stock in violation of section 20(a) of the Exchange Act. The Fifth Consolidated Complaint further alleges that Qwest and certain other defendants violated section 11 of the Securities Act of 1933, as amended, (the "Securities Act") by preparing and disseminating false registration statements and prospectuses for the registration of Qwest common stock to be issued to U S WEST shareholders in connection with the merger of the two companies, and for the exchange of $3 billion of Qwest's notes pursuant to a registration statement dated January 17, 2001, $3.25 billion of Qwest's notes pursuant to a registration statement dated July 12, 2001, and $3.75 billion of Qwest's notes pursuant to a registration statement dated October 30, 2001. Additionally, the Fifth Consolidated Complaint alleges that certain of the individual defendants are liable as control persons under section 15 of the Securities Act by reason of their stock ownership, management positions and/or membership or representation on the Company's Board. The Fifth Consolidated Complaint seeks unspecified compensatory damages and other relief. However, counsel for plaintiffs has indicated that the purported class will seek damages in the tens of billions of dollars.

Since March 2002, seven putative class action suits were filed in federal district court in Colorado purportedly on behalf of all participants and beneficiaries of the Qwest Savings and Investment Plan and predecessor plans (the "Plan") from March 7, 1999 until the present. By court order, five of these putative class actions have been consolidated and the claims made by the plaintiff in the sixth case were

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subsequently included in the Second Amended and Consolidated Complaint ("Second Consolidated Complaint") described below and referred to as the "consolidated ERISA action". Qwest expects the seventh putative class action to be consolidated with the other cases since it asserts substantially the same claims. The Second Consolidated complaint filed on May 21, 2003, names as defendants, among others, Qwest, several former and current directors, officers and employees of Qwest, Qwest Asset Management, Qwest's Plan Design Committee, the Plan Investment Committee and the Plan Administrative Committee of the pre-Merger Qwest 401(k) Savings Plan. The consolidated ERISA action, which is brought under the Employee Retirement Income Security Act alleges, among other things, that the defendants breached fiduciary duties to the Plan members by allegedly excessively concentrating the Plan's assets invested in Qwest's stock, requiring certain participants in the Plan to hold the matching contributions received from Qwest in the Qwest Shares Fund, failing to disclose to the participants the alleged accounting improprieties that are the subject of the consolidated securities action, failing to investigate the prudence of investing in Qwest's stock, continuing to offer Qwest's stock as an investment option under the Plan, failing to investigate the effect of the Merger on Plan assets and then failing to vote the Plan's shares against it, preventing plan participants from acquiring Qwest's stock during certain periods and, as against some of the individual defendants, capitalizing on their private knowledge of Qwest's financial condition to reap profits in stock sales. Plaintiffs seek equitable and declaratory relief, along with attorneys' fees and costs and restitution. Plaintiffs moved for class certification on January 15, 2003 and Qwest has opposed that motion, which is pending before the court. Defendants filed motions to dismiss the consolidated ERISA action on August 22, 2002. Those motions are also pending before the court.

On June 27, 2002, a putative class action was filed in the District Court for the County of Boulder against us, The Anschutz Family Investment Co., Philip Anschutz, Joseph P. Nacchio and Robin R. Szeliga on behalf of purchasers of Qwest's stock between June 28, 2000 and June 27, 2002 and owners of U S WEST stock on June 28, 2000. The complaint alleges, among other things, that Qwest and the individual defendants issued false and misleading statements and engaged in improper accounting practices in order to accomplish the Merger, to make Qwest appear successful and to inflate the value of Qwest's stock. The complaint asserts claims under sections 11, 12, 15 and 17 of the Securities Act. The complaint seeks unspecified monetary damages, disgorgement of illegal gains and other relief. On July 31, 2002, the defendants removed this state court action to federal district court in Colorado and subsequently moved to consolidate this action with the consolidated securities action identified above. The plaintiffs have moved to remand the lawsuit back to state court. Defendants have opposed that motion, which is pending before the court.

On December 10, 2002, the California State Teachers' Retirement System ("CalSTRS"), filed suit against Qwest, certain of Qwest's former officers and certain of Qwest's current directors and several other defendants, including Arthur Andersen LLP and several investment banks, in the Superior Court of the State of California in and for the County of San Francisco. CalSTRS alleges that the defendants engaged in fraudulent conduct that caused CalSTRS to lose in excess of $150 million invested in Qwest's equity and debt securities. The complaint alleges, among other things, that defendants engaged in a scheme to falsely inflate Qwest's revenue and decrease its expenses so that Qwest would appear more successful than it actually was during the period in which CalSTRS purchased and sold Qwest securities. The complaint purported to state causes of action against Qwest for (i) violation of California Corporations Code section 25400 et seq. (securities laws); (ii) violation of California Corporations Code section 17200 et seq. (unfair competition); (iii) fraud, deceit and concealment; and (iv) breach of fiduciary duty. Among other requested relief, CalSTRS sought compensatory, special and

punitive damages, restitution, pre-judgment interest and costs. Qwest and the individual defendants filed a demurrer, seeking dismissal of all claims. In response, CalSTRS voluntarily dismissed the unfair competition claim but maintained the balance of the complaint. The court denied the demurrer as to the California securities law and fraud claims, but dismissed the breach of fiduciary duty claim against Qwest with leave to amend. The court also dismissed the claims against Robert S. Woodruff and Robin R. Szeliga on jurisdictional grounds. On or about July 25, 2003, plaintiff filed a First Amended Complaint. The material allegations and the relief sought remain largely the same, but plaintiff no longer alleges claims against Mr. Woodruff and Ms. Szeliga following the court's dismissal of the claims against them. CalSTRS reasserted its claim against Qwest for breach of fiduciary duty as a claim of aiding and abetting breach of fiduciary duty. Qwest filed a second demurrer to that claim and on November 17, 2003, the court dismissed that claim without leave to amend. Discovery is proceeding in the CalSTRS litigation.

On November 27, 2002, the State of New Jersey (Treasury Department, Division of Investment) ("New Jersey"), filed a lawsuit similar to the CalSTRS action in New Jersey Superior Court, Mercer County. On October 17, 2003, New Jersey filed an amended complaint alleging, among other things, that Qwest, certain of Qwest's former officers and certain current directors and Arthur Andersen LLP caused Qwest's stock to trade at artificially inflated prices by employing improper accounting practices and by issuing false statements about Qwest's business, revenues and profits. As a result, New Jersey contends that it incurred hundreds of millions of dollars in losses. New Jersey's complaint purports to state causes of action against Qwest for: (i) fraud; (ii) negligent misrepresentation; and (iii) civil conspiracy. Among other requested relief, New Jersey seeks from the defendants, jointly and severally, compensatory, consequential, incidental and punitive damages. On November 17, 2003, Qwest filed a motion to dismiss. That motion is pending before the court.

On January 10, 2003, the State Universities Retirement System of Illinois ("SURSI"), filed a lawsuit similar to the CalSTRS and New Jersey lawsuits in the Circuit Court of Cook County, Illinois. SURSI filed suit against Qwest, certain of Qwest's former officers and certain current directors and several other defendants, including Arthur Andersen LLP and several investment banks. On October 29, 2003, SURSI filed a second amended complaint which alleges, among other things, that defendants engaged in fraudulent conduct that caused it to lose in excess of $12.5 million invested in Qwest's common stock and debt and equity securities and that defendants engaged in a scheme to falsely inflate Qwest's revenues and decrease its expenses by improper conduct related to transactions with the Arizona School Facilities Board, Genuity, Calpoint, KMC, KPNQwest and Koninklijke KPN, N.V. The second amended complaint purports to state the following causes of action against Qwest: (i) violation of the Illinois Securities Act; (ii) common law fraud; (iii) common law negligent misrepresentation; and (iv) violation of section 11 of the Securities Act. SURSI seeks, among other relief, punitive and exemplary damages, costs, equitable relief, including an injunction to freeze or prevent disposition of the defendants' assets, and disgorgement. All the individual defendants have moved to dismiss the action against them for lack of personal jurisdiction. To date, neither Qwest nor the individual defendants have filed a response to the second amended complaint, and the Illinois' court's schedule does not contemplate that answers or motions to dismiss be filed until after the challenges to jurisdiction have been resolved.

On October 22, 2001, a purported derivative lawsuit was filed in the United States District Court for the District of Colorado (the "Federal Derivative Litigation"). On February 6, 2004, a third amended complaint was filed in the Federal Derivative Litigation, naming as defendants certain of Qwest's present and former directors and certain former officers and naming Qwest as a nominal defendant. The Federal Derivative Litigation is based upon the allegations made in the consolidated securities action and alleges, among other things, that the defendants breached their fiduciary duties to Qwest by engaging in self-dealing, insider trading, usurpation of corporate opportunities, failing to oversee implementation of securities laws that prohibit insider trading, failing to maintain appropriate financial controls within Qwest, and causing or permitting Qwest to commit alleged securities violations, thus (1) causing Qwest to be sued for such violations and (2) subjecting Qwest to adverse publicity, increasing its cost of raising capital and impairing earnings. The Federal Derivative Litigation has been consolidated with the consolidated securities action. Plaintiff seeks, among other remedies, disgorgement of alleged insider trading profits.

On August 9, 2002, a purported derivative lawsuit was filed in the Court of Chancery of the State of Delaware. A separate alleged derivative lawsuit was filed in the Court of Chancery of the State of Delaware on or about August 28, 2002. On October 30, 2002, these two alleged derivative lawsuits were consolidated (collectively the "Delaware Derivative Litigation"). The Second Amended Complaint in the Delaware Derivative Litigation was filed on or about January 23, 2003, naming as defendants certain of Qwest's current and former officers and directors and naming Qwest as a nominal defendant. In the Second Amended Complaint, the plaintiffs allege, among other things, that the individual defendants (i) breached their fiduciary duties by allegedly engaging in illegal insider trading in Qwest's stock; (ii) failed to ensure compliance with federal and state disclosure, anti-fraud and insider trading laws within Qwest, resulting in exposure to it; (iii) appropriated corporate opportunities, wasted corporate assets and self-dealt in connection with investments in initial public offering securities through Qwest's investment bankers; and (iv) improperly awarded severance payments to Qwest's former Chief Executive Officer, Mr. Nacchio and Qwest's former Chief Financial Officer, Mr. Woodruff. The plaintiffs seek recovery of incentive compensation allegedly wrongfully paid to certain defendants, all severance payments made to Messrs. Nacchio and Woodruff, disgorgement, contribution and indemnification, repayment of compensation, injunctive relief, and all costs including legal and accounting fees. On March 17, 2003, defendants moved to dismiss the Second Amended Complaint, or, in the alternative, to stay the action. As described below, a proposed settlement of the Delaware Derivative Litigation has been reached.

On each of March 6, 2002 and November 22, 2002, a purported derivative action was filed in Denver District Court (collectively, the "Colorado Derivative Litigation"). On February 5, 2004, plaintiffs in one of these cases filed an amended complaint naming as defendants certain of Qwest's current and former officers and directors and Anschutz Company, and naming Qwest as a nominal defendant. The two purported derivative actions were consolidated on February 17, 2004. The amended complaint alleges, among other things, that various of the individual defendants breached their legal duties to Qwest by engaging in various kinds of self-dealings, failing to oversee compliance with laws that prohibit insider trading and self-dealing, and causing or permitting Qwest to commit securities laws violations, thereby causing Qwest to be sued for such violations and subjecting Qwest to adverse publicity, increasing its cost of raising capital and impairing earnings.

Beginning in May 2003, the parties to the Colorado Derivative Litigation and the Delaware Derivative Litigation participated in a series of mediation sessions with former United States District Judge Layn R. Phillips. On November 14, 2003, as a result of this process, the parties agreed in principle upon a settlement of the claims asserted in the Colorado Derivative Litigation and the Delaware Derivative Litigation, subject to approval and execution of formal settlement documents, approval by the Denver District Court and dismissal with prejudice of the Colorado Derivative Litigation, the Delaware Derivative Litigation and the Federal Derivative Litigation. From

November 14, 2003 until February 17, 2004, the parties engaged in complex negotiations to resolve the remaining issues concerning the potential settlement. On February 17, 2004, the parties reached a formal Stipulation of Settlement, which was filed with the Denver District Court. The stipulation of settlement provides, among other things, that if approved by the Denver District Court and upon dismissal with prejudice of the Delaware Derivative Litigation and the Federal Derivative Litigation, $25 million of the $200 million from the insurance settlement with certain of our insurance carriers (See Note 10—Other Financial Information) will be designated for the exclusive use of Qwest to pay losses and Qwest will implement a number of corporate governance changes. The Stipulation of Settlement also provides that the Denver District Court may enter awards of attorney's fees and costs to derivative plaintiffs' counsel from the $25 million in amounts not to exceed $7.5 million and $125,000, respectively. On February 17, 2004, the

Denver District Court entered a Preliminary Approval Order and scheduled a hearing to take place on June 15, 2004, to consider final approval of the proposed settlement and derivative plaintiffs' counsels' request for an award of fees and costs. Pursuant to the Preliminary Approval Order, Qwest mailed, on February 27, 2004, notice of the proposed settlement and hearing to stockholders of its Common stock as of February 17, 2004.

On or about February 23, 2004, plaintiff in the Federal Derivative Litigation filed a motion in the United States District Court for the District of Colorado to enjoin further proceedings relating to the proposed settlement of the Colorado Derivative Litigation, or alternatively, to enjoin the enforcement of a provision in the Preliminary Approval Order of the Denver District Court which plaintiffs claims would prevent the Federal Derivative Litigation from being prosecuted pending a final determination of whether the settlement of the Colorado Derivative Litigation shall be approved.

Regulatory Matters

On February 14, 2002, the Minnesota Department of Commerce filed a formal complaint against us with the Minnesota Public Utilities Commission ("Minnesota Commission") alleging that we, in contravention of federal and state law, failed to file interconnection agreements with the Minnesota Commission relating to certain of our wholesale customers and thereby allegedly discriminated against other CLECs. On November 1, 2002, the Minnesota Commission issued a written order adopting in full a proposal by an administrative law judge that we committed 26 individual violations of federal law by failing to file, as required under section 252 of the Telecommunications Act, 26 distinct provisions found in 12 separate agreements with individual CLECs for regulated services in Minnesota. The order also found that we agreed to provide and did provide to McLeod USA Inc. ("McLeod") and Eschelon Telecom, Inc. ("Eschelon") discounts on regulated wholesale services of up to 10% that were not made available to other CLECs, thereby unlawfully discriminating against them. The order found we also violated state law, that the harm caused by our conduct extended to both customers and competitors, and that the damages to CLECs would amount to several million dollars for Minnesota alone.

On February 28, 2003, the Minnesota Commission issued its initial written decision imposing fines and penalties, which was later revised on April 8, 2003 to include a fine of nearly $26 million and ordered us to:

- grant a 10% discount off all intrastate Minnesota wholesale services to all CLECs other than Eschelon and McLeod; this discount would be applicable to purchases made by these CLECs during the period beginning on November 15, 2000 and ending on May 15, 2002;

- grant all CLECs other than Eschelon and McLeod monthly credits of $13 to $16 per unbundled network element—platform line (subject to certain offsets) purchased during the months of November 2000 through February 2001;

- pay all CLECs other than Eschelon and McLeod monthly credits of $2 per access line (subject to certain offsets) purchased during the months of July 2001 through February 2002; and

- allow CLECs to opt-in to agreements the Minnesota Commission determined should have been publicly filed.

The Minnesota Commission issued its final, written decision setting forth the penalties and credits described above on May 21, 2003. On June 19, 2003, we appealed the Minnesota Commission's orders to the United States District Court for the District of Minnesota. The appeal is pending.

Arizona, Colorado, New Mexico, Washington, Iowa and South Dakota have also initiated formal proceedings regarding our alleged failure to file required agreements in those states. On July 25, 2003, we entered into a settlement with the staff of the Arizona Corporation Commission ("Arizona Commission") to settle this and several other proceedings. The proposed settlement, which must be approved by the Arizona Commission, requires that we provide approximately $21 million in consideration in the form of a voluntary contribution to the Arizona State Treasury, contributions to certain organizations and/or infrastructure investments and refunds in the form of bill credits to

CLECs. On December 1, 2003, an administrative law judge issued a recommended decision denying the proposed settlement. The judge also recommended final orders requiring us to pay approximately $11 million in penalties and to issue credits to CLECs for a 24-month period from October 2000 to September 2002 equal to 10% of all sales of wholesale intrastate services sold by us. We filed exceptions to the recommended decisions with the full Arizona Commission. New Mexico has issued an order providing its interpretation of the standard for filing these agreements, identified certain of our contracts as coming within that standard and opened a separate docket to consider further proceedings. Colorado has also opened an investigation into these matters, and on February 27, 2004, the Staff of the Colorado Public Utility Commissions ("PUC") submitted its Initial Comments. The Colorado Staff's Initial Comments recommended that the PUC open a show cause proceeding based upon the Staff's view that Qwest and CLECs had willfully and intentionally violated federal and state law and Commission rules. The Staff also detailed a range of remedies available to the Commission, including but not limited to an assessment of penalties and an obligation to extend credits to CLECs. On June 26, 2003, we received from the Federal Communications Commission ("FCC") a letter of inquiry seeking information about related matters. We submitted our initial response to this inquiry on July 31, 2003. The proceedings and investigations in New Mexico, Colorado and Washington and at the FCC could result in the imposition of fines and other penalties against us that could be material. Iowa and South Dakota have concluded their inquiries resulting in no imposition of penalties or obligations to issue credits to CLECs in those states. Also, some telecommunications providers have filed private actions based on facts similar to those underlying these administrative proceedings. These private actions, together with any similar, future actions, could result in additional damages and awards that could be significant.

Illuminet, Inc. ("Illuminet"), a traffic aggregator and several of its customers have filed complaints with regulatory agencies in Idaho, Nebraska, Iowa, North Dakota and New Mexico, alleging that they are entitled to refunds due to our purported improper implementation of tariffs governing certain signaling services we provide in those states. The commissions in Idaho and Nebraska have ruled in favor of Illuminet and awarded it $1.5 million and $4.8 million, respectively. We sought reconsideration

in both states, which was denied and subsequently we perfected appeals in both states. The proceedings in the other states and in states where Illuminet has not yet filed complaints could result in agency decisions requiring additional refunds.

As a part of the approval by the FCC of the Merger, the FCC required us to engage an independent auditor to perform an attestation review of our compliance with our divestiture of in-region InterLATA services and our ongoing compliance with Section 271 of the Telecommunications Act ("Section 271"). In 2001, the FCC began an investigation of our compliance with the divestiture of in-region InterLATA services and our ongoing compliance with Section 271 for the audit years 2000 and 2001. In connection with this investigation, Qwest disclosed certain matters to the FCC that occurred in 2000, 2001, 2002 and 2003. These matters were resolved with the issuance of a consent decree on May 7, 2003, by which the investigation was concluded. As part of the consent decree, Qwest made a voluntary payment to the U.S. Treasury in the amount of $6.5 million and agreed to a compliance plan for certain future activities. Separate from this investigation, Qwest disclosed matters to the FCC in connection with its 2002 compliance audit, including a change in traffic flow related to wholesale transport for operator services traffic and certain toll-free traffic, certain bill mis-labeling for commercial credit card bills and certain billing errors for public telephone services originating in South Dakota and for toll free services. The FCC has not yet instituted an investigation into the latter categories of matters. If it does so, an investigation could result in the imposition of fines and other penalties against us. The FCC has also instituted an investigation into whether we may have impermissibly engaged in the marketing of InterLATA services in Arizona prior to receiving FCC approval of our application to provide such services in that state.

We have other regulatory actions pending in local regulatory jurisdictions, which call for price decreases, refunds or both. These actions are generally routine and incidental to our business.

Other Matters

In January 2001, an amended purported class action complaint was filed in Denver District Court against Qwest and certain current and former officers and directors on behalf of stockholders of U S WEST. The complaint alleges that Qwest had a duty to pay a quarterly dividend to U S WEST stockholders of record as of June 30, 2000. Plaintiffs further claim that the defendants attempted to avoid paying the dividend by changing the record date from June 30, 2000 to July 10, 2000. In September 2002, Qwest filed a motion for summary judgment on all claims. Plaintiffs filed a cross- motion for summary judgment on their breach of contract claims only. On July 15, 2003, the court denied both summary judgment motions. Plaintiffs' claims for breach of fiduciary duty and breach of contract remain pending. The case is now in the class certification stage, which Qwest is challenging.

From time to time we receive complaints and become subject to investigations regarding "slamming" (the practice of changing long-distance carriers without the customer's consent), "cramming" (the practice of charging a consumer for goods or services that the consumer has not authorized or ordered) and other sales practices. Through December 2003, we resolved allegations and complaints of slamming and cramming with the Attorneys General for the states of Arizona, Colorado, Idaho, Oregon, Utah and Washington. In each of those states, we agreed to comply with certain terms governing our sales practices and to pay each of the states between $200,000 and $3.75 million. We may become subject to other investigations or complaints in the future and any such complaints or investigations could result in further legal action and the imposition of fines, penalties or damage awards.

Several purported class actions relating to the installation of fiber optic cable in certain rights-of-way were filed in various courts against Qwest on behalf of landowners in Alabama, California, Colorado, Georgia, Illinois, Indiana, Kansas, Louisiana, Mississippi, Missouri, North Carolina, Oregon, South Carolina, Tennessee and Texas. Class certification was denied in the Louisiana proceeding and, subsequently, summary judgment was granted in Qwest's favor. A new Louisiana class action complaint has recently been filed. Class certification was also denied in the California proceeding, although plaintiffs have filed a motion for reconsideration. Class certification was granted in the Illinois proceeding. Class certification has not been resolved yet in the other proceedings. The complaints challenge Qwest's right to install its fiber optic cable in railroad rights-of-way and, in Colorado, Illinois and Texas, also challenge Qwest's right to install fiber optic cable in utility and pipeline rights-of-way. In Alabama, the complaint challenges Qwest's right to install fiber optic cable in any right-of-way, including public highways. The complaints allege that the railroads, utilities and pipeline companies own a limited property right-of-way that did not include the right to permit Qwest to install Qwest's fiber optic cable on the plaintiffs' property. The Indiana action purports to be on behalf of a national class of landowners adjacent to railroad rights-of-way over which Qwest's network passes. The Alabama, California, Colorado, Georgia, Kansas, Louisiana, Mississippi, Missouri, North Carolina, Oregon, South Carolina, Tennessee and Texas actions purport to be on behalf of a class of such landowners in those states, respectively. The Illinois action purports to be on behalf of landowners adjacent to railroad rights-of-way over which Qwest's network passes in Illinois, Iowa, Kentucky, Michigan, Minnesota, Nebraska, Ohio and Wisconsin. Plaintiffs in the Illinois action have filed a motion to expand the class to a nationwide class. The complaints seek damages on theories of trespass and unjust enrichment, as well as punitive damages. Together with some of the other telecommunication carrier defendants, in September 2002, Qwest filed a proposed settlement of all these matters (except those in Louisiana) in the United States District Court for the Northern District of Illinois. On July 25, 2003, the court granted preliminary approval of the settlement and entered an order enjoining competing class action claims, except those in Louisiana. The settlement and the court's injunction are opposed by some, but not all, of the plaintiffs' counsel and are on appeal before the Seventh Circuit Court of Appeals. At this time, Qwest cannot determine whether such settlement will be ultimately approved or the final cost of the settlement if it is approved.

On October 31, 2002, Richard and Marcia Grand, co-trustees of the R.M. Grand Revocable Living Trust, dated January 25, 1991, filed a lawsuit in Arizona Superior Court alleging that the defendants violated state and federal securities laws and breached their fiduciary duty in connection with an investment by the plaintiff in securities of KPNQwest. Qwest is a defendant in this lawsuit along with Qwest B.V., Joseph Nacchio and John McMaster, the former President and Chief Executive Officer of KPNQwest. The plaintiff trust claims to have lost $10 million in its investment in KPNQwest. On January 27, 2004, the Arizona Superior Court granted Qwest's motion to dismiss the state and federal securities law claims. The claim for breach of fiduciary duty remains pending.

We have built our International Network outside North America primarily by entering into long-term agreements to acquire optical capacity assets. We have also acquired some capacity from other telecommunications service carriers within North America under similar contracts. Several of the companies from which we have acquired capacity appear to be in financial difficulty or have filed for bankruptcy protection. Bankruptcy courts have wide discretion and could deny us the continued use of the assets under the optical capacity agreements without relieving us of our obligation to make payments or requiring the refund of amounts previously paid. If such an event were to occur, we would be required to write-off the cost of the related optical capacity assets and accrue a loss based on the remaining obligation, if any. We believe that we are taking appropriate actions to protect our investments and maintain ongoing use of the acquired optical capacity assets. At this time, it is too early to determine what effect the bankruptcies will have with respect to the acquired capacity or our ability to use this acquired optical capacity.

The IRS has proposed a tax adjustment for tax years 1994 through 1996. The principal issue involves our allocation of costs between long-term contracts with customers for the installation of conduit or fiber optic cable and additional conduit or fiber optic cable retained by us. The IRS disputes our allocation of the costs between us and third parties for whom we were building similar network assets during the same time period. Similar claims have been asserted against us with respect to 1997 and 1998 and it is possible that claims could be made against us for other periods. We are contesting these claims and do not believe they will be successful. Even if they are, we believe that any significant tax obligations will be substantially offset as a result of available net operating losses and tax sharing arrangements. However, the ultimate outcomes of these matters are uncertain and we can give no assurance as to whether they will have a material effect on our financial results.

We are subject to a number of environmental matters as a result of our prior operations as part of the Bell System. We believe that expenditures in connection with remedial actions under the current environmental protection laws or related matters will not be material to our business or financial condition.

Intellectual Property

We frequently receive offers to take licenses for patent and other intellectual rights, including rights held by competitors in the telecommunications industry, in exchange for royalties or other substantial consideration. We also regularly are the subject of allegations that our products or services infringe upon various intellectual property rights, and receive demands that we discontinue the alleged infringement. We normally investigate such offers and allegations and respond appropriately, including defending our self vigorously when appropriate. There can be no assurance that, if one or more of these allegations proved to have merit and involved significant rights, damages or royalties, this would not have a material adverse effect on us. We have provided for certain of the above intellectual property matters in our consolidated financial statements as of December 31, 2003. Although the ultimate resolution of these claims is uncertain, we do not expect any material adverse impacts as a result of the resolution of these matters.

Rights of Way

We have transferred optical capacity assets on our network primarily to other telecommunications service carriers in the form of IRU transactions involving specific channels on our "lit" network or specific dark fiber strands. These IRUs provide for the exclusive right to use a specified amount of capacity or fiber for a specified period reflecting the estimated useful life of the optical capacity asset, typically 20 years or more. Typically, at or before the end of the IRU term, ownership of the optical capacity asset will have passed to the customer. Our fiber optic broadband network is generally located in real property pursuant to an agreement with the property owner or another person with rights to the property. It is possible that we may lose our rights under one or more of such agreements, due to their termination or their expiration. If we lose any such rights of way and are unable to renew them, we may find it necessary to move or replace the affected portions of the network. However, we do not expect any material adverse impacts as a result of the loss of any such rights.

Note 18: Subsequent Events

Contingencies

Debt-related Matters

On February 5, 2004, Qwest issued a total of $1.775 billion of senior notes which consisted of $750 million in floating rate notes due in 2009 with interest at LIBOR plus 3.50%, $525 million fixed rate notes due in 2011 with an interest rate of 7.25%, and $500 million fixed rate notes due in 2014 with an interest rate of 7.50%. These notes are guaranteed by QCF and QSC. The guarantee by QCF is on a senior unsecured basis and the guarantee by QSC is on a senior subordinated secured basis. The QSC guarantee is secured by a lien on the stock of QC. This collateral also secures other obligations of QSC, but the lien securing the QSC guarantee is (1) junior to the lien securing senior debt secured by the collateral, including the 2004 QSC Credit Facility, and (2) senior to the lien securing the 2007, 2010 and 2014 QSC notes and certain other obligations. Upon the release of the liens securing the 2007, 2010 and 2014 QSC notes and certain other obligations, subject to certain conditions, this collateral will be released and the subordinated provisions will terminate such that the 2009, 2011 and 2014 Qwest notes will be guaranteed on a senior unsecured basis by QSC. The covenant and default terms of these notes include but are not limited to: (i) limitations on incurrence of indebtedness; (ii) limitations on restricted payments; (iii) limitations on dividends and loans and other payment restrictions; (iv) limitations on asset sales or transfers; (v) limitations on transactions with affiliates; (vi) limitations on liens; (vii) limitations on mergers and consolidations and (viii) limitations on business activities. If the notes receive investment grade ratings, most of the covenants with respect to the notes will be subject to suspension or termination. Under the indenture governing the notes, we must repurchase the notes upon certain changes of control. This indenture also contains provisions for cross acceleration relating to any of our other debt obligations and the debt obligations of our restricted subsidiaries in the aggregate in excess of $100 million.

The net proceeds from the notes were used for general corporate purposes, including repayment of indebtedness. Concurrent with the issuance of the notes, QSC paid off in full the outstanding balance of $750 million and terminated the QSC Credit Facility and QSC also established a new three-year $750 million revolving credit facility, (the "2004 QSC Credit Facility"). If drawn, the 2004 QSC Credit Facility would, at our election, bear interest at a rate of adjusted LIBOR or a base rate, in each case plus an applicable margin. Such margin varies based upon the credit ratings of the facility and is currently 3% for LIBOR based borrowings and 2% for base rate borrowings. The 2004 QSC Credit Facility is guaranteed by Qwest Communications International Inc.

The 2004 QSC Credit Facility contains financial covenants that (i) require Qwest and its consolidated subsidiaries to maintain a debt-to-Consolidated EBITDA ratio (Consolidated EBITDA as defined in the 2004 QSC Credit Facility is a measure of EBITDA that starts with our net income (loss) and adjusts for taxes, interest and non-cash and certain non-recurring items) of not more than 6.0-to-1.0 and (ii) require QC and its consolidated subsidiaries to maintain a debt-to-consolidated EBITDA ratio of not more than 2.5-to-1.0. These financial covenants will be suspended while the 2004 QSC Credit Facility remains undrawn. The 2004 QSC Credit Facility contains certain other covenants including, but not limited to: (i) limitations on incurrence of indebtedness; (ii) limitations on restricted payments; (iii) limitations on using any proceeds to pay settlements or judgments relating to investigations and securities actions discussed in "Contingencies" in Note 17; (iv) limitations on dividends and other payment restrictions; (v) limitations on mergers, consolidations and asset sales; (vi) limitations on investments; and (vii) limitations on liens. We must pay down the 2004 QSC Credit

Facility upon certain changes of control. The 2004 QSC Credit Facility also contains provisions for cross acceleration and cross payment default relating to any other of our debt obligations and the debt obligations of our subsidiaries in the aggregate in excess of $100 million. We have not borrowed against the 2004 QSC Credit Facility. The 2004 QSC Credit Facility is secured by a senior lien on the stock of QC.

On February 26, 2004, we completed a cash tender offer for the purchase of up to $963 million of aggregate principal amount of QCF's 5.875% notes due in August 2004. We received and accepted tenders of approximately $921 million in total principal amount of the QCF notes for $939 million in cash.

Legal Matters

On February 9, 2004, Stichting Pensioenfonds ABP ("SPA"), filed suit against us, certain of our current and former directors, officers, and employees, as well as several other defendants, including Arthur Andersen LLP, Citigroup Inc. and various affiliated corporations of Citigroup Inc., in the United States District Court for the District of Colorado. SPA alleges that the defendants engaged in fraudulent conduct that caused SPA to lose more than $100 million related to SPA's investments in Qwest's equity securities purchased between July 5, 2000 and March 11,

2002. The complaint alleges, among other things, that defendants created a false perception of Qwest's revenues and growth prospects. SPA alleges claims against Qwest and certain of the individual defendants for violations of sections 18 and 10(b) of the Exchange Act, and SEC Rule 10b-5, violations of the Colorado Securities Act and common law fraud, misrepresentation and conspiracy. The complaint also contends that certain of the individual defendants are liable as "control persons" because they had the power to cause Qwest to engage in the unlawful conduct alleged by plaintiffs in violation of section 20(a) of the Exchange Act and alleges other claims against defendants other than Qwest. SPA seeks among other things, compensatory and punitive damages, rescission or rescissionary damages, pre-judgment interest, fees and costs.

On October 4, 2002, a putative class action was filed in the federal district court for the Southern District of New York against Willem Ackermans, the former Executive Vice President and Chief Financial Officer of KPNQwest, in which we were a major shareholder. The complaint alleges, on behalf of certain purchasers of KPNQwest securities, that Ackermans engaged in a fraudulent scheme and deceptive course of business in order to inflate KPNQwest revenue and securities. Ackermans was the only defendant named in the original complaint. On January 9, 2004, plaintiffs filed an amended complaint adding as defendants us, certain of our former executives who were also on the supervisory board of KPNQwest, and others.

Legal Matters (Unaudited)

On March 8, 2004, Qwest and other defendants filed motions to dismiss the Fifth Consolidated Complaint described in Note 17—Commitments and Contingencies—Securities Actions and Derivative Actions.

On March 8, 2004, the individual defendants in the Federal Derivative Litigation filed a motion to stay all proceedings in that action pending a determination by the Denver District Court whether to approve the proposed settlement of the derivative claims asserted in the Colorado Derivative Litigation, which would resolve the derivative claims asserted in the Federal Derivative Litigation. See Note 17—Commitments and Contingencies—Securities Actions and Derivative Actions for additional information regarding the Federal Derivative Litigation.

Note 19: Quarterly Financial Data (Unaudited)

	Quarterly Financial Data				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	(Dollars in millions, except per share amounts)				
2003					
Operating revenue	$ 3,624	$ 3,596	$ 3,570	$ 3,498	$ 14,288
Operating income (loss)	183	177	(523)	(91)	(254)
Loss from continuing operations*	(120)	(125)	(686)	(382)	(1,313)
Net income (loss)	152	(64)	1,831	(407)	1,512
Basic and diluted earnings (loss) per share:					
Loss from continuing operations*	(0.07)	(0.07)	(0.39)	(0.22)	(0.76)
Net income (loss)	0.09	(0.04)	1.05	(0.23)	0.87
2002					
Operating revenue	$ 3,983	$ 3,911	$ 3,772	$ 3,705	$ 15,371
Operating (loss) income	(94)	(19,276)	76	377	(18,917)
(Loss) income from continuing operations*	(975)	(17,458)	(238)	1,053	(17,618)
Net (loss) income	(23,650)	(17,430)	(123)	2,735	(38,468)
Basic and diluted earnings (loss) per share:					
(Loss) income from continuing operations*	(0.59)	(10.41)	(0.14)	0.62	(10.48)
Net (loss) income	(14.19)	(10.39)	(0.07)	1.61	(22.87)

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* Income (loss) from continuing operations is before results from discontinued operations and cumulative effect of changes in accounting principle.

First Quarter 2003

Included in net income (loss) is after-tax gain of $13 million on the early retirement of debt; an after-tax income of $66 million primarily related to the operation of our directory publishing business that was recorded as income from discontinued operations and an after-tax gain of $206 million resulting from the adoption of SFAS No. 143, relating to the reversal of net removal costs where there was not a legal removal obligation.

Second Quarter 2003

Included in net income (loss) is after-tax income of $61 million primarily related to the operation of our directory publishing business that was recorded as income from discontinued operations.

Third Quarter 2003

Included in net income (loss) is an after-tax charge of $140 million for impairment of assets (primarily cell sites, switches, related tools and equipment inventory and certain information technology systems supporting the wireless network); after-tax income of $2.517 billion primarily related to the operation and gain associated with the sale of the remaining part of our directory publishing business that was recorded as income from discontinued operations; an after-tax charge of $241 million resulting

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from the termination of services arrangements with Calpoint and another service provider and includes an after-tax charge of $23 million for restructuring charges.

Fourth Quarter 2003

Included in net income (loss) is an after-tax charge of $29 million for restructuring charges and an after-tax charge of $61 million for litigation related losses.

First Quarter 2002

Included in net income (loss) is an after-tax charge of $614 million for losses and impairment of investment in KPNQwest; after-tax income of $125 million related to the operation of our directory publishing business which was recorded as income from discontinued operations; and an after-tax charge of $22.8 billion relating to the reduction in the carrying value of goodwill recorded as a cumulative effect of adopting SFAS No. 142 effective January 1, 2002.

Second Quarter 2002

Included in net income (loss) is an after-tax charge of $8.483 billion for impairment under SFAS No. 142 of the entire remaining balance of goodwill; an after-tax charge of $6.429 billion for the impairment of assets (primarily property, plant and equipment) under SFAS No. 144; an after-tax charge of $576 million for losses and impairment of the investment in KPNQwest; a non-cash charge of $1.7 billion to establish a valuation allowance against the 2002 deferred tax assets; and after-tax income of $28 million related to the operation of our directory publishing business which was recorded as income from discontinued operations.

Third Quarter 2002

Included in net income (loss) is an after-tax charge of $83 million for restructuring charges and after-tax income of

$115 million related to the operation of our directory publishing business that was recorded as income from discontinued operations.

Fourth Quarter 2002

Included in net income (loss) is an after-tax gain of $1.117 billion on the early retirement of debt and after-tax income and gain of $1.682 billion related to the operation and partial sale of our directory publishing services business that was recorded as income and gain from discontinued operations.

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

Prior to May 29, 2002, we had not engaged independent auditors for 2002. Based on the recommendation of the Audit Committee of our Board of Directors, on May 29, 2002 our Board of Directors decided, effective immediately, not to re-engage Arthur Andersen LLP ("Andersen") as our independent auditor.

Effective May 29, 2002, our Board of Directors engaged KPMG LLP ("KPMG") to serve as our independent auditor for 2002.

Andersen's reports on our consolidated financial statements for the years ended December 31, 2001 and 2000 did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. During the years ended December 31, 2001 and 2000 and through May 29, 2002, there were (1) no disagreements with Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to Andersen's satisfaction, would have caused it to make reference to the subject matter in connection with its report on our consolidated financial statements, and (2) no reportable events, as listed in Item 304(a)(1)(v) of Regulation S-K.

During the years ended December 31, 2001 and 2000 and prior to May 29, 2002, we did not consult KPMG with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, or any other matters or reportable events listed in Items 304(a)(2)(i) and (ii) of Regulation S-K.

Following our decision not to re-engage Andersen and the engagement of KPMG, we decided to revise certain of our previous accounting practices and policies. Prior to making these revisions, we sought Andersen's input and cooperation and notified Andersen of our determinations prior to their public announcement. During August 2002, we received a letter from Andersen, indicating its disagreement with our proposed restatement to revise the accounting for: (1) contemporaneous sales and purchases of optical capacity; (2) optical capacity asset sales and (3) revenue recognition for our directory publishing business. Although we continued to seek Andersen's input following Andersen's letter as we made further determinations about the restatement of these and other issues, we have not responded to the August correspondence from Andersen. Following our notification to Andersen of certain restatement issues we contemplated discussing with the staff of the SEC, during February 2003, we received a second letter from Andersen indicating it had not received a response to its positions, noting Andersen's continued disagreement with our proposed restatement for the items listed above and expressing Andersen's disagreement with the other restatement issues that we had identified. Andersen has not withdrawn its previously issued opinion related to our financial statements for the three years ended December 31, 2001.

ITEM 9A. CONTROLS AND PROCEDURES

The effectiveness of our or any system of disclosure controls and procedures is subject to certain limitations, including the exercise of judgment in designing, implementing and evaluating the controls and procedures, the assumptions used in identifying the likelihood of future events, and the inability to eliminate misconduct completely. As a result, there can be no assurance that our disclosure controls and procedures will prevent all errors or fraud or ensure that all material information will be made known to appropriate management in a timely fashion. By their nature, our or any system of disclosure controls and procedures can provide only reasonable assurance regarding management's control objectives.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, or the "Exchange Act") as of December 31, 2003. On the basis of this review, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures are designed, and are effective, to give reasonable assurance that the information required to be disclosed by the Company in reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date we performed our evaluation.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by Item 10 of this annual report on Form 10-K is incorporated by reference to our 2004 Proxy Statement anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2003 under the headings "Proposal No. 1—Election of Class I Directors", "Executive Officers and Management", "Audit Committee" and "Section 16(a) Beneficial Ownership Reporting Compliance" and to Item 1 of this annual report under the heading "Website Access".

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 of this annual report on Form 10-K is incorporated by reference to our 2004 Proxy Statement anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2003 under the headings "Director Compensation," "Executive Compensation," "Stock Option Grants," "Option Exercises and Holdings," "Pension Plans," "Employment Contracts and Termination of Employment and Change-In-Control Arrangements" and "Compensation Committee Interlocks and Insider Participation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 of this annual report on Form 10-K is incorporated by reference to our 2004 Proxy Statement anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2003 under the heading "Beneficial Ownership of Shares of Common Stock".

Equity Compensation Plan Information

We currently maintain four compensation plans under which shares of our common stock are authorized for issuance to employees and non-employees: our Equity Incentive Plan; our Employee Stock Purchase Plan; our Nonqualified Employee Stock Purchase Plan and our Equity Compensation Plan for Non-Employee Directors. Our Equity Incentive Plan and Employee Stock Purchase Plan have been approved by our stockholders. Our Nonqualified Employee Stock Purchase Plan and our Equity Compensation Plan for Non-Employee Directors, each of which is described in more detail below, have

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not been approved by our stockholders. The following table provides information as of December 31, 2003 about outstanding options and shares reserved for future issuance under these plans:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)	Weighted-average exercise price of outstanding options, warrants and rights(1)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	125,724,478	$ 15.98	71,140,458(2)
Equity compensation plans not approved by security holders	—	—	10,083,267(3)
Total	125,724,478		81,223,725

(1) Includes 32,913,219 shares issuable upon the exercise of outstanding options we assumed in connection with acquisitions, including the U S WEST merger. The weighted-average exercise price of these options is $29.19. We do not intend to grant any new options under the plans pursuant to which these options were originally granted.

(2) Includes 50,650,603 shares available for future issuance under our Equity Incentive Plan and 20,489,855 shares available for future issuance under our Employee Stock Purchase Plan.

(3) Includes 10,000,000 shares available for future issuance under our Nonqualified Employee Stock Purchase Plan and 83,267 shares available for future issuance under our Equity Compensation Plan for Non-Employee Directors.

In 1997, our Board of Directors adopted an Equity Compensation Plan for Non-Employee Directors, under which directors who are not officers or employees of Qwest may receive shares of our common stock. Under the plan, eligible directors may elect on a quarterly basis to receive any or all of their annual and meeting fees for that quarter in shares of our common stock. With respect to each quarter for which an election is made, the total number of shares granted to the electing director equals the amount of the director's total annual and meeting fees divided by the fair market value of our common stock on the last business day of that quarter. Shares issued under the plan are to be issued as soon as practicable after the end of each quarter.

In 2002, our Board of Directors adopted a Nonqualified Employee Stock Purchase Plan; however we have not commenced any offers nor issued any shares of our common stock under the plan. If used, the Nonqualified Employee Stock Purchase Plan will provide eligible employees of Qwest with an opportunity to purchase shares of our common stock. The maximum number of shares of common stock that may be purchased under the Nonqualified Employee Stock Purchase Plan is, in the aggregate, 10,000,000. Under the plan, offers to purchase common stock will be made on the first day of each calendar month and last for a period of one calendar month, unless otherwise determined by the Compensation and Human Resources Committee of our Board of Directors. An eligible employee may participate in any offer under the plan by authorizing payroll deductions of up to 15% of his or her base salary and commissions paid per pay period. Amounts withheld will be held for the credit of the participant as part of our general funds and will not accrue interest. On the last day of each calendar month, the entire account balance of a participating employee will be applied to purchase shares of our common stock at a purchase price equal to 85% of the fair market value of the common stock on the last trading day of that month. In no event, however, will an employee be permitted to purchase more than 20,000 shares of common stock through the plan in any single offer. Participants may not transfer shares of common stock purchased under the plan until after the last day of the sixth month following the month in which the shares were purchased. We have the right to terminate or amend the plan at any time. If not previously terminated by our Board of Directors, the plan will terminate on the date as of which participants have purchased a number of shares equal to or greater than the number of shares then subject to the plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 13 of this annual report on Form 10-K is incorporated by reference to our 2004 Proxy Statement anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2003 under the headings "Certain Transactions and Legal Proceedings" and "Compensation Committee Interlocks and Insider Participation."

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 of this annual report on Form 10-K is incorporated by reference to our 2004 Proxy Statement anticipated to be filed with the Securities and Exchange Commission within 120 days of December 31, 2003 under the heading "Independent Auditor."

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Documents filed as part of this report:

(1) Independent Auditors' Report
Financial Statements covered by the Report of Independent Public Accountants:
Consolidated Statements of Operations for the years ended December 31, 2003, 2002 and 2001
Consolidated Balance Sheets as of December 31, 2003 and 2002
Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001
Consolidated Statements of Stockholders' (Deficit) Equity for the years ended December 31, 2003, 2002 and 2001
Notes to the Consolidated Financial Statements for the years ended December 31, 2003, 2002 and 2001

(b) Reports on Form 8-K:

We filed the following reports on Form 8-K during the fourth quarter of 2003:

(1) On November 19, 2003, we filed a report on Form 8-K announcing our financial results for the third quarter of 2003. Included as exhibits to the Form 8-K were the following financial statements: condensed consolidated statements of operations for the three and nine months ended

September 30, 2003 and 2002—as reported; condensed consolidated balance sheets as of September 30, 2003 and December 31, 2002; condensed consolidated statements of cash flows for the nine months ended September 30, 2003 and 2002; and certain selected consolidated financial data.

(2) On November 19, 2003, we filed a report on Form 8-K announcing that we and our wholly owned subsidiaries, Qwest Capital Funding, Inc. ("QCF") and Qwest Services Corporation ("QSC"), commenced a cash tender offer for up to $2.25 billion aggregate principal amount of our outstanding debt securities.

(3) On December 8, 2003, we filed a report on Form 8-K stating that we and our wholly owned subsidiaries, QCF and QSC, had increased the size of our offers to purchase specified series of outstanding debt securities for cash from $2.25 billion to $3.0 billion aggregate principal amount of notes and that we had received an amendment on the QSC credit facility in order to facilitate the offer.

(4) On December 19, 2003, we filed a report on Form 8-K announcing that we signed an agreement to purchase certain assets and associated revenue streams from Allegiance Telecom, Inc.

(5) On December 23, 2003, we filed a report on Form 8-K announcing that we and our wholly owned subsidiaries, QCF and QSC, successfully completed the purchase of $3 billion of our outstanding debt securities under our cash tender offers, which commenced on November 19, 2003.

(c) Exhibits required by Item 601 of Regulation S-K:

Exhibits identified in parentheses below are on file with the SEC and are incorporated herein by reference. All other exhibits are provided as part of this electronic submission.

Exhibit Number	Description
(2.1)	Agreement and Plan of Merger, dated as of July 18, 1999 between U S WEST, Inc. and Qwest (incorporated by reference to Qwest's Form S-4/A filed on August 13, 1999, File No. 333-81149).
(3.1)	Restated Certificate of Incorporation of Qwest (incorporated by reference to Qwest's Registration Statement on Form S-4/A, filed September 17, 1999, File No. 333-81149).
(3.2)***	Amended and Restated Bylaws of Qwest, adopted as of July 1, 2002.
(4.1)	Indenture, dated as of October 15, 1997, with Bankers Trust Company (including form of Qwest's 9.47% Senior Discount Notes due 2007 and 9.47% Series B Senior Discount Notes due 2007 as an exhibit thereto) (incorporated by reference to exhibit 4.1 of Qwest's Form S-4 as declared effective on January 5, 1998, File No. 333-42847).
(4.2)**	Indenture, dated as of August 28, 1997, with Bankers Trust Company (including form of Qwest's $10^7/8$% Series B Senior Discount Notes due 2007 as an exhibit thereto).
(4.3)**	Indenture, dated as of January 29, 1998, with Bankers Trust Company (including form of Qwest's 8.29% Senior Discount Notes due 2008 and 8.29% Series B Senior Discount Notes due 2008 as an exhibit thereto).
(4.4)	Indenture, dated as of November 4, 1998, with Bankers Trust Company (including form of Qwest's 7.50% Senior Discount Notes due 2008 and 7.50% Series B Senior Discount Notes due 2008 as an exhibit thereto) (incorporated by reference to Qwest's Registration Statement on Form S-4, filed February 2, 1999, File No. 333-71603).

(4.5) Indenture, dated as of November 27, 1998, with Bankers Trust Company (including form of Qwest's 7.25% Senior Discount Notes due 2008 and 7.25% Series B Senior Discount Notes due 2008 as an exhibit thereto) (incorporated by reference to Qwest's Registration Statement on Form S-4, filed February 2, 1999, File No. 333-71603).

(4.6) Indenture, dated as of June 23, 1997, between LCI International, Inc. and First Trust National Association, as trustee, providing for the issuance of Senior Debt Securities, including Resolutions of the Pricing Committee of the Board of Directors establishing the terms of the 7.25% Senior Notes due June 15, 2007 (incorporated by reference to LCI's Current Report on Form 8-K, dated June 23, 1997, File No. 001-12683).

(4.7) Indenture, dated as of June 29, 1998, by and among U S WEST Capital Funding, Inc., U S WEST, Inc., and The First National Bank of Chicago (now known as Bank One Trust Company, N. A.), as Trustee (incorporated by reference to U S WEST's Current Report on Form 8-K, dated November 18, 1998, File No. 1-14087).

(4.8) First Supplemental Indenture, dated as of June 30, 2000, by and among U S WEST Capital Funding, Inc., U S WEST, Inc., Qwest Communications International Inc., and Bank One Trust Company, as Trustee (incorporated by reference to Qwest's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000).

(4.9) First Supplemental Indenture, dated as of February 16, 2001, to the Indenture, dated as of January 29, 1998, with Bankers Trust Company (including form of Qwest's 8.29% Senior Discount Notes due 2008 and 8.29% Series B Senior Discount Notes due 2008 as an exhibit thereto) (incorporated by reference to Qwest's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001).

(4.10) First Supplemental Indenture, dated as of February 16, 2001, to the Indenture, dated as of October 15, 1997, with Bankers Trust Company (including form of Qwest's 9.47% Senior Discount Notes due 2007 and 9.47% Series B Senior Discount Notes due 2007 as an exhibit thereto) (incorporated by reference to Qwest's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001).

(4.11) First Supplemental Indenture, dated as of February 16, 2001, to the Indenture, dated as of August 28, 1997, with Bankers Trust Company (including form of Qwest's $10^7/_8$% Series B Senior Discount Notes due 2007 as an exhibit thereto) (incorporated by reference to Qwest's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001).

(4.12) Indenture, dated as of December 26, 2002, between Qwest, Qwest Services Corporation, Qwest Capital Funding, Inc. and Bank One Trust Company, N.A., as Trustee (incorporated by reference to Qwest's Current Report on Form 8-K filed on January 10, 2003, File No. 1-15577).

4.13 First Supplemental Indenture, dated as of December 26, 2002, by and among Qwest, Qwest Services Corporation, Qwest Capital Funding, Inc. and Deutsche Bank Trust Company Americas (formerly known as Bankers Trust Company), supplementing the Indenture, dated as of November 4, 1998, with Bankers Trust Company.

4.14 First Supplemental Indenture, dated as of December 26, 2002, by and among Qwest, Qwest Services Corporation, Qwest Capital Funding, Inc. and Deutsche Bank Trust Company Americas (formerly known as Bankers Trust Company), supplementing the Indenture, dated as of November 27, 1998, with Bankers Trust Company.

4.15 Second Supplemental Indenture, dated as of December 4, 2003, by and among Qwest, Qwest Services Corporation, Qwest Capital Funding, Inc. and Bank One Trust Company, N.A. (as successor in interest to Bankers Trust

	Company), supplementing the Indenture, dated as of November 4, 1998, with Bankers Trust Company.
4.16	Second Supplemental Indenture, dated as of December 4, 2003, by and among Qwest, Qwest Services Corporation, Qwest Capital Funding, Inc. and Bank One Trust Company, N.A. (as successor in interest to Bankers Trust Company), supplementing the Indenture, dated as of November 27, 1998, with Bankers Trust Company.
4.17	Indenture, dated as of February 5, 2004, among Qwest, Qwest Services Corporation, Qwest Capital Funding, Inc. and J.P. Morgan Trust Company.
(10.1)	Equity Incentive Plan, as amended (incorporated by reference to Qwest's 2000 Proxy Statement for the Annual Meeting of Stockholders).*
(10.2)	Employee Stock Purchase Plan (incorporated by reference to Qwest's 2003 Proxy Statement for the Annual Meeting of Stockholders).*
(10.3)***	Nonqualified Employee Stock Purchase Plan.*
(10.4)	Deferred Compensation Plan (incorporated by reference to Qwest's Annual Report on Form 10-K for the year ended December 31, 1998, File No. 000-22609).*
(10.5)**	Equity Compensation Plan for Non-Employee Directors.*
(10.6)	Deferred Compensation Plan for Nonemployee Directors (incorporated by reference to Qwest's Annual Report on Form 10-K for the year ended December 31, 2000).*
(10.7)	Qwest Savings & Investment Plan, as amended and restated (incorporated by reference to Qwest's Form S-8 filed on January 15, 2004, File No. 333-11923).*
(10.8)	Registration Rights Agreement, dated as of April 18, 1999, with Anschutz Company and Anschutz Family Investment Company LLC (incorporated by reference to Qwest's Current Report on Form 8-K/A, filed April 28, 1999, File No. 000-22609).
(10.9)	Common Stock Purchase Agreement, dated as of April 19, 1999, with BellSouth Enterprises, Inc. (incorporated by reference to Qwest's Current Report on Form 8-K/A, filed April 28, 1999, File No. 000-22609).
(10.10)	Securities Purchase Agreement, dated January 16, 2001, with BellSouth Corporation (incorporated by reference to Qwest's Annual Report on Form 10-K for the year ended December 31, 2000).

(10.11)	Employee Matters Agreement between MediaOne Group and U S WEST, dated June 5, 1998 (incorporated by reference to U S WEST's Current Report on Form 8-K/A, dated June 26, 1998, File No. 1-14087).
(10.12)	Tax Sharing Agreement between MediaOne Group and U S WEST, dated June 5, 1998 (incorporated by reference to U S WEST's Current Report on Form 8-K/A, dated June 26, 1998, File No. 1-14087).
(10.13)	Purchase Agreement, dated July 3, 2000, among Qwest, Qwest Capital Funding, Inc. and Salomon Smith Barney Inc. (incorporated by reference to Qwest's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000).
(10.14)	Purchase Agreement, dated August 16, 2000, among Qwest, Qwest Capital Funding, Inc., Salomon Smith Barney Inc. and Lehman Brothers Inc., as Representatives of the several initial purchasers listed therein (incorporated by reference to Qwest's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
(10.15)	Purchase Agreement, dated February 7, 2001, among Qwest, Qwest Capital Funding, Inc., Banc of America Securities LLC and Chase Securities Inc. as Representatives of the several initial purchasers listed therein (incorporated by reference to Qwest's Annual Report on Form 10-K for the year ended December 31, 2000).
(10.16)	Purchase Agreement, dated July 25, 2001, among Qwest, Qwest Capital Funding, Inc., Lehman Brothers Inc. and Merrill Lynch & Co., Inc., as

Representatives of the several initial purchasers listed therein (incorporated by reference to Qwest's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001).

(10.17) Registration Rights Agreement, dated July 30, 2001, among Qwest, Qwest Capital Funding, Inc., Lehman Brothers Inc. and Merrill Lynch & Co., Inc., as Representatives of the several initial purchasers listed therein (incorporated by reference to Qwest's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001).

(10.18) Registration Rights Agreement, dated as of December 26, 2002, among Qwest, Qwest Services Corporation, Qwest Capital Funding, Inc. and Bank One Trust Company, N.A., as Trustee (incorporated by reference to Qwest's Current Report on Form 8-K, dated January 10, 2003, File No. 1-15577).

(10.19) Purchase Agreement, dated as of August 19, 2002, between Qwest, Qwest Service Corporation, Qwest Dex, Inc. and Dex Holdings LLC (incorporated by reference to Qwest's Current Report on Form 8-K, dated August 22, 2002, File No. 1-15577).

(10.20) Purchase Agreement, dated as of August 19, 2002, between Qwest, Qwest Service Corporation, Qwest Dex, Inc. and Dex Holdings LLC (incorporated by reference to Qwest's Current Report on Form 8-K, dated August 22, 2002, File No. 1-15577).

(10.21) Second Amended and Restated Credit Agreement, dated as of August 30, 2002, by and among Qwest, Qwest Services Corporation, Qwest Dex Holdings, Inc., Qwest Dex, Inc., the Banks listed therein and Bank of America, N.A., as Agent (incorporated by reference to Qwest's Current Report on Form 8-K, dated September 5, 2002, File No. 1-15577).

(10.22) Term Loan Agreement, dated as of August 30, 2002, by and among Qwest Services Corporation, Qwest Dex Holdings, Inc., Qwest Dex, Inc., the Lenders listed therein and Bank of America, N.A., as Agent (incorporated by reference to Qwest's Current Report on Form 8-K, dated September 5, 2002, File No. 1-15577).

(10.23) Security and Pledge Agreement, dated as of August 30, 2002, by and among Qwest Services Corporation, Qwest Dex Holdings, Inc., Qwest Dex, Inc. and Bank of America, N.A., as Agent (incorporated by reference to Qwest's Current Report on Form 8-K, dated September 5, 2002, File No. 1-15577).

(10.24) Amendment No. 1, dated as of November 6, 2002, to Second Amended and Restated Credit Agreement dated as of August 30, 2002, by and among Qwest, Qwest Services Corporation, Qwest Dex Holdings, Inc., Qwest Dex, Inc., the Banks listed therein and Bank of America, N.A., as Agent (incorporated by reference to Qwest's Current Report on Form 8-K, dated November 26, 2002, File No. 1-15577).

(10.25) Term Loan Agreement, dated as of June 9, 2003, by and among Qwest Corporation, the Lenders listed therein, and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, as sole book-runner, joint lead arranger and syndication agent, and Credit Suisse First Boston, acting through its Cayman Islands branch as joint lead arranger and administrative agent, and Deutsche Bank Trust Company Americas, as documentation agent and Deutsche Bank Securities, Inc. as arranger (incorporated by reference to Qwest's Current Report on Form 8-K, dated June 10, 2003, File No. 1-15577).

(10.26) Amendment No. 2 to Credit Agreement and Amendment No. 1 to Security and Pledge Agreement, dated as of December 5, 2003, by and among Qwest, Qwest Services Corporation, Qwest Dex Holdings, Inc., Qwest Dex, Inc., the Banks listed therein and Bank of America, N.A., as Agent (incorporated by reference to Qwest's Current Report on Form 8-K, dated December 8, 2003, File No. 1-15577).

10.27 Purchase Agreement, dated January 30, 2004, by and among Qwest, Qwest

	Services Corporation, Qwest Capital Funding, Inc. and the Initial Purchasers listed therein.
10.28	Registration Rights Agreement, dated February 5, 2004, among Qwest, Qwest Services Corporation, Qwest Capital Funding, Inc. and the Initial Purchasers listed therein.
10.29	Credit Agreement, dated as of February 5, 2004, among Qwest, Qwest Services Corporation, the Lenders listed therein and Bank of America, N.A., as Administrative Agent.
(10.30)***	Employment Agreement, dated May 14, 2003, by and between Richard C. Notebaert and Qwest Services Corporation.*
(10.31)	Aircraft Time Sharing Agreement, dated November 11, 2003, by and between Qwest Business Resources, Inc. and Richard C. Notebaert (incorporated by reference to Qwest's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
(10.32)***	Employment Agreement, dated May 14, 2003, by and between Oren G. Shaffer and Qwest Services Corporation.*
(10.33)***	Retention Agreement, dated May 8, 2002, by and between Qwest and Richard N. Baer.*
(10.34)***	Severance Agreement, dated July 21, 2003, by and between Qwest and Richard N. Baer.*
(10.35)***	Severance Agreement, dated July 21, 2003, by and between Qwest and Clifford S. Holtz.*
(10.36)***	Letter Agreement, dated April 19, 2001, by and between Qwest and Annette M. Jacobs.*
(10.37)***	Severance Agreement and General Release, dated September 17, 2003, by and between Qwest and Annette M. Jacobs.*
(10.38)***	Letter Agreement, dated August 20, 2003, by and between Qwest and Paula Kruger.*
(10.39)***	Severance Agreement, dated September 8, 2003, by and between Qwest and Paula Kruger.*
12	Calculation of Ratio of Earnings to Fixed Charges.
(16)	Letter from Arthur Andersen LLP to the Securities and Exchange Commission dated June 11, 2002 (incorporated by reference to Qwest's Current Report on Form 8-K/A, filed June 11, 2002, File No. 1-15577).

21	Subsidiaries of Qwest.
23	Consent of KPMG LLP.
24	Power of Attorney.
31.1	Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

( ) Previously filed.

* Executive Compensation Plans and Arrangements.

** Incorporated by reference to Qwest's Annual Report on Form 10-K for the year ended December 31, 1997, File No. 000-22609.

*** Incorporated by reference to Qwest's Annual Report on Form 10-K for the year ended December 31, 2002, File No. 001-15577.

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 11, 2004.

QWEST COMMUNICATIONS INTERNATIONAL INC.,
A DELAWARE CORPORATION

By: /s/ OREN G. SHAFFER

Oren G. Shaffer
Vice Chairman and Chief Financial Officer
(Principal Financial and Accounting 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 the capacities indicated on the 11th day of March 2004.

Signature	Titles
/s/ RICHARD C. NOTEBAERT Richard C. Notebaert	Director, Chairman and Chief Executive Officer (Principal Executive Officer)
/s/ OREN G. SHAFFER Oren G. Shaffer	Vice Chairman and Chief Financial Officer (Principal Financial and Accounting Officer)
* Philip F. Anschutz	Director
* Linda G. Alvarado	Director
* Craig R. Barrett	Director
* Thomas J. Donohue	Director
* Jordan L. Haines	Director

* Cannon Y. Harvey	Director
* Peter S. Hellman	Director
* Vinod Khosla	Director
* Frank P. Popoff	Director
* Craig D. Slater	Director
* W. Thomas Stephens	Director

*By: /s/ RICHARD C. NOTEBAERT

Richard C. Notebaert
As Attorney-In-Fact

Independent Auditors' Report

The Board of Directors and Stockholders
Qwest Communications International Inc.:

Under date of March 2, 2004, we reported on the consolidated balance sheets of Qwest Communications International Inc. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' (deficit) equity, and cash flows for each of the years in the three-year period ended December 31, 2003, as contained in the December 31, 2003, annual report on Form 10-K. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related accompanying consolidated financial statement schedule, Schedule II—Valuation and Qualifying Accounts. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Denver, Colorado
March 2, 2004

QWEST COMMUNICATIONS INTERNATIONAL INC.

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

(DOLLARS IN MILLIONS)

	Balance at beginning of period	Charged to expense	Deductions	Balance at end of period
Allowance for doubtful accounts:				
2003	$ 360	$ 304	$ 384	$ 280
2002	402	511	553	360
2001	305	615	518	402

ATTACHMENT E

Before the
Federal Communications Commission
Washington, DC 20554

In the Matter of	)	
	)	
Qwest Communications	)	
International, Inc.	)	File No. ENF-99-11
	)	
Apparent Liability for Forfeiture	)	NAL/Acct. No. 916EF008
	)	

ORDER

Adopted: July 19, 2000; Released: July 21, 2000

By the Commission: Commissioner Furchtgott-Roth approving in part, dissenting in part and issuing a statement.

1. In this Order, we adopt a Consent Decree terminating an investigation regarding unauthorized primary interexchange carrier (PIC) conversions by Qwest Communications International, Inc. (Qwest).

2. On October 19, 1999, the Commission issued to Qwest a Notice of Apparent Liability for Forfeiture (NAL). The Commission determined that Qwest had apparently violated section 258 of the Communications Act of 1934, as amended, 47 U.S.C. § 258, and Commission rules and orders by changing the PICs of 30 consumers without their authorization. After reviewing the facts and circumstances surrounding the alleged violations, the Commission found Qwest apparently liable for forfeiture in the amount of two million and eighty thousand dollars ($2,080,000).

3. The Commission staff and Qwest have negotiated the terms of a Consent Decree that would resolve this matter and the staff's investigation. A copy of the Consent Decree is attached and is incorporated by reference. As detailed in the Consent Decree, Qwest has agreed, among other things, to make a voluntary contribution to the U.S. Treasury in the amount of one million five hundred thousand dollars ($1.5 million), and to strengthen its slamming compliance and monitoring policies.

4. We have reviewed the terms of the Consent Decree and evaluated the facts before us. In light of Qwest's commitment to be bound by various principles regarding its verification and disciplinary procedures, its compensation plans, and other pro-consumer steps and commitments, we believe that the public interest will be served by approving the Consent Decree and terminating the investigation.

5. Accordingly, IT IS ORDERED, pursuant to sections 4(i), 258 and 503(b) of the Communications Act, 47 U.S.C. §§ 154(i), 258, and 503(b) that the attached Consent Decree is ADOPTED.

6. IT IS FURTHER ORDERED that the Secretary SHALL SIGN the Consent Decree on behalf of the Commission.

7. IT IS FURTHER ORDERED that the above captioned case as well as the Commission staff inquiry into the matter described herein ARE TERMINATED.

FEDERAL COMMUNICATIONS COMMISSION

Magalie Roman Salas
Secretary

STATEMENT OF COMMISSIONER HAROLD FURCHTGOTT-ROTH CONCURRING IN PART, DISSENTING IN PART

Re: *Qwest Communications International, Inc., Apparent Liability for Forfeiture*, Consent Decree and Order, File No. ENF-99-11, NAL/Acct. No. 916EF008.

I write separately to again express my uneasiness with the Commission's use of consent decrees to extend our regulatory reach.[1] While I fully support the use of consent decrees as an effective way to bring closure to enforcement proceedings, I urge my colleagues to reexamine the Commission's consent decree philosophy. In my view decrees must adhere to three tenets: (1) the terms of the consent decree must be directly linked to the violations; (2) the Commission must be prepared to monitor and enforce each provision of the decree; and (3) the resulting regulatory obligations should not create excessive company-specific regulation.

First, there must be a direct link between the terms of the consent decree and the violation itself. While it is important to ensure that carriers not engage in slamming, the Commission must not be tempted into micromanaging business decisions of offending carriers. For example, here our order requires Qwest to "withhold twenty percent of the commission [to distributors] for at least sixty days to recover any penalties and charges that may result from any unauthorized orders."[2] While it may be appropriate for the consent decree to require Qwest to take steps to eliminate financial incentives for unauthorized orders, and thus deter misconduct, it is not clear to me why the FCC is mandating a hold back percentage or a 60-day period. There does not appear to be any link between a 60-day hold period (as opposed to a 30- or 45-day hold) and the alleged violations at issue. Therefore, I see no basis for including these specific terms in the decree. On the other hand, requiring an offending carrier to train its employees and agents about our slamming rules and policies seems appropriate.[3] However, micromanaging the specifics of a licensee's hiring and firing is not.[4] I urge the Commission, therefore, to develop a "germaneness test" to define the limits of what the Commission should undertake in consent decrees.

Second, the Commission should not include provisions in consent decrees that it cannot or, practically speaking, will not enforce. Today's Order requires the Commission to monitor, among other things, advertising campaigns, labor practices, employee pay-backs, and commission "holdbacks."[5] So, for example, Qwest, as part of a mandated

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[1] *See Statement Of Commissioner Harold Furchtgott-Roth, Concurring In Part, Dissenting In Part: Re: MCI Worldcom Communications, Inc.*, Consent Decree and Order, File No. EB-00-TC-055, NAL Acct. No. X3217-008 (rel. June 6, 2000).

[2] *Qwest Communications International, Inc., Apparent Liability for Forfeiture*, Consent Decree and Order, File No. ENF-99-11, NAL/Acct. No. 916EF008, ¶ 16 (rel. July XX, 2000).

[3] *See Qwest Consent Decree* ¶ 14.

[4] *See id.* at ¶¶ 14-15.

[5] *See id.* at ¶¶ 23, 14-17

media campaign, must within 6 months "distribute brochures and place media advertising for consumers who do not speak English as their primary language, in their language of choice."[6] Yet there are hundreds of "languages of choice," so it is not at all clear what the full scope of this obligation truly is. And how are we going to police this obligation? Similarly, regarding the hold back provisions mentioned above, are we really committed to monitoring and enforcing these details? If Qwest decides that 30% for 90 days is more appropriate than the 20% for 60 days provision, is Qwest really required to petition this agency for "permission" to change this business practice? The consent decree's provisions are well intentioned, but the scope of our legally-binding obligations must be no broader than we are prepared to monitor and enforce.

Third, a consent decree should not impose excessive carrier-specific obligations, particularly on consumer protection issues. I believe consumers should be able to look at our rules and regulations to easily determine what their rights are vis-à-vis our licensees. By creating extensive carrier-specific regulation – either through consent decrees or license transfer proceedings – we undercut the ability of consumers to know their rights. In fact, we virtually guarantee that consumers will not know what obligations apply because it is simply impractical to expect consumers to unearth these decrees from the various resting places within the code to ascertain their rights. For example, the consent decree requires Qwest to establish a "stay away" list of customers who have stated that they would never do business with Qwest.[7] Yet we have detailed (and different) regulations restricting telephone solicitation: in response to a consumer request, telephone solicitors must place the consumer on a "do-not-call list" for a period of ten years.[8] Presumably our current rule adequately protects consumers. Therefore, I would be inclined to reinforce our current "do-not-call list" obligations on Qwest with additional reporting and monitoring requirements. Moreover, in my view, any violation of these rules during the consent decree period should be subject to particularly harsh penalties. My approach achieves the Commission's basic goals, but without adding to the extensive company-specific regulations already in place.

In the end, consent decrees must punish the violation, establish an explicit probationary period, and memorialize the licensee's commitment to preventing recurrence of the violations. In turn, the FCC assures the public that the licensee will be strictly monitored during the probationary period and that the remedial provisions of the decree will be vigorously enforced. Any additional violations during the probationary period will be met with harsh penalties. Unfortunately, as detailed above, our current consent decree philosophy goes far beyond these fundamental principles.

For the foregoing reasons, I respectfully dissent in part.

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[6] *See id.* at ¶ 23. It is also not clear how effective such a campaign would be at resolving the apparent underlying problem. If, in response to a record of violations, the goal is to prevent language barriers from facilitating slamming, then bilingual operators provide a much more direct answer to this problem.

[7] *See id.* at ¶ 20. These rules also apply to customers who have accused Qwest of slamming.

[8] *See* 47 C.F.R. § 64.1200.

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Qwest Communications	)	
International Inc.	)	File No. ENF-99-11
	)	
Apparent Liability for Forfeiture	)	NAL/Acct. No. 916EF008
	)	

CONSENT DECREE

1. The Federal Communications Commission ("FCC" or "Commission") and Qwest Communications International Inc. ("Qwest") by their attorneys or authorized representatives, hereby enter into a Consent Decree terminating a Commission investigation concerning Qwest's alleged violations of Section 258 of the Communications Act of 1934, as amended, and the Commission's policies and rules regarding preferred interexchange and/or intraLATA carrier ("PIC") conversions. Qwest is a common carrier that provides interstate interexchange telecommunications services pursuant to tariffs on file with the Commission.

2. On October 19, 1999, the Commission issued to Qwest a Notice of Apparent Liability for Forfeiture ("NAL").[1] The Commission determined that Qwest had apparently violated section 258 and Commission rules and orders by changing the PICs of thirty consumers without their authorization. After reviewing the facts and circumstances surrounding the alleged violations, the Commission found Qwest apparently liable for forfeiture in the amount of two million and eighty thousand dollars ($2,080,000). The Commission and Qwest thereafter entered into negotiations and have agreed to terminate this proceeding pursuant to the terms and conditions set forth herein.

3. For the purposes of this Consent Decree the following definitions shall apply:

a) "Commission" or "FCC" means the Federal Communications Commission;

b) "Bureau" means the Enforcement Bureau of the Federal Communications Commission;

c) "Qwest" means Qwest Communications International, Inc. or any other affiliated entity, subsidiary, parent, successor or assign, controlling or controlled by Qwest Communications International, Inc. However, in the

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[1] Qwest Communications International Inc., Notice of Apparent Liability for Forfeiture, FCC 99-299 (Oct. 19, 1999).

event that Qwest completes a merger with U S West, Inc., during the effectiveness of this decree, the term "Qwest" shall not include the local exchange operations of either U S West or any U S West affiliate providing local telecommunications services;

d) "Parties" means Qwest and the Commission;

e) "Adopting Order" means an Order of the Commission adopting the terms and conditions of this Consent Decree;

f) "Effective Date" means the date on which the Commission adopts the Adopting Order;

g) "PIC Change" means an Order or request transmitted by an interexchange carrier to a local exchange carrier requesting a change of a customer's preferred interexchange and/or intraLATA carrier;

h) "Letter of Agency" or "LOA" means a written authorization signed by the customer authorizing a PIC change;

i) "Informal Complaint" or "Consumer Complaint" means a complaint filed under 47 C.F.R. §§ 1.711-1.717;

j) "Distributor" means a third party entity engaging in face-to-face marketing or engaging in telemarketing of long distance telecommunications to consumers on behalf of Qwest.

k) "LEC" means local exchange carrier.

4. The Parties agree that the provisions of this Consent Decree shall be subject to final approval by the Commission by incorporation of such provisions by reference in an Adopting Order of the Commission.

5. The Parties agree that this Consent Decree shall become effective on the date on which the Adopting Order is released by the Commission and shall expire three (3) years after its effective date. Upon release, the Adopting Order and this Consent Decree shall have the same force and effect as any other order of the Commission, and any violation of the terms of this Consent Decree shall constitute a violation of a Commission Order entitling the Commission to exercise any and all rights and to seek any and all remedies authorized by law for the enforcement of a Commission Order.

6. Qwest admits the jurisdiction of the Commission for purposes of this Consent Decree and any Adopting Order.

7. Qwest waives any further procedural steps and any rights it may have to seek judicial review or otherwise challenge or contest the validity of the Adopting Order or this Consent Decree.

8. Qwest waives any rights it may have under any provision of the Equal Access to Justice Act, 5 U.S.C. § 504.

9. This Consent Decree shall constitute a final settlement between Qwest and the Commission of the above-captioned NAL proceeding and any proceeding based on allegations of unauthorized PIC changes occurring on or before the effective date of this Consent Decree: provided, however, that this Consent Decree is not dispositive of (1) the rights of any complainant who has filed (or should file) a formal or informal complaint against Qwest or (2) any matter(s) within the jurisdiction of any other federal or state agency.

10. This Consent Decree is for settlement purposes only. Nothing herein shall constitute findings as to the matters raised in the NAL, and Qwest does not admit any alleged violation or liability for the specific acts described in the NAL or in any informal complaints received by the Commission on or before the effective date of this Consent Decree.

11. Qwest shall make a voluntary contribution to the United States Treasury in the total amount of $1,500,000 (one million five hundred thousand dollars). Payment shall be paid within 30 days of the effective date of this Consent Decree. Payment shall be made, without further protest or recourse, by check or money order drawn to the order of the Federal Communications Commission, shall reflect "FCC File No. ENF-99-11, NAL/Acct. No. 916EF008", and shall be mailed to the Forfeiture Collection Section, Finance Branch, Federal Communications Commission, P.O. Box 73482, Chicago, Illinois 60673-7482.

12. Qwest shall not knowingly submit to any LEC any preferred carrier change request unless Qwest has complied with all Commission rules and orders concerning preferred interexchange and/or intraLATA carrier changes, in effect, or as they may be hereafter modified or amended.

13. As of the effective date of the Order adopting the Consent Decree, Qwest shall verify all consumer PIC change requests obtained through a signed LOA during face-to-face marketing according to the procedures set forth in 47 C.F.R. § 64.1150 (c) or (d). Consistent with Paragraph 28 of this Decree, Qwest shall comply with all valid and effective rules adopted in CC Docket 94-158, or any other Commission docket regarding verification of all other sales. Qwest will revise its third party verification process to require that any customer confirming a residential sale, without undue prompting or suggestion by the third-party verifier, state his or her name and the telephone number(s) for which the preferred carrier is to be changed.

14. Within 30 days from the Effective Date, Qwest shall distribute to all its distributors a copy of its updated Anti-Slamming Advisory, a copy of which is attached hereto. Qwest shall provide training to all new distributors regarding federal and state prohibitions against unauthorized PIC changes, and shall conduct annual "refresher" training to all distributors. In addition, Qwest shall require every sales representative involved in any way in the marketing of Qwest service to review and sign an anti-slamming advisory, at least once every six months, acknowledging their understanding of its requirements and verifying their intent to comply. If Qwest determines that any individual has forged a customer's signature on an LOA or has committed other willful violations of the Commission's rules, the offending individual will be immediately terminated and permanently barred from soliciting orders for Qwest. Qwest

will continue to police other violations of its policies and the FCC's rules, and will require remedial measures up to and including termination for individuals and/or distributors that submit a specified number of improper PIC-change customer orders.

15. Within 30 days of the Effective Date, Qwest shall implement procedures to monitor the performance of distributors regarding submission of PIC-change orders, to identify distributors that submit unauthorized PIC changes to Qwest, and to promptly reduce such improper PIC-change customer orders and discipline such distributors.

a) If the distributor demonstrates any pattern or practice of violating federal PIC-change rules and orders, such conduct shall subject the distributor to immediate termination of its relationship with Qwest.

b) If the number of improper PIC change orders submitted by a distributor during any calendar month exceeds 2 percent of the total number of PIC-change orders submitted by the distributor during the month, Qwest will implement remedial measures designed to improve the distributor's performance. For purposes of this paragraph, an order shall be deemed to be an "improper PIC change order" if, within 14 days after notice to Qwest of a dispute by the consumer, (1) Qwest cannot produce evidence of an signed LOA and/or a record of TPV that complies with the provisions of this Consent Decree, or (2) the LOA or TPV is forged or otherwise fraudulent. Remedial measures shall, at a minimum, include:

1) mandatory retraining by Qwest of the distributor's sales personnel which will focus on proper sales techniques and methods to reduce rejected orders;

2) the distributor's implementation of specific changes designed to reduce the incidence of bad orders;

3) the distributor's reaffirmation and re-signing of Qwest's Anti-Slamming Advisory;

4) the distributor's performance of a self-audit on a monthly or weekly basis as necessary under the circumstances.

5) The charge-back of all commissions or fees earned for each improper PIC change plus a financial penalty equal to at least fifty percent (50%) of any commissions or fees earned for each order.

16. Upon entering into any distributor contract, and within 30 days of the effective date of this Consent Decree for existing contracts, Qwest shall require its distributors to sign an agreement with Qwest specifying that any of the distributor's employees found to have engaged in practices that violate the effective federal PIC-change rules and orders shall be subject to disciplinary action up to and including immediate termination. Qwest will not rehire any employee or agent who has been terminated by Qwest or its distributors for violating the federal PIC-change rules and orders.

17. Qwest agrees that in the event it pays an up-front commission to distributors for accounts switched to Qwest, it shall withhold twenty percent (20%) of the commission for at least 60 days to recover any penalties and charges that may result from any unauthorized orders. Such holdback procedures will allow the customer to receive the first bill and contact Qwest if the customer did not authorized the PIC-change. If a distributor has at least one year of continuous performance without exceeding the threshold described in paragraph 15(b), Qwest may, in its discretion, pay up-front commissions without regard to the holdback described in this paragraph, *provided, however,* that if, at any time thereafter, the distributor exceeds the threshold described in paragraph 15(b), Qwest shall hold back up-front commissions as described above. Qwest will review its holdback procedures on a quarterly basis to ensure that the amounts withheld are adequate.

18. Qwest agrees that new distributors will be screened to ensure that they meet Qwest's standards for quality and reputability and have not engaged in slamming or other improper sales activities. Qwest will place all distributors that begin submitting orders on or after the Effective Date on a probationary status for the first 90 days of the relationship. During this probationary period, Qwest will conduct performance reviews to ensure the distributor meets acceptable standards of performance. If, during this probationary period, the number of improper PIC change orders submitted by the distributor during any calendar month exceeds 2 percent of the total number of PIC-change orders submitted by the distributor during the month, Qwest will immediate terminate its relationship with the distributor. For purposes of this paragraph, the term "improper PIC change orders" shall have the meaning defined in paragraph 15(b) above. In addition, during the probationary period, new distributors shall receive up-front commissions from Qwest in accordance with paragraph 17 above.

19. Qwest shall inspect each LOA prior to submitting an order to the LEC. All incomplete LOAs *(e.g. missing signature, telephone number, or other required information)* will be returned to the distributor without being processed.

20. Qwest shall maintain a "stay away" list of customers who have either (1) claimed an unauthorized switch in the past or (2) expressed their intent never to purchase Qwest's services. Qwest will verify orders against this list before submitting a PIC change to a LEC. Customers will remain on the stay away list for a minimum of one year, unless they request to be removed from the list. As of the effective date, Qwest will initiate a review of all complaints alleging unauthorized preferred carrier changes by Qwest, which it received within the twelve months prior to the effective date from a state agency, a federal agency, or from a consumer directly, based on any record in Qwest's custody. In all cases where Qwest concludes that an unauthorized preferred carrier change occurred, it will promptly issue a credit for all preferred carrier change fees and to have all calls subject to the switched services rerated to the prior carrier's rates. Consistent with Paragraph 28 of this Decree, at such time as the Commission's slamming liability rules in Docket 94-129 become effective, Qwest will ensure that its consumer credit practices comply with them. At six-month intervals, the Company will submit reports to the Commission detailing the number of PIC disputes received, the number of credits issued, and the total dollar amount of any credits issued. For purposes of these reports, Qwest shall include all written disputes forwarded by the FCC, a state commission or agency, a LEC, or from a consumer directly.

21. Qwest shall take any necessary steps to monitor and ensure that, in connection with the advertising, promotion, marketing, offering for sale or sale of interstate, interexchange and/or intraLATA telecommunications services, all individuals or entities which are in any way involved in the marketing of Qwest's services to consumers shall comply with paragraphs 12, 13 and 14 of this Consent Decree. Qwest shall demand prompt remedial action (including but not limited to, disciplining or terminating responsible individuals, and terminating or recovering commissions or surcharges paid to a distributor) against any individual or entity that is submitting, or has submitted in the past, requests for unauthorized PIC changes, or is not in compliance with paragraphs 12, 13 and 14 of this Consent Decree.

22. Qwest shall engage an independent auditor on an annual basis to conduct an examination of its reporting and data tracking mechanisms and the enforcement procedures based upon those reports. This examination will be supervised by persons licensed to provide public accounting services and shall be conducted in accordance with the relevant standards of the AICPA. The independent auditor shall provide an opinion (with exceptions, if any, noted) in a written report to the Board of Directors of Qwest. Qwest also will require its distributors to report, on at least a quarterly basis, the results of an internal audit of its anti-slamming procedures.

23. Qwest shall devise and implement a nationwide campaign to inform consumers who do not speak English as their primary language of the dangers of slamming and their rights in the event their preferred carrier has been changed without authorization. Qwest will distribute brochures and place media advertising for consumers who do not speak English as their primary language, in their language of choice. Qwest agrees to bear the cost of all media advertising and/or consumer brochures in support of this nationwide campaign and that the campaign will be completed within 6 months of the Effective Date.

24. During the effectiveness of this Consent Decree, and for a period of three years thereafter, Qwest shall maintain and make available to the Commission or Bureau, within 14 days of the receipt of a written request from the Commission or Bureau, business records demonstrating compliance with the terms and provisions of this Consent Decree, including, but not limited to, advertisements, sales scripts, manuals or presentations, written advisories to sales distributors and agents and required responses to those advisories, Letters of Agency, PIC-change records, billing records, and all consumer complaints including those filed directly with Qwest and those filed against Qwest in any local, state, or federal jurisdiction served or otherwise submitted to Qwest. The record of consumer complaints shall include the name, address, and telephone number of each complainant, Qwest's response, and the final disposition of each complaint. Nothing in this Consent Decree shall limit Qwest's right to claim that the information requested is non-releasable proprietary information under the Freedom of Information Act, 5 U.S.C. § 522(b) and/or the Trade Secrets Act, 18 U.S.C. § 1905. The Commission agrees to allow Qwest an opportunity to establish such claims in accordance with the Commission's rules at 47 C.F.R. §§ 0.457, 0.459.

25. Qwest represents that it has satisfied the complaints filed with the Commission by the thirty consumers that gave rise to the Commission's NAL.[2]

26. The Commission further agrees that in the absence of substantial additional and material facts, it shall not on its own motion institute forfeiture proceedings against Qwest based on informal complaints of unauthorized PIC changes occurring before the effective date of this Consent Decree. The Commission will serve on Qwest consumer complaints concerning alleged unauthorized switches occurring prior to the effective date, in accordance with the procedures and rules governing such complaints. Qwest agrees to resolve these complaints to the extent required by the Communications Act and the Commission's rules and regulations. Nothing in this Consent Decree shall prevent the Commission from adjudicating formal complaints filed against Qwest, or from instituting a new investigation or enforcement proceedings against Qwest in the event of future misconduct.

27. In light of the covenants and representations contained in this Consent Decree, and in express reliance thereon, the Commission agrees that adoption of this Consent Decree shall serve to resolve all allegations that are the subject of the NAL issued in the above-captioned proceeding without any finding of ultimate liability on the part of Qwest. The Commission further agrees that in the absence of substantial additional and material facts, the Commission shall not on its own motion institute against Qwest new proceedings of any kind arising out of the PIC changes and consumers that were the subject of the NAL.

28. The Parties agree that any provision of the Consent Decree, except for the provisions concerning additional independent third party verifications of signed LOAs, affected by or inconsistent with any subsequent rule or order adopted by the Commission, will be superseded by such Commission rule or order.

29. This Consent Decree may be signed in counterparts.

For the Federal Communications Commission	For Qwest Communications International Inc.
/s/ Magalie Roman Salas	/s/ R. Steven Davis
Magalie Roman Salas	R. Steven Davis
Secretary	Senior Vice President
7/20/00	6/22/00
Date	Date

[2] See Qwest Communications International Inc. Response to Notice of Apparent Liability for Forfeiture, File No. ENF-99-11, NAL/Acct. No. 916EF008, dated November 18, 1999.

"QWEST'S POLICIES AND PROCEDURES REGARDING SLAMMING PREVENTION"

ADVISORY TO ALL REPRESENTATIVES SELLING QWEST COMMUNICATION CORPORATION'S SERVICES:

Unauthorized switching of long distance service, or "slamming," is the number one problem facing the long distance industry today. Slamming is illegal, harmful to consumers, and will not be tolerated by Qwest. Qwest offers its customers the highest quality, reliability and value in the industry. These attributes are more than enough to attract customers, and a sales representative should never resort to fraud, deceit or trickery to generate sales.

The following document is designed to educate every person involved in the sale or marketing of Qwest's long distance services about the causes of unauthorized switches, Qwest's zero tolerance for such switches, and what can be done to prevent unauthorized switching. ALL REPRESENTATIVES AND DISTRIBUTORS SELLING QWEST LONG DISTANCE SERVICE MUST CAREFULLY READ THIS ADVISORY AND MUST READ AND SIGN THE ZERO SLAMMING PLEDGE ATTACHED TO THIS DOCUMENT. A signed Zero Slamming Pledge must be forwarded to Qwest before any individual begins marketing services on behalf of Qwest and must be re-affirmed at least every 6 months thereafter.

A. COMMON CAUSES OF SLAMMING:

- Incorrect telephone number submitted on the Letter of Authorization or "LOA" - means that incorrect telephone number is switched without the customer's written consent.
- The submitted LOA is illegible and causes the person that keys the order into the system to enter the wrong name and/or phone number.
- The person who "authorized" switching carriers really didn't have the authority to make the switch. Sometimes children, roommates, receptionists, secretaries or assistants authorize a switch to qualify for some sort of premium or other inducement even though they lack the authority to make decisions on behalf of the subscriber.
- A simple misunderstanding when one partner doesn't tell the other partner or accounts payable personnel about selecting a new long distance service. This is especially common when the person authorizing the switch is not the person who reviews or pays the bills. The bill-paying partner or accounts payable representative sees a new long distance carrier name and thinks something is wrong. Please ask your customers to inform the appropriate persons within the household or company about the change in long distance carriers.
- Signing someone up just to "get the sale" or reach a qualification or commission level. Laziness and "cutting corners" can lead to mistakes, misunderstandings and improper orders. **Sales agents should note that forging the signature of another person is illegal and grounds for immediate dismissal.**
- Signing someone up, without the customer's knowledge, as a result of spending a lot of time with a decision-maker and assuming that the person would be satisfied with Qwest service.

B. EFFECTS OF SLAMMING:

- It is illegal and will not be tolerated by Qwest!
- Creates a bad image and adversely affects Qwest's and the Sales Agent/Distributor's reputation.
- Frustrating experience for the subscriber that was slammed.
- Takes time to investigate and correct.
- If we can get information verified (correct), it will save on:
  1. Order rejects
  2. Returned mail
  3. Time to process valid and accurate orders.
- Substantial monetary penalties and costs are assessed against Qwest when a subscriber is improperly switched. These charges are passed back by Qwest to the distributor and/or individual sales agent involved, and all commissions earned on the account will be forfeited. Repeated slamming activity leads to serious consequences for the agent, including termination of the sales agent relationship with Qwest.

<u>QWEST AS WELL AS FEDERAL, STATE, AND LOCAL REGULATORY AGENCIES VIEW "SLAMMING" AS A VERY SERIOUS PROBLEM. THE FCC AND STATES ROUTINELY IMPOSE SIGNIFICANT FINES ON A PER VIOLATION BASIS.</u>

C. HOW A REPRESENTATIVE/DISTRIBUTOR CAN PROTECT AGAINST SLAMMING:

- You are strongly encouraged to verify information against each new customer's actual telephone bill for each LOA.
- You must make sure that the person signing the LOA is a person with authority to make decisions for the telephone line(s) to be switched. It is essential that the person signing the LOA has authority to change long distance carriers. Note that children, roommates, receptionists, secretaries and assistants typically do not have the authority to change long distance carriers for the subscriber or company. If the person signing the LOA is different from the person with the actual authority to do so, you should attempt to contact the other person. While this policy might jeopardize some sales orders, it should give you a chance to retain sales by demonstrating your concern and professionalism.
- Where possible in face to face sales situations, verify the person's identity and signature against a valid, government-issued ID, such as a driver's license. Note: this procedure is MANDATORY in certain states.
- Take your time. Review the LOA for accuracy and legibility, especially the telephone number. Confirm the person's telephone number.
- NEVER sign someone else's name on an LOA or any other document! Forgery will get you fired.
- Don't force a sale that is not there.

ZERO SLAMMING PLEDGE

******* THIS FORM MUST BE SIGNED AND RETURNED BY EVERY INDIVIDUAL MARKETING QWEST SERVICES *******

This will verify that I have received, read, understand, and will comply with the document entitled "QWEST'S POLICIES AND PROCEDURES REGARDING SLAMMING PREVENTION". I fully understand and appreciate my obligations as a Qwest sales agent or independent contractor not to engage in or facilitate the practice of "slamming" customers. I pledge that I will not submit an order to change long distance service to Qwest unless it has been fully and knowingly authorized by the subscriber and has been verified in accordance with Qwest's policies and procedures, as they may be modified from time to time. I understand that Qwest will not tolerate occurrences of "slamming", and that Qwest will take whatever actions are necessary to protect against slamming including, without limitation, termination of the sales agent relationship and enforcement of all applicable legal rights and remedies. I understand that instances of forgeries or willful violations of applicable rules will result in my immediate termination and a permanent ban on soliciting services on behalf of Qwest.

____
Signature Of Representative Selling Qwest Long Distance

Date____________________

____
Print Name
Home Phone Number__________________________

____
Print Name of Company

Channel Code ____________________

Organization Code ____________________

DISTRIBUTOR'S ACKNOWLEDGMENT AND AGREEMENT NOT TO ENGAGE IN SLAMMING

This will verify that on behalf of ______________________________, I have received, read, understand, and will distribute the document entitled "QWEST'S POLICIES AND PROCEDURES REGARDING SLAMMING PREVENTION" to all individuals responsible for selling Qwest Communications Corporation's Service. We fully understand and appreciate our obligations as a Qwest sales agent not to engage in or facilitate the practice of "slamming" customers. We pledge that we will not submit an order to change long distance service to Qwest unless it has been fully and knowingly authorized by the subscriber and has been verified in accordance with Qwest's policies and procedures, as they may be modified from time to time. We understand that Qwest will not tolerate occurrences of "slamming", and that Qwest will take whatever actions are necessary to protect against slamming including, without limitation, termination of the sales agent relationship and enforcement of all applicable legal rights and remedies.

______________________________ ______________

Signature Of Representative Date

____

Print Name

Business Phone Number ____________________

____

Print Name of Company

Channel Code ____________________

Organization Code ____________________

Please remit this form within fourteen days of receipt to: Qwest Communications Corporation., 4650 Lakehurst Court, Dublin, Ohio 43016, Attn: Legal Dept.

Signature Of Representative for ______________________________.

DOCKET NO. 23369

NOTICE OF INTENT TO ASSESS AN ADMINISTRATIVE PENALTY AGAINST QWEST COMMUNICATIONS CORPORATION FOR VIOLATIONS OF P.U.C. SUBSTANTIVE RULES 26.32, PROTECTION AGAINST UNAUTHORIZED BILLING CHARGES (CRAMMING), PURSUANT TO P.U.C. PROCEDURAL RULE 22.246	§ § § § § § § § § §	PUBLIC UTILITY COMMISSION OF TEXAS

ORDER

This Order reflects that the alleged violations of P.U.C. SUBST. R. 26.32 and 26.106 were resolved pursuant to the parties' Stipulation and Settlement Agreement (Stipulation). This docket was processed in accordance with applicable statutes and Commission rules. No issues remain. This proceeding, consistent with the terms of the Stipulation, is dismissed.

The Commission adopts the following findings of fact and conclusions of law:

I. Findings of Fact

1. On November 30, 2000, the Commission's Customer Protection Division (CPD) issued to Qwest Communications Corporation (Qwest) a notice of intent to assess an administrative penalty for violations of P.U.C. SUBST. R. 26.32, based upon 22 customer complaints alleging that Qwest had billed the customer without obtaining the customer's consent, a practice commonly referred to as cramming.

2. On December 22, 2000, Qwest requested a settlement conference pursuant to P.U.C. PROC. R. 22.242(f)(3).

3. CPD and Qwest are the only parties to this proceeding.

4. On October 22, 2001, the parties filed a Stipulation and Settlement Agreement (Stipulation) which is Attachment A to this Order, resolving all of the issues in this proceeding.

Stipulation and Settlement Agreement

5. Qwest asserts that it has taken corrective action with respect to the alleged violations that led to the notice identified in Finding of Fact No. 1 above by: (a) immediately ceasing billing upon notice that the charges were not authorized by the customer; (b) issuing a full credit for all unauthorized charges; and (c) not resubmitting any unauthorized charge to the billing telephone company for any past or future period.

6. The parties desire to compromise and settle the issues raised by the Commission's administrative penalty notice in order to avoid the time, effort, and expense of preparation for hearing, the hearing process, and any appeal from the ultimate decision on the issues raised and litigated. In addition, the parties wish to resolve all other complaints to CPD about Qwest that were made prior to the date of the execution of the Stipulation.

7. Qwest agrees to pay a settlement amount of FIFTY THOUSAND AND NO/100 DOLLARS ($50,000.00). Full payment of the settlement amount shall be made not later than two weeks following the date this Order is signed. The settlement check or wire transfer shall be payable to the Texas Comptroller of Public Accounts.

8. Qwest agrees to, as expeditiously as possible, resolve all complaints received by CPD and forwarded to Qwest, up to the date of the Stipulation, in the customers' favor to the extent possible. For any such complaints that Qwest believes cannot or should not be resolved in the customer's favor, Qwest will work with CPD to determine the proper resolution. Qwest agrees to resolve complaints forwarded by CPD pursuant to this finding of fact that have been pending less than six months, within 30 days from the date that Qwest receives the complaint. Complaints forwarded by CPD pursuant to

this finding of fact that have been pending more than six months, if any, will be resolved within 45 days from the date Qwest receives the complaint.

9. Qwest agrees to conduct an internal review of its procedures for responding to complaints forwarded to Qwest by CPD and provide a written report to CPD outlining the procedures and explaining any improvements to Qwest's processes that were identified as a result of this review. In addition, Qwest will explain the reasons for delay in responding to any of the 22 customer complaints referenced in Finding of Fact No. 1 herein, as well as identifying Qwest's procedures that will assist in preventing such delays in the future.

10. Qwest agrees to conduct a customer education program, with the purpose of informing its Texas customers of their rights under P.U.C. SUBST. R. 26.32 and 26.130 (cramming and slamming rules). This program will consist of mailing the letter in Attachment B to this Order to each of Qwest's customers in Texas.

11. CPD will not seek administrative penalties nor take other enforcement action against Qwest with regard to any complaint filed with CPD prior to the execution of the parties' Stipulation. CPD will continue, however, to forward customer complaints to Qwest for investigation and resolution. Qwest will respond to CPD within 21 calendar days after CPD forwards the complaint. Qwest's responses will provide all documentation related to the complaint, a complete description of the results of Qwest's investigation, and identify all corrective actions taken.

12. In the event that complaints concerning Qwest are determined by CPD to be valid, Qwest agrees to take all corrective actions required by the Commission's rules and by state and federal law. If Qwest fails to take corrective action on any valid complaint over which the Commission has jurisdiction, CPD may take enforcement action against Qwest. Also, any additional violations of P.U.C. SUBST. R 26.32 or 26.130 related to a complaint submitted by the Commission to Qwest after the execution date of the parties' Stipulation (except for complaints submitted by the Commission to Qwest pursuant to the parties' Stipulation) may result in further enforcement action including an

administrative penalty and/or revocation of registration, thereby denying Qwest the right to provide service in this state.

12. The Stipulation is reasonable and should be approved.

Informal Disposition

13. More than 15 days have passed since completion of notice requirements in this docket.

14. All issues in this proceeding are fully stipulated so that no issues of fact or law are disputed by any party; therefore, no hearing is necessary.

II. Conclusions of Law

1. Qwest is a telecommunications utility as defined in § 51.002 of the Public Utility Regulatory Act (PURA).[1]

2. The Commission has jurisdiction and authority over this proceeding pursuant to PURA §§ 15.023, 15.027, and 52.002(a).

3. No evidentiary hearing is necessary because there is no genuine issue as to any material fact and no dispositive issue remains in dispute.

4. This proceeding, consistent with the Stipulation and Settlement Agreement, may be approved without a hearing pursuant to TEX.GOV'T.CODE ANN. § 2001.056 (Vernon 2000).

5. The requirements for informal disposition under P.U.C. PROC. R. 22.35 have been met in this proceeding except for subsection (b) that the proposed order be served on all parties no less than 20 days before the Commission is scheduled to consider the application in an open meeting. Pursuant to

[1] TEX.UTIL.CODE ANN. §§ 11.001—64.158 (Vernon 1998 & Supp. 2001).

P.U.C. PROC. R. 22.5(b), there is good cause to waive the 20-day requirement of P.U.C. PROC. 22.35(b).

III. Ordering Paragraphs

In accordance with these findings of fact and conclusions of law, the Commission issues the following Order:

1. Consistent with the parties' Stipulation, which is Attachment A to this Order, this proceeding is dismissed.

2. Qwest agrees to pay a settlement amount of **FIFTY THOUSAND AND NO/100 DOLLARS ($50,000.00).** Full payment of the settlement amount shall be made no later than two weeks following the date of the Order. The settlement payment shall be payable to the Texas Comptroller of Public Accounts.

3. Qwest shall continue operating policies and procedures intended to reduce and mitigate cramming and slamming complaints against Qwest, including mailing of the customer education letter which is Attachment B to this Order.

4. Entry of an order consistent with the Stipulation does not indicate the Commission's endorsement or approval of any principle or methodology that may underlie the Stipulation. Neither should the entry of an order consistent with the Stipulation be regarded as a binding holding or precedent as to the appropriateness of any principle underlying the Stipulation.

5. All other motions, requests for entry of specific findings of fact and conclusions of law, and any other requests for general or specific relief, if not expressly granted herein, are denied for want of merit.

SIGNED AT AUSTIN, TEXAS on the 8th day of November 2001.

PUBLIC UTILITY COMMISSION OF TEXAS

MAX YZAGUIRRE, CHAIRMAN

BRETT A. PERLMAN, COMMISSIONER

R Klein

REBECCA KLEIN, COMMISSIONER

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DOCKET NO. 23369

NOTICE OF INTENT TO ASSESS	§	
AN ADMINISTRATIVE PENALTY	§	PUBLIC UTILITY
AGAINST QWEST COMMUNICA-	§	
TIONS CORPORATION FOR	§	COMMISSION
VIOLATIONS OF P.U.C. SUBSTAN-	§	
TIVE RULES §26.32, PROTECTION	§	OF TEXAS
AGAINST UNAUTHORIZED BILLING	§	
CHARGES ("CRAMMING"),	§	
PURSUANT TO P.U.C. PROCEDURAL	§	
RULES §22.246	§	

STIPULATION AND SETTLEMENT AGREEMENT

This Stipulation and Settlement Agreement ("Agreement") is entered into by and between the Customer Protection Division ("CPD") of the Public Utility Commission of Texas ("P.U.C."), and Qwest Communications Corporation ("Qwest" or "the Company"), as follows:

(1) On November 30, 2000, CPD issued to Qwest a "Notice of Intent to Assess an Administrative Penalty for Violations of P.U.C. Substantive Rules §26.32, Protection Against Unauthorized Billing Charges ("Cramming")," based on 22 customer complaints alleging that the Company had billed the customer without obtaining the customer's consent, a practice commonly referred to as "cramming."

(2) In this Agreement, "cramming" means an unauthorized charge on a customer's telephone bill. In accordance with the standards set forth in PURA Chapters 17 and 64, a billing charge that is not in compliance with P.U.C. Substantive Rules §26.32 is considered to be an unauthorized billing charge.

(3) Qwest asserts that it has taken corrective actions with respect to the alleged violations that led to the notice identified in Paragraph (1) above by:

a. immediately ceasing billing upon notice that the charges were not authorized by the customer;

b. issuing a full credit for all unauthorized charges; and

c. not resubmitting any unauthorized charge to the billing telephone company for any past or future period.

(4) The parties desire to compromise and settle the issues raised by CPD's administrative penalty notice in order to avoid the time, effort, and expense of preparation for hearing, the hearing process, and any appeal from the ultimate decision on the issues raised and litigated. In addition, the parties wish to resolve all other complaints to CPD about Qwest that were made prior to the date of the execution of this Agreement. Therefore, Qwest agrees to pay a settlement amount of **FIFTY THOUSAND AND NO/100 DOLLARS ($50,000.00)** and to take additional actions enumerated below in full settlement of all complaints sent to CPD through the date of this Agreement. Full payment of the settlement amount shall be made no later than two weeks following the entry of a final Order incorporating the terms of this Agreement and dismissing Docket No. 23369. The settlement payment check shall be payable to the Texas Comptroller of Public Accounts.

(5) In further consideration for settlement of the pending complaints, Qwest agrees to implementation or continued utilization of the following remedial actions:

a. Qwest will as expeditiously as possible resolve all complaints received by CPD and forwarded to Qwest, up to the date of this Agreement, in the customers' favor to the extent possible. For any such complaints that Qwest believes cannot or should not be resolved in the customer's favor, Qwest will work with CPD to determine the proper resolution. Qwest agrees to resolve complaints forwarded by CPD pursuant to this paragraph that have been pending less than six months, within 30 days from the date the Qwest receives the complaint. Complaints forwarded by CPD pursuant to this paragraph that have been pending more than six months, if any, will be resolved within 45 days from the date Qwest receives the complaint.

b. Qwest will conduct an internal review of its procedures for responding to complaints forwarded to Qwest by CPD. Following such review, Qwest will provide a written report to CPD outlining the procedures and explaining any improvements to Qwest's processes that were identified as a result of this review. In addition, Qwest will explain the reasons for delay in responding to any of the 22 customer complaints referenced in Paragraph (1) herein, as well as identifying Qwest's procedures that will assist in preventing such delays in the future.

c. Qwest will conduct a customer education program with the purpose of informing its Texas customers of their rights under P.U.C. Substantive Rules §26.32 and §26.130 (cramming and slamming rules). This program will consist of mailing the attached letter to each of Qwest's customers in Texas.

(6) CPD will not seek administrative penalties nor take other enforcement action against Qwest with regard to any complaint filed with CPD prior to the execution of this Agreement. CPD will continue to forward customer complaints to Qwest for investigation and resolution. Qwest will respond to CPD within 21 calendar days after CPD forwards the complaint. Qwest's responses will provide all documentation related to the complaint, a complete description of the results of Qwest's investigation, and identify all corrective actions taken.

(7) In the event that complaints concerning Qwest are determined by CPD to be valid, Qwest shall take all corrective actions required by the P.U.C. rules and by state and federal law. If the Company fails to take corrective action on any valid complaint over which the P.U.C. has jurisdiction, CPD may take enforcement action against Qwest. Also, any additional violations of P.U.C. Substantive Rules §26.32 or §26.130 related to a complaint submitted by the P.U.C. to Qwest after the execution date of this Agreement (except for complaints submitted by the P.U.C. to Qwest pursuant to Paragraph 5a above) may result in further enforcement action including an administrative penalty and/or revocation of registration, thereby denying Qwest the right to provide service in this state.

(8) By entering into this Agreement and paying the aforesaid sum, Qwest does not admit to any violation of any state or federal law or rule by its officers, agents, employees, representatives, independent contractors, marketers or assigns.

(9) This Agreement fully and finally resolves any and all claims or allegations of slamming and cramming that were or could have been asserted in this investigation, including all such claims and practices of which any officer, agency, board, commission, authority or other governmental agency of the State of Texas had actual or constructive knowledge as of the date of this settlement.

(10) This Agreement contains the entire agreement between CPD and Qwest, and the terms of this Agreement are contractual and not a mere recital.

(11) Qwest warrants that it has read the foregoing document carefully, knows the contents thereof, and signs the same as its free act.

EXECUTED this 21 day of September 2001.

Public Utility Commission of Texas

Mike Renfro

Mike Renfro
Director – Customer Protection

Qwest Communications Corporation

Valerie P. Kirk

Valerie P. Kirk
Attorney for Qwest Communications Corporation

DATE

Dear Valued Customer:

Qwest and the Public Utility Commission of Texas agree: when it comes to your telephone services, you have every right to keep the provider of your choice and to pay only for those services you have authorized. In fact, Texas law prohibits "slamming" (the switching of your telephone provider without your knowledge or consent) and "cramming" (the practice of adding unauthorized charges to your phone bill).

As a customer of Qwest – or of any other telecommunications company providing service in Texas – you have certain rights regarding Slamming and Cramming. We'd like to tell you about them:

What you should know about Slamming:
If you've been slammed, tell your local telephone company to return you to your original telephone service provider. Texas law requires a local or long distance telephone company that has slammed you to do the following:

- Pay all the usual and customary charges associated with returning you to your original telephone company;
- Provide all billing records to your original telephone company;
- Customers are not required to pay for any charges incurred in the first 30 days after being slammed;
- After the first 30 days customers are only required to pay the amount you would have paid to your original telephone company had you not been slammed.

To make sure this doesn't doesn't happen to you, sign up for slamming protection with your local provider. This will reduce the likelihood of any company changing your local or long distance carrier without your explicit authorization.

What you should know about Cramming:
If you believe that you've been crammed, contact the telephone company that bills you for your telephone service and request that it take corrective action. Within 45 days of learning about unauthorized charges to your account, that company must:

- Notify the service provider to cease charging you for the unauthorized product or service;
- Remove any unauthorized charges from your bill;
- Refund or credit all money to you that you have paid for an unauthorized charge;
- Upon request, provide you with all billing records related to any unauthorized charge within 15 business days after the charge is removed from your telephone bill.

If your telephone company fails to resolve a complaint about either Slamming or Cramming, please write or call the Public Utility Commission of Texas, PO Box 13326, Austin, Texas 78711-3326, (512) 936-7120 or toll-free in Texas at (888) 782-8477. Hearing and speech-impaired individuals with text telephones (TTY) may contact the Commission at (512) 936-7136.

Thank you for using Qwest. We look forward to meeting your future telecommunications needs.

Qwest®

STATE OF NEW YORK
CONSUMER PROTECTION BOARD

CASE 01-NOAL-0001 - In the Matter of Do Not Call Complaints Received Against Qwest Communications Corporation.

DECISION AND ORDER APPROVING SETTLEMENT AGREEMENT

(Issued November 29, 2001)

BY CHAIRMAN AND EXECUTIVE
DIRECTOR C. ADRIENNE RHODES:

BACKGROUND

In this Decision and Order, by direction of the New York State Consumer Protection Board ("CPB") Chairman and Executive Director C. Adrienne Rhodes, an Order approving a Settlement and Stipulation Agreement ("Agreement") in the amount of $20,000 is issued concerning the twenty (20) complaints that have been filed with the CPB against Qwest Communications Corporation ("Qwest").

On July 19, 2001, the CPB issued a Notice of Apparent Liability for Do Not Call Violations ("NOAL") pursuant to 21 New York Codes, Rules and Regulations (NYCRR) § 4603.1(b). In that NOAL, the CPB found that Qwest had apparently violated McKinney's New York General Business Law (GBL) § 399-z(3) and 21 NYCRR §§ 4602.5(f) and 4603.1(a) by making sixteen (16) unsolicited telemarketing sales calls during the period May 3, 2001 through May 21, 2001 to consumers whose names and telephone numbers appeared on the April 2, 2001 New York State Do Not Call Registry ("Registry"). Qwest was apparently liable for a penalty amount of up to $2,000 per violation, resulting in a total possible penalty in the amount of $32,000. GBL § 399-z(6)(a) and 21 NYCRR §§ 4603.1(a) and 4603.4(a).

Subsequent to the issuance of the NOAL, additional complaints were received by the CPB concerning Qwest, and these were forwarded to Qwest by our enforcement staff for further information. Additionally, our enforcement staff engaged in discussions with Qwest to attempt to settle all outstanding complaints. Those discussions were successful, and a Settlement and Stipulation Agreement ("Agreement") dated November 6, 2001 was submitted for approval. For reasons to be discussed, the Agreement is in the public interest, and is approved.

DISCUSSION

The facts and conclusions leading to Qwest's NOAL are fully set forth in that document, which was issued July 19, 2001, and need not be reiterated. Further explanation of the facts and circumstances of the case is also contained in the Agreement that was submitted for approval. As described in the Agreement, Qwest responded to the NOAL, and negotiations ensued between Qwest and our enforcement staff that culminated in the Agreement.

We have carefully reviewed the Agreement submitted for approval. We agree with the conclusion reached that the Agreement is in the public interest.

The complainants were notified of the pending Agreement by letter dated November 7, 2001 and were offered an opportunity to submit comments. Under the law and our rules, the complainants could also have requested a hearing. See GBL §§ 399-z(6)(a), (b), and (c) and 21 NYCRR § 4603.1(c).

The CPB received no comments on the Agreement, and no requests for a hearing. No useful purpose would be served by conducting a hearing since the Agreement is unopposed.

CONCLUSION

The record in this proceeding supports the conclusion that the Agreement satisfactorily resolves all twenty (20) complaints described in the Agreement regarding any potential violations of GBL § 399-z(3), and 21 NYCRR §§ 4602.5(f) and 4603.1(a). Additionally, the evidence shows the calls in question were made, and Qwest should have known they were at risk of Do Not Call law violations given the circumstances.

Accordingly, there exist ample grounds to impose the entire $2,000 per violation penalty, or a total of $40,000, for the twenty (20) violations discussed in the July 19, 2001 Qwest NOAL, or that developed subsequently. However, we also believe that Qwest has demonstrated mitigating circumstances, as well as good faith compliance efforts that, while not sufficient to invoke the safe harbor provisions, or the exemptions or exceptions provisions, do require a lessening of the violation amounts, given the various issues that Qwest has raised. Therefore, we approve the $20,000 settlement amount as more particularly described in the Agreement. Such settlement amount resolves all complaints that occurred up to and including November 6, 2001, the date of the Agreement, since Qwest very reasonably wanted its total liability resolved for any Do Not Call violations in this proceeding through that date.

<u>BY ORDER OF CHAIRMAN AND EXECUTIVE DIRECTOR C. ADRIENNE RHODES:</u>

1. The Agreement dated November 6, 2001 between Qwest and the CPB enforcement staff is approved. Qwest should remit twenty thousand dollars ($20,000) to the New York State Consumer Protection Board, 21st Floor, Five Empire State Plaza, Albany, New York 12223-1556 within ten days from the date of this Order payable to the "State Consumer Protection Board." As provided in the Agreement, such payment will constitute full and complete satisfaction for all complaints received by the CPB up to and including the effective date of the Agreement.

2. This proceeding is closed.

C. Adrienne Rhodes
Chairman and Executive Director

STATE OF NEW YORK
CONSUMER PROTECTION BOARD

CASE 01-NOAL-0001 - In the Matter of Do Not Call Complaints Received Against Qwest Communications Corporation.

SETTLEMENT AND STIPULATION AGREEMENT

This Settlement and Stipulation Agreement ("Agreement") is made and entered into this 6th day of November 2001 by and between Qwest Communications Corporation ("Qwest") and the New York State Consumer Protection Board ("CPB"), an agency in the Executive Department of the State of New York.

WHEREAS, Qwest is engaged inter alia in the business of conducting telemarketing within the State of New York and elsewhere; and

WHEREAS, General Business Law ("GBL") § 399-z (the "Do Not Call" law), and 21 NYCRR Parts 4602 - 4604, the rules adopted pursuant to the law, which regulate certain aspects of the activities of individuals and entities engaged in telemarketing sales activities, took effect within the State of New York on April 1, 2001; and

WHEREAS, as a result of sixteen (16) complaints received by the CPB against Qwest after the law became effective, the CPB conducted an investigation of the complaints; and

WHEREAS, by letter dated June 13, 2001, the CPB notified Qwest of the complaints, informed Qwest that an investigation was underway, and requested any information that Qwest could provide regarding the complaints; and

WHEREAS, a response was received from Qwest regarding the complaints dated June 29, 2001 fully setting forth its position regarding the complaints; and

WHEREAS, as a result of the investigation, and after an evaluation of Qwest's response, the CPB issued a Notice of Apparent Liability ("NOAL") dated July 19, 2001, which indicated an apparent liability for $32,000 based on sixteen (16) apparent Do Not Call violations, as more particularly discussed in the NOAL; and

WHEREAS, Qwest responded to the NOAL by letter dated August 17, 2001, which fully set forth Qwest's position and response regarding matters discussed in the NOAL; and

WHEREAS, while Qwest's response was being considered by the CPB, additional Do Not Call complaints from consumers were received by the CPB against Qwest, Qwest was notified of those complaints, and it was mutually agreed upon by the CPB and Qwest that all pending complaints would be considered in this proceeding; and

WHEREAS, further correspondence and discussions took place between the CPB and Qwest in an attempt to resolve the pending complaints, and it was mutually agreed that the complaints could be best resolved through negotiations and settlement rather than litigation; and

WHEREAS, negotiations ensued, were successfully concluded as a result of the efforts of both parties, and this Agreement was the result of such negotiations; and

WHEREAS, Qwest denies that it violated the Do Not Call law and rules in any manner, maintains that any calls made to individuals on the Registry were the result of excusable error under the "Safe Harbor" provisions of 21 NYCRR § 4603.3, or that such calls were proper exceptions as defined in GBL § 399-z(1)(j) and 21 NYCRR § 4603.2; and

WHEREAS, the CPB, after reviewing the entire matter, asserts that the alleged violations of the Do Not Call law and rules occurred, and that Qwest is subject to appropriate administrative penalties as a result, but that the facts and circumstances, as well as the affirmative defenses put forth by Qwest, merit substantial consideration as to the level of any administrative penalty to be imposed; and

WHEREAS, the CPB and Qwest agree that there are twenty (20) complaints that are subject to the provisions of this settlement, and that such complaints encompass and will resolve all pending complaints against Qwest up to and including the date of this settlement first written above, including any possible exceptions and exemptions; and

WHEREAS, Qwest has undertaken substantial efforts to comply with the Do Not Call law and rules, has purchased a copy of the Do Not Call Registry, has established and implemented written policies and procedures, has trained personnel in the requirements of the Do Not Call law and applicable regulations, maintains records demonstrating compliance with the Do Not Call law and regulations, and such reasonable good faith efforts are acknowledged by the CPB; and

WHEREAS, the CPB and Qwest desire to avoid the burden and expense of further proceedings relating to the alleged violations of the Do Not Call law and rules, and believe that a settlement is more likely to serve the public interest, and the interests of the concerned parties, including the complainants on whose behalf the CPB is acting, than any other method of resolving the alleged complaints.

NOW, THEREFORE, the CPB and Qwest stipulate and agree as follows:

1. Qwest denies that it violated the Do Not Call law and rules. This agreement is being entered into by Qwest solely to avoid the burden and expense of further proceedings, and the uncertainty of further litigation.

2. The CPB disputes the Qwest position regarding violations, but accepts the representations made by Qwest that substantial efforts were made to comply with the Do Not Call law and rules, that Qwest has thoroughly reviewed its practices and procedures, and has taken all appropriate and reasonable measures to protect New York consumers from unwanted calls. The CPB agrees that no useful purpose will be served by undertaking the burden and expense of further proceedings, and that the risk of further litigation would be undesirable. The CPB also agrees that, given the facts and circumstances involved, substantial mitigation of the penalty per violation is entirely appropriate, and is in the public interest.

3. In full and final settlement of any and all alleged violations of the Do Not Call law and rules as described herein, within ten (10) days of the approval of this Agreement by CPB Chairman and Executive Director, C. Adrienne Rhodes, Qwest shall deliver to the CPB a check, payable to the "State Consumer Protection Board," in the

amount of $20,000. Said $20,000 amount relates to the twenty (20) violations discussed herein, at $1,000 penalty per violation. This settlement represents a compromise from the maximum fine of $2,000 per violation, or a total fine of $40,000, that could have been assessed under the provisions of GBL § 399-z(6)(a) and 21 NYCRR § 4603.1(a) had the alleged violations been fully litigated, Qwest found liable for the violations, and the maximum administrative penalty imposed.

4. For reasons described earlier, both the CPB and Qwest believe this settlement disposition of the twenty (20) complaints in question is in the public interest.

5. CPB and Qwest stipulate and agree that this Agreement fully comports with the requirements of the State Administrative Procedure Act (SAPA) § 301(5), and waive any other rights or remedies they may have under GBL § 399-z(6)(a), (b), and (c), and under 21 NYCRR § 4603.1(e).

6. By entering into this Agreement, the CPB expressly waives and releases Qwest from all claims or liability arising out of the allegations at issue in Case 01-NOAL-0001, and any and all complaints based on telephone calls that were made or allegedly made, or other facts that occurred or allegedly occurred, prior to the date of this Agreement.

7. Qwest shall continue to use its best efforts to continue to comply with the Do Not Call law and rules.

8. CPB and Qwest acknowledge that they are aware of the provisions of 21 NYCRR § 4603.1(f) providing that any facts or evidence received by the CPB may be used in any proceeding. In the event of any proven violations subsequent to the date of this Agreement, CPB and Qwest expressly acknowledge that this Agreement may be considered by the CPB in setting the appropriate level of any penalty or fine assessed for any future Do Not Call violations, should such violations occur.

9. The terms and provisions of this Agreement apply solely to and are binding only in the context of this Agreement. None of the terms and provisions of this Agreement, and none of the positions taken herein by any party may be referred to, cited or relied upon by any other party in any fashion as precedent in any other proceeding

before the CPB or any other agency or before any court of law except in furtherance of the purposes of this Agreement, or except as specifically provided for in paragraph 8 herein.

WHEREFORE, the CPB and Qwest have executed this Agreement as of the date first above written.

QWEST COMMUNICATIONS CORPORATION

By: ______________________________

Thomas W. Snyder
Attorney

NEW YORK STATE CONSUMER PROTECTION BOARD

By: ______________________________

James F. Warden, Jr.
General Counsel

JOHN J. FARMER, JR.
ATTORNEY GENERAL OF NEW JERSEY
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124 Halsey Street
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Newark, New Jersey 07101
Attorney for New Jersey Division of Consumer Affairs
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By: Christopher J. Dalton
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FILED

APR 27 2001

Division of Consumer Affairs

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES
DIVISION OF CONSUMER AFFAIRS
BPU Docket No.:
DCA Docket No.:

IN THE MATTER OF AN ADMINISTRATIVE INVESTIGATION INTO ALLEGED VIOLATIONS OF LAW AND ADMINISTRATIVE REGULATIONS BY QWEST COMMUNICATIONS INTERNATIONAL, INC.; QWEST COMMUNICATIONS CORPORATION; LCI INTERNATIONAL, INC.; and LCI INTERNATIONAL TELECOM CORPORATION

ADMINISTRATIVE CONSENT ORDER

WHEREAS, this matter was commenced by the Director of the New Jersey Division of Consumer Affairs ("Director" or "DCA") and the New Jersey Board of Public Utilities ("Board" or "BPU") as an administrative investigation into allegations of violations of law and administrative regulations by Qwest Communications International, Inc.; Qwest Communications Corp., LCI International, Inc., and LCI International Telecom Corp.; and

WHEREAS, Qwest Communications International, Inc., Qwest Communications Corp., LCI International, Inc., and LCI International Telecom Corp., have cooperated in this investigation and the parties have engaged in discussions and have exchanged information regarding this matter; and

WHEREAS, QWEST Communications International, Inc., Qwest Communications Corp., LCI International, Inc., and LCI International Telecom Corp. acknowledge the jurisdiction of the Director and the Board over this matter; and

WHEREAS, QWEST Communications International, Inc., Qwest Communications Corp., LCI International, Inc., and LCI International Telecom Corp. have shown good faith and sincere desire to cooperate with the Director and the Board in the expeditious and amicable resolution of this matter: and

WHEREAS, the parties desire to achieve a resolution of this matter without resort to litigation, and without any admission of liability or fault by or on the part of Qwest Communications International, Inc., Qwest Communications Corp., LCI International, Inc., and/or LCI International Telecom Corp.;

THEREFORE, it is on this 19th day of April, 2001, ORDERED AND AGREED that:

DEFINITIONS

1. As used in this Order, the following definitions shall apply:

a. "Qwest" means Qwest Communications International, Inc.; Qwest Communications Corp.; LCI International, Inc.; and LCI International Telecom Corp.; and any of its or their principals, directors, officers, parent corporations, subsidiaries, affiliates, shareholders, employees, representatives, agents, assigns, successors, and/or independent contractors/third party distributors, and every other person or entity who or which markets or provides telecommunications services by or on behalf of Qwest.

b. "Board" or "BPU" means the New Jersey Board of Public Utilities.

c. "Director" or "DCA" means the New Jersey Division of Consumer Affairs.

d. "Clear and conspicuous" means that the required disclosures are presented in such a manner, given their size, color, contrast, and proximity to any related information as to be readily noticed and understood by consumers. A disclosure is not clear and conspicuous if, among other things, it is ambiguous or it is obscured by the background against which it appears or by its location within a lengthy disclosure of non-material information. Clear and conspicuous also means in an oral presentation that the information is presented in a manner that a consumer will hear and understand, at a normal speed, and in the same tone and volume as the sales offer.

e "Consumer," unless otherwise specified, means any New Jersey residential consumer or any New Jersey business consumer with three lines or less, who has been, or may be a past, present or future purchaser of Qwest's services.

f. "Material" means likely to affect a person's choice of, or conduct regarding, goods or services.

g. "Offer" means an offer of goods and/or services to one or more consumers, including, but not limited to, an offer of telecommunications services, regardless of whether the offer is conveyed in writing, orally, electronically, over the Internet, or in any other manner. The term "offer" includes any solicitation made directly to consumers by telemarketing, face-to-face solicitation, or written solicitation, including, but not limited to, any written solicitation forwarded to a consumer after an initial face-to-face solicitation or telemarketing call to the consumer.

h. "Represent" and "representation" include any communication, whether made in writing, orally, electronically, over the Internet, or in any other manner.

i. "Solicitation" means any communication to a consumer which contains an offer, whether made in writing, orally, electronically, over the Internet, or in any other manner.

j. A "preferred carrier" or "preferred interexchange carrier" ("PIC") is the telecommunications carrier chosen by an end user consumer to which traffic from the end user consumer's location is automatically routed by a local exchange carrier ("LEC"), regardless of whether that entity possesses telecommunications equipment capable of physically processing any component of such calls. In New Jersey, an end user consumer may have a different preferred carrier for local exchange calls, regional toll (intra-LATA) calls, and long distance (inter-LATA) calls.

k. A "preferred carrier change" or "PIC change" is a change or switch of a consumer's telephone services, whether local exchange, regional toll, or interexchange, from his or her current preferred carrier to a different carrier.

l. A "letter of agency" ("LOA") is a consumer's written authorization to a carrier approving and directing a preferred carrier change.

PARTIES SUBJECT TO ORDER

2. This Administrative Consent Order ("Order") shall apply to Qwest (as defined above, see Paragraph 1(a)), its principals, directors, officers, parent corporation(s), subsidiaries, affiliates, shareholders, employees, representatives, agents, assigns, successors, any trustee in bankruptcy or other trustee, or any receiver appointed pursuant to proceedings in law or equity.

BACKGROUND

3. In order to market intrastate and interstate telecommunication services to consumers in New Jersey, Qwest has used "in-house" marketers and has also engaged the services of outside independent contractors/third-party marketers who act as Qwest's agents to solicit new consumers for Qwest through telemarketing, direct-mail, and face-to-face solicitations. Qwest states that the

agents who engage in face-to-face solicitations on its behalf are required by contract to obtain a telephone line subscriber's or authorized party's signature on an LOA. Qwest also states that prior to September 1999, such agents were not required to provide copies of LOAs to Qwest but rather submitted service orders electronically to Qwest and were required to maintain the LOAs and provide such LOAs to Qwest upon Qwest's request for such LOAs to verify that subscribers did in fact authorize a switch of their preferred carrier. Commencing in September 1999, Qwest revised its procedures and began requiring that all agents submit LOAs to Qwest before a service order would be processed by Qwest. Since that time, Qwest has instituted a process of electronically scanning each LOA into a database to ensure that Qwest has such LOAs available before processing an order and to respond promptly to consumer inquiries. Qwest states that it has also adopted other processes and procedures to ensure that consumers' preferred carriers are not changed without proper authorization, commonly known as "slamming." These other measures are discussed below and are also contained in Qwest's Response to the Federal Communications Commission's ("FCC") Notice of Apparent Liability for Forfeiture, FCC File No. ENF-99-11, filed by Qwest on November 18, 1999, and Qwest's Consent Decree with the FCC signed by the FCC Secretary July 20, 2000, as approved by the FCC in FCC File No. ENF-99-11, NAL/Acct. 916EF008 (released July 21, 2000) ("Qwest FCC Consent Decree").

4. Beginning in or about 1997 and continuing through the present, the State of New Jersey, through its Board of Public Utilities and Division of Consumer Affairs, has received and investigated consumer complaints alleging that Qwest has engaged in practices in violation of N.J.S.A. 56:8-1 et seq., which prohibits, inter alia, the use of any unconscionable, deceptive, or misleading sales or marketing practice as well as the unauthorized switch of a consumer's preferred

to change their preferred telecommunications carrier. Qwest states that it has also enhanced its customer care centers, in terms of both staffing and training, to better respond to consumer inquiries.

INJUNCTIVE RELIEF

6. Qwest shall refrain and desist from engaging in any acts or practices in violation of the Consumer Fraud Act, N.J.S.A. 56:8-1 et seq. and particularly N.J.S.A. 56:8-2 and 56:8-86 to -91, or the Public Utilities Laws, N.J.S.A. 48:2-1 et seq., and all implementing regulations, including, but not limited to, any and all of the following acts or practices, regardless of whether Qwest previously engaged in such conduct:

a. Submitting PIC change orders without complying with FCC Regulations and Orders, as presently enacted or as may subsequently be amended, to local exchange carriers to transfer consumers' preferred carrier(s) to Qwest.

b. Failing to obtain a consumer's authorization before submitting a change order to change a consumer's long-distance (inter-LATA), regional-toll (intra-LATA), and/or local-exchange carrier to Qwest.

c. Failing to verify a consumer's request for telecommunications service pursuant to 47 C.F.R. § 64.1150, as presently enacted or as may subsequently be amended.

d. Failing to comply with FCC information and disclosure requirements for LOAs pursuant to 47 C.F.R. §64.1160, as presently enacted or as may subsequently be amended.

e. Failing to provide accurate, clear and complete information about material terms and conditions of the service.

f. Providing information which, expressly or by implication, compares Qwest's services to services of other providers in a manner which is misleading.

7. Qwest shall continue to submit to the appropriate LEC all PIC change orders obtained on behalf of Qwest by any third-party marketing company or distributor.

8. Qwest agrees to implement and/or continue to use, for a period of 2 years following the date of entry of this Order, those anti-slamming and customer-care policies and procedures agreed to in the Qwest FCC Consent Decree, including, but not limited to, the following:

a. *Anti-Slamming Advisory*: Qwest shall distribute to all its distributors a copy of its updated Anti-Slamming Advisory. Qwest shall require every sales representative involved in any way in the marketing of Qwest service to review and sign an anti-slamming advisory, at least once every six months, acknowledging their understanding of its requirements and verifying their intent to comply.

b. *Submission and Scanning of LOAs*: Qwest shall continue to require that all distributors and representatives transmit to Qwest the LOA upon which an order is based. Qwest shall continue to scan such LOAs into its database, and shall continue to review such LOAs for facial validity (i.e., complete information, matching signature, etc.). Qwest shall continue to explore commercially practicable methods of verifying the validity of such LOAs in order to deter abuses, forgeries, and falsifications and, where feasible and appropriate, implement such measures.

c. *Welcome Mailing*: Qwest shall continue to send a welcome mailing to the consumer identified on the LOA informing him or her that Qwest has received a service change order and is processing that order, which mailing shall disclose the telephone line(s) to be changed and shall contain a contact telephone number for the consumer to call if he or she believes the change order has been submitted in error.

d. *CARE Flags*: Qwest shall implement such procedures as will ensure that all consumers who have previously indicated to Qwest that they do not want Qwest's services, or who have alleged that their services were changed to Qwest without proper authorization, will not be returned to Qwest absent clearly valid authorization. Qwest has designated this system as a "CARE Flag" system whereby such consumers will be specifically flagged to prevent the reinstallation of Qwest services.

e. *Economic Sanctions to Third-Party/Independent Contractors and Distributors For Slamming*: Qwest shall continue to require, through its contractual arrangements with third-party/independent contractors and distributors of its services, that all commissions and fees, as well as administrative costs and penalties, associated with a slammed order be returned, refunded, and/or disgorged by the contractor/distributor. Contractors and distributors shall be required to investigate all slamming allegations received by Qwest and provide Qwest with a prompt response thereto. Qwest shall also continue to monitor and track the performance of its third-party contractors and distributors with respect to alleged slams or PIC disputes, and shall make such reports available to the Director or the Board on reasonable notice.

f. *Third Party Verification of Sales*: Qwest shall verify all consumer PIC change requests obtained through a signed LOA during face-to-face marketing according to the procedures set forth in 47 C.F.R. §1150(c) or (d). Qwest shall comply with all valid and effective rules adopted in CC Docket 94-158, or any other FCC docket regarding verification of all other sales as well as the procedures set forth in N.J.A.C. 14:10-11.3. Qwest will revise its third-party verification process to require that any customer confirming a residential sale, without undue prompting or suggestion by the third-party verifier, state his or her name and the telephone number(s) for which the preferred carrier is to be changed. In addition, TPV contractors shall not be compensated or remunerated on the basis of the number of change orders verified.

g. *Strengthened Distributor Enforcement Procedures*: Qwest shall continue to track and monitor its distributors' performance in various respects, including PIC disputes, and shall retain the right to take remedial action against distributors whose performance falls below certain pre-set (and proprietary) levels. The performance-monitoring mechanisms and thresholds used by Qwest are set forth in ¶¶15-18 of the Qwest FCC Consent Decree. Remedial actions include additional training sessions for the distributors' personnel at the distributors' expense, to be conducted or supervised by Qwest personnel; heightened monitoring of distributor performance; re-affirmation of Qwest's Anti-Slamming Advisory; distributor self-audits; additional penalties and/or termination of the distributor.

h. *Strengthened Sales Representative Enforcement Procedures*: Qwest shall require all sales representatives involved in any way with the marketing of Qwest services to periodically, but in no instance less than once every six months, review and sign Qwest's Anti-Slamming Advisory, and to commit themselves to the policies contained therein. Qwest shall further enforce its "zero-tolerance" policy regarding forged LOAs, which requires the termination of any representative determined to have forged a consumer's signature on an LOA. Qwest shall also monitor individual sales representatives' performance and, if a specific individual is involved in a significant number of improper orders, shall take such remedial action as necessary, up to and including termination of that sales representative. This paragraph 8(h) shall be construed as consistent with the requirements of ¶¶ 15-18 of the Qwest FCC Consent Decree.

i. *Intensified Pre-Screening of Distributors*: Qwest shall strengthen its distribution channels through the use of intensified pre-screening of potential distributors. Qwest shall require all distributor candidates to disclose all instances in which it has been accused of slamming or other deceptive business practices, including allegations made against affiliates.

predecessor companies, and the distributors' officers, directors or principals, and any companies with which the officers, directors or principals previously were or currently are associated. Qwest shall immediately terminate any distributor which is found to have failed completely or accurately to make such disclosures. In addition, Qwest shall place all new distributors on probationary status for the first 90 days, during which time Qwest shall conduct performance reviews to ensure that the distributor meets Qwest's standards for performance. Should the distributor fail to meet Qwest's standards of performance during the probationary period, the distributor shall be terminated. The mechanisms and thresholds used by Qwest to define and determine appropriate performance are set forth in ¶¶ 15-18 of the Qwest FCC Consent Decree.

j. *Training*: Initial training sessions, supervised by Qwest employees, shall be conducted for all personnel engaged in door-to-door, telephone, or other point-of-sale [illegible] behalf of Qwest. With respect to training and/or marketing, Qwest:

> (i) Shall provide to all its distributors a copy of its updated Anti-Slamming Advisory attached to the Qwest FCC Consent Decree, except for those distributors that have already received that document. Qwest shall provide training to all new distributors regarding federal and state prohibitions against unauthorized PIC changes, and shall conduct annual "refresher" training to all distributors;
>
> (ii) Shall, within 30 days of the approval of this consent order notify BPU and DCA of any training sessions scheduled to occur within one-hundred and eighty (180) days from the date of entry of the Order and BPU and DCA shall have the right to monitor such sessions without prior notice;
>
> (iii) Shall comply with all requirements regarding provision of information and training in the Qwest FCC Consent Decree and with all restrictions on marketing in the Qwest FCC Consent Decree;

(iv) Shall require all of its agents to execute a certification that they have attended the training sessions, understand the materials presented, and agree to comply with all the training requirements and applicable laws and will acknowledge that, if they are found to have violated any of the training requirements or applicable laws, they are subject to disciplinary action, including, but not limited to, termination;

(v) Shall instruct its agents to cease efforts to solicit customers who demonstrate insufficient proficiency in English (or a language spoken by the sales agent) to understand the solicitation and, shall when making a sale to customers who do not speak English, provide all follow-up written material related to the sale in the language spoken by the customer; and

(vi) Shall conduct marketing only during the hours and days during which their customer call center is open.

k. *Order Processing*: Qwest shall maintain a "stay away" list of consumers who have either (i) claimed an unauthorized switch by Qwest in the past one year; or (ii) expressed their intent never to purchase Qwest's services. Qwest shall verify orders against this "stay away" list before submitting a PIC change to a LEC. Consumers will remain on the stay away list for a minimum of one year, unless they request to be removed from the list.

l. Qwest shall engage an independent auditor on an annual basis to conduct an examination of its reporting and data tracking mechanisms and the enforcement procedures based upon those reports. This examination will be supervised by person licensed to provide public accounting services and shall be conducted in accordance with the relevant standards of the AICPA. The independent auditor shall provide an opinion (with exceptions, if any, noted) in a written report to the Board of Directors of Qwest. Qwest also will require its distributors to report on at least a quarterly basis, the results of an internal audit of its anti-slamming procedures. Qwest shall provide summaries of such audits to the Director and Board upon request. The requirements for audits under this subparagraph shall be construed as consistent with the requirements of audits under paragraph 22 of the Qwest FCC Consent Order.

m. *Customer Service Initiatives*: Qwest shall continue to monitor its responsiveness to customer service concerns, and shall take such steps as are necessary to ensure that its customer care centers are adequately staffed to meet anticipated consumer demand and that consumers contacting Qwest's customer care centers are treated in a professional, courteous manner by customer service representatives familiar with Qwest's full range of services.

9. Within 60 days of the date of the BPU Order approving this Consent Decree, Qwest will obtain a signed and dated acknowledgment of the receipt of the provisions of this Consent Order from all directors, officers, management level employees involved in management of marketing of Qwest Long Distance Services to consumers in New Jersey and of any third-party distributor/independent contractor involved in marketing long distance services to consumers in New Jersey on behalf of Qwest.

10. Qwest designates Michael Mattar 4250 N. Fairfax Drive, 13th Floor, Arlington VA 22203; phone: (703) 363-3713, e-mail: Michael.Mattar@qwest.com, or his successor in title, as its ombudsperson to answer any inquiries from the BPU and/or the DCA. Qwest will provide the BPU with any changes to this information on this ombudsperson.

11. For a period of twelve (12) months following entry of this Consent Order, Qwest shall submit to the Director and the Board, quarterly reports, to be received no later than thirty (30) days from the end of the quarterly reporting period, for the purpose of ensuring its compliance with this Order. These quarterly reports shall include a monthly summary of all PIC disputes filed either with

Qwest or a LEC by New Jersey consumers. Qwest shall make available to the Director or the Board details of individual cases upon request.

12. Within thirty (30) days of a written request by the Director or the Board, Qwest shall make available such records, including those required under this Consent Order, as are necessary to determine Qwest's compliance with the terms of this Consent Order, including, but not limited to, advertisements, sales scripts, manuals or presentations, written advisories to sales representatives or distributors and any responses required by those advisories, LOAs, PIC dispute records, PIC change records, TPV records, and all complaints by New Jersey consumers, whether forwarded by governmental agencies, non-governmental organizations, or submitted directly to Qwest. The record of consumer complaints shall contain the consumer's name, address, telephone line involved, and nature of complaint, as well as all actions taken by Qwest in response. Qwest shall also permit representatives of the Director or the Board, on a random basis for one hundred and eighty (180) days following the date of the entry of this Order, and thereafter upon written request and with reasonable advance notice, to monitor (a) Qwest's training of sales representatives; (b) actual sales solicitations; and (c) third-party verifications.

PAYMENT OF COSTS, FEES, AND CONSUMER RESTITUTION

13. Pursuant to N.J.S.A. 56:8-11 and 56:8-19, Qwest is obligated for and shall pay to the State of New Jersey the total amount of $500,000.00, which shall constitute investigative costs and fees and future investigative endeavors, and which together with the corrective action provided for herein shall be in full satisfaction of all claims without limitation or exception that have or hereinafter may have arisen against Qwest, pursuant to N.J.S.A. 56:8-1 et seq. and the Public Utilities Laws, at any time on or before the date of entry of this Consent Order. Payment shall be made within ten (10) days of the date of entry of this Order and shall be made in the form of two

certified checks, each for $250,000, payable to "Treasurer, State of New Jersey" and delivered to State of New Jersey, Department of Law and Public Safety, Division of Law, P.O. Box 45029, 124 Halsey Street - Fifth Floor, Newark, New Jersey, 07101, Attention: DAG Christopher J. Dalton.

14. If, after signing this Consent Order, Qwest engages in any acts or practices that constitute a violation of this Consent Order, the Consumer Fraud Act, the Public Utilities Laws, or the regulations promulgated by either the Division of Consumer Affairs or the Board of Public Utilities thereunder, Qwest may be subject to the imposition of such enhanced penalties, pursuant to N.J.S.A. 56:8-13 and 56:8-91, as may from time to time be amended, or such other relevant statutes or regulations as may be in effect and as may be deemed just and proper.

15. Qwest agrees to work with the BPU and DCA to resolve within one-hundred and eighty (180) days from BPU approval of this Consent Decree, consistent with the provisions of C.F.R. §64.1170, as presently enacted or as may be amended hereafter, all outstanding New Jersey consumer complaints on file with the BPU and/or DCA as of the date of entry of this Consent Order, including the complaints of those New Jersey consumers listed on Exhibit A attached hereto. In addition, Qwest shall resolve all future consumer complaints consistent with the then-applicable FCC rules, regulations, and orders.

a. In the event that any of the consumer complaints listed on Exhibit A cannot be consensually resolved by Qwest and the consumer, Qwest shall inform the complaining consumer that he or she may forward the unresolved complaint to the DCA's Alternative Dispute Resolution Unit for resolution in accordance with the Unit's guidelines. Nothing contained herein, however, shall be deemed to abridge any rights provided to consumers pursuant to the Consumer Fraud Act.

b. Within thirty (30) days after the conclusion of the one hundred and eighty (180) day period following entry of this Consent Order (*i.e.*, two hundred and ten (210) days after entry of this Consent Order), Qwest shall provide the BPU and DCA a report detailing the name, address, telephone number, and resolution (including amount of refund or credit, where appropriate) for each New Jersey consumer complaint addressed pursuant to this Paragraph.

COMPLIANCE

16. Qwest shall keep, for a period of two (2) years from the date of entry of this Consent Order, all sales, advertising, and marketing materials related to the sale of long distance services directed at or intended to be seen, read, heard, and/or observed by New Jersey consumers, whether such sales, advertising, or marketing materials were in audio, visual, electronic, telephonic, or printed presentation format. To narrow the focus of this retention program, Qwest may limit the materials it keeps to those which are directed, aired, or distributed in New Jersey as well as the New York City/Tri-State area and the Southern New Jersey-Philadelphia, Pennsylvania regional area. Qwest shall also maintain for that same period records reflecting the name and address of each New Jersey consumer who pays Qwest directly, as opposed to through a reseller, for services and the type of services for which the consumer paid. Qwest shall make such materials available to the Director and the Board upon request.

17. In the event that the provisions of 47 C.F.R. § 64.1100 et seq., or any other state or federal law or regulation are amended, or in the event that any other law or regulation is enacted in a manner which would render compliance with any term of this Consent Order a violation of such law or regulation, it is understood that Qwest's compliance with such amended or newly enacted law or regulation will constitute compliance with this Consent Order and Qwest's failure to comply with such amended or newly enacted law or regulation will constitute failure to comply with this Consent Order. The remainder of the terms and conditions of this Consent Order shall not be affected thereby.

GENERAL PROVISIONS

18. Nothing contained in this Consent Order shall be construed to deprive any consumer or other person or entity of any private right under the law, except insofar as any consumer accepts restitution pursuant to the provisions of this Consent Order.

19. Qwest shall not represent or imply that any advertising, procedure, or other act, practice, or conduct hereinafter used or engaged in by Qwest has been required, sanctioned, authorized, or approved, in whole or in part, by the Attorney General, the Division of Consumer Affairs, the Board of Public Utilities, or the State of New Jersey or any of the State's agencies or agents. Nothing in this Consent Order shall be construed as approval, sanction, or authorization of any act, practice, or conduct of Qwest.

20. This Consent Order may be enforced only by the parties or their successors hereto.

21. Nothing in this Consent Order shall be construed to limit the authority of the Board or the Director to enforce prospectively any laws, regulations, or rules against Qwest.

22. This Consent Order shall be governed by and implemented in accordance with the laws of the State of New Jersey.

23. This Consent Order shall become effective immediately upon execution by the Board and the Director.

24. In the event any materials previously produced by Qwest to the BPU and the DCA have been marked as "proprietary," "confidential," or terms of similar import, the BPU and the DCA shall return the original(s) and all copies made of such materials to Qwest within ten (10) days of the date of entry of this Order. Qwest shall make available to the DCA and BPU, upon request and where necessary, such proprietary or confidential materials as are required to monitor compliance with the terms and conditions of this Order.

25. This Consent Order may be signed in counterpart by the parties and/or their designated representatives.

26. Any notices, reports, or other materials required to be forwarded to the Board or the Director shall be forwarded to the following persons:

a. On behalf of the Board:

Director, Customer Relations
New Jersey Board of Public Utilities
Two Gateway Center
Newark, New Jersey 07102

b. On behalf of the Director:

Executive Director
Office of Consumer Protection
Division of Consumer Affairs
PO Box 45029
124 Halsey Street, 7th Floor
Newark, New Jersey 07102

27. Notwithstanding the time frames stated in any of the foregoing, the requirements of Qwest in this Consent Decree, other than the completion of the payment pursuant to paragraph 13, shall terminate upon the expiration of the obligations in the Qwest FCC Consent Decree.

QWEST COMMUNICATIONS
INTERNATIONAL, INC.
BY:

Kathryn E. Ford
Corporate Counsel

DATED:

Mark Pitchford
Senior Vice President

DATED:

THE ROTHFELDER LAW OFFICES
Counsel for Qwest Communications
International, Inc.
BY:

Martin C. Rothfelder

DATED:

DIVISION OF CONSUMER AFFAIRS
BY:

Mark S. Herr
Director

DATED: March 12, 2001

JOHN J. FARMER, JR.
Attorney General of New Jersey
Attorney Division of Consumer Affairs

Christopher J. Dalton
Deputy Attorney General

DATED: 3/12/01

JOHN J. FARMER, JR.
Attorney General of New Jersey
Attorney for Board of Public Utilities

Todd Steadman
Deputy Attorney General

DATED:

BOARD OF PUBLIC UTILITIES
BY:

[redacted]

DATED:

Frederick F. Butler
Commissioner

DATED: 4/19/01

Carol J. Murphy
[redacted] Commissioner

DATED: 4/19/01

ATTEST: [redacted]

Francis L. Smith
Secretary

DATED: 4/19/01

Exhibit A

List of Consumers to be Reviewed by Qwest for Purposes of Restitution Pursuant to Paragraph 15 of the Administrative Consent Order.

Name	Street	City	Zip Code	Date of Complaint	Date of Transaction	Consumer's Telephone Number	Company Name	Allegations	Refund or Credit Owed
Arroyo, Albert	50 East Reid Road	Verona	07044	11/30/96	9/1/98	(973)-239-1021	Qwest/LCI	a	$ 3.00
Balasubramanian, E.	66 Larry Court	Dayton	08810	11/9/93	6/1/98	(732) 274-2932	LCI International Qwest	n	$ [illegible].18
Beatty, Dawn	231 Waverly Place, Floor 1	South Orange	07079	5/5/99	12/27/98	(973)822-8303	Qwest/LCI	n,c,j,l	$ 500.9[illegible]
Dalal, Mohammed	1 Liberty Terrace	Atlantic City	08401	4/6/99	unknown	(609) 449-1975	Qwest Communications	e,g	
Bhalla, Narembla	492 Mercer Street	Jersey City	07306	6/3/98	8/1/98	(201) 432-8406	LCI International Qwest	n	
Boyd, Carnel	N/A	N/A	N/A	5-97	1996	N/A	LCI International	d,n,j	
Bradley, Louise	103 Pine Street	Bridgeton	08302	12/3/91	N/A	N/A	LCI International	f,n	
Brage, Marie	8 Rose Street	Metuchen	08840	6-27-97	4-97	(908) 549-2151	LCI International	n,b	
Buda, David, Esq.	Montvale Square Suite 204 Two Kinderkamack Road South	Montvale	07645-2168	11/24/98	11/12/98	(201) 391-4499	Qwest Communications		
Calabrese, Salvatore Philadelphia Cervical Collar Co.	P. O. Box 185	Westville	08093	10/23/97	unknown	(609) 848-0525 (800) 923-9780	LCI International	n,l	$450007
Campos, Carl The Lodge	14 Park Avenue	Kearny	07032	11/5/98	N/A	(201) 997-0117 (973) 552-2919	LCI	a	
Campos, Manny The Lodge	2001 East Linden Avenue	Linden	07036	10/13/98	N/A	(908) 925-4875	LCI	o	
Capper, Adrienne	P. C. Box 68	Cliffside Park	07010	3-12-98	2-14-98	(201) 945-5578	LCI International	a,b	
Corkded, Doris	403 Berkeley Avenue	Bloomfield	07003	4-2-97	3-97	(973) 743-0014	LCI International	a,b	
Castronovo, John	1 Brighton Drive	Manalapan	07726	8/5/98	unknown	(732) 446-2847	LCI International	a	
Chen, Hok Hung	173 Moore Avenue	Leonia	07605	3/16/98	11/19/97	(201) 461-3412	LCI International	a,c	$ 31.52
Chen, Bing	737 Prospect Street	Westfield	07090	5/11/98	4/1/98	(908) 232-5627	LCI	a,b	
Chow, Frank	P.O. Box 697	Malewan	07747	5-25-99 6-18-99	5/15/99	(732) 886-3965	Qwest Communications	n,d	$ 3.20
Clemence, Pamela JB	626 Jefferson Street	Hoboken	07030	2-23-98	12-8-97	(201) 963-9033	LCI International	a,b	$ 83.73
Cobo, Maria	6022 Tyler Road	West New York	0709[illegible]	11-24-97	11-14-97	(201) 861-5757	LCI International/Litel	a,b,d	$ 10.00
Connell, Ann c/o Gloria Stuart	48 Cedar Brook Drive	Somerset	08873	2-9-98	12-97	(908) 756-1732	LCI International	e,b,c	
Costa, Maria	23 Grove Street	Elizabeth	07202	10/3/99	3/1/99	(908) 558-2818	Qwest	o	$ 290.00
David, Michael	38 Navesink Drive	Trenton	08638	9-17-97	8-97	(609) 737-1242	LCI International	d,k	
Davis, Patricia	15 Evergreen Drive	North Caldwell	07006	6/10/99	8/4/99	(973) 338-4248	LCI/Qwest	a	
DeMelo, Marcos E.	111 14th Street, Apt. 5	Hoboken	07030	11/22/99	N/A	(201) 656-1984	Qwest	a	
Deng, Mei Wang, Xin	13 Kimberly Court #70	Red Bank	07701	3/22/98	12-97	(732) 842-9735	LCI International	a,b	

Dereshy, Christine Warner, Angela	P.O. Box 148	Delaware	07833	9/7/98	5/22/98	(908) 475-3145	Qwest/LCI	a,l,c,h	$ 01.56
Diez, Maria	305 West End Avenue, Apt. 5	Elizabeth	07202	11-26-97	10-14-97	(904) 351-8758	LCI International/Ltel	a,b	$ 19.03
Donahue, Stephen	205 Hudson Street, Apt. 209	Hoboken	07030	10/20/98	9/4/98	(201) 656-7284	LCI International	n	12.00
Duque, Alvaro	133 33rd Street, 2-L	Union City	07087	3/1/96	N/A	(201) 392-0340	LCI International	b	
Eckenstein, Antoinette	1985 Kenyon Avenue	South Plainfield	07080	4/23/98		(908) 753-5594	LCI International	a	
Evans, Michelle	311 Reynolds Terrace	Orange	07050	6/30/98	N/A	(973) 677-1457	Qwest Communications	q,d	
Feeley, Gregory	142 New Jersey Avenue	Collingswood	08108	6/12/98	2/1/98	(609) 854-4835	LCI International/Ltel	n,b,c,h	
Fergusson, Thelma	1266 Brookside Road	Piscataway	08854	12-13-95	5-25-95	(908) 818-8813	LCI International, Inc.	o	
Fernandez, Rafael	234 Paterson Avenue	Paterson	07502	8/4/89	N/A	(973) 942-8158	Qwest	a	
Figueira, Luiz	283 Adams Street Apt. 5	Newark	07105	10-21-97	6-96 & 7-98	(973) 481-6964	LCI	g,e	$ 122.14
Garcia, Claudio Trinidad Benham Corp.	7024 Newkirk Avenue	North Bergen	07047	6/14/99	5/26/99	(201) 758-0430	Qwest/LCI	n,b	$ 10.00
Garcia, Gloria	405 Ashley Street	Perth Amboy	08861-2029	12-27-97	11-25-97	(732) 324-0109	LCI International/Ltel	n,l	
Garcia, Maribe O.	2407 New York Avenue Rear Apartment	Union City	07087	9/10/99	unknown	(201) 804-0804	Qwest Communications	n	$ 10.80
Gardner, Charles J.	15 Medford Road	Dumont	07628	1/5/00	N/A	(201) 384-7081	Qwest/LCI	n,b	
Ghosh, Subhendu	unknown	unknown	unknown	6/25/98	unknown	unknown	LCI International	a	
Gilmartin, Thomas	39 Fawnridge Drive	Long Valley	07853	3-0-98	11-13-97	(908) 876-9324	LCI	a,b,c	
Gold, Carolyn	33 Stanley Road	South Orange	07079	6-8-98	6-26-98	(201) 378-8139	LCI International	a	
Gomez, Ricky Fidelity Int'l Technologies	215 Campus Plaza Raritan Center	Edison	08837-3038	6-13-97	1996	(732) 417-2230	LCI International	n,u	
Gonzalez, Luis	2025 Grand Avenue, #3F	North Bergen	07047	9-10-97	9-5-97	(201) 348-3716	LCI International	n,c	
Grandison, Bernice	1423 Union Street	Linden	07036-1714	5/17/99	4/26/99	(908) 466-8448	Qwest Communications	k,o	
Gutierrez, Ginny	27 Jefferson Road	Princeton	08540	2/5/98	unknown	(609) 497-9098 (609) 497-0594	LCI International	u	$ 1,594.74
Haber, Allan	4 Jamison Court	East Brunswick	08816	4-14-90	8-8-98	N/A	LCI International	a,c	
Hassan, Cassandra	N/A	N/A	N/A	12/31/98	unknown	(201) 837-0738	LCI	l	
Hester, Evelyn	802 E. Front Street, Apt. E19	Plainfield	07062-1087	6/6/99	4/25/99	(908) 789-3377	Qwest Communications	n	
Hogden, Barbara	578 Emmett Avenue	Trenton	08638	7/31/98	7/8/98	(609) 393-1356	LCI	a,d	
Holmes, Sylvia	555 Main Street	Cherry Hill	08002	1/14/98	11/19/97	(609) 486-2142	LCI International	d,k	$ 215.91
Hou, Wen-Jen	9 East Brooklawn Drive	Morris Plains	07950	12/20/99	6-8-99 5-30-99	(973) 539-6990	Qwest Communications	a	$ 51.92
Howard, Ravi	89 Wayne Street	Jersey City	07302	5/27/89	2/5/99	(201) 946-1673	Qwest Communications	a	$ 12.70
Hoyle, Donna	209 Columbus Drive	Mantua	08051	1/23/00	6/12/99	(856) 468-8187	Qwest Communications	n	$ 10.20
Hsu, Bill	300 Hillcrest Road	Ridgewood	07450	5/2/99	4/1/99	(201) 447-2201	Qwest Communications	a	$ 7.18
Hu, Xueyou	401 E. Gibbsboro Road Apt. A-4	Lindenwold	08021	7/6/99	3/1/99	(609) 627-4279	Qwest Communications	a,e	$ 18.01

Huang, Cheng-Fu	304 Harrison Avenue	[illegible]	[illegible]	3-27-97	1997	[illegible]3) 444-8915	LCI	a	
[illegible], Hesham	37 Duncan Avenue Apt. 5F	Jersey City	[illegible]	9-21-98	7-29-98	[illegible]	LCI	a	
Irving, Mabel	203 Renner Avenue	Newark	07112	5/18/00	4/1/00	973-923-5871	Qwest	g	$325.05
James, Rhashonda	95 Washington Street Apt 3A	East Orange	07017	10/2/98	8/2/98	(973)	LCI	n	$ 3.00
Jaramillo, Carlos	6708 Meadow View Avenue	North Bergen	07047	2-13-98	11-97	(201) 295-3225	LCI International	o,g	$ 138.31
Jenkins, Adrienne	300-3A Hoffman Boulevard	New Brunswick	08901	6/3/99	1/31/99	(732) 299-0070	Qwest Communications	q,r,s,u	
Jhaveri, Vishal	92 Fleet Street	Jersey City	07306	1-20-98	1997	(201) 963-4039	LCI	n,u	
Kansagra, Valabh	108 Washington Road	Princeton	08540	10/19/98	Summer 98	(609) 514-1978	Qwest Communications	o,a,d	$ 51.81
Kavor, Jennifer	308 Reed Road	Absecon	08201	8-7-97	2-13-97	(609) 641-9452	LCI International	d,a	$ 100.00
Khare, Deepak R.	222 Beacon Avenue	Jersey City	07306	10/6/98	Jan. 97	(201) 418-9589	LCI	a	
Klimko, Jennifer	59 Academy Street	Oxford	07863	10/22/98	Jun. 98	(908) 453-2687	LCI International	a,h,d,n	$ 24.73
Kozic, Edward	94 Vones Lane	Raritan	08869	9/29/98	8/19/98	(908) 722-7744	LCI International	a,b	$ 6.40
Kulkarni, Jay	110 68 Street, #2A	Guttenberg	07093	11/24/97	11/1/97	(201) 661-3485	LCI	n	
Lacson, Ira	16 Westwood Circle	Edison	08820	11/4/00	N/A	(732) 548-6042	LCI International	o,d	$ 11.54
Laise, Laurence	11 Squirrel Run	Morristown	07960	10-24-96	8-4-96	(973) 285-0898	LCI International	o,c	
Lanlear, Elizabeth	25 Summit Street Apt. 1202	Newark	07103	8-26-98	8-98	(973) 242-2909	LCI International	a	
Lawrence-Sweat, Janice	2307 Sesame Street	Atco	08004	10/8/98	1998	(609) 753-9260	Unit Telecom Corp.	a,b	
Leong, Sum	672 Grove Street	Upper Montclair	07043	6/28/99	1/1/99	(973) 741-8458	Qwest Communications	n,d	$ 0.56
Levi, Lewis E.	0 Braintree Court	Flemington	08822	6/11/99	4/21/99	(908) 281-5005	Qwest Communications	a	
Lim, Im Kew	137 Orient Way, 3B	Rutherford	07070	3/10/99	Dec. 98	(201) 507-5746	Qwest Communications	a	
Lingo, Imogene	14 West 42nd Street	Bayonne	C7002-3008	2/10/98	1-98	N/A	LCI International/Lintel	n,b,d,o	
Loong, Tom	24 Ryders Lane	East Brunswick	08816	9-9-97	7-27-97	(732) 578-5539	LCI International/Lintel	a,l	$ 9.10
Malakoff, Adrian	261 Dromley Place	East Brunswick	08816	6-6-97	5-3-97	(908) 238-6179	Unit Telecom Corp	a,h,e	$ 10.49
Margarethe, Thelma	7 Melrose Place	Montclair	07042	4/12/99	4/1/98	(973)783-8839	LCI	a,b,e	$467.47
Marin, Guillermina S.	42 Albion Ave, Fl3-B	Paterson	07502	9/28/00	4/25/00	973-904-9375	Qwest	a, k	$577.68
Markowski, John	8 White Tail Lane	Bedminster	07921	4/26/98	3/14/98	(908) 719-7905	LCI International/Lintel	a,b	
Martin, Dolores	59 Stirrup Way	Burlington	08016	4-1-97	1-97	N/A	LCI International	a,l	
Martinez, Antonio	363 Highcrest Drive	West Milford	07480	N/A	N/A	N/A	Qwest	a,b	$ 680.10
Martinez, Jose L.	304 Union Street	Jersey City	07304	12/1/98	N/A	(201) 434-2878	Qwest	a	
Mathis, Catherine	407 Sandpiper Court	Brick	08723	6/11/99	8/1/98	(732) 477-5348	Qwest Communications	e,d,n	$ 4.38
Mazzola, Joyce	19 Flanders Road	Budd Lake	07828	7-97	4-5-97	(201) 691-5409	LCI International	a,c	
McZorn, Clinton	1333 Waterford Drive	Edison	08817	7-30-97	8-98	(908) 248-8154	LCI International	a,l,c	$ 75.22
Melo, Mary Jane	231 Western Avenue	Morristown	07960	6/3/98	unknown	(973) 644-3067	LCI International	n,b	
Mercado, Carmen	102 North Street	Jersey City	07307	1/27/98	12/10/97	(201) 217-1710	LCI International	n,b	

Migliarese, Victor	73 Village Drive East	[illegible]	0862[illegible]	7/28.99	unknown	(609) 585-[illegible]	LCI International	f,h	
Moncavage, Dianne	36 Wenatchee Road	Highland Lakes	[illegible]	11/20/97	N/A	(201) 764-4944	LCI International	d,h	
Morris, John	387 Passaic Street	Hackensack	07601	7/16/98	6/24/96	(201) 488-3645	Litel Telecom Corp.	a	$ 5.00
Murphy, H. Louise	P. O. Box 1813	Laurel Springs	08021	unknown	unknown	(609) 232-7520	Qwest Communications	i,s	$ 200.00
Nagle, Annmarie	N/A	N/A	N/A	2/25/99	unknown	(609) 582-0182	LCI International	l	$ 1,000.00
Nardella, Anthony	174 Green Tree Road	Turnersville	08012	1/9/98	5/29/97	(609) 228-8884	LCI International	a	
Nehls, Madeleine	32 Sweetwood Drive	Randolph	07960	8/23/99	7/28/08	(973) 927-9367	LCI	a,b,d	
Nelsen, Yasmeen	141 Seth Boyden Terrace Apt. 3-A	Newark	07114	8/28/99	N/A	(973) 792-9777	Qwest Communications	f	
Nester, William C.	12 Camelia Court	Lawrenceville	08040	10-21-97	8-97	(609) 882-2730	LCI	k	
Nguyen, Anile	12 Haven Road	Old Bridge	08057	6/22/99	8/10/98	(732) 679-4438	LCI	b	
Ong, Arlene J.	131 Terhune Avenue	Jersey City	07305	11/16/98	8/24/98	(201) 451-6987	LCI Qwest	n,c,n	
Orence, Nellie	321 BSMT-Stegman Parkway	Jersey City	07305	9/10/98	N/A	(201) 451-0317	LCI International	a,k,d,c	$ 5.10.95
Palen, Nancy Cardiology Center	50 Nelson Street	Dover	07801	5/19/08	4/1/97	(201) 361-7703	LCI International	a,b,e	
Perez, Maria Perez, Ernest	10 Robert Drive	Lebanon	08833	11/20/98	8/26/98	(908) 236-9562	Qwest Communications	a,b	
Phillips, Nancy	2 Fiewert Lane	Somerville	08876	8/8/97	7/2/97	(908) 725-7029	Litel Telecom Corp	n	$ 11.77
Piccone, Anthony M.	26 Pinehurst Drive	Atco	08004	11-11-97	10-97	(609) 424-1177	LCI International	a,d,l,j	$ 361.02
Powell, Rebecca	681 Leesville Avenue	Rahway	07065	1/28/99	12/18/06	(732) 381-5298	Qwest	c,n	$ 1.09
Pra, Beatrizda	647 First Avenue	Elizabeth	07206	9/17/98	7/1/98	N/A	LCI International	a,e	
Price, Edward	176 Union Street	Jersey City	07304	2-12-98	N/A	(201) 434-3072	LCI International	f,o	
Pugsley, Valerie	634 Cooper Landing Road 311E	Cherry Hill	03602	12/8/98	10/6/98	(609) 687-3188	Qwest/LCI	a,b	$ 11.18
Rojan, Sankal K.	20 Barbara Street	Kendall Park	08824	5/28/98	5/2/98	(732) 821-6472	LCI International/Litel	a,b,c,h	
Rahlla, Martha	70 Embury Avenue	Ocean Grove	07756	9-96	8-96	(908) 775-3427	LCI	a,e	
Ramsthaler, Paul	410 Harvard Avenue	Hillside	7205	Feb.99	Dec. 98	(908) 310-8438	Qwest	a	
Rivera, Ayleen	N/A	N/A	N/A	1/14/98	6-97	(609) 748-1870	LCI	d,m	
Rodriguez, Christie	404 Parker Avenue	South Amboy	08879	7/1/97	unknown	(908) 727-2114	LCI	l	$ 120.21
Rodriguez, Wanda	7015 College Avenue	North Bergen	07047	10-17-97	9-97	(973) 777-7777	LCI	a	
Romano, Mildred	356 Birchwood Road	New Milford	07646	11/3/98	Sept. 98	(201) 836-9486	LCI/Qwest	a,d	$ 28.24
Rolhe, Robert H.	797 11th Avenue, Apt. 4B	Paterson	07514	12/2/98	10/22/98	(973) 278-6301	Qwest Communications	a,b	$ 5.42
Ruda, Rebecca	454 Hill Street	Boonton	07005	4/13/98	1997	(974) 335-4725	LCI International	a,h	
Rudin, Irving	502 East Franklin Avenue	Edgewater Park	08010	9/4/98		(609) 387-1365	LCI International	a	
Russillo, Jacqueline	14 La Fayette Drive	Clementon	08021	10-31-97	10-11-97	(609) 783-3886	LCI International/Litel	l,a,b	
Ryan, Mary K.	316 Country Club Lane	Scotch Plains	07076	4/28/99	2/1/99	(908) 301-0289	Qwest Communications	e,k	$ 477.92
Salazar, Boris	52 Marshall Street	Paterson	07505	7/1/98	5/1/98	(973) 646-3952	LCI International	a	
Santamaria, Thomas Santamaria, Linda	172 Stults Lane	East Brunswick	08816	4/10/99	6/1/98	(201) 451-6997	LCI	a,n	

Santos, John	4 Jackson Way	Marlboro	07746	11/6/98	11/26/97	(732) 536-3529	Qwest/LCI	a,c,d a,h,c	
Saveriano, James	100 Manhattan Avenue #1115	Union City	07087	10-20-97	9-9-97	(201) 866-7756	LCI International	a,c	$ 70.92
Scheffler, William	23 Dodie Drive	Parsippany	07054	2/20/98	1-98	(973) 993-9656 (973) 993-9588	LCI International	b,l	$ 110.19
Schmitt, Margaret	177 Little Falls Road	Cedar Grove	07009	1/15/97	12/26/96	N/A	LCI	b	
Sees, Debra	754 Gibbsboro Road	Lindenwold	08021	4/16/98	unknown	(609) 782-0345	LCI International	e,m	
Shih, Thomas	136 Elm Street	Tenafly	07670	9/7/00	6/1/00	201-569-8694	Qwest	a	$ 17.55
Sims, Alice	60 Parkway Drive, East	East Orange	07017	9/4/98	6/1/98	(973) 672-0225	LCI	a,c,k	
Singh, Balbir	P.O. 1173	Hamilton	08037	10/7/98	6/22/98	(609) 567-0669	LCI International	e,j	$ 1,142.16
Sinha, Sunil	E-432 Spruce Manor 59 East Browning Road	Bellmawr	08031	6/17/99	N/A	(856) 931-0283	Qwest Communications	a	
Skarbek, Timothy	94-C2 Finderne Avenue	Bridgewater	08807	10/8/98	8/14/98	(908) 575-1448	Qwest/LCI	a,b	$ 25.45
Song, Paul	1010 Anderson Avenue	Fort Lee	07024	10/24/98	N/A	(201) 224-9170	LCI	a	
Sorkin, Allen	209 South Orange Avenue	South Orange	07079	9/13/98	9/10/98	(973) 763-6332	LCI International	a	$ 20.00
Spence, Marjorie	134 Linden Avenue	Irvington	07111	10/6/98	8/5/98	(973) 373-7544	LCI	a,h,d	$ 162.09
Spoto, Glenn	101 Willow Avenue, 8C	Hoboken	07030	3-6-98	1-8-91	(201) 653-6301	LCI International	b,c,d	
Stanley, Madie	N/A	N/A	N/A	6/4/98	unknown	(201) 371-6603	LCI International		
Subhan, Abdul	30 N. California Avenue 2nd Floor	Atlantic City	08401	12/27/98	unknown	(609) 348-4944	Qwest	a,k	$ 24.65
Sumler, Richard	72 Rosalind Circle	Sicklerville	08081	12/23/97	12/16/97	(609) 875-6443	LCI	a	
Sze, Chingloh	14A Sunflower Road	Maple Shade	08052	10-20-97	8-97	(609) 321-9005	LCI International	a	
Taranov, Leonid	240 Prospect Avenue Apt. 147	Hackensack	07601	1/28/98	unknown	(201) 487-7456	LCI International	k	$ 1,000.00
Teine, Jeffrey Max Lumber Company	1112 Garfield Avenue	Jersey City	07304	11/11/98	unknown	N/A	LCI/Qwest	a,h	
Tejada, Gustavo	123E Jerome Street	Roselle Park	07204	12-29-97	11-97	(908) 298-9227	LCI International	a	
Tran, Cuong	21 Alan Terrace	Jersey City	07306-1403	12/27/98	9/1/99	(201) 795-2735	Qwest Communications	l,n	$ 3.36
Trower, Tracy	413 Richard Way	North Plainfield	07062	4/23/98		(908) 756-0957	LCI International		
Venezia, Salvatore c/o Georgina LaCour	404 Prospect Avenue	Neptune	07753	6/30/98	unknown	(732) 988-2075	LCI International	a,c,d,h,o	
Wall, Evelyn	518 Jackson Avenue	Elizabeth	07204	10-26-98	7-98	(908) 355-4107	LCI International	k	
Wang, Wei	12A Cedar Lane	Highland Park	08904	8/22/00	8/22/00	732-843-5514	Qwest	a	
Walker, T.	bestnyc@yahoo.com			10/4/00	6/22/00		Qwest	other	1112
Washington, Lessie	1100 Morris Street	Roselle	07203	3-18-98	1-1-91	(908) 298-8060	LCI International	a	
Waterfall, John	18 Langford Drive	Mendham	07945	1/28/99	6/1/98	(973) 543-9268	Qwest	a,d,p	$ 103.91
Wells, Mr.	N/A	N/A	N/A	10-16-97	1997	(609) 346-0775	LCI	a	
Weintraub, Rachel	120 Highland Avenue	Edison	08817	3/16/98	1/30/98	(732) 819-9298	LCI International	b,d	
Wilkins, Gail	259 Clinton Place	Newark	07112	6-20-96	3-10-95	(973) 926-3706	LCI International	a,c,d	
Williams, Louis	70 Lawrence Drive	Hackettstown	07840	2/3/98	12/25/97	(908) 852-0227	LCI	a,b	

Williams, Mary	32 Winding Wood Drive, 3B	Sayreville	08872	4/24/97	N/A	(908) 813-7318	LCI	k	
Wong, Jeffrey	241 Alexandria Way	Basking Ridge	07920	6/26/98	4/1/96	(908) 580-9590	LCI International	a,b,c,n	
Yoventin, Robert	77 Pequot Trail	Medford Lakes	08055	1/10/98	Nov. 97	(609) 654-2740	LCI International	l	
Yeh, Benjamin	11 Conaskonk Drive	Asbury Park	07712-3563	11/23/98	10/20/98	(732) 483-8453	Qwest Communications	a,b	$ 15.00
Yoon, Sung	N/A	N/A	N/A	3/22/99	N/A	N/A	Qwest	a	
Zhav, Sohaila	11 Kory Drive	Kendall Park	08824	10-10-97	9-97	(732) 297-2210	LCI International	a,b,c	
Total	164	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	$ 11,77[illegible].71
KEY The letters in Column H correspond to the numbered possible violations in Section IV of the Investigative Report for LCI i.e. a=1, b=2, etc.; NR=not requested.									

STATE OF FLORIDA, DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES

SETTLEMENT AGREEMENT

IT IS HEREBY AGREED AND STIPULATED by and between the FLORIDA DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES (the "Department") and QWEST COMMUNICATIONS CORPORATION, a corporation doing business in Florida with principal office located at 1801 California, Suite 5100, Denver, Colorado 80202, as follows:

WHEREAS, the Department has jurisdiction to administer and enforce Florida's Telephone Sales Law, Section 501.059, Florida Statutes.

WHEREAS, the Department has received complaints from Florida consumers whose residential telephone numbers appeared in the then-current "no sales solicitation calls" listing kept and maintained by the Department, said complaints alleging that, despite such listing, the consumers received unsolicited telephone sales calls from Qwest Communications Corporation.

WHEREAS, Qwest Communications Corporation maintains business practices and procedures designed to ensure compliance with Section 501.059, FS (2000).

THEREFORE:

1. Qwest Communications Corporation, agrees to periodically review its business practices and procedures in the area of telephone sales, further supplementing them as necessary to enhance compliance with Section 501.059, FS.

2. Qwest Communications Corporation, either by itself or through its designated agents, agrees to submit and pay for advance orders for the Department's no sales call lists such that the subsequent identification and suppression of names in prospect files can be completed before the first business day of each quarter for the next five years; provided that the no sales call lists are made available at least four (4) weeks in advance of the respective quarter.

3. Qwest Communications Corporation, in order to avoid the inconvenience, uncertainty and additional expense of further investigation and potential litigation in this matter, agrees to pay to the Department a settlement in the amount of Seventy Thousand, Five Hundred Dollars ($70,500) by October 31, 2001. Qwest Communications Corporation agrees, by the same date, to pay on behalf of each of the 57 individuals filing complaints in the matter, a $10 reimbursement for costs associated with listing each consumer's residential telephone number on the Department's no sales solicitation calls list for an additional two years. The total settlement of Seventy-One Thousand, Seventy Dollars ($71,070) is to be remitted by check made payable to the Florida Department of Agriculture and Consumer Services and directed to Judith S. Kyle, Senior Attorney, 407 South Calhoun Street, Room 515, Mail Stop M-11, Tallahassee, Florida 32399-0800.

4. Qwest Communications Corporation acted in good faith and cooperated with the Department in resolving this matter. By entering into this Settlement Agreement Qwest Communications Corporation, is not admitting any fault, liability, wrongdoing or violation of law.

5. The Department will continue to monitor consumer complaints against Qwest Communications Corporation. Qwest Communications Corporation will immediately pay a penalty of Two Thousand Two Hundred and Fifty ($2,250) Dollars per valid consumer complaint ("VCC") for each VCC received over and above the first ten (10) VCCs made within a twelve-month period beginning October 31, 2001 and ending October 31, 2002. A **valid complaint** will be a sworn statement from a consumer who was on the then-current Do Not Call list that includes the following information:

a. The name of the firm calling, Qwest Communications Corporation, or any of the firms that Qwest Communications Corporation contracts with for telephone-marketing services during the one-year period.

b. The time and date of the call.

c. The product or service offered in the call.

d. The name of the caller unless the caller refuses to give their name.

e. The caller's number given by the caller or obtained from a caller I.D. system.

f. The lack of any prior or existing business relationship with the firm on behalf the call is made.

Any valid complaints that are proven by Qwest Communications Corporation to be exempt under Section 501.059, Florida Statutes 2000, or that were the result of the Department's errors in the compilation or dissemination of the "no sales solicitation calls" listing, or that were not the result of calls made or caused to be made by Qwest Communications Corporation shall not be used in compiling the calls and shall not be chargeable to the firm.

6. By execution of this Settlement Agreement, the Department and Qwest Communications Corporation intend to and do resolve all issues arising prior to and through October 31, 2001, as may pertain to the particular matters set forth herein or otherwise connected with these matters in any way, including any alleged violations of Florida's Do Not Call law that were not previously identified.

7. Each party shall bear its own costs and attorney's fees.

8. Failure of Qwest Communications Corporation, to abide by the provisions of this Settlement Agreement may result in action by the Department to secure any and all relief to which it may be entitled by law.

9. The parties acknowledge that this Settlement Agreement is subject to the approval of the Commissioner of Agriculture, and the General Counsel of the Department.

10. This document must be executed and payment received in full by October 31, 2001, or the offer of settlement is withdrawn.

11. The parties stipulate that the settlement was entered into in the State of Florida and any enforcement litigation will be interpreted and governed by Florida law.

WHEREFORE, the parties hereto have entered into this Settlement Agreement by their respective signatures.

FOR THE FLORIDA DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES

Judith S. Kyle, Senior Attorney
Mayo Building, Fifth Floor, Mail Stop M-11
407 South Calhoun Street
Tallahassee, Florida 32399-0800
Telephone: 850/245-1000

Dated: 11/16/01

FOR QWEST COMMUNICATIONS CORPORATION

Print Name: Thomas W. Snyder
Authority to bind corporation
33487

Dated: November 1, 2001

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Initiation of show cause proceedings against LCI International Telecom Corp. d/b/a Qwest Communications Services for apparent violation of Rule 25-22.032(5)(a), F.A.C., Customer Complaints.	DOCKET NO. 010198-TI
In re: Initiation of show cause proceedings against Qwest Communications Corporation for apparent violation of Rule 25-22.032(5)(a), F.A.C., Customer Complaints.	DOCKET NO. 010204-TX
In re: Initiation of show cause proceedings against Qwest Communications Corporation for apparent violation of Rules 25-4.118, F.A.C., Local, Local Toll, and Toll Provider Selection; and 25-22.032(5)(a), F.A.C., Customer Complaints.	DOCKET NO. 000778-TI ORDER NO. PSC-01-1791-AS-TP ISSUED: September 5, 2001

The following Commissioners participated in the disposition of this matter:

E. LEON JACOBS, JR., Chairman
J. TERRY DEASON
LILA A. JABER
BRAULIO L. BAEZ
MICHAEL A. PALECKI

ORDER ACCEPTING SETTLEMENT

BY THE COMMISSION:

CASE BACKGROUND

LCI International Telecom Corp. d/b/a Qwest Communications Services (LCI), holder of Interexchange Company (IXC) Certificate No. 2300, and Qwest Communications Corporation (QCC), holder of IXC Certificate No. 3534 and Alternative Local Exchange Telecommunications Company (ALEC) Certificate No. 5801, are owned by parent company Qwest Communications International, Inc. (QCI). QCI requested that staff consider its offer to settle the "Customer

Complaints" issue in all three dockets above as one settlement offer, and to consider its offer to settle the "Unauthorized Carrier Change" issue in Docket No. 000778-TI as a separate offer. The Commission is vested with jurisdiction over these matters pursuant to Sections 364.183, 364.285, 36.337 and 364.603, Florida Statutes.

DISCUSSION

The Division of Consumer Affairs (CAF) notified the Division of Competitive Services that it was experiencing difficulty in obtaining responses to customer complaints from telecommunications companies. Specifically, Qwest had failed to respond to a total of 23 customer complaints for its three certificates. On February 9, 2001, three dockets were opened to initiate show cause proceedings for the company's apparent violation of Rule 25-22.032(5)(a), Florida Administrative Code, Customer Complaints: Docket No. 010198-TI against LCI International Telecom Corp. d/b/a Qwest Communications Services; Docket No. 010204-TX against Qwest Communications Corporation (ALEC); and Docket No. 000778-TI against Qwest Communications Corporation (IXC), collectively referred to as "Qwest."

Qwest reviewed the consumer complaint cases associated with the show cause proceedings. In its July 9, 2001, settlement offer, Qwest explained that it had been undergoing a merger with U.S. West that strained its company resources and impacted its complaint response process. It stated that it had recently implemented changes to ensure that Qwest (and its affiliates) respond to staff in a timely fashion. It further stated that it has confirmed that responses to all of the complaints that are the subject of this issue in these dockets have been submitted to CAF. Therefore, to settle these dockets, Qwest proposed the following:

1. A monetary settlement of $1,500 per complaint, for a total of $34,500; and

2. To take steps to ensure the timely and consistent response to consumer complaints.

The settlement amount of $1,500 per complaint in this recommendation is consistent with the Commission's approval of the settlement offered in Order No. PSC-00-2089-AS-TI, issued November 2, 2000, in Docket No. 000399-TI, Initiation of Show Cause Proceedings Against AT&T Communications of the Southern States, Inc. d/b/a Connect N' Save and d/b/a Lucky Dog Phone Co. and d/b/a ACC Business for Apparent Violation of Rule 25-4.043, F.A.C., Response to Commission Staff Inquiries. However, this settlement does not in any way preempt, preclude or resolve any matters under review by any other state agencies or departments.

Upon consideration, we accept the company's settlement proposal of a $34,500 voluntary contribution and assurance that the company will implement measures to ensure future compliance. The voluntary contribution should be received by the Commission within ten business days of the issuance date of an Order approving the settlement offer and should include the docket numbers and company name. The Commission should forward the contribution to the Office of the Comptroller for deposit in the State of Florida General Revenue Fund. If the company fails to pay in accordance with the terms of the Commission Order, Certificate Nos. 2300, 5801, and 3534 should be canceled administratively.

Rule 25-4.118, Florida Administrative Code, requires that a provider seeking a customer's authorization to switch his or her local, local toll or toll service to itself must first obtain a Letter of Agency (LOA) or taped Third Party Verification (TPV) containing the following information specified in Rule 25-4.118(3)(a)1.-5., Florida Administrative Code:

> (3)(a) The LOA submitted to the company requesting a provider change shall include the following information (Each shall be separately stated):
>
> 1. Customer's billing name, address, and each telephone number to be changed;
>
> 2. Statement clearly identifying the certificated name of the provider and the service to which the customer wishes to subscribe, whether or not it uses the facilities of another company;
>
> 3. Statement that the person requesting the change is authorized to request the change;
>
> 4. Statement that the customer's change request will apply only to the number on the request and there must only be one presubscribed local, one presubscribed local toll, and one presubscribed toll provider for each number;

5. Statement that the LEC may charge a fee for each provider change.

When our staff reopened Docket No. 000778-TI on February 5, 2001, its initial analysis of our complaint database indicated that QCC showed an increase in the number of complaints closed as unauthorized carrier changes in the fourth quarter of 2000. Subsequent analysis of the complaints, with the associated TPVs when available, revealed a total of 22 complaints closed as unauthorized carrier changes for the period April 2000 to March 2001.

QCC's response states that of the 22 slamming complaints, four should be eliminated from further consideration. We agree with the analysis presented by QCC, that the four cases outlined in its response were not the result of QCC's actions and should be removed from consideration. Thus, QCC has 18 apparent violations of Rule 25-4.118, Florida Administrative Code, for the period April 2000 to March 2001.

In its settlement offer, Qwest notes that fourteen of the complaints involve the omission of one or more of the elements required by Rule 25-4.118(3)(a)1.-5., Florida Administrative Code, but that it believes the customer clearly wanted to change his or her IXC service to QCC. Of the remaining four, one involved a keypunch error, and QCC was unable to locate the TPV or LOA for the last three. To settle the unauthorized provider change issue in this docket, QCC proposes the following:

1. A voluntary contribution of $18,000; and

2. To take measures to ensure that all of the information required by Rule 25-4.118(3)(a)1.-5., Florida Administrative Code, are captured on its TPVs.

We believe the proposed settlement amount of $18,000 is fair and reasonable given the nature of the majority of the slamming complaints against QCC. Our staff's investigations show that, though still deficient in some areas, the level of compliance of the TPVs from the period April 2000 to March 2001 has improved over those of the previous study period, December 1998 to March 2000. However, this settlement does not in any way preempt, preclude or resolve any matters under review by any other state agencies or departments.

Therefore, we accept Qwest's settlement proposal. Any contribution should be received by the Commission within ten business days from the issuance date of the Commission Order and should identify the docket number and company name. The Commission should forward the contribution to the Office of the Comptroller for deposit in the State of Florida General Revenue Fund. If the company fails to pay in accordance with the terms of the Commission Order, Certificate No. 3534 should be canceled administratively.

Based on the foregoing it is

ORDERED by the Florida Public Service Commission that LCI International Telecom Corp. d/b/a Qwest Communications Services and Qwest Communications Corporation's settlement proposal regarding customer complaints set forth in the body of this Order is hereby approved. It is further

ORDERED that Dockets Nos. 010198-TP and 010204-TP shall remain open pending receipt of the $34,500 contribution. The contribution will be transmitted to the Office of the Comptroller for deposit in the State of Florida General Revenue Fund. It is further

ORDERED that Docket 000778-TP shall remain open pending receipt of the $18,000 contribution. The contribution will be transmitted to the Office of the Comptroller for deposit in the State of Florida General Revenue Fund. It is further

ORDERED that if LCI International Telecom Corp. d/b/a Qwest Communications Services and Qwest Communications Corporation fail to comply with this Order, certificates nos. 2300, 3534 and 5801 will be canceled administratively. It is further

ORDERED that upon receipt of the $34,500 contribution, or cancellation of the certificates, Dockets Nos. 010198-TP and 010204-TP shall be closed. Upon receipt of the $18,000 contribution, or cancellation of the certificate, Docket No. 000778-TP shall be closed.

By ORDER of the Florida Public Service Commission this 5th Day of September, 2001.

/s/ Blanca S. Bayó
BLANCA S. BAYÓ, Director
Division of the Commission Clerk

and Administrative Services

This is a facsimile copy. Go to the Commission's Web site, http://www.floridapsc.com or fax a request to 1-850-413-7118, for a copy of the order with signature.

(S E A L)

JAE/WDK

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Director, Division of the Commission Clerk and Administrative Services and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

PUBLIC SERVICE COMMISSION

At a session of the Public Service Commission held in the City of Albany on November 24, 1998

COMMISSIONERS PRESENT:

Maureen O. Helmer, Chairman
John B. Daly
Thomas J. Dunleavy
James D. Bennett

JAN 1 3 1999

CASE 97-C-0965 - In the Matter of Slamming Complaints Received Against LCI International Telecom Corp.

ORDER IMPOSING ADMINISTRATIVE PENALTY

(Issued and Effective January 5, 1999)

BY THE COMMISSION:

BACKGROUND

In this Order, the Commission imposes an administrative penalty under New York Public Service Law (PSL) Section 92-e to combat the switching of a customer's primary interexchange carrier (PIC) without the customer's authorization, a practice commonly called "slamming." The Commission has been and remains committed to eliminating this practice.

In 1997, the Commission expressed concern that various telephone corporations, including LCI International Telecom, Inc. (LCI), were switching customers without proper authorization. We directed LCI to stop slamming and to submit a plan to reduce and eliminate slamming complaints.[1] By Order issued November 21, 1997, the Commission approved LCI's plan,[2] but continued

[1] Case 97-C-0965, <u>In the Matter of Slamming Complaints Received Against LCI International Telecom Corporation</u>, Order to Show Cause and Directing Response (issued June 11, 1997) (Show Cause Order).

[2] Case 97-C-0965, <u>In the Matter of Slamming Complaints Received Against LCI International Telecom Corporation</u>, Order Approving Plan with Modifications (issued November 21, 1997) (Approval Order).

...its complaint performance. Rather than improving, its complaint levels increased in the months following approval of its plan.

A Notice of Apparent Liability (NAL) was issued to LCI on September 21, 1998, which directed LCI to show cause why it should not be subject to an administrative penalty of $ 1,000 per violation for twelve (12) violations of New York PSL Section 92-e. The supporting affidavit included with the NAL presented clear evidence that LCI had not obtained the requisite authority[1] to order changes in customers' preferred telephone service providers. Indeed, the Letters of Agency or Authorization (LOAs) used by LCI either were not signed by the customer of record or did not authorize the change submitted by LCI.

LCI's October 9, 1998 response to the NAL did not challenge the facts alleged in the affidavit. Instead, LCI argued that it had complied with the authorization and confirmation procedures established by the Commission and by federal laws and rules, and that it had acted reasonably and appropriately under the circumstances. It claimed it had not intentionally engaged in unauthorized customer conversions.

LCI also claimed that it had relied on what it believed to be properly executed LOAs and stated that most of the slamming complaints had involved an LOA which LCI had executed, but improperly. LCI also stated that where it was able to determine that a sales representative had violated LCI's policy against slamming, LCI immediately terminated the respective sales representative. Finally, LCI stated that it deactivated the accounts of each complainant, completely refunded all amounts

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[1] Federal verification procedures require a carrier to obtain either a signed letter of agency (LOA) from the customer of record or comply with other verification procedures. See, 47 C.F.R. §§ 64.1100; 64.1150.

billed to such individuals, and absorbed all such costs associated with returning them to their preferred carriers.

DISCUSSION AND CONCLUSION

The record in this proceeding amply supports the conclusion that in all twelve (12) cases the complainant's service was switched to LCI without the subscriber's knowledge or consent. The Commission finds that LCI did not comply with the required authorization procedures; that LCI, directly or through its agent or representative, did not act reasonably under the circumstances; and that LCI did not demonstrate any exigent circumstances. Accordingly, we will impose an administrative penalty of $1,000 for each of the twelve (12) violations of Section 92-e of the Public Service Law commited by LCI International Telecom Corp.

By holding carriers financially liable for unauthorized PIC changes, the Commission reiterates that all carriers must exercise due care and control over the conduct of their employees or representatives when seeking a customer's change in telephone service.

The Commission orders:

1. LCI International Telecom Corp. shall be liable for an administrative penalty of $1,000 for each of its twelve (12) violations of Section 92-e of the Public Service Law.

2. LCI International Telecom Corp. shall remit twelve thousand dollars ($12,000) to the New York State Department of Public Service, Director of Finance and Budget, 16th Floor, Three Empire State Plaza, Albany, New York 12223-1350 within thirty (30) days from the issuance of this Order.

3. LCI International Telecom Corp. shall remit payment payable to the New York State Department of Public Service, which will be deposited in the State Treasury to the credit of the general fund.

The proceeding is continued.

By the Commission.

(SIGNED) DEBRA RENNER
Acting Secretary

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

APPLICANT:	BILL BURNETT DIRECTOR, CONSUMER SERVICES DIVISION OKLAHOMA CORPORATION COMMISSION
RESPONDENT:	QWEST COMMUNICATIONS CORP.
RELIEF SOUGHT:	CONTEMPT CAUSE NO. CS990000008
	ORDER NO. 435848

HEARING:	By agreement of the parties Before Robert E. Goldfield, Administrative Law Judge
APPEARANCES:	Marchi C. McCartney, and Jeffrey P. Southwick Consumer Services Division, Oklahoma Corporation Commission Dallas E. Ferguson, Attorney, Qwest Communications Corp.

FINAL ORDER

BY THE COMMISSION:

The Corporation Commission of the State of Oklahoma (Commission) being regularly in session and the undersigned Commissioners being present and participating, the above-captioned Cause comes on for hearing and action by the Commission. The parties have reached a settlement agreement with regard to the issues raised by the Amended Complaint, Information, Summons, and Notice of Citation for Contempt (Amended Complaint) filed herein on September 15, 1999. At the hearing on this matter, the parties informed the Administrative Law Judge (ALJ) of the terms of their settlement agreement, which are set forth in the Findings of Fact and Conclusions of Law, below. Upon being advised of the terms of the settlement agreement, that all parties in this Cause are agreeable to such terms, and being otherwise advised in the premises, the ALJ found such terms of settlement to be reasonable and appropriate and recommended that the Commission approve such settlement by entering this Order.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

1. This Cause was initiated by the Application of Bill Burnett, Director, Consumer Services Division, Oklahoma Corporation Commission, seeking an order for contempt, alleging that the respondent, Qwest Communications Corp. (Respondent) offered telecommunications services in Oklahoma in violation of Article IX, Section 18 of the Constitution of the State of Oklahoma, 17 O.S. § 1 and various provisions of OAC 165:56.

2. The Commission has jurisdiction over the subject matter and notice has been given as required by law and the rules of the Commission.

3. At the hearing held on the date set forth above, a proposed Order was tendered to the ALJ for review and approval. Said Order incorporated the terms and conditions of the settlement agreement that the parties had agreed to.

4. Respondent agrees to pay Thirty Thousand Dollars ($30,000.00) to the Commission within thirty (30) days of the date of this Order.

5. Respondent further agrees that if, within one year of the date of this Order, the Consumer Services Division (CSD) of the Commission receives ten (10) or more complaints from consumers in Oklahoma alleging that Respondent has engaged in actions which are in violation of 17 O.S. § 1 and OAC 165:56-11-1, and which complaints, after investigation and evaluation by the CSD, are determined by Applicant to have sufficient validity to support the prosecution of a contempt proceeding against Respondent, Respondent will pay an additional Fifty Thousand Dollars ($50,000.00) to the Commission within thirty (30) days after Applicant has made such a determination which has not been disputed by Respondent. This same provision concerning payment by Respondent of an additional Fifty Thousand Dollars ($50,000.00) to the Commission shall apply in the event the Applicant receives ten (10) or more complaints of the type described above during either the second year or the third year after the date of this Order. The total amount which Respondent might possibly pay to the Commission pursuant to the terms

of this Order over the three-year period described in this paragraph is, therefore, not more than One Hundred Eighty Thousand Dollars ($180,000.00). PROVIDED that in the event Applicant determines that ten (10) or more complaints of sufficient validity to require an additional payment from Respondent as set forth in this paragraph have been made during any applicable one year period. Respondent is not prevented from contesting Applicant's determination and requesting that the Commission determine that Respondent is not required to make such additional payment. PROVIDED further that Applicant retains the option of prosecuting contempt proceedings against Respondent with regard to any complaints received by the CSD after the date of this Order and such rights as Applicant may have to present evidence concerning complaints received by CSD both before and after the date of this Order. Respondent retains its rights to respond, object or defend any such contempt proceedings and to controvert any evidence submitted by Applicant.

6. Respondent further agrees that it either has or will notify each of the individual consumers identified in the Amended Complaint as having their telecommunications service switched by Respondent without proper authorization of the action which such consumer may take in order to be reinstated to the telecommunications service provider of such consumer's choice at no cost to the consumer, including reimbursement of any charges previously paid by such consumer to reestablish service with the telecommunications provider of the consumer's choice.

7. Respondent further agrees that it shall submit to the CSD staff for review and approval any sales, advertising and marketing materials and scripts that are specifically directed to individual Oklahoma residents. Respondent shall also submit to the CSD staff for review and approval all media materials and scripts that are utilized by Respondent solely for the purpose of marketing or advertising its products to Oklahoma customers, as opposed to being part of a media marketing or advertising campaign that is directed to Oklahoma as well as other

geographic areas outside of Oklahoma. The Applicant shall have ten (10) days in which to notify Respondent that he either approves or does not approve of the use of the materials required to be submitted to him. With respect to those materials required to be submitted to CSD pursuant to this paragraph. Respondent will only make use in Oklahoma of such materials as have been approved by Applicant or with respect to which Applicant has failed to notify Respondent of his disapproval within the ten (10) day period provided herein.

8. Beginning on the date of this Order and continuing for a period of one year thereafter, Respondent agrees that it shall:

a) advise the CSD in writing of all telecommunications complaints filed against it by any state or federal regulatory agency;

b) advise the CSD of the acquisition by Respondent of any company which has been issued a Certificate of Public Convenience and Necessity to provide telecommunications services in Oklahoma;

c) advise the CSD quarterly, in writing, of any complaint which it receives from an Oklahoma customer of Respondent alleging that such customer has had its telecommunications service switched to Respondent without authorization, and stating the investigations made and actions taken by Respondent as a result of such complaint.

9. Respondent further agrees that in the event Respondent receives a written or telephone communication from CSD requesting information concerning any investigation being made by CSD, Respondent will reply in writing to CSD within ten (10) business days setting forth any information which it has available that is responsive to the CSD inquiry.

10. Applicant agrees that this Order shall resolve all complaints which CSD has received with respect to Respondent through the date of this Order, including, but not limited to, all complaints and allegations described in the Amended Complaint.

11. The terms of the agreement reached by the parties and this Order do not result in any finding of contempt against Respondent. Any payment made by Respondent pursuant to this Order is not a fine, but is a payment to the Commission made pursuant to the parties' settlement agreement. By entering into the settlement agreement. Respondent does not admit any of the allegations set forth in the Amended Complaint, but, instead, expressly denies the same and has entered into the settlement agreement and agreed to the terms of this Order only for the purpose of terminating this matter without the necessity of additional burden and cost.

ORDER

IT IS, THEREFORE, ORDERED BY THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA as follows:

1. Respondent shall pay Thirty Thousand Dollars ($30,000.00) to the Commission within thirty (30) days of the date of this Order.

2. If, within one year of the date of this Order, the CSD receives ten (10) or more complaints from consumers in Oklahoma alleging that Respondent has engaged in actions which are in violation of 17 O.S. § 1 and OAC 165:56-11-1, and which complaints, after investigation and evaluation by the CSD, are determined by Applicant to have sufficient validity to support the prosecution of a contempt proceeding against Respondent, Respondent will pay an additional Fifty Thousand Dollars ($50,000.00) to the Commission within thirty (30) days after the Applicant has made such a determination which has not been disputed by Respondent. This same provision concerning payment by Respondent of an additional Fifty Thousand Dollars ($50,000.00) to the Commission shall apply in the event the Applicant receives ten (10) or more complaints of the type described above during either the second year or the third year after the date of this Order. The total amount which Respondent might possibly pay to the Commission pursuant to the terms of this Order over the three-year period described in this paragraph is therefore, not more than One Hundred Eighty Thousand Dollars ($180,000.00). PROVIDED

that in the event Applicant determines that ten (10) or more complaints of sufficient validity to require an additional payment from Respondent as set forth in this paragraph have been made during any applicable one year period. Respondent is not prevented from contesting Applicant's determination and requesting that the Commission determine that Respondent is not required to make such additional payment. PROVIDED further that Applicant retains the option of prosecuting contempt proceedings against Respondent with regard to any complaints received by the CSD after the date of this Order and such rights as Applicant may have to present evidence concerning complaints received by CSD both before and after the date of this Order. Respondent retains its rights to respond, object or defend any such contempt proceedings and to controvert any evidence submitted by Applicant.

3. Respondent shall notify each of the individual consumers identified in the Amended Complaint as having their telecommunications service switched by Respondent without proper authorization of the action which such consumer may take in order to be reinstated to the telecommunications service provider of such consumer's choice at no cost to the consumer, including reimbursement of any charges previously paid by such consumer to reestablish service with the telecommunications provider of the consumer's choice.

4. Respondent shall submit to the CSD staff for review and approval any sales, advertising and marketing materials and scripts that are specifically directed to individual Oklahoma residents. Respondents shall also submit to the CSD staff for review and approval all media materials and scripts that are utilized by Respondent solely for the purpose of marketing and advertising its products to Oklahoma customers, as opposed to being part of a media marketing or advertising campaign that is directed to Oklahoma as well as other geographic areas outside of Oklahoma. The Applicant shall have ten (10) days in which to notify Respondent that he either approves or does not approve of the use of the materials required by this paragraph to be submitted to him. With respect to those materials required to be submitted to the CSD by this

paragraph. Respondent will only make use in Oklahoma of such materials as have been approved by Applicant or with respect to which Applicant has failed to notify Respondent of his disapproval within the ten (10) day period provided herein.

5. Beginning on the date of this Order and continuing for a period of one year thereafter, Respondent shall:

a) advise the CSD in writing of all telecommunications complaints filed against it by any state or federal regulatory agency;

b) advise the CSD of the acquisition by Respondent of any company which has been issued a Certificate of Public Convenience and Necessity to provide telecommunications services in Oklahoma;

c) advise the CSD quarterly, in writing, of any complaint which it receives from an Oklahoma customer of Respondent alleging that such customer has had its telecommunications service switched to Respondent without authorization, and stating the investigations made and actions taken by Respondent as a result of such complaint.

6. In the event Respondent receives a written or telephone communication from CSD requesting information concerning any investigation being made by CSD, Respondent will reply in writing to CSD within ten (10) business days setting forth any information which it has available that is responsive to the CSD inquiry.

7. This Order resolves any and all complaints which CSD has received with respect to Respondent through the date of this Order, including, but not limited to, all complaints and allegations described in the Amended Complaint.

8. This Order does not result in any finding of contempt against Respondent. Any payment made by Respondent pursuant to this Order is not a fine, but a payment to the Commission made pursuant to the settlement agreement which the parties entered into. Respondent does not admit any of the allegations set forth in the Amended Complaint but

instead, expressly denies the same and has entered into the settlement agreement agreed to the terms of this Order only for the purpose of terminating this matter without the necessity of additional burden and cost.

IT IS FURTHER ORDERED BY THE COMMISSION that the Findings of Fact and Conclusions of Law set forth above are adopted as those of the Commission.

CORPORATION COMMISSION OF OKLAHOMA

BOB ANTHONY, Chairman

Denise A. Bode

DENISE A. BODE, Vice-Chairman

Ed Apple

ED APPLE, Commissioner

DONE AND PERFORMED this 11th day of October, 1999.

BY ORDER OF THE COMMISSION.

Charlotte W. Flanagan

CHARLOTTE W. FLANAGAN, Secretary

REPORT OF THE ADMINISTRATIVE LAW JUDGE

The foregoing is the Report and Recommendation of the Administrative Law Judge.

Robert E. Goldfield

ROBERT E. GOLDFIELD
Administrative Law Judge

October 6, 1999
Date

APPROVED:

Jeffrey P. Southwick
Consumer Services Division
Oklahoma Corporation Commission

FOR

Dallas E. Ferguson, Attorney for
Qwest Communications Corp.

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

JANUARY 5, 2000

IN RE:	)	
	)	
SHOW CAUSE AGAINST LCI INTERNATIONAL, INC.	)	DOCKET NO. 98-00740
D/B/A QWEST COMMUNICATIONS SERVICES	)	

ORDER APPROVING SETTLEMENT AGREEMENT

This matter came before the Tennessee Regulatory Authority ("Authority" or "TRA") at a regularly scheduled Authority Conference held on July 13, 1999, on the Petition of LCI International, Inc. d/b/a Qwest Communications Services ("Qwest") and the Consumer Services Division of the TRA (the "CSD") for consideration of the proposed Settlement Agreement, attached hereto as Exhibit A.

At a regularly scheduled Authority Conference held on September 1, 1998, the Directors of the Authority unanimously voted to open a docket for the CSD to further investigate whether grounds existed to require Qwest to appear before the Authority to show cause, pursuant to Tenn. Code Ann. § 65-2-106, why the Authority should not take action against it for violations of Authority Rule 1220-4-2-.56(5) and Tenn. Code Ann. § 65-4-125.

Shortly after the opening of this docket and prior to the issuance of a show cause order, Qwest entered into settlement negotiations with the CSD that resulted in the proposed Settlement Agreement. As a part of this Settlement Agreement, Qwest has admitted that the long distance telephone service of two (2) Tennessee Consumers was switched to Qwest by an independent marketing agent without the knowledge or consent of such consumers. Qwest has terminated the

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services of the independent marketing agents responsible for slamming[1] these Tennessee consumers. Qwest has agreed to implement measures, as outlined in Exhibit A, to prevent similar occurrences in the future. Further, the Settlement Agreement requires Qwest to provide to the CSD quarterly reports for the period of twelve (12) months following the date of this Order so as to demonstrate compliance with the Settlement Agreement. These quarterly reports shall consist of monthly summaries of all preferred interexchange carrier ("PIC") disputes filed by Tennessee consumers as well as a detailed plan for corrective action to be taken against offending distributors or marketing agents, pursuant to Paragraph F of the Settlement Agreement. Qwest will also report to both the Authority and the appropriate state law enforcement officials any instance of a forged signature on a letter of agency which is purportedly from a Tennessee consumer. In addition, Qwest will pay to the Authority a civil fine in the amount of twenty-five thousand dollars ($25,000).

At the Authority Conference on July 13, 1999, following a discussion with the parties and a review of the Settlement Agreement, the Directors voted unanimously to accept and approve the Settlement Agreement, including the payment by Qwest of the amount of twenty-five thousand dollars ($25,000.00).

IT IS THEREFORE ORDERED THAT:

1. The Settlement Agreement, attached as Exhibit A, is accepted and approved and incorporated into this Order as if fully rewritten herein;

2. A civil fine of twenty-five thousand dollars ($25,000.00) to be paid by Qwest shall be paid into the Public Utilities Account;

[1] Slamming is a colloquialism to denote the unauthorized changing of a consumer's long distance service provider without the consumer's written or oral authorization. Slamming is strictly prohibited by Tenn. Code Ann. § 65-4-125 and Tenn. Comp. R. & Regs. r. 1200-4-2-.56

3. Upon payment of the amount of twenty-five thousand dollars ($25,000.00), LCI International, Inc. d/b/a Qwest Communications Services is excused from further proceedings in this matter, provided that, in the event of any failure on the part of LCI International, Inc. d/b/a Qwest Communications Services to comply with the terms and conditions of the Settlement Agreement, attached to this Order as Exhibit A, the Authority reserves the right to re-open this docket for the purpose of securing compliance and enforcing the Settlement Agreement;

4. Any party aggrieved by the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within ten (10) days from the date of this Order; and

5. Any party aggrieved with the Authority's decision in this matter has the right of judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from the date of this Order.

Melvin J. Malone, Chairman

H. Lynn Greer, Jr., Director

Sara Kyle, Director

ATTEST:

K. David Waddell, Executive Secretary

JAN 22 '20 17:29

SETTLEMENT AGREEMENT

The purpose of this document is to memorialize a settlement agreement between LCI International, Inc., known now as Qwest Communications Services ("Qwest"), and the Consumer Services Division of the Tennessee Regulatory Authority ("Staff"). LCI Telemanagement was issued a Certificate of Authority on September 12, 1995, by the Tennessee Public Service Commission authorizing it as an operator service provider and/or reseller of telecommunications services for statewide service in Tennessee.[1] LCI International Telecom, Corp. was issued a Certificate of Authority on April 26, 1996, by the Tennessee Public Service Commission authorizing it as an operator service provider and/or reseller of telecommunications services for statewide service in Tennessee.[2] Qwest Telecommunications, Inc. was issued a Certificate of Authority on September 12, 1995, by the Tennessee Public Service Commission authorizing it as an operator service provider and/or reseller of telecommunications services for statewide service in Tennessee.[3]

On August 27, 1998, the Tennessee Regulatory Authority ("Authority") approved the transfer and control of LCI International Telecom Corp. and LCI International Inc. to Qwest.[4] On November 3, 1998, the Authority approved the petition of LCI International Telecom Corp. to change its name to LCI International Telecom Corp. d/b/a Qwest Communications Services.[5] As a provider of interexchange telecommunications services in Tennessee, Qwest is subject to the applicable laws of the State of Tennessee and to the rules and regulations of the Tennessee Regulatory Authority ("Authority").

Based on the receipt of two (2) written complaints from Tennessee customers of Qwest, which alleged that their long distance telephone service was transferred to Qwest without the customers'

[1] Docket 95-03131
[2] Docket 95-03280
[3] Docket 95-03127
[4] Docket 98-00176

[redacted]

knowledge or consent, the Staff petitioned the Authority on August 25, 1998, to open a docket for the purpose of further investigation to determine whether grounds existed for the issuance of a show cause order. These two (2) complainants specifically allege that their signatures were forged by Qwest on Letters of Agency ("LOA") produced by the company. The Authority issued its written order granting the Staff's request on allegations of forgery by Qwest or representatives of Qwest on November 24, 1998. From November 24, 1998 to June 30, 1999, the Staff has received an additional fifteen (15) slamming complaints against Qwest.

In response to the Staff's inquiries, Qwest conducted its own investigation. Action taken by Qwest has resulted in the termination of the independent marketing agents responsible for forging the signatures of the above mentioned complainants. Qwest has taken additional corrective actions against distributors who have violated and are not in compliance with Qwest's policies regarding slamming.

In order to resolve this matter Qwest and the Staff have agreed to the following terms of the proposed settlement for consideration by the Authority:

A. Qwest admits that the long distance telephone service of two (2) Tennessee consumers was switched to Qwest by an independent marketing agent without the consumers' knowledge or consent.

B. Qwest agrees to pay the Authority a civil fine in the amount of Twenty-Five Thousand Dollars ($25,000.00) for the apparent violations of Tennessee Code Ann. §65-4-125 and Tennessee Regulatory Rules and Regulations 1220-4-2-56 (5), committed by its independent marketing agents. Payment shall be made to the Authority within thirty (30) days of the date the Authority's Order approving the settlement.

[5] Docket 98-00747

C. Qwest shall require each individual employee, including any employee of its independent marketing agents, engaging in soliciting its services in Tennessee to execute an acknowledgment form stating that the employee understands and accepts Qwest's policy prohibiting submission of carrier changes without proper authorization as prescribed by Tennessee rules and regulations. Copies of these executed forms will be available to the Staff upon request.

D. Qwest shall take appropriate measures to ensure that it has obtained the proper authorization from consumers prior to switching their long distance service including, but not limited to, performing validity checks on all LOAs submitted by its marketing agents to verify the accuracy of state, zip code, and area code information.

E. Qwest will continuously monitor the number of unauthorized conversions associated with each distributor or independent marketing agent and take immediate actions, up to and including, termination of the sales and marketing distributor and/or the specific marketing agent responsible for the unauthorized conversion to remedy the situation.

F. For a period of twelve (12) months following the date the Order approving this Settlement, Qwest will submit to the Staff quarterly reports, to be received no later than thirty (30) days from the end of the quarterly reporting period, for the purpose of ensuring its compliance with this Settlement. These quarterly reports will include the following information:

1. A monthly summary of all preferred interexchange carrier ("PIC") disputes filed either with Qwest or the local exchange carrier by Tennessee consumers. Each summary shall include the name of the consumer, telephone number, the date the unauthorized conversion occurred, the date the customer was disconnected from Qwest

services and the name of the distributor and/or marketing agent responsible for the action.

2. A detailed plan of corrective action taken or to be taken for each distributor and/or marketing agent who receives more than twenty (20) PIC disputes during a particular quarter.

G. Upon confirmation that any sales representative of Qwest or its distributors has forged the signature on an LOA of a purported new customer residing in Tennessee, Qwest will disclose to the Authority and the appropriate state law enforcement official the name of the sales representative for investigation and possible action that may be warranted by the circumstances.

Entered into this the 6TH day of JULY, 1999 by:

QWEST TELECOMMUNICATIONS SERVICES

BY: H. Ladd Baltimore
SIGNATURE

H. LaDell Baltimore
PRINTED NAME

Counsel
TITLE

TENNESSEE REGULATORY AUTHORITY

Eddie Roberson
Eddie Roberson, Chief Consumer Services Division

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

QWEST COMMUNICATIONS CORPORATION	)	
	)	
	)	Case No. 99-326
ALLEGED VIOLATION(S) OF KRS 278.535	)	Case No. 2000-229
SWITCHING OF TELECOMMUNICATIONS	)	
PROVIDER	)	

STIPULATION AND SETTLEMENT AGREEMENT

This Settlement Agreement is made and entered into on this 7 day of March, 2001, between QWEST COMMUNICATIONS CORPORATION ("Qwest") and the STAFF OF THE PUBLIC SERVICE COMMISSION ("Commission Staff"). This Settlement Agreement is intended to resolve pending Cases Nos. 99-326 and 2000-229.

WITNESSETH:

Case No. 99-326

WHEREAS, on or about February 7, 1999, the Commission Staff received by telephone a consumer complaint from the owners and operators of Lookout Marine Sales ("Complainants"), which is located at 6590 Highway 127 South, Somerset, Kentucky, alleging that the primary inter-exchange carrier ("PIC") for the long-distance telephone service at their business had been switched from AT&T Communications of the South Central States, Inc. ("AT&T") to Qwest without their authority; and

WHEREAS, the Commission Staff notified Qwest of the consumer complaint, but Qwest was unable to provide any written or tape recorded authorization from the Complainants that properly authorized the PIC change; and

WHEREAS, on August 12, 1999, the Public Service Commission ("Commission") issued a show cause Order in Case No. 99-326 against Qwest in which it found sufficient evidence to believe that Qwest failed to comply with the provisions of KRS 278.535; and

WHEREAS, Qwest responded to the Commission's show cause Order, participated in an informal conference with Commission Staff held November 1, 1999, and provided to the Commission a copy of its "Slamming Compliance Plan" submitted to the Federal Communications Commission ("FCC") for FCC File No. ENF-99-11; and

WHEREAS, the parties hereto desire to enter into this Settlement Agreement to resolve the issues raised by the Commission's show cause Order in Case No. 99-326, the parties therefore enter into the stipulations set out below.

<u>Case No. 2000-229</u>

WHEREAS, on or about August 4, 1999, the Commission Staff received by telephone a consumer complaint from Cuong Hoang ("Complainant"), who resides at 385 Southpoint Drive, Lexington, Kentucky, alleging that the PIC for the long-distance telephone service at his residence had been switched from Sprint Communications Company ("Sprint") to Qwest without his authority; and

WHEREAS, the Commission Staff notified Qwest of the consumer complaint, but Qwest was unable to provide any written or tape recorded authorization from the Complainant that properly authorized the PIC change; and

WHEREAS, on June 23, 2000, the Commission issued a show cause Order in Case No. 2000-229 against Qwest in which it found sufficient evidence to believe that Qwest failed to comply with the provisions of KRS 278.535; and

WHEREAS, Qwest responded to the Commission's show cause Order, participated in an informal conference with Commission Staff held September 7, 2000, and provided information to the Commission regarding implementation of its "Slamming Compliance Plan," including FCC approval of the Plan in August, 2000, and

WHEREAS, the Commission Staff's review of Counts I-IV, VI, VIII, and IX of the June 23, 2000 show cause Order prior to the informal conference determined that no violation of KRS 278.535 had occurred; and

WHEREAS, information provided to the Commission Staff by Qwest at the informal conference indicated that the PIC changes identified in Counts V and X of the June 23, 2000 show cause order did not violate KRS 278.535; and

WHEREAS, the parties hereto desire to enter into this Settlement Agreement to resolve the issues raised by the sole remaining count of the Commission's show cause Order in Case No. 2000-229, the parties therefore enter into the stipulations set out below.

Stipulations

NOW, THEREFORE, the parties mutually stipulate as follows:

1. Qwest is a "telecommunications provider" as defined by KRS 278.535, is authorized to do business in Kentucky, and is subject to the provisions and penalties of KRS 278.535 which are enforced by the Commission.

2. With respect to the PIC changes:

a. On or about August 14, 1998, the PIC long-distance service of Lookout Marine Sales was switched to Qwest, and subsequent to the customer's complaint to the Commission, the PIC service was switched back to AT&T on February 9, 1999;

b. On or about May 1, 1999, the PIC long-distance service of Cuong Hoang was switched to Qwest, and subsequent to the customer's complaint to the Commission, the PIC service was switched back to Sprint on September 9, 1999.

3. In each instance, Qwest did not comply with KRS 278.535, which required it to maintain for one (1) year a letter of agency or electronically recorded tape authorizing the PIC switch by the customer.

4. Qwest acknowledges the fact that each PIC switch occurred. At the time of the PIC switches, Qwest used the services of third-party marketing and sales distributors of its telecommunications services to secure and provide the necessary customer authorization. In neither Case No. 99-326 nor Case No. 2000-229 could the marketing and sales distributor provide proof of authorization by the Complainants or Complainant. Qwest maintains that it has not willfully or repeatedly violated KRS 278.535 in either case.

5. These stipulations are proposed by the Commission Staff and Qwest for purposes of reaching settlement in Case No. 99-326 and Case No. 2000-229. In the event settlement is not reached, these proposed stipulations will be withdrawn.

6. Nothing contained herein shall be construed as an admission of a violation of KRS 278.535 by Qwest, nor shall the Commission's acceptance of this Settlement Agreement be construed as a finding of a violation of KRS 278.535 by Qwest, and the facts contained herein shall not be cited as precedent in any other proceeding, except to enforce this Settlement Agreement.

Agreement

NOW, THEREFORE, Qwest and the Commission agree that:

1. Not later than ten (10) days after entry of an Order approving this Settlement Agreement, Qwest agrees to make a voluntary contribution of Two Thousand Dollars ($2,000.00) for investigative costs to the Kentucky State Treasurer in full settlement of both Case No. 99-326 and Case No. 2000-229.

2. Payment of the voluntary contribution shall be in the form of a cashier's check made payable to "Treasurer, Commonwealth of Kentucky," and shall be mailed or delivered to: Office of General Counsel, Public Service Commission, 211 Sower Boulevard, P.O. Box 615, Frankfort, Kentucky 40602.

3. This Agreement is specifically subject to the acceptance of and approval by the Commission.

4. Nothing contained in this Settlement Agreement shall be construed as a violation of KRS 278.535 by Qwest, nor shall the Commission's acceptance of this Agreement be construed as a finding that Qwest violated the statute. Neither Qwest's agreement to the payment of a voluntary contribution nor any other agreement contained herein shall be construed as an admission of a violation, nor shall it be construed as an admission by Qwest of liability in any legal proceeding or lawsuit arising out of the facts set forth herein. This Settlement Agreement and the stipulations contained herein may not be cited in any other proceeding or matter, except that they may be used in a proceeding between the Commission and Qwest to enforce this Settlement Agreement. Case No. 99-326 and Case No. 2000-229 shall be terminated upon the entry of a Commission Order accepting the Settlement Agreement in

satisfaction of the show cause Orders dated August 12, 1999 and June 23, 2000, respectively.

5. If the Commission fails to accept and approve this Settlement Agreement in its entirety then these proceedings shall go forward and each of the terms of the Settlement Agreement, any matters raised during settlement negotiations, and the contents of the Agreement itself shall not be binding upon any of the signatories.

6. If the Commission accepts and adopts this Settlement Agreement in its entirety and enters an Order in these proceedings to that effect, Qwest shall not apply for a rehearing of this matter or bring any legal action for judicial review of such Order.

AGREED TO BY:

QWEST COMMUNICATIONS CORPORATION

By Carol F. Kline Date 1/29/01

Title Director, Tariffs & Compliance

By David Allen Date 1/30/2001

Counsel for Qwest Communications Corporation

PUBLIC SERVICE COMMISSION OF KENTUCKY

By A. J. B. Pierce Date 3/7/2001

Counsel for Public Service Commission

6435

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF QWEST COMMUNICATIONS, INC.	)	ORDER APPROVING AGREEMENT REGARDING ANTI-SLAMMING PRACTICE, DISMISSING MOTION AND CLOSING DOCKET
RECEIVED JUL 5 2000	)	TC00-007

On February 4, 2000, the Staff (Staff) of the South Dakota Public Utilities Commission (Commission) filed a Motion to Assess Fines and Statutory Penalties against Qwest Communications, Inc. (Qwest). Staff asked for the imposition of statutory fines and penalties, the recovery of costs and the revocation of Qwest's certificate of authority should the Commission deem the acts of Qwest sufficient to merit such action.

On June 16, 2000, an Agreement Regarding Anti-Slamming Practices (the Agreement) was filed with the Commission, said Agreement representing a compromise and settlement of this matter between Qwest and Staff.

The Commission has jurisdiction in this matter by reason of Chapter 49-31, SDCL, generally and, SDCL 49-31-93, 49-31-94 and 49-31-96, in particular.

At its duly noticed June 20, 2000, meeting, the Commission considered whether to approve the Agreement. Qwest appeared through its local counsel of record, Robert Riter, Jr. Commission Staff recommended its approval.

The Commission unanimously voted to approve the agreement. It is therefore

ORDERED, that the Commission approves the agreement; and it is

FURTHER ORDERED, that the terms and conditions of the Agreement shall be incorporated into this Order by reference and attached hereto, the same as if it was fully recited herein and shall as such be fully binding upon the parties to it; and it is

FURTHER ORDERED, that pursuant to the Agreement, the motion of Staff as described in this Order shall be dismissed with prejudice and the docket shall be closed.

Dated at Pierre, South Dakota, this 28th day of June, 2000.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon.

By: Delaine Kolbo

Date: 6/29/00

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

James A. Burg
JAMES A. BURG, Chairman

Pam Nelson
PAM NELSON, Commissioner

Laska Schoenfelder
LASKA SCHOENFELDER, Commissioner

RECEIVED
JUN 16 2000
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

BEFORE THE
STATE OF SOUTH DAKOTA
PUBLIC UTILITIES COMMISSION

IN THE MATTER OF QWEST COMMUNICATIONS CORPORATION

AGREEMENT REGARDING ANTI-SLAMMING PRACTICES
TC00-007

INTRODUCTION

1. This Agreement Regarding Voluntary Practices ("Agreement") is entered into between the staff of the State of South Dakota Public Utilities Commission and Qwest Communications Corporation ("Qwest").

2. Qwest is a Delaware corporation with its principal place of business at 555 17th Street, Denver, Colorado. Qwest is engaged in the business of selling interstate and intrastate commercial and residential long distance telecommunications service.

3. On February 3, 2000 the undersigned staff filed a Motion to Assess Fines and Statutory Penalties, docketed as TC00-007, and since that time the parties have met and conferred regarding the issues raised therein.

4. It is expressly agreed and understood that Qwest does not admit to any violation of state or federal law, rule or regulation, wrongdoing, or liability of any kind on its part or on the part of any of Qwest's officers, directors, agents, employees, representatives, independent contractors, marketers, or assigns, nor does this Agreement constitute any finding of any such violations, wrongdoing or liability of any kind on its part or on the part of any of Qwest's officers, directors, agents, employees, representatives, independent contractors, marketers,

Feb-11-2002 11:53am From-QWEST POLICY AND LAW +6033985380 T-462 P.003 F-888

or assigns. Indeed, Qwest expressly denies such wrongdoing.

II. QWEST VOLUNTARY ANTI-SLAMMING PRACTICES

5. Qwest agrees to the following assurances provided to the South Dakota Public Utilities Commission in this agreement:

a. QWEST shall not knowingly submit to any local exchange carrier ("LEC") any preferred carrier change request unless Qwest has complied with all State of South Dakota and Federal Communications Commission ("FCC") rules and orders concerning preferred interexchange and/or intraLATA carrier ("PIC") changes, in effect, or as hereafter modified or amended.

b. Qwest shall require that each Qwest distributor and each person involved in the marketing of Qwest's services review Qwest's anti-slamming policies periodically and affirm that he or she understands the Advisory and will adhere to its contents. Qwest will require that every sales representative sign an Acknowledgement confirming that he or she has read the Advisory, understands its contents, and will adhere to the policies described therein. Qwest shall inform these sales representatives that violations of these policies are grounds for termination.

c. Qwest will maintain a policy that any individual discovered to have forged a signature on a letter of agency ("LOA") must be terminated immediately.

d. Qwest shall require that sales representatives transmit to Qwest the LOA for every sale for which an LOA is used as the method of verification. A Qwest employee shall review each LOA so submitted to ensure it is complete and facially valid. Each LOA with an apparently invalid or forged signature shall be rejected. If an LOA passes this facial review, it shall be scanned into Qwest's computer system by an independent third party.

e. Qwest shall maintain a "stay away" list of customers who have either (1) complained about being slammed in the past; or (2) expressed their intent never to purchase Qwest's services. Qwest shall ensure that consumers added to this list remain on it for a minimum of one year.

f. Qwest shall institute enforcement procedures based on internal reporting and tracking mechanisms to monitor distributor performance with respect to PIC disputes. Inadequate performance initially shall trigger mandatory training and additional monitoring. If performance does not improve, Qwest shall respond with more severe remedial measures and, if performance continues to be unsatisfactory, with termination of the distributor relationship.

g. Qwest shall require every new distributor to disclose all instances where it has been accused of slamming or other deceptive business practices. Qwest shall immediately terminate a distributor contract upon discovery of any inaccurate or incomplete disclosures made by the distributor.

h. Qwest has submitted a slamming compliance plan to the FCC, a copy of which is attached to this document as Exhibit 1. Qwest, as part of this settlement, also agrees to the terms and conditions of this plan.

i. Further, Qwest represents to the South Dakota Public Utilities Commission that it has instituted certain remedial actions with regard to sales agents and telemarketers as contained in Exhibit 2 which is attached to this document, in part as an update to Exhibit 1.

III. **FINAL SETTLEMENT**

6. Qwest shall make a voluntary payment in satisfaction of SDCL 49-31-94 to the State of South Dakota in the sum of Fifty Thousand Dollars ($50,000.00), and pay costs pursuant to SDCL 49-31-96 to the South Dakota Public Utilities Commission of a sum of Two Thousand, Five Hundred Dollars ($2,500.00), to reimburse them for their costs of those proceedings specified in Docket TC00-007. These payments shall be in lieu of any other fines, penalties, or actions as might be

authorized or imposed under SDCL 49-31-38, 49-31-38.1, 49-31-93, 49-31-94, 49-31-95 and 49-31-96. or any other statutes or rules under which the South Dakota Public Utilities Commission is acting. The parties hereto further agree that such payment is fair and reasonable, in the best interests of all parties involved, and an appropriate resolution of TC00-007.

7. The criteria addressed by SDCL 49-31-94 show as follows:

A. Size of the company. Qwest has total stockholders' equity of over $7 billion. (This is from Qwest's home page 1999 financial report, attached to this document as Exhibit 3.)

B. Alleged prior offenses, compliance history: See attached "History of Recent Complaints", which is attached to this document as Exhibit 4.

C. Good faith in attempting to achieve compliance: As stated above, Qwest has submitted a slamming compliance plan to the FCC and instituted certain remedial actions with regard to sale agents and telemarketers, all of which are attached hereto as Exhibits 1 and 2 and incorporated herein by this reference.

8. It is understood and agreed that this agreement addresses the cases specifically cited in Staff's motion in this docket. and any other cases filed against Qwest prior to the date this agreement becomes effective. All of the cases cited by

Staff, except one of these cases have been settled insofar as Qwest had or may have had any liability under SDCL 49-31-93 to the complainants. One case, namely CT 00-002 regarding the complaint of Dan Grider, is yet to be considered by the Commission. There also exists the Mark and Sue Cichos case, CT 00-078, and three complaints involving customers of Sully Buttes Telephone Cooperative. It is, however, understood and agreed that this Agreement is intended to effectuate full and final settlement between the Public Utilities Commission and Qwest as to the matters specifically cited in Staff's Motion in this docket and for any similar fines, costs and statutory penalties that could arise from any other complaints concerning similar matters or claims or complaints of improper practices of any kind received by the Commission on or before the effective date of this Agreement. However, this Agreement does not address compensation, if any, which may be awarded by the Commission pursuant to SDCL 49-31-93 to Grider, Cichos or the three unnamed cumstomers of Sully Buttes Telephone Cooperative.

9. The undersigned Staff of the South Dakota Public Utilities Commission agrees to advise the PUC of this resolution, and request the Commission to enter an Order dismissing with prejudice the Motion filed herein by the undersigned Staff, and Staff also agrees not to bring any other motion or request for proceedings relating to the previously filed complaints itemized in the Motion filed herein, intending this to be a full, final and complete resolution thereof as between the parties hereto. If

the Commission does not dismiss this action, then the parties hereto agree that Qwest shall be given opportunity to respond in writing to the Motion prior to it being scheduled for determination at a formal hearing, and also to respond as necessary with evidence and exhibits relative thereto. Furthermore, this Agreement shall not be final and effective until it is approved and adopted by the South Dakota Public Utilities Commission, and if not so adopted, it shall be of no force and effect.

10. Staff of the South Dakota Public Utilities Commission further agrees not to assert Qwest's business and marketing practices associated with PIC changes or associated complaints or disputes as grounds for opposing issuance of certificates, transfer of certificates or other regulatory approvals necessary for the divestiture by Qwest of its long distance business in the state of South Dakota.

QWEST COMMUNICATIONS CORPORATION

DATE: 6-15-00

By: ______________________
Mark Pitchford
Senior Vice President for Qwest

STATE OF SOUTH DAKOTA
STAFF OF SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

DATE: 6/16/00

____
Camron Hoseck

DATE: 6/16/00

Karen E. Cremer
Karen Cremer

SLAMMING COMPLIANCE PLAN OF QWEST COMMUNICATIONS INTERNATIONAL INC.

SUBMITTED TO THE
FEDERAL COMMUNICATIONS COMMISSION
FCC FILE NO. ENF-99-11

NOVEMBER 18, 1999

EXHIBIT

1

DC01/SMITM/96197.2

Feb-11-2002 11:55am From-QWEST POLICY AND LAW +6053385380 T-462 P.010/027 F-888

Slamming Compliance Plan of Qwest Communications International Inc.

Qwest Communications International Inc. ("Qwest") hereby submits the following Compliance Plan providing a comprehensive description of Qwest's policies and procedures to eradicate slamming. This Compliance Plan details Qwest's current "zero tolerance" policies with respect to slamming as well as the additional actions it will take to bolster those policies to ensure full compliance with Section 258 of the Communications Act and the Commission's rules and orders relating to PIC changes.[1]

Qwest is fully committed to implementing additional, commercially feasible processes if they can assist in eradicating unauthorized PIC changes. In this Compliance Plan, Qwest proposes substantial new protections against slamming, protections which significantly exceed those required in strict compliance with the FCC's rules and which in most instances go far over and above procedures that its competitors are using. These new procedures will strengthen the safeguards in place within its order processing system to prevent slamming, intensify distributor training and enforcement, and allow Qwest to correct weaknesses that may be discovered in its anti-slamming protections.

In the first section of this Compliance Plan, Qwest briefly outlines its current anti-slamming procedures, put in motion to implement Qwest's "zero tolerance" policy with respect to slamming violations. In the second section, Qwest discusses further improvements it is

1 Qwest intends that the additional actions proposed herein be effective for a period of two years beginning the release date of any order issued in this proceeding.

implementing to strengthen the effectiveness of its zero tolerance policy and ultimately to eradicate slamming.[2]

I. QWEST'S CURRENT POLICIES AND PROCEDURES WITH RESPECT TO SLAMMING.

As described in Qwest's Response to the Notice of Apparent Liability, Qwest has a zero tolerance policy for slamming violations. Qwest employs a three-pronged approach to controlling slamming – relying on strict rules of acceptable behavior, order processing procedures designed to weed out suspect orders, and decisive enforcement against violators. The most significant aspects of each element are discussed below.

A. Rules of Fair Dealing and Honesty

Anti-Slamming Advisory. Each Qwest distributor and each person in any way involved in the marketing of Qwest's services must review Qwest's anti-slamming policies set out in an Advisory and affirm that he or she understands the Advisory and will adhere to its contents. This Advisory explains the common causes of slamming, identifying problem areas such as incorrect telephone numbers, illegible information on an LOA, authorization from the wrong person, and "signing someone up just to 'get the sale.'" In addition, the Advisory warns that slamming is a very serious problem which will be dealt with severely.

The Advisory instructs sales representatives on the ways in which they can protect against inadvertently unauthorized switches, and offers the following recommendations:

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2 This Compliance Plan discusses a number of policies and procedures used to detect attempts by unscrupulous sales agents to pass bad orders through Qwest. The effectiveness of these policies and procedures may be compromised by widespread disclosure of their precise operation, as it may allow a distributor to defeat Qwest's protection mechanisms. Accordingly, Qwest has segregated those elements which require confidentiality in a Proprietary Attachment to this Compliance Plan, and is seeking confidential treatment of the attachment.

- You are strongly encouraged to verify information against each new customer's actual telephone bill for each LOA.
- The person signing the LOA should be a person with authority to act on behalf of the company or the person whose name appears on the telephone bill. It is essential that the person signing the LOA has authority to change long distance carriers.
- NEVER sign someone else's name on an LOA or any other document!
- Don't force a sale that is not there.

In addition, the Advisory gives the following warning: "*Note that children, roommates, receptionists, secretaries and assistants typically do not have the authority to change long distance carriers for an individual or a company.*"

Every sales representative must sign an Acknowledgement confirming that he or she has read the Advisory, understands its contents, and will adhere to the policies described therein. Violations of these policies are grounds for termination of the sales representative.

B. <u>Order Processing Procedures</u>

Qwest has improved its order processing procedures over the past year. These improvements provide a better assurance that each order is supported by a complete and valid LOA, and improve the opportunity for consumers to detect improper orders early in the process.

Submission and Scanning of LOAs. Beginning in late September 1999, Qwest improved its procedures for receiving and reviewing the LOAs upon which orders are based. Whereas previously sales representatives (although required to obtain an LOA in all instances) did not submit the LOA unless requested, Qwest now requires for every order that the sales representative transmit to Qwest the LOA upon which the sale is based. A Qwest employee reviews each LOA to ensure it is complete and facially valid. Qwest rejects any LOA with an apparently invalid or forged signature. If an LOA passes this facial review, it is scanned into Qwest's computer system by an independent third party. By scanning the LOA, Qwest obtains a visual image of the entire LOA, which enables, upon request, a comparison of the LOA with other information provided by the customer or regulatory agency. In addition, the scanned image can be searched on several identified data fields. Qwest is exploring ways in which this data may be used in the future – such as through comparison to independent data – in order to identify forged signatures or falsified information contained on an LOA.

This process enables Qwest to weed out the most egregious instances of slamming. By reviewing each LOA submitted, Qwest can identify patterns that suggest an improper order, such as repetitive information on multiple orders or blatant discrepancies in handwriting on an LOA. Moreover, the process ensures that Qwest has on file an LOA for each order before it is submitted to the LEC to initiate the PIC change. In addition, the process gives Qwest the ability to rapidly retrieve and provide information about the authorization upon request from a customer or regulatory agency, and possibly will enable more sophisticated analyses of LOAs in the future.

Welcome Postcard. Shortly after an order is entered into Qwest's system, Qwest mails a welcoming postcard to the customer informing her that it has received and is processing the order. The postcard informs the customer that Qwest has received an order to change the customer's preferred long distance carrier on the telephone line(s) listed. The postcard states that the customer's local telephone company shortly will be implementing the change and informs the customer to call the listed toll-free number if she has any questions about the order.

This postcard provides every customer to be switched to Qwest with notice that a switch is occurring. Qwest uses the postcard as a way to give the customer an opportunity to detect an improper order, ideally before the switch occurs, but in any event, before the customer receives his or her first bill from Qwest or their local exchange company. By notifying a customer promptly after receipt of her order, Qwest hopes to identify any problems at the point in time when they can be corrected most easily and with the least impact on customers.

CARE Flags. When Qwest receives from the local exchange companies a code representing a disputed switch based on an allegation of slamming, it places a flag on the telephone number(s) identified. These flags are used to prevent reinstallation of Qwest service to the same customer after an allegation of an unauthorized switch. Qwest is in the process of implementing a system of additional flags that accomplishes the same function for instances of potentially unauthorized switches identified by other means. Qwest expects to implement this new edit immediately after expiration of its "Year 2000" moratorium on computer system changes.

C. **Enforcement Procedures**

Charge-Backs and Disgorgement of Profits from Slamming. Qwest's distributor agreements provide the company with an arsenal of weapons it may use when slamming is detected. One particularly important weapon is Qwest's ability to eliminate the economic incentive for slamming by charging back all commissions and fees associated with a slammed order. When Qwest receives notice of a PIC dispute from the LEC, it immediately requires the distributor involved to investigate and report back promptly.[3] If the distributor fails to produce evidence that the order was supported by a valid LOA or it the distributor does not respond within the time period, Qwest will treat the order as an unauthorized switch. Consequently, Qwest automatically will charge back all commissions and fees paid to the distributor.

Qwest will continue to scrutinize these unauthorized orders, however. In addition to charging back commissions, Qwest also is entitled to charge the distributor for administrative

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3 *See* the Proprietary Attachment appended hereto.

Feb-11-2002 11:56am From-QWEST POLICY AND LAW +6033385380 T-462 P.015/027 F-888

and LEC fees imposed, and to assess other penalties if an order is not supported by a valid LOA. If a distributor has failed to provide evidence of valid authorization as described above, Qwest will require the distributor to investigate the order further and to report back to Qwest within a reasonable time identifying the cause of the invalid order and any remedial action taken. If the distributor does not take adequate remedial action or fails to provide this report, Qwest will assess administrative and LEC fees, and additional penalties as permitted by its contracts.

Reporting and Tracking. Qwest now compiles, on a regular basis, a series of reports that track distributor performance in the submission of orders to Qwest. These reports track, by distributor, (1) the percentage of distributor orders rejected for facial defects (tracked daily), (2) the number of orders and amount of commissions charged back to distributors (tracked weekly), and (3) the percentage of PIC disputes and associated billing adjustments to distributors (tracked weekly). A detailed description of each report is provided in the Proprietary Attachment appended hereto. Currently, these reports are used to identify problems with specific distributors, and will be used by Qwest as the basis for action ranging from warning letters to termination of problem distributors.

II. ADDITIONAL ANTI-SLAMMING PROCEDURES TO BE IMPLEMENTED BY QWEST.

Qwest is dedicated to the continuing improvement of its anti-slamming efforts. Effective for the next two years, Qwest proposes to take the following additional actions:

Targeted Third Party Verification of Sales or Sales Channels. In any area where Qwest determines that orders are more susceptible to potential abuse, Qwest will require independent third party verification ("TPV") for these orders. Qwest will review its sales channels and overall performance from time to time to determine types of orders or particular

Feb-11-2002 11:57am From-QWEST POLICY AND LAW +6033385380 T-462 P.016/027 F-888

sales channels where TPV is appropriate.[4] Qwest has decided to require TPV on some orders immediately, as set forth in the Proprietary Attachment to this Compliance Plan.

Where Qwest requires verification of orders, all verifications will be provided by an unaffiliated company, and will be conducted in compliance with the Commission's standards for third party verification of telemarketing orders. All TPV sessions will be recorded and maintained for a period of at least two years.

Strengthened Distributor Enforcement Procedures. Qwest will revise its enforcement procedures in order to include clear and objective "triggers" to identify slamming or other marketing problems quickly and to provide effective remedial action. The revised enforcement procedures will be based on internal reporting and tracking mechanisms put in place to monitor distributor performance. If a distributor's improper orders exceed a pre-set threshold of performance, Qwest immediately will begin remedial procedures. In addition, Qwest will use different thresholds to target slamming activity directly. In order to prevent distributors from "gaming" Qwest's detection mechanisms, the precise tracking mechanisms employed and thresholds to be used are described in the Proprietary Attachment to this Compliance Plan.

Inadequate performance initially will trigger mandatory training and additional monitoring to increase the submission of valid orders. Qwest will require the distributor to receive follow-up training sessions (at its own expense) focusing on proper sales techniques and methods to reduce rejected orders.[5] As necessary to remedy specific problems, Qwest will require the distributor to implement specific changes designed to reduce its incidence of bad

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4 Qwest will not inform its distributors in advance of the orders that will be required to undergo TPV, and Qwest will retain the discretion to revise its procedures at any time.

5 Qwest will conduct this training at the distributor's main offices, and the distributor will be required to have its own sales representatives present for the follow-up training.

orders. In addition, Qwest will require all of the distributor's sales representatives to reaffirm and re-sign Qwest's Anti-Slamming Advisory and will require a Distributor Self-Audit (discussed *infra*) on a monthly or weekly basis, as necessary under the circumstances.

If performance does not improve quickly after this additional training and monitoring, Qwest will respond with more severe remedial measures and, if performance still has not improved, with termination of the distributor relationship. If additional training and monitoring do not produce a higher level of acceptable orders on those orders submitted within a reasonable time after the training,[6] Qwest (1) will require all of the distributor's orders to be independently third-party verified prior to submission to Qwest, (2) will require re-affirmation of the Anti-Slamming Advisory, (3) will require more frequent Distributor Self-Audits, and (4) may impose additional penalties in its discretion. If subsequent orders still do not show prompt improvement, then, as the third and final level of enforcement, the distributor will be terminated. The specific time periods for improving distributor performance are set out in the Proprietary Attachment to this Compliance Plan.

Strengthened Sales Representative Enforcement Procedures. Effective immediately, Qwest will require every sales representative involved in any way in the marketing of Qwest services to periodically review and sign Qwest's Anti-Slamming Advisory. Qwest will require sales representatives to sign the Advisory at least once every six months, and to affirmatively commit each time to follow its policies.

Furthermore, Qwest will apply its zero tolerance policy to every instance of a forged LOA. If *any* individual is discovered to have forged a customer's signature, Qwest will require that the offending individual be terminated immediately. This policy will apply in the

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6 *See* the Proprietary Attachment appended hereto.

first instance of a forged LOA; sales representatives will not be given an opportunity to mend their ways.[7] Qwest will apply this policy to other egregious violations of FCC rules as they may arise.

In addition, if in Qwest's sole discretion, Qwest determines that an individual sales representative is involved in a significant number of improper orders, Qwest will issue warnings to the distributor and require the distributor to report back detailing the remedial actions it took to correct the problem. If problems persist, Qwest will require that the sales representative be reassigned or terminated. Qwest's current policies for initiating action against sales representatives is described more fully in the Proprietary Attachment to this Compliance Plan.

Intensified Pre-Screening of Distributors. Qwest will strengthen the pre-screening measures it employs to ensure that potential distributors are honest and reputable. In addition to its existing pre-screening, Qwest will require every new distributor to disclose all instances where it has been accused of slamming or other deceptive business practices. Qwest will require that all instances be fully disclosed, including allegations made against affiliates, predecessor companies, the distributors' officers, directors or principals, and any companies with which the officers, directors or principals previously or currently are associated. Qwest will immediately terminate a distributor contract upon discovery of any inaccurate or incomplete disclosures made by a distributor.

In addition, Qwest will place new distributors on probationary status for the first 90 days. During this time, Qwest will conduct performance reviews to ensure the distributor meets Qwest's standard of performance. If during this probationary period, the distributor's

[7] The distributor will be required to certify, within 5 business days of receiving notice from (continued...)

performance falls below a pre-set threshold of quality, then Qwest will terminate its relationship with the distributor. The standards Qwest will apply in assessing performance during the probationary period are described in the Proprietary Attachment to this Compliance Plan.

Periodic "Refresher" Training of Sales Representatives. In addition to initial training sessions, Qwest will mandate routine refresher training courses for its distributors. These refresher courses will provide periodic reinforcement of Qwest's anti-slamming policies, including improvements to its procedures implemented since the initial training. In addition, these sessions will cover general sales techniques and will provide a vehicle for discussing new areas of concern that may develop. Each distributor must participate in refresher training courses at least annually.

Order Processing. Qwest will also keep a "stay away" list of customers who have either (1) complained about being slammed in the past; or (2) expressed their intent never to purchase Qwest's services. Consumers will remain on this list for a minimum of one year. When an order is submitted to Qwest, it will be matched against this "stay away" list so as to ensure that consumers on the list are not switched by Qwest. If, however, an order is rejected because it is on the "stay away" list, Qwest will give the consumer an opportunity to decide that he nevertheless would like Qwest service. Qwest will remove the customer from the stay away list and permit a switch only if the customer requests in writing that Qwest do so and sends a copy of the first page of his LEC bill in order to verify authorization.

Independent Audits. Qwest also will annually engage an independent auditor to conduct an examination of its reporting and data tracking mechanisms and the enforcement procedures based upon those reports. This examination shall be supervised by persons licensed

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(...continued)
Qwest, that the sales representative was terminated.

to provide public accounting services and shall be conducted in accordance with the relevant standards of the AICPA. Qwest will provide the auditor with full access to all records necessary to conduct the required examination. The independent auditor shall provide an opinion (with exceptions, if any, noted) in a written report submitted to the Board of Directors of Qwest. Qwest's new Senior Vice President of Consumer Markets, who will lead Qwest's expanded anti-slamming initiative, will oversee the implementation of any procedural changes recommended as a result of the auditor's report.

Distributor Self-Audits. Qwest will require each of its distributors to report, on at least a quarterly basis, the results of an internal audit of its anti-slamming procedures. Qwest will require distributors to certify that they are adhering to the Anti-Slamming Advisory, and to report any complaints or inquiries concerning alleged incidents of slamming by the distributor.[8]

* * *

Qwest believes that proposed changes, in conjunction with its existing procedures, will further reduce instances of unauthorized switching. Many of the steps outlined above are unprecedented in the industry and will far exceed what is required for strict compliance with the FCC's rules. Qwest is committed to reducing slamming through any commercially feasible mechanism.

[8] In the event a distributor promotes the services of other companies in addition to Qwest, Qwest will require the distributor to report all allegations of slamming, regardless of on whose behalf the distributor was acting.

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SLAMMING COMPLIANCE PLAN
of Qwest Communications International Inc.
STATUS/UPDATE – May 1, 2000

This information is being provided as a current status of the efforts of Qwest Communications International Inc., to implement the anti-slamming actions outlined in the attached Slamming Compliance Plan. This information is meant to supplement and provide additional detail to the attached plan.

- *CARE flags* – Page 5, Last italicized subheading in Section I. B., "Order Processing Procedures" – These flags have been implemented.

- *Charge-Backs and Disgorgement of Profits from Slamming* - Page 5, First italicized subheading in Section I.C., "Enforcement Procedures" – Contracts are currently being modified to increase the financial penalty associated with an invalid PIC change to $100 which is two-to-three times the commission revenues associated with the change to even further incent appropriate behavior financially.

Additionally, Qwest has implemented all proposed steps in Section II, "Additional Ant-Slamming Procedures to be Implemented by Qwest."

- *Targeted Third-Party Verification* - Page 6, Section II – currently, over 80% of sales are being third-party verified. This percentage varies somewhat depending on sales mix during a particular week and particular programs being verified. Additionally, Qwest is implementing a new third-party verifier that supports voice and data transfer. This should further increase the accuracy of this process.

  - *Strengthened Distributor Enforcement Procedures* – Page 7, Section II – as a result of identifying sales quality issues, Qwest has now terminated their relationship with some twenty-seven sales agents and/or telemarketing companies.

  Qwest is in final termination discussions with an additional agent/telemarketer.

  Additionally, Qwest has terminated seven additional agents/telemarketers for other reasons.

  There are currently an additional three companies in Phase 1 implementation, two in Phase 2, and two on probation after being in Phase 1 and improving.

Independent Audit – Page 10, Second-to-last italicized subheading in Section II, "Additional Ant-Slamming Procedures to be Implemented by Qwest." – An initial independent audit was performed to help develop this plan and those recommendations were included in this plan. Additional independent audits will be conducted every six months.

EXHIBIT
2

Finally, not included in the compliance plan is an effort by Qwest to have more direct control over the sales efforts made on its behalf. In order to do this:

- Telemarketing partners have been shifted from a per sale commission structure to an hourly compensation structure where Qwest personnel can determine scripts and offers and perform ongoing training and quality monitoring.

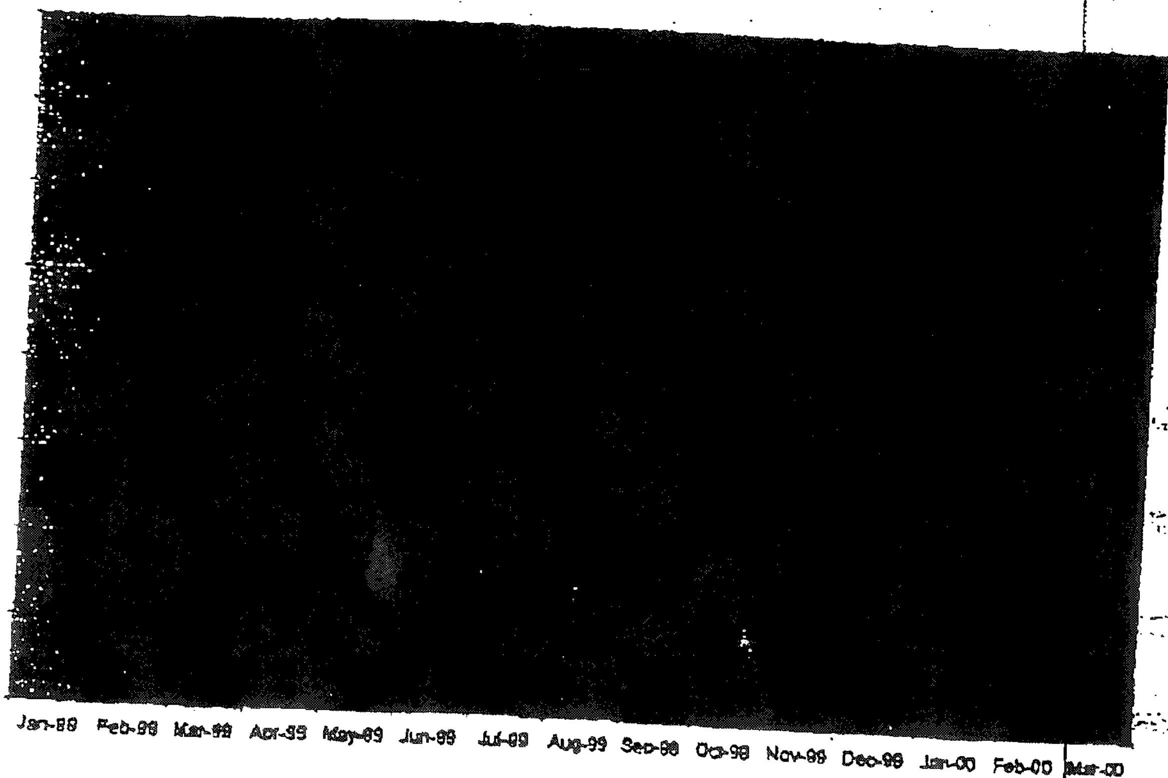
- Direct sales agents have been reduced and the remaining agents have had their compensation shifted so that a large part of that compensation is based upon a customer's ongoing revenue stream, incenting them to ensure that they have quality sales that stick for an extended period of time.

<u>Results</u>

As a result of these actions, the volume of PIC disputes on a national basis has dropped by over 78% between August 1999 and January/February 2000 and is trending even further down.

If there are any additional questions regarding this plan or implementation status, please contact Carol Kuhnow at (703) 363-3189.

National PIC Disputes



On Jan. 3, 2000, Qwest was the first company in the new millennium to be listed on the New York Stock Exchange. The facade of the NYSE was decorated for the celebration with brilliant lights and colors.

Click to view charts:
- Market Capitalization
- Pro Forma Revenue
- Pro Forma EBITDA
- Total Assets

financial highlights

> 1999 ANNUAL REPORT

(In Millions, Except Per Share Information)	Year Ended December 31, 1999	1998	1997
Statements of Operations			
Total revenue	$ 3,927.3	$ 2,242.7	$ 696.7
% growth over prior year	75%	222%	[illegible]
Earnings (loss) from operations	[illegible]	(755.7)	28.8
Net earnings (loss)	$ [illegible]	$ (844.0)	$ 14.5
Net earnings (loss) per share:			
Basic	$ [illegible]	$ (1.21)	$ 0.03
Diluted	$ [illegible]	$ (1.21)	$ 0.04
Recurring net earnings (loss) per share(a):			
Basic	$ 0.16	$ [illegible]	$ 0.04
Diluted	$ [illegible]	$ [illegible]	$ 0.04
EBITDA(b)	$ [illegible]	$ [illegible]	$ 43.7
Summary Balance Sheet Data			
Total assets	$ 11,[illegible]	$ 9,[illegible]	$ 1,[illegible]
Long-term debt	$ [illegible]	$ [illegible]	$ [illegible]
Total stockholders' equity	$ [illegible]	$ [illegible]	$ [illegible]

(a) Recurring net earnings (loss) per share exclude the following items for years: [illegible] expenses of $51.5 million and the gain on the [illegible] of [illegible] million in 1999; [illegible] expenses of [illegible] million and a charge of [illegible] million for [illegible] of certain data of the company in 1998, and a [illegible] sale of contract rights of [illegible] million in 1997.

(b) See footnote (b) to Selected Financial Data.

Click here to download printable PDF file of the 1999 Annual Report optimized for black and white printers. (1.4 mb)

EXHIBIT
3

History of Recent

Qwest Complaints

	2000	1999	1998	
Slamming	11	26	5	
Cramming	1	5	0	
Deceptive Telemarketer	4	4	3	
Double Billing		5	3	
Fluffing	2	14	3	
Switching Delay	2	1		
Other	1	1	1	
Total	21	56	15	92

EXHIBIT
4

ATTACHMENT F

ARIZONA
DOCKET NO. T-02811B-04-XXXX
QCC APPLICATION
ATTACHMENT F

COPY
APR 12 2000
PATRICIA A. NOLAND
CLERK, SUPERIOR COURT

CPA 99-272
JANET NAPOLITANO
Attorney General
NOREEN R. MATTS
Assistant Attorney General
Consumer Protection & Advocacy Section
400 W. Congress, South Bldg., Suite 315
Tucson, Arizona 85701-1367
Telephone: (520) 628-6504
Pima County Computer No. 36732
Attorneys for Plaintiff

ARIZONA SUPERIOR COURT
COUNTY OF PIMA

State of Arizona, ex rel. Janet Napolitano, Attorney General, Plaintiff, vs. Qwest Communications International, Inc., a Delaware corporation, Defendant.	No. C20001927 COMPLAINT FOR INJUNCTIVE AND OTHER RELIEF (Unclassified Civil) KENNETH LEE

JURISDICTION

1. The Court has jurisdiction over this action under A.R.S. § 44-1521 et seq., the Arizona Consumer Fraud Act. This action is brought to obtain civil penalties and other relief to prevent unlawful acts and practices and to remedy the unlawful conduct alleged in this complaint. Venue is in Pima County, Arizona.

2. The Superior Court has jurisdiction to enter appropriate orders both prior to and following a determination of liability, pursuant to A.R.S. § 44-1528.

PARTIES

3. Plaintiff is the State of Arizona ex rel. Janet Napolitano, the Attorney General, who is charged with the enforcement of the Arizona Consumer Fraud Act, A.R.S. § 44-1521 et seq.

4. Qwest Communications International, Inc., (hereafter, "Qwest") is a Delaware corporation, which does business in Arizona as a telecommunications service carrier.

ALLEGATIONS

5. Qwest markets and provides interstate and intrastate long distance service to Arizona consumers. Qwest has engaged independent contractors/third-party distributors who act as Qwest's agents to solicit new customers for Qwest.

6. Beginning in approximately 1997 and continuing through 1999, the State of Arizona alleges that Qwest has engaged in practices in violation of A.R.S. §44-1521 et seq., which practices include the unauthorized switching of Arizona consumers' interstate and intrastate long distance service to Qwest and the unauthorized billing of Arizona consumers. Specifically, and among other matters, the State of Arizona alleges that Qwest engaged in the following:

a. Submitted primary interexchange carrier ("PIC") change orders based on forged LOAs to local exchange carriers ("LECs") including, but not limited to U.S. West.

b. Submitted PIC change orders based on LOAs which contained the signatures of parties unknown to the Arizona subscribers whose long distance service was being switched.

c. Submitted PIC change orders when in fact Qwest had no LOA or any other authorization as the basis for submitting these orders.

d. Engaged third party telemarketing agents who contacted consumers by telephone to sell consumers telecommunications service, and offered, as an incentive, the *Fly Free America* program, by which consumers who stayed as customers of Qwest for 60 days were entitled to receive two free airline tickets. In some cases, Qwest's telemarketing agents did not inform consumers of the restrictions connected to the incentive and in other cases, did not provide consumers with their airline tickets.

e. Billed subscribers, for fees associated with interstate and intrastate long distance service before determining whether the PIC change would go through or be rejected by the LEC based on a subscriber's PIC freeze.

f. Billed subscribers for monthly recurring fees when the subscribers had requested that their accounts be closed and/or deactivated. Qwest states that it had not received the required electronic notification from the LEC indicating that the subscriber had canceled his or her service with Qwest and selected another carrier.

3. At all times Qwest knew or should have known that its actions violated the Arizona Consumer Fraud Act.

WHEREFORE, plaintiff respectfully requests the Court:

4. Issue a permanent injunction enjoining and restraining Qwest from engaging in the course of conduct alleged in violation of A.R.S. §44-1522(A).

5. Issue a permanent injunction enjoining and restraining Qwest from engaging in the advertisement, solicitation, offer for sale, or sale of any telecommunications services to Arizona consumers.

6. Order Qwest to restore to all persons any money or property, real or personal, which was acquired by means of any practice alleged herein to be in violation of A.R.S. §44-1522(A), in such amounts as may be deemed proper by the Court, pursuant to A.R.S. §44-1528.

7. Order Qwest to pay the State of Arizona a civil penalty of $10,000.00 per violation pursuant to A.R.S. §44-1531.

8. Order Qwest to reimburse the Attorney General for the costs of investigation and for reasonable attorney's fees pursuant to A.R.S. §44-1534.

9. Order any other such relief as the Court deems proper.

Dated this 12th day of April, 2000.

JANET NAPOLITANO
Attorney General

By: Noreen R Matts
NOREEN R. MATTS
Assistant Attorney General

FILED
APR 1 9 2000
PATRICIA A. NOLAND, Clerk
Deputy

COPY
APR 1 2 2000
PATRICIA A. NOLAND
CLERK, SUPERIOR COURT

CPA 99-272
JANET NAPOLITANO
Attorney General
NOREEN R. MATTS
Assistant Attorney General
Consumer Protection & Advocacy Section
400 W. Congress, South Bldg., Suite 315
Tucson, Arizona 85701-1367
Telephone: (520) 628-6504
Pima County Computer No. 36732
Attorneys for Plaintiff

ARIZONA SUPERIOR COURT
COUNTY OF PIMA

State of Arizona. ex rel. Janet Napolitano, Attorney General, Plaintiff, vs. Qwest Communications International, Inc., a Delaware corporation, Defendant	No. C20001927 CONSENT JUDGMENT KENNETH LEE

The State of Arizona, having filed a complaint alleging violations of the Arizona Consumer Fraud Act, A.R.S. §44-1521 et seq., and Qwest Communications International, Inc., a Delaware corporation, having accepted service of the complaint, having been fully advised of its right to trial in this matter, and having waived that right, admits the jurisdiction of this Court over the subject matter and the parties for the purpose of entry of this consent judgment and acknowledges that jurisdiction is retained by the Court for purpose of enforcement of the consent judgment.

BACKGROUND

1. For purposes of the consent judgment, the following definitions apply:

a. "Qwest" shall mean Qwest Communications International, Inc., Qwest Communications Corporation, LCI International Telecom Corp., and any employees, independent contractors/third party distributors, other agents, and every

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other person or entity who or which markets or provides telecommunications service for or on behalf of Qwest.

b. "Telecommunications service" shall mean interLATA, intraLATA, local toll and/or local exchange service provided to residential and business consumers.

2. Qwest markets and provides interstate and intrastate long distance service to Arizona consumers.

3. In order to market interstate and intrastate long distance service in Arizona, Qwest has engaged independent contractors/third-party distributors who act as Qwest's agents to solicit new customers for Qwest. According to Qwest, agents who engage in face-to-face marketing are required by contract to obtain a telephone line subscriber's or authorized party's signature on a document known as a letter of agency or LOA. Qwest also states that prior to September 1999, agents did not provide the LOAs to Qwest, but instead electronically submitted service orders to Qwest and were required to provide copies of the LOAs to Qwest upon Qwest's request to verify that the subscribers did indeed authorize a switch in their interstate and intrastate long distance service. In September 1999, Qwest began requiring all agents to submit LOAs to Qwest before a service order would be processed by Qwest. Since that time, Qwest has electronically scanned each LOA to ensure it has such documentation before processing a service order to switch a subscriber's long distance service.

4. Beginning in approximately 1997 and continuing through 1999, the State of Arizona alleges that Qwest has engaged in practices in violation of A.R.S. §44-1521 et seq., which practices include the unauthorized switching of Arizona consumers' interstate and intrastate long distance service to Qwest and the unauthorized billing of Arizona consumers. Specifically, and among other matters, the State of Arizona alleges that Qwest engaged in the following:

a. Submitted primary interexchange carrier ("PIC") change orders based on forged LOAs to local exchange carriers ("LECs") including, but not limited to U.S. West.

b. Submitted PIC change orders based on LOAs which contained the signatures of parties unknown to the Arizona subscribers whose long distance service was being switched.

c. Submitted PIC change orders when in fact Qwest had no LOA or any other authorization as the basis for submitting these orders.

d. Engaged third party telemarketing agents who contacted consumers by telephone to sell consumers telecommunications service, and offered, as an incentive, the *Fly Free America* program, by which consumers who stayed as customers of Qwest for 60 days were entitled to receive two free airline tickets. Qwest states that its telemarketing agents were required to inform consumers that they were required to stay at participating hotels for a minimum number of nights at the regularly published rates when they used the tickets, but the State of Arizona alleges that Qwest's telemarketing agents did not always inform consumers of this requirement. Additionally, in some cases, Qwest's telemarketing agent did not provide consumers with their airline tickets.

e. Billed subscribers, for fees associated with interstate and intrastate long distance service before determining whether the PIC change would go through or be rejected by the LEC based on a subscriber's PIC freeze. Qwest states the billing errors were due to a temporary processing error.

f. Billed subscribers for monthly recurring fees when the subscribers had requested that their accounts be closed and/or deactivated. Qwest states that it had not received the required electronic notification from the LEC indicating that the subscriber had canceled his or her service with Qwest and selected another carrier.

5. This consent judgment is for settlement purposes only, and Qwest does not admit to any of the factual allegations by the State of Arizona or to any violation of state or federal law, rule or regulation, wrongdoing, or liability of any kind on its part or on the part of any of Qwest's officers, directors, agents, employees, representatives, independent contractors, marketers, or assigns, nor is this a finding of same.

ORDER

IT IS HEREBY ORDERED that in connection with the marketing and provision of telecommunications service:

6. Qwest shall comply with all Federal Communications Commission (FCC) rules and

orders now in effect, or as hereafter are modified or amended, before submitting a PIC change order to any local exchange carrier.

7. Qwest shall obtain the express authorization of an Arizona subscriber or authorized party before submitting a PIC change order.

8. For a period of two years from the date the Court signs this consent judgment, if using an LOA in face-to-face marketing as the basis for submitting a PIC change order for an Arizona consumer, Qwest shall, before submitting a PIC change order, match the subscriber's name and signature on the LOA to the name and signature on the subscriber's picture identification. In addition:

a. Qwest shall note on the LOA the type of picture identification provided by the subscriber, e.g., an Arizona driver's license.

b. Qwest shall write the agent's name and company on the LOA so that Qwest can trace consumer dissatisfaction with a particular transaction directly to the Qwest agent who handled the Arizona transaction. Qwest shall follow the same procedure if its employees conduct the marketing.

c. Qwest shall retain LOAs for a period of two years from the date the Arizona consumer signs the LOA.

9. Qwest shall prohibit its agents from offering any travel incentive, including but not limited to the *Fly Free America* program, to any Arizona consumer as an incentive to switch telecommunications service to Qwest without disclosing all material terms and conditions of the offer.

10. Qwest shall not bill Arizona subscribers for Qwest telecommunications service until such time that Qwest expressly ascertains from the LEC whether the subscribers have PIC freezes.

11. Qwest shall promptly discontinue billing Arizona subscribers for any charges, including but not limited to the monthly fee, as soon as Qwest receives electronic notification from the LEC that a subscriber has canceled his or her telecommunications service with Qwest and selected another carrier. Nothing in this paragraph prohibits Qwest from billing for services rendered prior to Qwest's receipt of such notification.

12. Within thirty (30) days of signing this consent judgment, Qwest shall revise, as needed, its sales and training manuals, whether provided to Qwest employees, independent contractors/third

party distributors or other agents, to make clear the following:

a. That forgery is illegal;

b. That Qwest must confirm with each Arizona consumer who signs an LOA that he or she is the subscriber for the telephone line/s or is authorized to change the long distance service for the line/s;

c. That Qwest shall match the Arizona subscriber's name and signature on the LOA to the name and signature on the subscriber's picture identification and shall note on the LOA the Qwest agent's name and company.

13. Qwest shall provide its sales and training manuals, reflecting the requirements set out in paragraph 12, to the Attorney General's Office within forty-five (45) days of the signing of this consent judgment by the Court.

14. Qwest shall secure a signed and dated acknowledgment of receipt of the consent judgment from current principals, partners, officers, directors, management level employees, and independent contractors/third-party distributors having responsibilities with respect to the subject matter of this consent judgment within sixty (60) days of the date the Court signs the consent judgment. For a period of two years from the date the Court signs this consent judgment, Qwest shall obtain the same from future principals, partners, officers, directors, and management level employees and independent contractors/third-party distributors having responsibilities with respect to the subject matter of this consent judgment within sixty (60) days of the date on which said person assumes those responsibilities. Qwest shall retain all acknowledgments for a period of two years from the date of the acknowledgments.

15. Qwest shall take appropriate disciplinary action, up to and including dismissal, against Qwest employees, independent contractors/third-party distributors or other agents who forge the signature of an Arizona consumer to an LOA.

16. Qwest shall take timely corrective action against Qwest employees, independent contractors/third-party distributors or other agents who fail to match the subscriber's name and signature on the LOA to the name and signature on the subscriber's picture identification.

17. Qwest shall submit a written report to the Attorney General, to include the number of

PIC disputes filed either with Qwest or a local exchange carrier by Arizona consumers, classification of the basis for the disputes, and classification of the dispute resolution, six (6) months from the date on which the Court signs the consent judgment, and every six (6) months thereafter for a period of two (2) years.

18. Within sixty (60) days of the date the Court signs the consent judgment, Qwest shall contact, via first class mail, each consumer whose long distance service was changed since January 1, 1999 through the date the court signs this judgment as a result of marketing by any agent set out in Exhibit A and who disconnected such service within sixty (60) days. The letter shall inquire whether the subscriber in fact authorized the change in long distance service to Qwest. If the subscriber did not authorize the change and has not received a refund from Qwest, he or she will be directed by the letter to return a pre-paid postcard within thirty (30) days of the postmark on Qwest's letter. In response, Qwest shall, within thirty (30) days of learning that the subscriber did not authorize the change, provide a refund to each subscriber to include:

a. A re-rating of the charges the consumer incurred for long distance calls during the time of the unauthorized change to Qwest to any lower rate the subscriber would have been charged by its prior carrier for those calls during that time period;

b. Any switching fees attributable to the unauthorized change; and

c. Should Qwest deny a consumer's request for a refund, it shall provide to the Attorney General within ten (10) days of denying the request, the written reason for the denial. Qwest shall at the same time provide to the Attorney General the amount in dispute, a copy of the relevant LOA or other proof of verification of any long distance telephone carrier change, and any other evidence that Qwest has used to substantiate the denial. If, in the sole discretion of the Attorney General, Qwest was unjustified in denying the refund, the Attorney General will direct Qwest to make a refund and the amount of the refund, which Qwest will send to the consumer within ten (10) days of receiving written notification from the Attorney General.

d. Within one hundred and fifty (150) days of the date the Court signs the consent judgment, Qwest shall submit a report to the Attorney General which sets out the name, address, and telephone number of each of these subscribers, a statement whether the subscriber authorized the change to Qwest, and the amount of refund, if any.

19. Within thirty (30) days of a written request by the Attorney General, Qwest shall provide to the Attorney General's Office records, to include those which Qwest must retain as set out in the consent judgment above, along with copies of such other documents as the Attorney General shall from time to time determine are necessary to ensure compliance with the consent judgment, including, but not limited to, advertisements, sales scripts, manuals or presentations, written advisories to sales distributors and agents and required responses to those advisories, LOAs, PIC change records, billing records, and all Arizona consumer complaints including those forwarded by government agencies, the BBB, and those filed directly with Qwest. The record of consumer complaints shall include the name, address and telephone number of each complainant, Qwest's response, and the final disposition of each complaint.

20. Pursuant to A.R.S. §44-1534, Qwest shall pay and deliver to the Arizona Attorney General, along with the signed consent judgment, the amount of one hundred seventy-five thousand dollars ($175,000.00) in the form of a check made out to the Arizona Attorney General for costs of the investigation and attorneys' fees.

21. Qwest shall cooperate with the Arizona Attorney General to fund, in an amount to be determined by the Attorney General within ten days of the filing of this consent judgment, the airing of public service announcements and/or for programs of public education. The Arizona Attorney General shall inform Qwest within sixty (60) days of the signing of the consent judgment the form the public service announcements and/or public education shall take. With regard to the public service announcements, Qwest and the Attorney General will agree on the public service announcements to be provided, which Qwest will then devise at its own expense.

22. The parties acknowledge and agree that this consent judgment shall constitute full and final settlement between the Arizona Attorney General and Qwest only as to the matters described in the above-captioned proceeding under A.R.S. §44-1521 <u>et seq</u>. and for any complaints concerning those matters received by the Arizona Attorney General based on conduct on or before the effective date of

this consent judgment.

23. Qwest shall not represent or imply that the State of Arizona, or the Attorney General or any agency thereof has approved any good or service sold or offered by Qwest in Arizona or has approved any of Qwest's past, present or future business practices in Arizona, and Qwest is enjoined from directly or indirectly representing anything to the contrary.

24. Jurisdiction is retained by this Court for the purpose of enforcing the consent judgment.

DATED this 19th day of April, 2000.

KENNETH L...

JUDGE OF THE SUPERIOR COURT

CONSENT TO JUDGMENT

Mark Pitchford, in his capacity as an officer of Qwest, being so authorized to do so by and on behalf of Qwest:

1. Acknowledges that he has read the foregoing consent judgment, is aware of Qwest's right to trial in this matter and has waived same, and consents to entry of the foregoing consent judgment;

2. States that no promise of any kind or nature whatsoever was made to Qwest to induce Qwest to enter into the consent judgment, and that Qwest enters into the consent judgment voluntarily; and

3. Acknowledges that the State's acceptance of the consent judgment is solely for the purpose of settling this action against Qwest. With the exception of the acts and practices which occurred prior to the date of the consent judgment and which are the subject of this consent judgment under A.R.S. § 44-1521 et seq., entry of the consent judgment does not preclude the State or any of its officers, agents or any subdivision thereof from instituting any other proceedings that may be appropriate now or in the future, including action to enforce the terms of the consent judgment.

. . .

. . .

DATED this 29 day of March, 2000.

QWEST COMMUNICATIONS INTERNATIONAL, INC.

By: Mark Pitchford
Mark Pitchford

APPROVED AS TO FORM AND CONTENT:

JANET NAPOLITANO
Attorney General

By: Noreen R. Matts
NOREEN R. MATTS
Assistant Attorney General
Consumer Protection & Advocacy Section

By: Steven A. Augustino
STEVEN A. AUGUSTINO, ESQ.
Kelley Drye & Warren LLP
Attorney for Defendant Qwest

1. ACN
2. Advanced Direct Monitoring
3. American Communications Network
4. Amnet Services
5. Better Phone Service
6. Big Planet
7. Eurasia Telecom
8. Everlasting Telecommunications
9. Hynet Co.
10. Juno OnLine
11. LI Deer International
12. MT Marketing
13. Pacific & Son
14. Paradigm
15. Quintel Commtnications
16. Quintel Fly
17. RMH International
18. RMH International City
19. RMH Teleservice
20. Silverback Upfront
21. Sponsorep
22. Teletouch
23. The Dino Group
24. The Voice Network
25. Tri-State Int'l
26. Venture Venture

Exhibit A

KELLEY DRYE & WARREN LLP

A LIMITED LIABILITY PARTNERSHIP

1200 19TH STREET, N.W.

SUITE 500

WASHINGTON, D.C. 20036

(202) 955-9600

NEW YORK, NY
LOS ANGELES, CA
CHICAGO, IL
STAMFORD, CT
PARSIPPANY, NJ

BRUSSELS, BELGIUM
HONG KONG

AFFILIATE OFFICES
BANGKOK, THAILAND
JAKARTA, INDONESIA
MANILA, THE PHILIPPINES
MUMBAI, INDIA
TOKYO, JAPAN

FACSIMILE
(202) 955-9792

DIRECT LINE (202) 955-9608
E-MAIL: saugustino@kelleydrye.com

April 11, 2000

VIA FEDERAL EXPRESS

Noreen R. Matts, Esquire
Assistant Attorney General
Consumer Protection & Advocacy Section
State of Arizona
400 West Congress
South Building
Suite 315
Tucson, AZ 85701-1367

Re: Qwest Communications, International, Inc.

Dear Ms. Matts:

As promised in my letter dated April 6, 2000, attached is the payment described in ¶ 20 of the Consent Judgment with Qwest.

Please call if you have questions.

Sincerely,

Steven A. Augustino

SAA:pab

Enclosure

DC01/AUGUS/110011.1

bcc: Carol Kuhnow
Mark Pitchford

QWEST
555 17th Street
Denver, CO 80202

Date	Invoice No.	Description	Amount
04/03/2000	040300CK	EXT 1583	175000.00
04/03/2000	040300CK	EXT 1583	

Vendor: ARIZONA ATTORNEY GENERAL

Vendor ID: ARIAT

Total: **$175,000.00**

Check No.: 02238805

Date: 04/06/2000

THIS CHECK IS VOID WITHOUT A BLUE & GREEN BACKGROUND AND AN ARTIFICIAL WATERMARK PATTERN ON THE BACK - HOLD AT ANGLE TO VIEW

VOID VOID VOID VO

QWEST
555 17th Street
Denver, CO 80202

BANK ONE
Chicago, IL 60670

CHECK NO.: 02238805

DATE: 04/06/2000

VOID VOID VOID VO

PAY: ONE HUNDRED SEVENTY FIVE THOUSAND AND 00/100 DOLLARS

$175,000.00

To The Order Of

ARIZONA ATTORNEY GENERAL
400 WEST CONGRESS
SOUTH BUILDING SUITE 315
TUCSON AZ 85701-1367

Authorized Signature

⑈0002238805⑈ ⑆031100283⑆ 09-73262⑈

** TOTAL PAGE.48 **

STATE OF CONNECTICUT

Docket No. CV 99-0074912-S

STATE OF CONNECTICUT 110 Sherman Street Hartford, Connecticut 06105 *Plaintiff*	:	SUPERIOR COURT COMPLEX LITIGATION DOCKET JUDICIAL DISTRICT OF TOLLAND
v.	:	
QWEST COMMUNICATIONS INTERNATIONAL, INC. 1801 California Street Denver, Colorado 80202 *Defendant*	:	AUGUST 2001

FINAL JUDGMENT ON STIPULATION

This action, by writ and complaint, claiming injunctive relief, civil penalties, and restitution, came to this Court on December 14, 1999, and thence to January 3, 2000, when the Court (Booth, J.) entered a Temporary Injunction on Consent, and thence to the present time when the parties filed a written stipulation that judgment be entered as hereinafter set forth.

Plaintiff, State of Connecticut, and defendant, Qwest Communications International, Inc. ("Qwest"), by their respective attorneys, having consented to the making and entry of this Final Judgment on Stipulation ("Stipulated Judgment"), without admission by either party with respect to any issue of fact or law, other than with regard to jurisdiction as set forth in Part I of the Stipulated Judgment, and without this Stipulated Judgment constituting evidence of any admission of any party hereto with respect to any issue of fact or law, other than with regard to jurisdiction as set forth in Part I of the Stipulated Judgment.

Now, therefore, before any testimony has been taken, without trial and without any admission by the defendant of any wrongdoing and upon consent of the parties hereto, it is hereby

ORDERED, ADJUDGED AND DECREED as follows:

I. JURISDICTION

The Court has jurisdiction over the subject matter of this action and of the parties hereto, pursuant to Conn. Gen. Stat. § 42-110m.

II. DEFINITIONS

For purposes of this Stipulated Judgment, the following definitions shall apply:

A. "State" means the State of Connecticut.

B. "AGO" or "Attorney General" means the Attorney General of the State of Connecticut.

C. "DCP" or "Consumer Protection" means the State of Connecticut Department of Consumer Protection.

D. "DPUC" or "Public Utility Control" means the State of Connecticut Department of Public Utility Control.

E. "Qwest" means Qwest Communications International, Inc. and any of its subsidiaries, branches, divisions, departments or groups; any corporate predecessors, successors, precursors or forbearers of Qwest Communications International, Inc., whether purchased, merged or otherwise subsumed by Qwest Communications International, Inc.; any other entity, subsidiary, parent, successor, assign, or affiliate, controlling or controlled by Qwest; and any employee or agent of Qwest.

F. "Consumer," unless otherwise specified, means any Connecticut consumer who has been, or may be billed, directly or indirectly, by Qwest for charges related to long distance services.

G. "PIC Dispute Complaint" means a complaint that Qwest switched the consumer's long distance carrier for interstate, intrastate, or both to Qwest without proper authorization.

H. "Billing Complaint" means a complaint that Qwest continued to bill the consumer for charges related to long distance service, which charges were incurred during a period after the consumer had switched to another carrier.

I. "Known Consumer Complainants" means each former or current consumer, who made either orally or in writing, to the AGO, DCP, DPUC, Federal Communications Commission, a local exchange carrier, or directly or indirectly to Qwest, any or all of the following:

1. a PIC Dispute Complaint;

2. a Billing Complaint; or

3. a complaint by a consumer as identified in Appendix A.

Such Known Consumer Complainants are the consumers identified in Appendix A hereto and the consumers previously identified to AGO by Qwest pursuant to Qwest's search of its internal records for all PIC Dispute and Billing Complaints from January 1, 1998, to present.

J. "LEC" means local exchange carrier.

K. A "preferred carrier" or "preferred interexchange carrier" ("PIC"), commonly referred to as a "long distance provider," means the telecommunications carrier chosen by an end user consumer to which traffic from the end user consumer's location is automatically routed by a LEC. In Connecticut, a consumer may have a different preferred carrier for local exchange, intrastate long distance and interstate long distance service or traffic.

L. "PIC Change Order" means an order or request transmitted by an interexchange carrier to a LEC requesting a change of a consumer's preferred interexchange and/or intraLATA carrier;

M. "PIC Block" means a request by a consumer to a LEC to prevent a change in his or her preferred carrier selection unless and until the consumer gives the LEC his or her express consent to the change.

N. “Letter of Agency” or “LOA” means a letter of agency form as set forth in 47 C.F.R. § 64.1130, as existing at the time a carrier change was made, as presently enacted or as may subsequently be amended or modified.

O. “TPV” means a third-party verification of a consumer’s authorization of a PIC Change.

P. “Distributor” means a third party entity engaging in marketing of long distance telecommunications services to consumers on behalf of Qwest.

Q. "Days" means calendar days, unless otherwise specifically noted.

R. “FCC” means the Federal Communications Commission.

S. “FCC Consent Decree” means the Consent Decree adopted by the FCC on or about July 19, 2000 In the Matter of Qwest Communications International, Inc. Apparent Liability for Forfeiture, File No. ENF-99-11, NAL/Acct. No. 916EF008.

III. INJUNCTION

A. Pursuant to Conn. Gen. Stat. § 42-110m(a), Qwest is hereby enjoined and restrained from directly or indirectly:

1. Submitting PIC Change Orders to LECs to transfer a consumer’s preferred carrier(s) to Qwest, unless Qwest complies with applicable FCC Regulations and Orders

and Conn. Gen. Stat. §16-256i, as presently enacted or as may subsequently be amended or modified.

2. Failing to obtain valid authorization from a consumer, as required by Conn. Gen. Stat. §16-256i, 47 U.S.C. § 258(a), 47 C.F.R § 64.1100 et seq. (1999) or FCC orders, now in effect, or as hereafter are modified or amended, before submitting a PIC Change Order to switch the consumer's intrastate and/or interstate long distance carrier.

3. Failing to verify a consumer's alleged authorization to switch intrastate and/or interstate long distance carriers, as required by Conn. Gen. Stat. §16-256i, 47 C.F.R. § 64.1150 (1999), or FCC orders, now in effect, or as hereafter are modified or amended.

4. Failing to comply with FCC information and disclosure requirements for LOAs pursuant to 47 C.F.R. § 64.1160, as presently enacted or as may subsequently be amended.

5. Forging or causing to be forged a person's signature on a LOA that purports to give a consumer's consent to change the consumer's intrastate and/or interstate long distance provider to Qwest.

6. Falsifying or causing to be falsified any TPV that purports to verify a consumers' consent to change the consumer's intrastate and/or interstate long distance provider to Qwest.

7. Failing to comply with 47 C.F.R. §§ 64.1100(b) and 64.1160(e)(4) (1999), as may be modified or amended from time to time, by using LOAs or marketing techniques that do not include separate statements for selection of intrastate and interstate long distance carriers.

8. Billing or causing any consumer to be billed, for "dial 1" long distance service, or charges related thereto, such as monthly fees, taxes or other charges, unless Qwest has received notification from the LEC that the LEC has accepted the PIC Change Order submitted by Qwest for that consumer, or Qwest has received long distance traffic routed from the LEC, indicating that the consumer's intrastate and/or interstate long distance carrier has been switched to Qwest.

9. Billing or causing to be billed any consumer for charges related to "dial 1" long distance service, such as monthly fees, taxes, or other charges, after Qwest has received notification from a LEC that the consumer has switched long distance service to a carrier other than Qwest.

10. Representing to a consumer that the consumer's account will be referred to a collection agency and/or reported to a credit rating agency when the consumer disputes

that Qwest was authorized to provide "dial 1" long distance service, unless Qwest has provided the consumer with proof of authorization, or with reasonable access thereto, and an opportunity for the consumer to respond thereto, and has subsequently determined the validity of the authorization and that the charges were properly authorized.

11. Referring an account to a collection agency or notifying a credit rating agency of a consumer's failure to pay charges, when the consumer disputes that Qwest was authorized to provide "dial 1" long distance service, unless Qwest has provided the consumer with proof of authorization, or with reasonable access thereto, and an opportunity for the consumer to respond thereto, and has subsequently determined the validity of the authorization and that the charges were properly authorized.

12. Billing any consumer in excess of Qwest's rates filed with DPUC.

B. Qwest agrees to implement and/or continue to use those anti-slamming and customer-care policies and procedures agreed to in the FCC Consent Decree during the effective term of such consent decree.

C. Qwest, whether acting directly or indirectly, is enjoined for one (1) year from the entry of this Stipulated Judgment, from soliciting or causing to be solicited, by mail or telemarketing, any Known Consumer Complainant, unless such consumer requests to receive such solicitations or is a Qwest customer.

D. Qwest shall take all reasonable steps that are necessary to ensure that Qwest has trained customer service staff to correctly respond to consumer inquiries and that Qwest promptly assists consumers in resolving their disputes over billing and/or carrier changes, including but not limited to:

1. Qwest shall review and, as necessary, revise its written policies and develop practices to ensure that qualified personnel are available during regular business hours to receive, and if possible, resolve all customer inquiries, requests, and complaints.

2. Qwest shall review and, as necessary, revise its written policies and develop practices to ensure that for consumer inquiries regarding the basis for a carrier change to Qwest, Qwest shall provide the consumer within fourteen (14) days either a copy of any LOA, if the carrier change was based on an LOA, or with reasonable access to any third party verification, if the carrier change was based on inbound or outbound telemarketing. Qwest also shall advise the consumer to inform Qwest if the consumer continues to dispute the basis for authorization.

3. Qwest shall review and, as necessary, revise its written policies and develop practices to ensure that PIC Dispute and Billing Complaints are resolved as soon as practicable, but in any event no later than forty-five (45) days from the initial complaint. These timelines will also apply to PIC Dispute and Billing Complaints for which DCP, DPUC, or AGO contacts Qwest on behalf of consumers.

E. Within thirty (30) days of the entry of this Stipulated Judgment, Qwest shall take all reasonable steps that are necessary to ensure that consumers do not have their credit adversely affected by nonpayment of Qwest charges for unauthorized service, or other unauthorized charges, including but not limited to:

1. Qwest shall notify all collection agencies to refer back to Qwest all accounts associated with the Known Consumer Complainants and with all complaints generated pursuant to paragraphs IV(D)(2) and (3) *infra*, until such time as it is determined whether any such accounts are subject to credits or refunds pursuant to paragraphs IV(F) and IV(G), *infra*; and

2. If any Known Consumer Complainant or any consumer who makes a complaint pursuant to paragraphs IV(D)(2) and (3) *infra*, notifies Qwest that a credit rating agency's records regarding such consumer contains adverse information related to Qwest charges, Qwest shall issue any and all necessary retractions and/or corrections.

3. For the accounts referenced in the preceding paragraphs that are referred back to Qwest, Qwest shall comply with the procedures in paragraphs IV(F) and IV(G), *infra*. Qwest shall not resume any billing or collection activities unless and until Qwest fully complies with the procedures set forth in paragraph IV(F) and IV(G), *infra*.

IV. PAYMENT OF PENALTIES, COSTS, FEES, AND CONSUMER RESTITUTION

A. Within ten (10) days of entry of this Final Judgment on Stipulation, Qwest shall pay to the State of Connecticut the total amount of $1.1 million. Payment shall be by check made payable to the "Treasurer, State of Connecticut," and shall be delivered to the Office of the Attorney General, 110 Sherman Street, Hartford, CT attn.: Phillip Rosario, AAG. Of this total amount, $800,000.00 shall constitute civil penalties. In lieu of Qwest's payment of costs and fees incurred by the State in investigating and prosecuting this action, $300,000 of the total amount shall be set aside, of which $150,000 will be deposited in a fund maintained by the AGO for consumer complaint resolution programs, consumer education, or consumer protection enforcement and litigation and $150,000 of which will be deposited in a fund maintained by the DCP for consumer complaint resolution programs, consumer education, or consumer protection enforcement and litigation.

B. Qwest hereby certifies that any and all consumers who were billed a recurring monthly fee during their first partial month of service for the "Qwest Countdown," "Qwest 1500 Package" and "Qwest Tri-State Calling Plan," where service was initiated prior to October 26, 2000, have been fully credited and/or refunded. If a consumer has not been fully credited and/or refunded, Qwest shall issue a full credit or refund within twenty-one (21) days of written notice to Qwest.

C. Qwest hereby certifies that any and all consumers who were billed by Qwest for charges related to long distance services where Qwest billed the consumer even though there was a PIC Block on the consumer's telecommunications line(s) have been fully credited and/or refunded. If a consumer has not been fully credited and/or refunded, Qwest shall issue a full credit or refund within twenty-one (21) days of written notice to Qwest.

D. Qwest also shall provide full restitution in the form of a refund, or a credit if charges have not been paid, if a consumer is entitled to such refund or credit pursuant to paragraphs IV(F) and IV(G), *infra*, for each and every:

(1) Known Consumer Complainant;

(2) consumer who makes a PIC Dispute Complaint or Billing Complaint within ninety (90) days of the entry of this Stipulated Judgment with either AGO, DCP, DPUC, a LEC, or directly with Qwest; and

(3) consumer who responds to the Consumer Letter within forty-five (45) days of the mailing of the Consumer Letter.

E. Within forty-five (45) days of the entry of this Stipulated Judgment, Qwest shall forward by first class mail, postage prepaid, a letter (the "Consumer Letter"), a copy of which is attached to this Stipulated Judgment as Appendix B, to each consumer who from January 1, 1998, to the date of the entry of this Stipulated Judgment had his or her long distance service switched to Qwest and who subsequently disconnected Qwest long distance service for another carrier within ninety (90) days of the initiation of Qwest service.

F. For each consumer identified in paragraph IV (D), *supra*, Qwest shall investigate such complaint. Except where Qwest denies a credit or refund to a consumer pursuant to paragraph IV(G), *infra,* Qwest shall reimburse consumers as follows:

1. Qwest shall provide a credit in the amount equal to all outstanding charges billed to that consumer, including but not limited to any charges for or related to long distance services, less any credits or refunds previously granted to the consumer. If any such consumer has paid monies to Qwest on account of such charges, then, in that event, Qwest shall provide a refund to the consumer of such amount actually paid, less any refunds previously paid to the consumer.

2. Qwest shall issue a credit to the consumer or mail a refund check as soon as practicable, but in any event no later than forty-five (45) days from receiving the complaint, or in the case of a Known Consumer Complainant no later than forty-five (45) days from the entry of this Stipulated Judgment.

G. Qwest may deny a credit or refund to a consumer identified in paragraph IV(D) above if Qwest determines after investigation that (1) such consumer's receipt of services from Qwest was properly authorized; or (2) the consumer was properly billed by Qwest for services rendered. Should Qwest deny a credit or refund to a consumer identified in paragraph IV(D) above, it shall provide both the consumer and the Attorney General written notice of the denial (the "Denial Notice") as soon as practicable, but in any event no later than forty-five (45) days from the entry of this Stipulated Judgment for Known Consumer Complainants and no later than forty-five (45) days from receiving the complaint for all other consumers identified pursuant to paragraph IV(D). If Qwest does not issue the Denial Notice within forty-five (45) days of receipt of the consumer's complaint, or in the case of Known Consumer Complainants within forty-five (45) days of the entry of the Stipulated Judgment, the request is deemed granted. With the Denial Notice, Qwest shall provide a written explanation of the denial, including the consumer's name, address and telephone number, the amount in dispute, a copy of the applicable LOA or a way to access a TPV recording, including but not limited to toll-free telephone access, and any other evidence that Qwest is relying upon to substantiate the denial. The Connecticut Attorney General or his designee shall be the final arbiter of whether a consumer is entitled to restitution and the amount and timing of that restitution in accordance with the eligibility requirements established in this Stipulated Judgment. Qwest shall include as part of the Denial Notice notification to consumers that such denials will be forwarded to the Attorney General and that the Attorney General is the final arbiter of any such denials. Additionally, Qwest shall notify the Attorney General of any disputes of its resolution of consumer claims concerning credits or refunds. Such notification shall include materials consistent with those included in the Denial Notice.

H. From the date of entry of the Stipulated Judgment and for three (3) months thereafter, Qwest shall provide a toll-free telephone number for the purpose of receiving, in any language used by Qwest for marketing to a consumer, consumer complaints pursuant to the newspaper notice and the Consumer Letter.

I. Within fourteen (14) days of the entry of the Stipulated Judgment, Qwest shall publish notice of the terms of the Stipulated Judgment in the following Connecticut newspapers: the Hartford Courant, New Haven Register, Stamford Advocate, Connecticut Post, Waterbury Republican-American, the New London Day, Journal Inquirer, Record-Journal, The News-Times, The Norwich Bulletin, El Transcrito Catolico, Tiempo, The Immigrant, El Extra News, and El Sol. The notice shall be at least a quarter of a page in the front section of the publication to the extent possible. The notice shall include the exact language included in Appendices C or D, as appropriate, and shall be printed using clear, conspicuous and easily readable font and design. The notice must be published for three (3) consecutive publications, including at least one Sunday for all daily publications that have a Sunday publication, and at least two (2) consecutive publications of each weekly publication.

V. REPORTS, AUDITS & RECORDS

A. Within one hundred and eighty (180) days of entry of this Stipulated Judgment, Qwest shall forward to the Attorney General an affidavit, subscribed to under oath by a Qwest officer authorized to bind Qwest, confirming that Qwest is in full compliance with each and every term of this Stipulated Judgment requiring Qwest to undertake any actions.

B. Within one hundred and eighty (180) days of the entry of this Stipulated Judgment, Qwest shall forward to the Attorney General an affidavit, subscribed to under oath by a Qwest officer authorized to bind Qwest, indicating:

1. in alphabetical order by surname, each consumer to whom Qwest issued a refund or credit pursuant to this Stipulated Judgment, including the name, address and telephone number of the consumer and the amount and the date of the refund or credit;

2. in alphabetical order by surname, each consumer to whom Qwest was unable to issue a refund or credit pursuant to this Stipulated Judgment, including the name, address and telephone number of the consumer and the amount of the refund or credit and the reasons Qwest was unable to issue a refund or credit;

3. in alphabetical order by surname, each consumer to whom Qwest had denied or is denying, in whole or in part, a refund or credit, including the name, address and telephone number of the consumer, the alleged dates of service, and the amount in dispute; and

4. in alphabetical order by surname, the name, address, telephone number, alleged dates of service and amount in dispute of each consumer that Qwest has (a)

provided a retraction or correction with a credit reporting agency; (b) withdrawn from collections; and/or (c) sent back to collections after investigation.

C. Qwest shall retain, or contract for any TPV vendor to retain, all LOAs and/or TPV audio files regarding consumers for a period not less than two years from the date the consumer's long-distance service was switched to Qwest.

D. Qwest shall provide the AGO with summaries of any audits conducted pursuant to the FCC Consent Decree as soon as practicable, but in any event no later than 30 days after its receipt of the audit.

E. Beginning in October 2001 and for two years following the entry of this Stipulated Judgment, Qwest shall provide quarterly reports to the AGO, listing all PIC Dispute Complaints and Billing Complaints by consumers, however made known to Qwest. These reports shall include the consumer's name, address, telephone number, the type of the consumer's complaint, the sales distributor, setup and disconnect dates, LOA/TPV status, history of consumer contact, and resolution of the dispute. Moreover, Qwest shall cooperate with all reasonable requests for additional information.

F. Qwest designates Carol P. Kuhnow, Regional Director, Policy & Law, 4250 North Fairfax Drive, 13th Floor, Arlington, Virginia 22203, Telephone: (703) 363-3189; Facsimile (703) 363-4404, e-mail: carol.kuhnow@qwest.com, or his/her successor in title, as its ombudsperson to receive and facilitate answers to any inquiries from the State, AGO, DPUC and/or DCP. Qwest will provide AGO, DPUC and DCP with written notice of any changes to this information for Qwest's ombudsperson.

G. Any notices, reports, or other material required to be forwarded to the Office of the Attorney General pursuant to the Stipulated Judgment shall be forwarded to:

Valerie J. Bryan, Assistant Attorney General
Office of the Attorney General
110 Sherman Street
Hartford, CT 06105

VI. GENERAL PROVISIONS

A. No part of this Stipulated Judgment shall constitute or be interpreted or construed as an admission of liability under any federal, state, or local law, as an admission of any fact or of law, or as an admission of violation of any law or regulation.

B. This Stipulated Judgment shall constitute a full compromise and settlement of all claims that have been or may have been asserted against Qwest by the State of Connecticut in this action which are based upon any violation of the Connecticut Unfair Trade Practices Act, Chapter 735 of the General Statutes of Connecticut up to the date of entry of this Stipulated Judgment and are based on any fact, matter or transaction that is set forth in the Complaint filed by the State against Qwest in this instant matter.

C. This Stipulated Judgment may he enforced only by the parties or their successors hereto.

D. Nothing in this Stipulated Judgment shall be construed to limit the authority of the State, DCP, DPUC or AGO to enforce prospectively any laws, regulations, or rules against Qwest.

E. This Stipulated Judgment shall be governed by and implemented in accordance with the laws of the State of Connecticut.

F. The duties and obligations of this Stipulated Judgment are binding upon Qwest's successors, purchasers, and other inheritors of Qwest. Qwest shall provide written notice to the AGO of any change in corporate control of Qwest Communications International, Inc. within ten (10) days of such change.

G. Any violation of this Stipulated Judgment shall be governed by Conn. Gen. Stat. §42-110o(a).

H. Except for the provisions in sections I and II and paragraphs III(A)(1), (2), (3), (4), and (7), *supra*, and paragraph VI(I), *infra*, which are permanent, the remaining provisions of this Stipulated Judgment shall expire, and those provisions shall have no further effect, three (3) years from the date the Stipulated Judgment has been entered.

I. Jurisdiction is retained by this Court for the purpose of enabling the parties to this Stipulated Judgment to apply to this Court at any time upon proper notice to the adverse party for such further orders and directions as may be necessary or appropriate for the modification thereof, the enforcement of compliance therewith, and for the punishment of violations thereof.

SO ORDERED.

Dated at Tolland, Connecticut this 29th day of August, 2001.

Judge

APPENDIX A

List of consumers who complained to state and federal agencies

ame	City	State
:ededo, Manuel	Stamford	CT
:kert, Dave	Monroe	CT
dams, Michael D.	West Hartford	CT
io, Aaro A.	Coventry	CT
ban, Sakun	Oxford	CT
den, Denise		
len, Bertha	Hartford	CT
naral, Lionel	Danbury	CT
ndrade, Andrea	Wallingford	CT
ngus, William	Winsted	CT
nselmo, Jeanne	East Hartford	CT
ponte, Alexander	Hartford	CT
rena, Janis	Monroe	CT
uclair, Christine A.	Bristol	CT
uclair, Christine A.	Bristol	CT
vila, Luis	Bridgeport	CT
yala, Elena	West Hartford	CT
aez, Linda	New Britain	CT
aik, Rania	Brooklyn	CT
aik, Victor	Middletown	CT
ainer, Todd	Branford	CT
ak, Elizabeth K.	Newington	CT
aldwin, Bruce	Harwinton	CT
ardo, Ben	Glastonbury	CT
arredo, Rita M.	Torrington	CT
arretta, Sandra	Waterbury	CT
arshay, Janice and Stephen	West Hartford	CT
ayona, Ramon	Wolcott	CT
edell, David	New Canaan	CT
elmore, Kathy	Manchester	CT
eltran, Daniel	Norwich	CT
eltrandi, Damian	Windsor Locks	CT
eltrandi, John	Windsor Locks	CT
ermudez, Jose A.	Norwalk	CT
etancourt, Mary K.	Broad Brook	CT
hatt, Pravin N.	Hamden	CT
igler, Denise and Gary	Cheshire	CT
lock, Stanley	Trumbull	CT
raxton, Margaret E.	West Hartford	CT
razalovich, Kathy McNamara	East Hartford	CT
romund, Ted, Dr.	New Haven	CT
rooks, Robert	Rocky Hill	CT
urke, Jean	Waterbury	CT
utler, Evangeline	Waterbury	CT
abanas, Maria	Hartford	CT
abral, Duarte	Milford	CT
aesar, Julian P. Jr.	Windsor	CT
alienes, Alicia	East Norwalk	CT
mmarata, Don	Waterford	CT
ampos, Aida B.	New Haven	CT
ampos, Joe	Chester	CT
ampos, Stephen	New Haven	CT
anto, Marjorie	Darien	CT
araballo, Carmen	Newington	CT
arameta, Susan	Brookfield	CT
arameta, Susan	Brookfield	CT
ardines, Lorraine J.	Newington	CT
rdona, Enrique and Carmen	South Meriden	CT
rpenter, Maria	Berlin	CT
arranza, Ruelfo	Darien	CT
arroll, Robert F.	Wolcott	CT
arvalho, Daniel/Shelley	Hartford	CT
asa, Gian-Carl	Hamden	CT
asanta, Sandra	Manchester	CT
stillo, Juan	West Hartford	CT

astro, Francisco/Matilde C.	Waterbury	CT
astro, Jr., Roman	Farmington	CT
han, Alexander M.D.	Wallingford	CT
han, Eva Y.	Ridgefield	CT
han, Thomas K.	Suffield	CT
hang, Ellen	Hamden	CT
hang, Meredith	Stamford	CT
hang, S. K.	Wethersfield	CT
hang, Susan	Columbia	CT
hanin, Steven	Glastonbury	CT
hao, Nelson T.	Wilton	CT
heng, Tsung O., M.D.	Bethesda	MD
hey, Marilyn & Charles	Derby	CT
hin, Don	Trumbull	CT
hiu, Che-Ming	Stratford	CT
ho, Douglas	West Hartford	CT
hung, Hyung	Orange	CT
hurch, Cynthia	Dayville	CT
hyung, Chi-Han	Norwalk	CT
ondren, Susan	South Windsor	CT
onnell, Charles T.	Darien	CT
onti, Vincent L.	New Britain	CT
ordeiro, Luiz Wagner	Bridgeport	CT
otter, Amy	Monroe	CT
ronin, Janis	Waterbury	CT
ruza, Michael	Trumbull	CT
ui, Yadong	Baltimore	MD
ummings, Shirley	Waterbury	CT
yr, Joan (Arella)	Naugatuck	CT
ay, Kerry	Southington	CT
eForge, Donald H. VMD	Milford	CT
elello, Christopher and Linda	Granby	CT
eLoureio, Mayra	West Hartford	CT
eLucia, Raymond	New Haven	CT
eSantis, David	Stamford	CT
escalia, Julia	North Haven	CT
eTullio, Barbara	Trumbull	CT
ewey, Elmer	Manchester	CT
iaz, Jorge	Meriden	CT
iaz, Wilfredo	Meriden	CT
vorkin, Efim	West Hartford	CT
yer, David E.	Milford	CT
llsworth, Joyce	Bridgeport	CT
ng, Daniel	Shelton	CT
ng, John Michael/Neu Fook	Stamford	CT
ackler, Robert	Cheshire	CT
alco, Lisa	Bridgeport	CT
awver, Harlan	Sheltopn	CT
in, Bonnie	Monroe	CT
eng, Xin	Storrs	CT
enn, Robert S.	Old Saybrook	CT
errante, Thomas	Bridgeport	CT
inelli, Eda	Waterbury	CT
laster, Karen	Trumbull	CT
lores, Carlos	Jewett City	CT
lores, Humberto	Stamford	CT
lores, Suzanne or Felipe	Naugatuck	CT
ynn, Michael	Columbia	CT
ng, Wendy L.	Newtown	CT
ortunato, Tom	Danbury	CT
oster, Michael and Jennifer	Middletown	CT
uentes, Alfred & Betty	Bloomfield	CT
aog, Xiang	New Haven	CT
rcia, Miguel	Wallingford	CT
arcia-Abrines, Luis & Mario	New Haven	CT

[illegible]	City	State
arrigus, Doris	Cromwell	CT
hosh, Ranjan	Fairfield	CT
ilbert, Lou	Hartford	CT
insberg, Kenneth	West Haven	CT
oitia, Jose M.	New Haven	CT
olub, Leo or Audrey	Noank	CT
onzalez, Albert	Bristol	CT
onzalez, Elmer	South Meriden	CT
onzalez, Luz	Stamford	CT
ray, Judith A.	Hopkinton	RI
ray, Judith A.	Hopkinton	RI
reen, MaryAnn	Stamford	CT
regg, Sarah	Waterbury	CT
uerra, Marino	Orange	CT
uerra, Thomas E.	Darien	CT
uerrero, Felix	New Haven	CT
uerrero, Mario A.	Darien	CT
ugliotti, Krista	Waterbuy	CT
utierrez, Ernesto	Hartford	CT
utierrez, Raymond	Ridgefield	CT
utierrez, Teofilo, Jr.	Meriden	CT
addad, Georgette	Waterbury	CT
addad, Margaret	Waterbury	CT
ahn, Maria S.	Columbia	CT
ahn, Theresa	Granby	CT
an, Cheryl A.	Bristol	CT
anchard, Clovene	New Haven	CT
any, Judith	Rockville	CT
any, Magdalena	Ellington	CT
any, Richard and Betsey	Tolland	CT
arris, Sherry	Hartford	CT
arrison, Don	Waterbury	CT
art, Leigh	Southport	CT
nton, Clova	Windsor	CT
rnandez, Maria	Meriden	CT
ernandez, Ramon and Nilda	Windsor	CT
ines, Joan	Bristol	CT
on, Earl	Watertown	CT
unter, Rick	Groton	CT
urdle, Nancy (Mrs.)	Stamford	CT
wang, Carol	Guilford	CT
iarra, Maria	Bloomfield	CT
nbert, Jay	Bridgeport	CT
effrey, Thomas	Waterbury	CT
ohnstone, Carol A.	Moosup	CT
ones, Janice	Bridgeport	CT
ao, Mary	East Lyme	CT
arra, Srinivasa	Hamden	CT
ne, Jennifer	Waterbury	CT
endra, Kathleen	Fairfield	CT
hosla, Panka/Natasha	Norwalk	CT
im, Byung Sub	Sandy Hook	CT
im, Carol and Michael	Hamden	CT
im, Jeansok	Hamden	CT
im, Soo	New Canaan	CT
im, Young Nam	Old Greenwich	CT
im, Young-Joo (Ms.)	New Haven	CT
al, Kenneth	Thomaston	CT
ut, Kevin	Bristol	CT
rieg, Richard	Ridgefield	CT
ulycky, Maya	New Haven	CT
ummer, Robert	New Britain	CT
mickas, Eleanor	Enfield	CT
, Paul	Forestville	CT
ella, Lovejoy	Portland	CT

Name	City	State
iCcone, Joseph	Waterbury	CT
iCroix, Richard S.	Glastonbury	CT
iing, Linda	Shelton	CT
imanno, Michael	Waterbury	CT
iMonica, Marie	Cromwell	CT
indino, Elizabeth	Branford	CT
inzetta, Constance	Wethersfield	CT
ipolt, Margaret B.	Norwalk	CT
iPolt, Suzanne	Glastonbury	CT
iu, Tony	Westport	CT
iw, Aileen	Stamford	CT
e, Long and Nule	Newington	CT
e, Phung	Waterbury	CT
e, Tai Van	Windsor	CT
i, Lingfeng	New Haven	CT
ian, Zhong (Ms.)	New Haven	CT
in, Ying	Shelton	CT
inde, Howard	Norwalk	CT
iu, George Haoming	New Haven	CT
o, Pauline	Hartford	CT
ockhart, Lyne	Hartford	CT
ohse, Jill	Guilford	CT
ok, Cathy	Norwalk	CT
ok, Cathy	Norwalk	CT
ongo, Peter	Waterbury	CT
opes, Henrique and Jenny	Windsor	CT
opez, Fernando	Torrington	CT
ow, Stuart	Guilford	CT
ugo, Elizabeth	East Norwalk	CT
lagut, Patricia	Trumbull	CT
lahon, James	Monroe	CT
lak, Raymond and Evelyn	Enfield	CT
lakubika, Jean L.	Naugatuck	CT
landerman, Erna	Bethleham	CT
landigo, Frank	North Branford	CT
lao, Yuxin	Woodbridge	CT
lapes, William A.	Norwalk	CT
larti, Teresa	Watertown	CT
lartinsen, Russell	Terryville	CT
lase, Susan	Manchester	CT
lateo, Luis	Waterbury	CT
latindale, Regina	Meriden	CT
lcChesney, Wendy & Lee	Glastonbury	CT
lcCormack, Barbara L.	Milford	CT
lcFarland, Katie	North Haven	CT
lejia, Sergio	W. Hartford	CT
lele, Lydia	Hartford	CT
lendez, Gary and Eileen	Trumbull	CT
endez, Jose	East Haven	CT
lendoza, Juan	Meriden	CT
leneses, Manuel	East Hartford	CT
lermall, Valerie	Guilford	CT
like, Eustace	Plainville	CT
litchel, Paula B.	Ivoryton	CT
londo, Greg	Orange	CT
lontague, Sally	Bloomfield	CT
lonterosso, Thomas S., CPA	Milford	CT
ontoya, Dolores	Wallingford	CT
oore, Marie	New Haven	CT
lorales, Carlos	Bridgeport	CT
lorales, James	Wallingford	CT
lorales, Wilfredo	Meriden	CT
lorales, Zenon	Meriden	CT
rano, William	West Hartford	CT
oreno, Joni	Niantic	CT

Name	City	State
oreno, Patricia	Windsor	CT
ori, Elizabeth	Stamford	CT
oy, Irving	Plainville	CT
'oy, P. Luk-Moi	Middletown	CT
undo, Denise	Oakville	CT
uniz, William	Meriden	CT
urphy, Paul	Waterbury	CT
andakumar, Usha	New Fairfield	CT
eppl, Doris	West Haven	CT
eri, John L.	Clinton	CT
evins, Albert	Avon	CT
evins, Jr., Vincent	Chester	CT
guyen, Loc	Manchester	CT
guyen, Loi Van	Willimantic	CT
guyen, Sy	East Haven	CT
guyen, Tin Thi	Hartford	CT
ieves, Abraham	Bridgeport	CT
choa, Giancarlo	New Haven	CT
'Connell, Adele	Greenwich	CT
rtiz, Antonio	Bridgeport	CT
rtiz, Lillian	Seymour	CT
adin, Mary Ellen	New Milford	CT
aez, Bette Lynn	Bridgeport	CT
alladino, Anthony J.	Watertown	CT
allotti, Christine	Hartford	CT
almieri, Cynthia	Hamden	CT
aniaguaand, Antonio	Madison	CT
apa, Carmine	Wolcott	CT
aradis, Marianne F.	Windsor Locks	CT
ardo, Osvaldo F.	Willimantic	CT
ark, Steven	Hartford	CT
atel, Dipak	Berlin	CT
atel, Manu	Rocky Hill	CT
'atel, Rajendra	Milford	CT
'atel, Rajendra	Milford	CT
'eck, Robert	Suffield	CT
'ena, Alberto	Hartford	CT
'ena, Miguel	East Hartford	CT
'ereira, Dina	Bridgeport	CT
'erez, Alicia, Dr.	Danbury	CT
'erez, Althea C.	Winsted	CT
'erez, Archie	Torrington	CT
'erez, Benigna	East Hartford	CT
'erez, Charles	Stratford	CT
'erez, Joan	Southbury	CT
'erez, Manuel	Derby	CT
'erez, Raul	Weatogue	CT
'erry, Sylvia	Stamford	CT
ezo, Francisco	Waterbury	CT
'iekarski, Miram	Hamden	CT
'ospisil, Judy and Agnes	Manchester	CT
'otetz, Jacqueline	Waterbury	CT
'reston, Stan and Diane	North Stonington	CT
'uebla, Jose	Gaylordsville	CT
li, Hong	East Lyme	CT
luinn, Kerry and Natalie	Waterbury	CT
luinn, Margaret	Woodbridge	CT
uinto, Frank	New Haven	CT
abe, Judy	Salem	CT
lamirez, Jose	Hartford	CT
lamos, Ivan A.	Portland	CT
lamos, Lourdes	Middletown	CT
laskin, Richard	Southport	CT
eed, Koshii	New Britain	CT
egnery, George M.	Greenwich	CT

amirez, Ellen	Cheshire	CT
ampel, Steve	Ashford	CT
ey, Carlier	Stamford	CT
ayes, Celia	Bridgeport	CT
ayes, Dorene	Waterbury	CT
ayes, Myrna, Dr.	Bridgeport	CT
ios, Evelisse	Hartford	CT
ios, Jose	Waterbury	CT
ivera, Aloida	Meriden	CT
ivera, Apolinar	Hartford	CT
ivera, Carmen	Meriden	CT.
ivera, Eduardo	South Windsor	CT
ivera, Evangelista	Trumbull	CT
ivera, Israel	Villalba	PR
ivera, Jorge L.	Amston	CT
ivera, Oscar	Brookfield	CT
ivera, Priscilla Ann	Torrington	CT
ivera, William	Moosup	CT
ivero, Judith	Sherman	CT
iverside Floor Covering	Riverside	CT
odrigues, Ana	Danbury	CT
odrigues, Francisco and Ana	West Hartford	CT
odrigues, Manuel	Danbury	CT
odrigues, Manuel D.	South Windsor	CT
odrigues, Maria	Milford	CT
odriguez, Candido L.	Bridgeport	CT
odriguez, Carmen Vila	East Norwalk	CT
odriguez, Eddi	Bridgeport	CT
odriguez, Edwin R.	Waterbury	CT
odriguez, Jaume and Vivian	Tolland	CT
odriguez, Jennifer	West Haven	CT
odriguez, Jorge	Stamford	CT
odriguez, Jr., John	New Britain	CT
odriguez, Jr., Ramiro	Waterbury	CT
odriguez, Larry	Vernon	CT
odriguez, Mirta	Newington	CT
odriguez, Raul	Wethersfield	CT
odriguez, Raul A. Esq.	Hartford	CT
odriguez, Sabino, III, Esq.	Stamford	CT
odriguiz, Poncho and Janet	Stratford	CT
omero, Romulo	Branford	CT
onda, Sam	Stamford	CT
osa, Carmen	Wolcott	CT
osa, Joseph	Bridgeport	CT
osa, Margaret	Wolcott	CT
uiz, Albert J., Jr.	Newington	CT
uiz, Delbert	Brookfield	CT
uiz, Maria	Hartford	CT
uiz, Ricardo	Wallingford	CT
uiz, Rolando	Danbury	CT
uiz, Tita	Meriden	CT
ustico, Joseph	New Britain	CT
ustico, Thomas	Plainville	CT
ala, Peter	Newington	CT
alazar, Catherine and Marco	Plainville	CT
alazar, Jairo	East Haven	CT
alva, Karen	Bethany	CT
alvador, Mary Sue and Eddie	West Hartford	CT
ama, Richard F.	Enfield	CT
anabria, David	Plainville	CT
anchez, Alfredo	Stamford	CT
anchez, Angel	Ansonia	CT
anchez, Carlos	Meriden	CT
nchez, Edgar, Jr.	Waterbury	CT
anchez, Ewin	Manchester	CT

Name	City	State
inchez, Ramon E.	Riverside	CT
inchez, Ricardo	Hartford	CT
inchez, Victor & Carmen	Hartford	CT
andoval, Edwin	East Hartford	CT
antiago, Joanne A.	Avon	CT
antopietro, Henry J.	Waterbury	CT
antos, Antonio	Waterbury	CT
antos, Arthur	Hartford	CT
antos, Gary	West Hartford	CT
antos, Maria D.	Windsor	CT
ebastian, Dolores	Bridgeport	CT
epulveda, Luz	New Britain	CT
errano, Gabriel	West Hartford	CT
errano, Manuel	W. Hartford	CT
errano, Miguel A.	New Haven	CT
errato, Salvatore	Derby	CT
hah, Bhadrik and Dipti	North Stonington	CT
hah, Bhavesh, M.D.	Suffield	CT
haker, James & Loretta	Waterbury	CT
hami, Dorothy	Beacon Falls	CT
hellito, Cristine	Manchester	CT
hevlin, Patrick	Newtown	CT
hields, Charles & Christine	Watertown	CT
hin, Seung H.	South Windsor	CT
ia, John	Fairfield	CT
ilva, Eros	West Haven	CT
ilva, Joseph	Waterbury	CT
ilva, Patti	Wethersfield	CT
mith, Magdalene	Waterbury	CT
ohn, George	Essex	CT
olis, Max	North Stonington	CT
olis, Providencia	Portland	CT
oloff, Carol	Westport	CT
ong, Mary	Trumbull	CT
oto, Maritza	Bridgeport	CT
otoohi, Maureen	West Hartford	CT
piehler, Howard III	Bloomfield	IN
tahouski, Glenn D.	Somers	CT
templer, Stacey	Norwalk	CT
uarez, Jose, AAG	West Hartford	CT
ullivan, Tina	Norwalk	CT
un, Kwok	North Haven	CT
ylvia, Debra J.	Fairfield	CT
ames, Lila and Joel	Huntington	CT
andoc, Edeline	Stamford	CT
arvin, Jeffrey	Brookfield	CT
aylor, Fay	Windsor	CT
ejano, Manny	Waterbury	CT
erras, Maria	Danbury	CT
ito, Philomena	Cheshire	CT
oledo, John	Norwalk	CT
olentino, Paul	Westport	CT
olentino, Samual	Norwalk	CT
omas, Emma	Bridgeport	CT
orello, Nicholas Sr.	Branford	CT
orres, Jose J.	Hartford	CT
orres, Luz E.	East Hartford	CT
orres, Marcelo	Simsbury	CT
orres, Wendy	Windsor	CT
ran, Honglan	South Windsor	CT
ran, Mai	North Haven	CT
ran, Mai	Windsor,	CT
ran,Thai (Mr.)/Tran,Duc(Ms.)	Granby	CT
ao, Emily	Portland	OR
se, Donald	Westport	CT

[illegible]	City	State
eno, Eiko	Hebron	CT
rbano, Nancy	Bridgeport	CT
rsini, Debra and Robert	Meriden	CT
aldes, Joseph C., Esq.	Stamford	CT
aleriano, Andrew	New Haven	CT
aleriano, Ruta	New Haven	CT
argas, Antonio	Tolland	CT
azquez, Aurelio	Riverside	CT
azquez, Victor A.	Hartford	CT
ece, Jacqueline	Middletown	CT
ega, Ignacio	Torrington	CT
elez, Peter Rios	North Stonington	CT
eltri, Richard D.	East Hartford	CT
entura, Kenneth	Meriden	CT
entura, Maria	Waterbury	CT
illafane, Nelson	Stamford	CT
illeneuve, Richard	Enfield	CT
iola, Jose A.	Stamford	CT
/alter, John B.	Madison	CT
/ang, Wayne	University Park	PA
/ang, Yugang	New Haven	CT
/hite, Deborah K.	Newington	CT
/inter, Stephen M.	Ridgefield	CT
/itherspoon, Rhea	Bloomfield	CT
/ong, Brian, M.D.	Woodbridge	CT
/ong, Hey Y.	North Haven	CT
/ong, Kwok	East Haddam	CT
/ong, Lucy	Woodstock Valley	CT
/right, Janet	Oakville	CT
/u, Mint-Jer	West Hartford	CT
/u, Tao	New Haven	CT
/u, Y.C	West Hartford	CT
ie, Qun	Stamford	CT
u, Weijun	New Rochelle	NY
agar, Donald A.	Prospect	CT
avin, Ely	Stamford	CT
eng, Huirin	Orange	CT
han, Peili	Farmington	CT
uo, Songlan	New Haven	CT

Qwest's Response to Interrogatory No. 27

LastName	FirstName	Phone	
Acedèdo	Manuel		
Agbayani	Juan & Lolita		
Agrawal	Hanuman		
Aho	Aaro A.		
Alban	Sakun		
Alexander Chan	Lily Yeo		
Andrade	Andrea		
Angus	William		
Anselmo	Peter		
Aponte	Alexander		
Arnold & Associates			
Auclair	Christine		
Auclair	Christine		
Ayala	Elena		
Baik	Rania		
Bardo	Ben		
Bargas	Efrim		
Bayona	Ramon		
Beltran	Daniel		
Beltrandi	John		
Benet	Claire		
Bemtsen	Jennifer		
Berntsen	Jen		
Bond	Kenneth		
Braxton	Margaret		
Brigante	Melissa		
Burke	Helen		
Caeser	Julian P.		
Calienes	Alicia		
Camacho	Maria		
Cammarata	Don		
Campos	Joe		
Campos	Stephen		
Campos	Aida		
Caraballo	Carmen		
Cardona	Enrique		
Cardona	Maria		
Carranza	Ruelfo		
Carvalho	Daniel		
Casasanta	Sandra & Dominick		
Castillo	Juan		
Castro	Matilde		
Chan	Eva		
Chan	Thomas		
Chang	Meredith		
Cheng	Ellen T.		
Chey	Marilyn		
Cho	Douglas		
Chon	Sil K.		

Qwest's Response to Interrogatory No. 27

LastName	FirstName	Phone	
Chung	Hyung		
Connell	Charles		
Conti	Vincent		
Cordeiro	Luiz		
Cotter	Amy		
Cray	Christine		
Cuminotto	Vince		
Cummings	Shirley		
Daiey	Jesse		
Day	Kerry		
Deforge	Donald H.		
Deluca	Jack		
DeSantis	Mr. and Mrs. David		
Dewey	Elmer		
Diaz	Maria		
Diaz	Asuncion		
Diaz	Mercedes		
d'Rodriguez	Juan Frank		
Duda	Joyce and Leonard		
Dvorsky	lewis		
Edwards	David		
Eng	Daniel		
Eng	John M.		
Falco	Lisa		
Farrell	Jerald		
Fawver	Harlan		
Felmore	Kathy		
Fernandez	Sally		
Finelli	Anthony		
Flaster	Karen		
Flores	Felipe		
Fortunato	Tom		
Fuentes	Alfredo.		
Gawendo	Lisa		
Geracy	James		
Goltia	Jose		
Gonzalez	Albert		
Gray	Judith A.		
Guadagno	Mary		
Guardia	David		
Guerrero	Mario		
Gugliotti	Krista		
Gutierrez	Ernesto		
Guzman	Cecilia		
Hahn	Theresa		
Hahn	Maria		
Hamelin	Madeline		
Han	Cheryl		
Hany	Richard		
Harris	Sherry		
Hawley	Leslie		

Qwest's Response to Interrogatory No. 27

LastName	FirstName	Phone		
Henton	Clova			
Hernandez	Ramon			
Hong	Qi			
Hoyt	Eileen			
Hunter	Rick			
Hurdle	Nancy			
Hwang	Carol			
Inzinga	Peter			
Jones	Janice			
Kao	Mary			
Karra	Srinivasa			
Kim	Yong Nan			
Kim	Byung			
Kim	Young-joo			
Kim	Jeong			
Kim	Nam B.			
Kim	Young Nam			
Kimdr	Michael			
Kwee	Paul			
LaBella	Lovejoy			
LaCroix	Richard			
Laing	Linda			
Lamanno	Michael			
Lamarre	Terisa			
LaMonica	Marie			
Landino	Elizabeth			
Lapol	Margaret			
LaPolt	Suzanne			
Le	Long			
Le	Long			
Le	Phung			
LeBlanc	Mary			
Levine	Robert			
Li	Lingfeng			
Linde	Howard			
Liu	George H.			
Lobo	Acacio and Isabel			
Lok	Cathy			
Lopez	Fernando			
Low	Stuart M.			
Lugo	Elizabeth			
Lungaaho	Bernard			
Makubika	Jean			
Mao	Yuxin			
Mapes	William A.			
Martinsen	Russell			
Mateo	Luis			
McCaughey	Susan			
McCormack	Barbara			
Mejia	Sergio			
Mendez	Jose			

Qwest's Response to Interrogatory No. 27

LastName	FirstName	Phone	
Mendez	Gary & Eileen		
Meneses	Manuel		
Michel	Bernard		
Mike	Eustace		
Mitchel	David		
Montano	Andrew		
Monterosso	Thomas		
Montoya	Dolores		
Moore	Daniel		
Morales	Carlos		
Morales	James		
Moreno.	Patricia		
Morgan	Timothy		
Mori	Elizabeth H.		
Murphy	Ruth		
Nadkami	Vasant		
Nancy	Via		
Nandakumar	Govindan		
Nevins	Albert E.		
Nguyen	Tin Thi		
Nguyen	Sy		
Nguyen	Loi Van		
Ochoa	Gian-Carlo		
Olmstead	L.B.		
Padin	Mary Ellen		
Palladino	Anthony J.		
Palmeri	Catherine		
Pardo	Osvaldo		
Pastro	Christina		
Patel	Rajendra		
Patel	Dipak		
Patel	Manu R.		
Pease	Alan		
Pellot	Jerson		
Pena	Miguel		
Perez	Archie		
Perez	Joan		
Perez	Manuel		
Perez	Benigna		
Perez	Althea		
Peterson	Madeline		
Petkovich	Ernest J.		
Pezo	Francisco		
Philomena	Tito		
Potetz	Jacqueline		
Probert	Richard		
Quan	Tim		
Quinn	Kerry		
Quinto	Frank		
Rabe	Judy		
Ramirez	Edgar		

Qwest's Response to Interrogatory No. 27

LastName	FirstName	Phone	
Ramos	Ivan		
Ramos	Lourdes		
Reyes	Dorene		
Rios	Ivelisse		
Rivera	Priscilla		
Rivera	Apolinar		
Rivera	Jorge		
Rivera	Juan		
Rivera	Eduardo		
Rivera	William		
Rivera	Israel		
Rivera	Carmen		
Rivera/Jimmy River			
Rodrigues	Manuel		
Rodriguez	Raul A.		
Rodriguez	Reinaldo		
Rodriguez	Carmen Vila		
Rodriguez	Jenifer		
Rodriguez	Candido		
Rodriguez	Raul		
Rodriguez	Manuel		
Rodriguez	Frances		
Rodriguez	Poncho		
Rodriguez	Jeannette		
Rodriguez	Eddi		
Rodriguez	Maria C.		
Rodriguez	Ramiro		
Roman	Luz A.		
Romero	Romulo		
Rosa	Joseph		
Ruiz	Maria		
Ruiz	Delbert		
Ruiz	Tita		
Ruiz	Albert		
Ruiz	Ricardo		
Ruiz	Beatriz C.		
Rustico	Esther		
Sala	Peter J.		
Salazar	Catherine & Marco		
Salvador	Edward		
Sama	Rose		
Sanchez	Angel		
Sanchez	Ricardo		
Sanchez	Augustine		
Sanchez	Edgar		
Sanchez	Ewin		
Sanchez	Victor & Carmen		
Sandoval	Edwin		
Santana	Nelly		
Santiago	Joanne		
Santopietro	Henry		

Qwest's Response to Interrogatory No. 27

LastName	FirstName	Phone	
Santos	John		
Santos	Daniel		
Santos	Maria		
Sebastian	Sarah D.		
Sepulveda	Luz		
Serrante	Thomas		
Shami	Dorothy		
Shellito	Christine		
Silva	Eros		
Silva	Manuel & Patti		
Sohn	Max		
Solis			
Soto	Maritza		
Sotoohi	Maureen		
Stempler	Stacey		
Sullivan	Tina		
Sylvia	Debra		
Tames	Lila		
Tandoc	Edeline		
Tejano	Manny		
Tolentino	Paul		
Tolentino	Samual		
Tomas	Emma		
Torello	Nicholas		
Torres	Effrain & Wendy		
Torres	Luz		
Torres	Luz		
Torres	Jose		
Torres			
Tran	Mai		
Tran	Mai		
Tran	Thai		
Tsang	Benjamin		
Tse	Donald		
Valdes	Joseph		
Valdes	Nelida		
Valeriano	Andrew		
Valeriano	Ruta		
Vasquez	Victor		
Veltri	Richard D.		
Ventura	Kenneth		
Villafane	Nelson		
Wang	Yugang		
Wang	Wayne		
Weissman	Fred		
White	Deborah		
Williams	Stephen		
Wing	Brian		
Wong	William & Lucy		
Wong			
Wu	Diane		

Qwest's Response to Interrogatory No. 27

LastName	FirstName	Phone	
Wu	Tao		
Wu	Yuen- Chi		
Xie	Qun		
Xu	Weijun		
Yau			
Ying	Lin		
Zagar	Donald A.		
Zeng	Huirin		
Zuo	Songlan		

APPENDIX B – Letter to Consumers

Dear Consumer:

As a result of a settlement with Connecticut Attorney General Richard Blumenthal, we are writing to advise you that Qwest has agreed to provide you with a refund or a credit if Qwest switched your service without your authorization or if Qwest billed you without providing service. This notice explains your rights and how to apply for such a refund. Please read this notice carefully and follow all instructions if you wish to submit a claim for a credit or refund.

<u>Who Is Eligible</u>

Qwest will issue refunds or credits for certain fees and charges to:

(1) consumers who had their long distance service switched to Qwest without their consent; or

(2) consumers who were billed by Qwest for unauthorized charges when they were no longer Qwest customers.

<u>What You May Be Eligible For</u>

Qwest will reimburse (through a bill credit or refund) those consumers who had their long distance service switched to Qwest <u>without their consent</u> for:

(1) any charges billed by your local telephone company for:

  (a) switching your long distance service to Qwest; and/or

  (b) for switching your long distance service from Qwest back to your long distance carrier of choice;

(2) charges billed by Qwest:

  (a) for long distance service while Qwest provided long distance service without your consent; and/or

  (b) other charges after you switched your long distance provider from Qwest to another carrier.

Any refund will be reduced by the amount of any credit or refund that Qwest or your local exchange carrier has already given you based upon a previous complaint that Qwest changed your long distance service without your permission.

How To Determine If You Are Eligible To Receive A Credit Or Refund

If you believe that you are eligible for a credit or refund, you must contact Qwest within 45 days either by returning the enclosed, postage prepaid, postcard, by calling Qwest at **1-800-405-1506** or by sending an email to **ctsettlement@qwest.com**. A determination will then be made whether you are entitled to a credit or refund. If Qwest does not have proof that you consented to have your long distance service switched to Qwest, we will provide you with the credit or refund described above. Additionally, we will provide you with a credit or refund if we do not have proof that we billed you for actual, authorized service.

Within forty-five (45) days of receiving your call or postcard, you should get a notice from Qwest either (1) explaining the amount to which you are entitled, along with your payment or notice of your credit; or (2) explaining Qwest's denial of your claim. If Qwest determines that you are not entitled to a credit or refund, Qwest will provide the reasons why to you.

If, after receiving your notice from Qwest, you still dispute the resolution of your claim, you can contact us at the address below:

Qwest Communications Corp.
Sales Regulation Compliance, 45020
4650 Lakehurst Court
Dublin, Ohio 43016-3254

Qwest will forward any denials or customer disputes received to the Attorney General's Office for final resolution. Qwest will seek to promptly resolve any problems you may have.

Sincerely,

Qwest

SI USTED HABLA ESPAÑOL Y NO ENTIENDE LA INFORMACIÓN EN ESTA CARTA, FAVOR DE LLAMAR A QWEST A 1-800-405-1506.

APPENDIX C - Form of Newspaper Notice of Terms of Stipulated Judgment

NOTICE TO CONSUMERS REGARDING QWEST COMMUNICATIONS SETTLEMENT WITH THE STATE OF CONNECTICUT

As a result of a settlement with Connecticut Attorney General Richard Blumenthal, this Notice is to advise you that Qwest Communications International Inc. has agreed to provide you with a refund or credit if Qwest switched your service without your authorization or if Qwest billed you without providing service. This notice explains your rights and how to apply for such a refund. Please read this notice carefully and follow all instructions if you wish to submit a claim for a credit or refund.

YOU MAY BE ENTITLED TO A REFUND OR CREDIT FROM QWEST.

Who Is Eligible

Qwest will issue refunds or credits for certain fees and charges to:

(1) consumers who had their long distance service switched to Qwest without their consent; or

(2) consumers who were billed by Qwest for unauthorized charges when they were no longer Qwest customers.

What You May Be Eligible For

Qwest will reimburse (through a bill credit or refund) those consumers who had their long distance service switched to Qwest without their consent for:

(1) any charges billed by your local telephone company for:

   (a) switching your long distance service to Qwest; and/or

   (b) switching your long distance service from Qwest back to your long distance carrier of choice;

(2) charges billed by Qwest for long distance service while Qwest provided long distance service without your consent.

Qwest will also reimburse (through a bill credit or refund) those consumers who continued to be billed by Qwest after switching from Qwest to another long distance carrier. Any refund will be reduced by the amount of any credit or refund that Qwest or your local exchange carrier has already given you for the same incident.

How to Proceed

If you believe that your long distance service was switched to Qwest without your consent, or you were billed by Qwest for unauthorized charges after switching to another carrier, you must contact Qwest no later than November 27, 2001, by calling:

1-800-405-1506

Qwest will review your complaint regarding unauthorized billing. If Qwest cannot provide you with proof that you consented to have your long distance service switched to Qwest, it will provide you with a bill credit or refund. If Qwest billed you for unauthorized charges after you switched long distance service to another carrier, Qwest will issue a bill credit or refund for these charges. You will also be reimbursed for any switching charges that were billed by your local telephone company.

APPENDIX D - **Form of Newspaper Notice of Terms of Stipulated Judgment, Spanish Language Version**

UN AVISO A CONSUMIDORES CON RESPECTO DE UN ACUERDO CON QWEST COMMUNICATIONS INTERNATIONAL, INC. Y EL ESTADO DE CONNECTICUT

USTED PODRÁ TENER DERECHO A RECIBIR REEMBOLSOS O CRÉDITOS DE QWEST

Debido a un acuerdo con el Procurador General Richard Blumenthal y Qwest, este aviso es para anunciar que Qwest ha concordado dar reembolsos o créditos si Qwest cambió su servicio sin su autorización o si Qwest facturó cargos sin proveer servicio. Este aviso le explica sus derechos y cómo solicitar tal reembolso. Por favor lea este aviso cuidadosamente y siga todas las instrucciones si desea un crédito o reembolso.

Quién es Eligible

Qwest distriburirá reembolsos o créditos por un honorario o cargo a:

(1) Los consumidores que tuvieron su servicio de larga distancia cambiado a Qwest sin su autorización; o

(2) Los consumidores que fueron facturados por Qwest de cargos sin autorización cuando ya ellos no eran clientes de Qwest .

Usted será eligible para recibir lo siguiente

Qwest reembolsará (por un crédito de cuenta o reembolso) a esos consumidores que tuvieron su servicio de larga distancia cambiado a Qwest sin su autorización:

(1) Cualquier cargo facturado por su compañía telefónica local:

(a) cambiando su servicio de larga distancia a Qwest y/o

(b) cambiando su servicio de larga distancia con Qwest a su servicio de larga distancia que usted había elegido originalmente;

(2) Cargos facturados por Qwest para servicio de larga distancia mientras Qwest proporcionó el servicio de larga distancia sin su autorización.

Qwest reembolsará (por un crédito de cuenta o reembolso) a esos consumidores que continuaron ser facturados por Qwest después de ser cambiado a otro servicio de larga distancia. Cualquier reembolso sera reducido por la cantidad de cualquier crédito o reembolso que Qwest ya dio para el mismo incidente.

Cómo Proceder

Si usted piensa que su servicio de larga distancia fue cambiado a Qwest sin su consentimiento o usted fue facturado por Qwest con cargos no autorizados después de ser cambiado a otro portador, usted debe avisar a Qwest no más tarde que el 27 de noviembre, 2001, llamando a Qwest a:

1-800-405-1506

Qwest revisará su querella con respecto a su factura. Si Qwest no provee pruebas de que usted consintió cambiar su servicio de larga distancia, Qwest le dará un crédito de cuenta o un reembolso. Si Qwest facturó cargos no autorizadas después que usted cambio su servicio de larga distancia a otro portador, Qwest le dará un crédito de cuenta o un reembolso por esos cargos. También usted será reembolsado por cualquier cargo que su compañía telefónica local le facturó por cambiar su servicio.

ALAN G. LANCE
ATTORNEY GENERAL
STATE OF IDAHO

MICHELE R. BUTTS (ISB No. 5437)
BRETT T. DeLANGE (ISB No. 3628)
MICHAEL J. SHEELEY (ISB No. 2913)
Deputy Attorneys General
Consumer Protection Unit
Office of the Attorney General
700 W. Jefferson, Room 210
P.O. Box 83720
Boise, Idaho 83720-0010
Telephone: (208) 334-2424

ATTORNEYS FOR THE STATE OF IDAHO

IN THE DISTRICT COURT OF THE FOURTH JUDICIAL DISTRICT

OF THE STATE OF IDAHO, IN AND FOR THE COUNTY OF ADA

STATE OF IDAHO by and through ALAN G. LANCE, Attorney General, Plaintiff,	Case No.
vs.	STIPULATION
LCI INTERNATIONAL TELECOM CORP., a Delaware corporation, dba Qwest Communications Services, Defendant.	

This Stipulation is entered into between the State of Idaho, acting through its Attorney General, Alan G. Lance (Attorney General), and LCI International Telecom Corp., a Delaware corporation, dba Qwest Communications Services (hereinafter "Qwest" or "Defendant"). The Attorney General and Defendant submit this Stipulation in conjunction with entry of the accompanying Consent Judgment, in accordance with the Idaho Consumer Protection Act (CPA), codified at title 48, chapter 6, Idaho Code. The parties stipulate and agree that:

H

I. Findings

1. Defendant is a Delaware corporation with its office and principal place of business located at 555 17th Street, Denver, Colorado. Defendant's registered agent in the State of Idaho is CT Corporation System, 300 N. 6th St., Boise, Idaho 83701.

2. The Attorney General alleges that Defendant has engaged in misrepresentations in soliciting customers to switch their long distance telephone service, the unauthorized switching of customers' long distance services, and improper verification of authorization for the change in long distance service in violation of Idaho Code § 48-603D (2)(a)(b)(i)(ii) of the CPA and Rules 30 and 220 of the Idaho Rules of Consumer Protection (CPR) codified at IDAPA 04.01.02000. Additionally, the Attorney General alleges that Defendant has billed consumers for unauthorized services on their telephone bills in violation of Idaho Code § 48-603D (3)(a)(b) of the CPA and Rules 30 and 220 of the Idaho Rules of Consumer Protection (CPR) codified at IDAPA 04.01.02000. Finally, the Attorney General alleges that Qwest has engaged the services of unregistered telemarketers to solicit their services to Idaho consumers in violation of Idaho Code § 48-1004 of the Idaho Telephone Solicitation Act (TSA).

3. Defendant admits to the jurisdiction of this Court over the subject matter and the parties for the purpose of entry of this consent judgment and acknowledges that jurisdiction is retained by the Court for the purpose of enforcement of the consent judgment.

4. This consent judgment is for settlement purposes only, and Defendant does not admit to any of the factual allegations by the Attorney General or to any violation of state or federal law, rule or regulation, wrongdoing, or liability of any kind on its part or on the part of any of Qwest's officers, directors, agents, employees, representatives, independent contractors, marketers,

or assigns, nor does this Stipulation constitute any finding of any such violations, wrongdoing or liability of any kind on its part or on the part of any of Qwest's officers, directors, agents, employees, representatives, independent contractors, marketers, or assigns.

II. DEFINITIONS

5. Definitions:

a. "Authorized person" means the subscriber-of-record or any person to whom the subscriber-of-record has delegated the authority to change telecommunications service carriers who is eighteen years of age or older, provided that if at any time after the filing of this stipulation, the Federal Communications Commission (FCC) determines that the subscriber-of-record for a telephone line is the only person authorized to change telecommunications service carriers, or if the FCC sets out more restrictive criteria than that set out in the definition of an "authorized person" as defined herein, the Defendant shall comply with the FCC standard.

b. "Telecommunications service" means interLATA, intraLATA, or local exchange service.

c. "Credit" refers to any adjustment made to the subscriber's telephone account that leads to a reduction in the amount of money owed by the subscriber on his or her telephone bill.

d. "Dispute" is a written or oral communication from a subscriber or third party regulatory agency contesting charges made to a subscriber's telephone bill.

e. "Subscriber" is an individual or entity, in whose name a telephone account is held or who is financially responsible for the payment of the telephone account.

f. "Verification" means the process by which Defendant confirms, at a minimum, that a subscriber: has affirmatively authorized a switch in long distance service. Verification must occur after Defendant has made the required disclosures for solicitations and has obtained the subscriber's authorization.

III. General Injunctive Relief

6. Defendant Qwest for itself, its successors, assigns, officers, agents, representatives, employees, and all other persons acting on their behalves, jointly or individually, directly or through any corporate or other business device, including any entities whose acts practices, or policies are directed, formulated or controlled by the Defendant, is permanently enjoined from engaging in the following practices in connection with the advertising, offering for sale, sale, or provision of telecommunications services:

a. Failing, in connection with any solicitation initiated by Qwest, to clearly and conspicuously disclose, in English or Spanish, if any part of the solicitation is in Spanish, before any statement other than an initial greeting, the following information:

1) the solicitor's name;

2) the name of the company on whose behalf the solicitor is calling;

3) that the purpose of the call is to solicit the sale of telecommunications service; and

4) that the solicitor must speak to the subscriber-of-record or to an authorized person;

b. Failing to disclose clearly and conspicuously, in English or Spanish, if any part of the solicitation is in Spanish, all material terms and conditions of Defendant's offer;

c. Misrepresenting, expressly or by implication, that the solicitor is calling from, is a representative of, or is with a consumer's current telecommunications service carrier, or otherwise misrepresenting the function, role, origin, or status of the solicitor;

d. Representing, expressly or by implication, to a particular prospective customer that telecommunications service is being offered at rates which are less than those of his or her current telecommunications service, unless such a representation is true, and Defendant has a basis for making such a representation at the time the representation is made;

e. Representing, expressly or by implication that if the offer is accepted, the consumer will not be switching telecommunications service carriers;

f. Failing to obtain the express authorization from the subscriber-of-record or from an authorized person to switch telecommunications service from the subscriber-of-record's current telecommunications service carrier to Qwest before attempting to verify such authorization;

g. Failing to verify the express authorization of the subscriber-of-record or authorized person to switch telecommunications service from the subscriber-of-record's current telecommunications service carrier to Qwest as required under 47 C.F.R. §§ 64.1100 and 64.1150, as they now exist, or may later be amended, before submitting a change order;

h. Failing, in the case of Defendant's use of the independent third party verification method described in 47 C.F.R. 64.1100 (c), to obtain oral verification of a subscriber-of-record's or authorized person's authorization to switch telecommunications service from his or her current telecommunications service carrier to Qwest, to meet all of the following criteria with respect to such verification: (a) the independent third party must operate from a facility physically separate from any facility of the telemarketer; (b) Defendant may not have any direct or indirect ownership or proprietary interest in said independent third party; (c) Defendant may not manage, control, or direct said independent third party, either themselves or through agents, representatives, or insiders; and, (d) employees, representatives, independent contractors, or other agents of said independent party must not derive commissions or compensation based upon the number of change order requests confirmed; and

i. Telemarketing in the State of Idaho or engaging the services of third-party telemarketers to telemarket in the State of Idaho without registering with the Office of the Attorney General.

IV. Required Disclosures for Solicitations

A. General Requirements

7. Defendant shall not solicit in an unfair or deceptive manner to sell or provide long distance service to any Idaho consumer. In any solicitation for a long distance service, regardless of form, Defendant and Defendant's agents shall make at a minimum the following disclosures clearly and conspicuously:

a. Defendant's full name and customer service telephone number;

b. the fact that the solicitation is intended to induce the subscriber to switch his or her long distance service;

c. an accurate description of the long distance service which the subscriber is being asked to select; and

d. all monthly minimum charges or monthly service fees and the amount of such fees that will be charged by Defendant, if such is the case.

B. TELEMARKETING SOLICITATIONS

8. Any telemarketing solicitation shall contain the minimum disclosures described hereinabove in paragraph 7 (required disclosures for solicitations) and Defendant and Defendant's agents shall register with the Office of the Attorney General prior to telemarketing in the State of Idaho. In addition, in any telemarketing solicitation, Defendant shall disclose clearly and conspicuously the following information:

a. the caller's name;

b. the name of the company on whose behalf the caller is calling;

c. that a long distance service is being offered;

d. a complete and accurate description of the long distance service to which the subscriber is being asked to switch; and

e. a toll-free customer service number where further information may be obtained.

V. SUBSCRIBER AUTHORIZATION AND VERIFICATION

9. Defendant shall obtain express authorization and verification from the subscriber or authorized person in accordance with the provisions of this Stipulation and with 47 C.F.R. §§ 64.1100 and 64.1150, as they are currently in effect or may be amended, before submitting a carrier change order to switch the subscriber's service to Defendant's long distance service. Defendant shall maintain proof of same in its entirety for two years at Defendant's place of business, or, at a minimum, proof of same shall be reasonably accessible to Defendant. Defendant shall provide such documentation to the Attorney General upon the Attorney

General's request.

VI. Restitution

10. Defendant shall undertake, with respect to complaints previously filed by Idaho residents or filed within ninety (90) days following the date of entry of this consent judgment, with the Idaho Attorney General's Office, the Idaho Public Utilities Commission, the FCC, or any other governmental entity, or with the Better Business Bureau, which are forwarded to Qwest, as well as those filed with or directed to Defendant, which complaints reference that Qwest billed the consumer for a long distance or other service without authorization or that a service was billed to the consumer as the result of express or implied misrepresentations, to address such complaints in accordance with the following procedure:

a. Within twenty (20) days following the receipt of a complaint either from the entities noted in paragraph 12, or from the consumer directly, Defendant shall investigate such complaint and for each undisputed complaint shall reimburse consumers as follows:

1) Defendant shall provide a credit or refund in the amount equal to all charges billed to that consumer after the switch at issue, less any credits or refunds previously granted to the consumer.

2) In most cases Defendant shall issue a bill credit to the consumer within 20 days of receiving the complaint; however, when that is not possible, Defendant shall issue a refund check within those 20 days.

3) Should Qwest deny a consumer's request for a credit or refund, it shall provide to the Attorney General, within ten (10) days of denying the request, the written reason for the denial. Defendant shall, at the same time,

provide the Attorney General the amount in dispute and any other evidence that Defendant has used to substantiate the denial. Should the Attorney General determine that Qwest was unjustified in denying a refund, the parties shall submit the dispute to the Court for a decision.

4) Within one hundred and fifty (150) days of the signing of the consent judgment by the Court, Qwest shall forward to the Attorney General an affidavit, subscribed to by a Qwest officer authorized to bind Qwest, indicating for each Idaho consumer to whom Qwest issued a refund or credit pursuant to the consent judgment, the name, address and telephone number of the consumer, and the amount and the date of the refund or credit.

VII. Record Keeping

11. Qwest shall retain, for a period of one (1) year from the creation of the record, the following records relating to its provision of telecommunications services to Idaho consumers:

a. copies of all versions of written LOAs, tapes, or other proof of authorization and/or verification for a switch in long distance service, all print and electronic media advertising materials, telemarketing scripts and all other promotional and solicitation materials related to same.

b. the name, address, and telephone number of each consumer whose long distance service was switched to Qwest; and

c. documentation with regard to the handling of consumer complaints and/or requests for telephone bill credits or refunds submitted to Qwest by Idaho consumers, including a copy of all written complaints or requests and notes taken by Qwest in the course of responding to oral complaints or requests, to including the name, address, and telephone number of the consumer and Qwest's response regarding refunds or credits.

12. Upon the written request of the Attorney General, Qwest will provide the records set out in 11 (a-c) to the Attorney General within thirty (30) days of that request, along with copies of such other documents as the Attorney General shall from time to time determine are necessary to ensure compliance with the consent judgment.

VIII. Payment to the Attorney General

13. Pursuant to Idaho Code §§48-606 and 48-607, Qwest shall pay and deliver to the Idaho Attorney General, along with the signed Stipulation, the amount of Twenty-Five Thousand Dollars ($25,000) in the form of a cashier's check made payable to the "Idaho Attorney General, Consumer Protection Unit" for civil penalties, costs of the investigation, and attorney fees. The Attorney General, in his sole discretion, and as authorized by law, shall decide the use to which the funds shall be put.

14. Qwest shall not represent or imply that the State of Idaho, or the Attorney General or any agency thereof, has approved any good or service sold or offered by Qwest in Idaho or has approved any of Qwest's past, present or future business practices in Idaho, and Qwest agrees to be enjoined from directly or indirectly representing anything to the contrary.

IX. Grounds for Reopening Stipulation

15. This Stipulation constitutes a full and final resolution between the Attorney General and Defendant of all claims brought by the Attorney General for the alleged conduct described in this Stipulation, up to and including the date of the signing of this Stipulation on behalf of the Attorney General. Matters set forth in this Stipulation and the accompanying Consent Judgment may be reopened by the Attorney General for further proceedings in the public interest if Defendant violates any term of this Stipulation. In addition to obtaining civil

penalties of up to Ten Thousand Dollars ($10,000) per violation, pursuant to Idaho Code § 48-615, the Attorney General may seek all other remedies and relief as provided by Idaho Code §§ 48-606, 48-607, and 48-615 of the CPA.

X. Jurisdiction

16. Jurisdiction is retained by this Court for the purpose of enforcing this Stipulation and the Consent Judgment.

17. This Stipulation and the accompanying Consent Judgment shall not be construed to affect the rights of any private party to pursue any remedy or remedies pursuant to Idaho Code § 48-608 of the CPA.

18. This Stipulation shall be filed concurrently with the accompanying Consent Judgment and the Stipulation and Consent Judgment shall be subject to the approval of the District Court of Ada County, Idaho, which has subject matter jurisdiction, pursuant to the CPA, and personal jurisdiction, pursuant to Idaho Code § 5-514.

19. Defendant agrees to accept service of a conformed copy of this Stipulation and the accompanying Consent Judgment by prepaid first class mail sent to Defendant. Defendant expressly waives personal service of a conformed copy of this Stipulation and the accompanying Consent Judgment after they have been filed with the Court.

20. Each person who signs this Stipulation in a representative capacity warrants that he or she is duly authorized to do so.

21. Defendant agrees that the Attorney General, unless notified to the contrary, may send all notices under this Stipulation to Defendant at the address set forth in paragraph 1.

DATED this ______ day of ____, 2000.

ALAN G. LANCE
ATTORNEY GENERAL
STATE OF IDAHO

By: ______________________________
MICHELE R. BUTTS
Deputy Attorney General

DATED this _____ day of ______________________________, 2000.

LCI INTERNATIONAL TELECOM CORP.
dba Qwest Communications Services

Name: ______________________________
(Printed)

Signature: ______________________________

Title: ______________________________

STATE OF MINNESOTA
BEFORE THE ATTORNEY GENERAL

In the Matter of Qwest Communications Corporation, LCI International Telecom Corp. d/b/a Qwest Communications Service, USLD Communications, Inc., Phoenix Network, Inc. and Qwest Communications International, Inc.	ASSURANCE OF DISCONTINUANCE

I. INTRODUCTION.

1. This Assurance of Discontinuance ("Assurance") is entered into under Minnesota Statutes section 8.31, subdivision 2b (1998) between the State of Minnesota, through its Attorney General, Mike Hatch, and Qwest Communications Corporation, LCI International Telecom Corp. d/b/a Qwest Communications Services, USLD Communications, Inc., Phoenix Network, Inc. and Qwest Communications International, Inc. (collectively "Qwest").

2. Mike Hatch is the Attorney General of Minnesota and is authorized under common law and Minnesota Statutes section 8.31 (1998) to enforce Minnesota's consumer protection laws.

3. Qwest Communications Corporation is a Delaware corporation with its principal place of business at 555 17th Street, Denver, Colorado. Qwest Communications Corporation was authorized to provide long distance service in Minnesota on December 8, 1994.

4. LCI International Telecom Corp. d/b/a Qwest Communications Services is a Delaware corporation with its principal place of business at 555 17th Street, Denver, Colorado. It was purchased by Qwest Communications International, Inc. in June 1998. LCI International Telecom Corp. was authorized to provide long distance service in Minnesota on June 27, 1990.

5. USLD Communications, Inc. is a Texas corporation with its principal place of business at 555 17th Street, Denver, Colorado. USLD Communications, Inc. was authorized to provide long distance service in Minnesota on July 26, 1990.

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6. Phoenix Network Inc. is a Delaware corporation with its principal place of business at 555 17th Street, Denver, Colorado. Phoenix Network Inc. was authorized to provide long distance service in Minnesota on September 14, 1992.

7. Qwest Communications Corporation, LCI International Telecom Corp. d/b/a Qwest Communications Services, USLD Communications, Inc., and Phoenix Network, Inc. are all wholly owned subsidiaries of Qwest Communications International, Inc. Qwest Communications International is a Delaware corporation with its principal place of business at 555 17th Street Denver, Colorado.

8. The Attorney General, with the cooperation of Qwest, has investigated allegations of misconduct by Qwest, including misconduct by third party sales agents and distributors working on behalf of Qwest. In consideration of the commitments and assurances provided below, Qwest and the Attorney General have agreed to resolve this investigation without formal litigation. It is expressly agreed and understood that this Assurance is for settlement purposes only, and Qwest does not admit to any of the factual allegations by the State of Minnesota or to any violation of state or federal law, rule or regulation, wrongdoing, or liability of any kind on its part or on the part of any of Qwest's officers, directors, agents, employees, representatives, independent contractors, marketers, or assigns, nor does this Assurance constitute any finding of any such violations, wrongdoing or liability of any kind on its part or on the part of any of Qwest's officers, directors, agents, employees, representatives, independent contractors, marketers, or assigns. Indeed, Qwest expressly denies such wrongdoing.

II. THE ATTORNEY GENERAL'S INVESTIGATION

9. In its investigation, the State of Minnesota alleged several violations of law relating to Qwest's marketing of telecommunications services in Minnesota. The Attorney General's allegations are summarized in paragraphs 10 – 43 below. Qwest disputes these allegations, and nothing herein shall be construed as an admission of the conduct alleged below.

Qwest's In-Person Sales Program

10. Since at least 1998, Qwest has marketed telecommunications services, including long distance service, in Minnesota by using face-to-face or in-person sales.

11. Qwest hired third party sales agents/distributors to conduct its face-to-face sales in Minnesota. Qwest was responsible for the conduct of these sales agents/distributors. In addition, Qwest was responsible for ensuring that these agents were adequately trained and supervised and that they complied with the law as they sold long distance service on behalf of Qwest. Qwest accepted all the revenue from consumers who these agents indicated had wanted to switch their long distance service to Qwest.

12. In order to legally switch a person's long distance provider, Qwest is required to obtain a person's authorization to switch providers and then verify that person's authorization to switch providers. For its in-person sales, Qwest has verified consumers' authorizations to switch long distance providers in writing by using "Letters of Agency" ("LOAs"). Valid LOAs must contain the signature of the long distance subscriber who is changing his or her long distance service or a person whom the subscriber designates with authority to make that change.

13. Qwest forged Minnesota consumers' signatures on LOAs. As a result, Qwest changed Minnesota consumers' long distance service without their authorization and without verifying their authorization.

Qwest's Telemarketing Program

14. From September 1998 to July 1999, Qwest solicited Minnesota consumers through telemarketing calls that offered two free airline tickets through "Fly Free America" if they switched their long distance service to Qwest. Consumers were required to remain Qwest customers for 60 days in order to qualify for the free tickets.

15. Qwest hired a third party sales distributor to conduct the telemarketing campaign for "Fly Free America." Qwest was responsible for the conduct of these telemarketers. In addition, Qwest was responsible for ensuring that these telemarketers were adequately trained and supervised and that they complied with the law as they sold long distance service on behalf

of Qwest. Qwest accepted all the revenue from consumers who these telemarketers indicated had wanted to switch their long distance service to Qwest.

16. In order to use the free airline tickets, consumers were required to stay at participating hotels for a minimum number of nights at the regularly published rate. Qwest's telemarketers did not always inform Minnesota consumers that they had to stay at participating hotels at predetermined rates for a minimum number of nights in order to use the free airline tickets.

17. Qwest's telemarketers did inform some consumers that they were required to stay at participating hotels for a minimum number of nights at the regular published rates. Qwest, however, did not inform consumers of all the material terms and conditions of that stay, including the specific rates they would have to pay and the number of nights that constituted the minimum stay required, until after the consumer had switched to Qwest's long distance service.

18. Depending on the destination, the required stay to obtain tickets could be anywhere from four nights for a Minnesota consumer to travel to Florida to thirteen nights for a Minnesota consumer to travel to Hawaii. The applicable published rates for participating hotels range from $154 per night to $441 per night. The cost for a Minnesota consumer to travel to and stay in Hawaii through Fly Free America is approximately $2500.

19. Qwest's Fly Free America Pricing Guide lists the relevant hotel rates and required stays. Qwest did not provide consumers with the guide until several weeks after a consumer had switched to Qwest's long distance service.

20. Approximately twenty-two thousand (22,000) Minnesota consumers switched to Qwest's long distance service in response to the Fly Free America promotion.

21. In addition to the Fly Free America program, Qwest has also solicited Minnesota consumers through telemarketing calls. When soliciting consumers in Minnesota via the phone, Qwest's telemarketers informed Minnesota consumers of the rate they would pay for interstate calls. Depending on the calling plan, the rate for interstate calls was typically 5 cents or 9 cents per minute. Qwest's telemarketers did not inform Minnesota consumers of the rate they would

pay for intrastate, interLATA calls in Minnesota. Qwest's rate for all intrastate calls in Minnesota was 12 cents per minute during the relevant time period. Qwest's telemarketers also did not specify to consumers that they would have to pay a PICC and Universal Service Charge of $1.93 per month.

22. From at least March 1999 to October 1999, Qwest has used Automatic Dialing-Announcing Devices (ADADs) to market its services in Minnesota.

23. Qwest's telemarketing agent used ADADs to solicit Minnesota consumers when those consumers had not consented to receive messages from ADADs or when those consumers did not have a current business relationship with Qwest.

Violations of Law

Minnesota Anti-Slamming Laws

24. Slamming -- changing a customer's provider of telecommunications service without his or her consent -- is prohibited under state and Federal law. Minnesota's anti-slamming laws are contained in Minnesota Statutes sections 325F.963, 237.121, and 237.661 (1998).

25. Section 325F.693, subdivision 2(a) provides that changing a customer's local or long distance provider "without the subscriber's verified consent" constitutes fraud under the Minnesota Consumer Fraud Act. Under subdivision 2(c)(1), consent "may be verified utilizing any method that is consistent with federal law or regulation."

26. Section 237.661 similarly prohibits causing a change in the consumer's phone service "without prior authorization from the customer," and requires verification of this authorization consistent with federal law. In obtaining a customer's authorization to switch carriers, a carrier must confirm: (1) the customer's identity with information unique to the customer; (2) that the customer has been informed of the offering made by the carrier; (3) that the customer understands that he or she is being asked to change telecommunications carriers; (4) that the customer has the authority to authorize the change; and (5) that the customer agrees to the change. *Id.*

27. Federal law pertaining to verification procedures for the change of long distance service is contained in Part 64.1150 of Title 47 of the Code of Federal Regulations. This regulation permits long distance carriers to use one of three different means to verify the consumer's consent to the change in his or her long distance service, or primary interexchange carrier ("PIC").

28. Oral authorization, one method used by Qwest, is permitted under 47 C.F.R. Pt. 64.1150(c) only as follows:

> An appropriately qualified and independent third party has obtained the customer's oral authorization to submit the PIC change order that confirms and includes appropriate verification data (e.g., the customer's date of birth and social security number). The independent third party must: (1) not be owned, managed, controlled, or directed by the carrier's marketing agent; (2) must not have any financial incentive to confirm preferred carrier change orders for the carrier or the carrier's marketing agent; and (3) must operate in a location physically separate from the carrier or the carrier's marketing agent. The content of the verification must include clear and conspicuous confirmation that the subscriber has authorized a preferred carrier change.

29. Qwest also used written authorization, or LOAs, to verify that Minnesota consumers had authorized Qwest to become their long distance provider. Written authorization is permitted under 47 C.F.R. Pt. 64.1150(a) only if "the telecommunications carrier has obtained the subscriber's written authorization in a form that meets the requirements of section 64.1160."

30. 47 C.F.R. Pt. 64.1160 requires that:

> the letter of agency shall be a separate document (or an easily separable document) containing only the authorizing language described in paragraph (e) of this section having the sole purpose of authorizing a telecommunications carrier to initiate a preferred carrier change. The letter of agency must be signed and dated by the subscriber to the telephone line(s) requesting the preferred carrier change.

31. Minnesota law further provides that a carrier "must be able to produce, upon complaint by the customer, evidence that the carrier verified the authorization by the customer" to change the customer's telecommunications service provider. Minn. Stat. § 237.661, subd. 2(b)(2) (1998).

32. The State of Minnesota alleges that Qwest violated Minnesota's anti-slamming laws by failing to obtain proper authorization to switch Minnesota consumers' long distance service to Qwest. Qwest forged consumers' signatures on LOAs. Despite the fact that consumers were not authorizing the switch of the long distance provider, Qwest became the consumers' long distance provider.

33. Qwest also failed to provide customers with evidence that it verified the customers' authorization to change their telecommunications service provider when customers complained to Qwest. Weeks passed before Qwest responded to these complaints and provided either proof of authorization to switch carriers or credits.

Minnesota Consumer Protection Statutes

34. Minnesota law contains several broad statutes designed to deter and remedy fraudulent and deceptive practices against consumers.

35. The Minnesota Prevention of Consumer Fraud Act contains Minnesota Statutes, section 325F.69, subdivision 1, which provides that:

> The act, use, or employment by any person of any fraud, false pretense, false promise, misrepresentation, misleading statement or deceptive practice, with the intent that others rely thereon in connection with the sale of any merchandise, whether or not any person has in fact been misled, deceived, or damaged thereby, is enjoinable as provided herein.

36. Minnesota law also prohibits false statements in advertising. Minnesota Statutes, section 325F.67 states:

> Any person . . . who with intent to sell . . . services . . . directly or indirectly to the public . . . makes, publishes, disseminates, circulates, or places before the public, or causes, directly or indirectly to be made, published, disseminated, circulated, or placed before the public, in this state . . . an advertisement of any sort regarding . . . service . . . which contains any material assertion, representation, or statement of fact which is untrue, deceptive, or misleading, whether or not pecuniary or other specific damage to any person occurs as a direct result thereof may be enjoined as such.

37. The State of Minnesota alleges that Qwest violated Minnesota law when it telemarketed Minnesota consumers through its "Fly Free America" program. Qwest failed to inform all consumers that if they switched their long distance service to Qwest under the "Fly Free American" program, they would have to stay at preselected hotels at predetermined rates for a minimum number of nights when they used their "free" airline tickets.

38. Qwest did disclose to some consumers that they would have to stay at participating hotels for a minimum number of nights at the regularly published rates. This disclosure violated Minnesota law because Qwest did not inform these consumers of all material terms and conditions of the required stay. Qwest did not tell consumers the costs associated with staying at participating hotels or the actual number of nights that constituted a minimum number of nights before consumers switched their long distance service to Qwest.

39. Minnesota law also limits the use of automatic dialing - announcing devices (ADADs). Minn. Stat. §§ 325E.26-31.

> A caller shall not use or connect to a telephone line an automatic dialing-announcing device unless: (1) the subscriber has knowingly or voluntarily requested, consented to, permitted or authorized receipt of the message; or (2) the message is immediately preceded by a live operator who obtains the subscriber's consent before the message is delivered. This section ... [does] not apply to ... messages to subscribers with whom the caller has a current business or personal relationship....

Id. § 325E.27.

40. The State of Minnesota alleges that Qwest violated Minnesota law when its telemarketing agents used ADADs to make calls to Minnesota consumers who had not given their consent to receiving the message or who did not have a current business relationship with Qwest.

Minnesota's Telecommunications Solicitation Statutes

41. Minnesota's telecommunications statutes contain several provisions designed to protect consumers by requiring telecommunications carriers to provide customers with specific information when soliciting customers.

42. Minnesota law requires that long distance carriers provide customers with certain price information when they solicit a customer by phone or mail, or when a customer contacts them about obtaining long distance service. Minn. Stat. § 237.662, subd. 1 (1998). Long distance carriers must disclose the following information:

> (1) the price or range of prices of interstate message toll service accessed by dialing "1+" or "10-XXX", including any difference in price for evening, night, or weekend calls;
> (2) the price or range of prices of intrastate interLATA message toll service accessed by dialing "1+" or "10-XXX", including any difference in price for evening, night or weekend calls;
> (3) the price or range of prices of intrastate intraLATA message toll service accessed by dialing "1+" or "10-XXX", including any difference in price for evening, night or weekend calls;
> (4) any minimum volume requirements, fixed flat fees, service charges, surcharges, termination charges or other non-service-specific charges, including the fact that the provider of local service may charge a one-time fee for changing carriers;
> (5) any special promotional rate or promotional offering related to the services or prices described in clauses (1) to (4) above, including any limitations or restrictions on the promotional rates or offerings.

Id.

43. The State of Minnesota alleges that Qwest violated Minnesota law by failing to inform consumers of all the specific price information detailed in the preceding paragraph when it solicited Minnesota consumers by mail or phone or when Minnesota consumers contacted Qwest about obtaining long distance service.

III. General Provisions

44. In consideration of the commitments and assurances below, the Attorney General and Qwest have agreed to resolve this investigation without a finding or admission wrongdoing.

45. Qwest has read and understands this Assurance and enters into it voluntarily.

46. Qwest has been advised by its legal counsel of the meaning and effect of each provision of this Assurance.

47. Qwest understands that a violation of this Assurance may result in sanctions for contempt pursuant to Minnesota Statutes section 8.31, subdivision 2b, and/or that the Attorney

General may thereafter initiate legal proceedings against it for any and all violations of Minnesota law, provided, however, that Qwest shall be allowed to actively contest any such contempt proceeding.

48. The Attorney General, without further notice, may make *ex parte* application to the District Court for an Order approving this Assurance. Service of the Order may be made upon Qwest by mailing a copy of the Order to Steven A. Augustino, Kelley, Drye & Warren, L.L.P., 1200 19th Street, N.W., Suite 500, Washington, D.C., 20036, attorney for Qwest.

49. Mark Pitchford declares that he is the Senior Vice President, Consumer Markets, and as such, has been authorized to enter into this Assurance on behalf of Qwest.

50. This Assurance constitutes a full and final resolution between the Attorney General and Qwest of all claims brought by the Attorney General for the alleged conduct described in this Assurance, up to and including the date of the signing of this Assurance on behalf of the Attorney General, as long as Qwest is in compliance with the terms of this Agreement. With respect to MPUC Docket No. PA-99-1192, the Attorney General, acting solely in its capacity to represent the interests of residential and small business consumers pursuant to Minn. Stat. § 8.33, agrees not to make the alleged conduct described in this Assurance a grounds for arguing against approval of the merger which is the subject of that docket. Notwithstanding the foregoing, the parties retain their rights to reference the Assurance and its underlying factual and legal allegations in responding to any questions asked at any Commission or administrative hearings in MPUC Docket No. PA-99-1192. In addition, the Attorney General is not prohibited from making reference to the statements contained in its January 1, 2000 comments in MPUC Docket No. PA-99-1192 about Qwest's business and marketing practices that are not the subject of this Assurance. This Assurance does not limit in any way the legal remedies available to any other person.

Injunction

51. Qwest, together with its employees, agents, successors, assignees, affiliates, including but not limited to an affiliate long distance company authorized under 47 U.S.C. §§

271-272, merged or acquired predecessors, parent or controlling entities, subsidiaries, and all other persons acting in concert or participation with it, are permanently enjoined as follows:

A. Qwest will not offer or sell local or "1+" direct dialed long distance phone services to Minnesota consumers without expressly and unambiguously disclosing to the consumer that it is seeking to replace the consumer's current local or long distance provider.

B. Qwest will not cause a change in the local or long distance phone service of any Minnesota consumer unless it fully complies with all applicable federal and state statutes and regulations regarding unauthorized changes to phone service, including Minnesota Statutes sections 237.121, 237.661, 325F.693 and 47 C.F.R. Pts. 64.1100, 64.1150, & 64.1160 or their successor or amended provisions.

C. Qwest will not change the local or long distance phone service of any Minnesota consumer unless it expressly and unambiguously obtains the consumer's consent and authorization to a change from its current phone service provider to Qwest.

D. Qwest will not forge or caused to be forged a person's signature on a "Letter of Agency" that purports to give the Minnesota consumer's consent to change their local or long distance provider to Qwest.

E. If Qwest becomes a customer's telecommunications provider without obtaining his or her authorization and verified consent to switch providers, Qwest will comply fully with Minn. Stat. § 237.661, or any other applicable state or federal statute or regulation, whichever provides the most favorable relief to the customer.

F. Qwest will provide, in a clear and conspicuous manner, accurate and complete information about any and all material terms and conditions of any offer to provide local or long distance telecommunications service, including but not limited to limitations, restrictions and costs related to any promotion and limitations, restrictions and costs related to any airline tickets that Qwest is offering to Minnesota consumers as an inducement to switch their local or long distance service.

G. Qwest will not represent, expressly or by implication, to a Minnesota consumer that they will receive "free" airline tickets if they change their long distance service to Qwest if the consumer must stay at certain accommodations at predetermined prices for a minimum number of nights in order to use the tickets.

H. Qwest shall not misrepresent the terms or conditions of its local or long distance phone service to any Minnesota consumer, including but not limited to the terms and conditions of any promotional offering.

I. All of Qwest's customer solicitations, via mail or phone, must comply with Minn. Stat. §§ 237.66 and 237.662.

J. Qwest will disclose to all Minnesota consumers who contact it directly about obtaining long distance service or who are telemarketed about Qwest's long distance service: (1) the price or range of prices of interstate message toll service, including any difference in price for evening, night or weekend calls; (2) the price or range of prices of intrastate intraLATA message toll service, including any difference in price for evening, night or weekend calls; (3) the price or range of prices of intrastate interLATA message toll service, including any difference in price for evening, night or weekend calls; (4) any minimum volume requirements, fixed flat fees, service charges, surcharges, termination charges or other non-service-specific charges, and the fact that the provider of local service may charge a one time fee for changing carriers; and (5) any promotional rate or offering related to the services or prices described in clauses (1) to (4), including any limitations or restrictions on the promotional rates or offerings.

K. Qwest will comply with Minnesota's ADAD statute, Minn. Stat. §§ 325E.26 - 325E.31 or their amended or successor provisions.

L. Qwest will review and, as necessary, revise its written policies, develop practices, and employ sufficient customer service representatives to ensure that qualified personnel are available during regular business hours to receive, and if possible, resolve all customer inquiries, requests and complaints.

M. Qwest will review and, as necessary, revise its written policies, develop practices, and employ sufficient customer service representatives to ensure that, for complaints that cannot be resolved during the customer's initial contact with the company, Qwest will contact the customer within five business days and at least once every fourteen calendar days thereafter, and advise the customer regarding the status of his or her investigation until either: (i) the complaint is mutually resolved; or (ii) Qwest advises the customer of the results of its investigation and final disposition of the matter; or (iii) the customer files a written complaint with the Minnesota Public Utilities Commission or the courts. These timelines will apply to complaints in which the Minnesota Office of Attorney General contacts Qwest on behalf of customers.

N. If Qwest contracts with a third party to provide Qwest's retail customers with any service or product related to Qwest's telecommunications service, Qwest will ensure that the third party fulfills all customer obligations in a timely manner. Qwest will respond to and resolve all customer complaints and inquiries related to such a third party and the services or products it was to provide Qwest's retail customers in the manner and timelines specified in paragraphs 49(L) and 49 (M).

O. Qwest will comply with all Minnesota statutes, rules, and Public Utility Commission orders, regarding Qwest's provisioning of local and long distance service and it will not engage in any act or practice in violation of Minnesota

Consumer Protection Laws, including but not limited to Minn. Stat. §§ 325D.44, 325E.26-31, 325.F67, 325F.69, and 325F.693.

Customer Restitution

52. Qwest, together with its employees, agents, successors, assignees, affiliates, including but not limited to an affiliate long distance company authorized under 47 U.S.C. §§ 271-272, merged or acquired predecessors, parent or controlling entities, subsidiaries, and all other persons acting in concert or participation with it, agree as follows:

A. Within thirty (30) days of execution of this Assurance, Qwest shall review its records to ascertain the name and address of each and every Minnesota consumer who switched to Qwest's long distance service in response to Qwest's Fly Free America promotion and disconnected such service within the first sixty (60) days of service.

B. Within forty-five (45) days of execution of this Assurance, Qwest shall forward by first class mail a letter, a copy of which is attached to this Assurance as Exhibit A, to each of the consumers identified in paragraph 52A. For each consumer who contacts Qwest in response to such letters within sixty (60) days from the date of the letters and who has disconnected or requests to disconnect his or her long distance service with Qwest, Qwest shall forward by first class mail a check or issue a bill credit, as appropriate. The amount of the restitution or bill credit shall equal any and all switch fees paid by the consumer to switch to Qwest's service and any and all switch fees paid by the consumer to switch from Qwest to another long distance carrier that have not already been credited or refunded. In most cases, Qwest will issue a bill credit. However, if that is not possible or if the consumer's incumbent local exchange company will not apply the bill credit to the consumer's account because he or she does not have an outstanding balance owed to Qwest or an active account with Qwest, Qwest will issue a refund check.

C. In addition to the customers identified in paragraph 52A, Qwest shall provide restitution for charges not already refunded or credited to each and every former or current customer of Qwest who switched to Qwest's long distance service in response to the Fly Free America program and who has already filed a complaint or who files a complaint within one hundred and twenty (120) days of execution of this Assurance with the Minnesota Attorney General's Office, the Minnesota Public Utilities Commission, or directly with Qwest, alleging Qwest did not inform him or her of the costs associated with the Fly Free America program. Qwest shall forward a check or issue a bill credit calculated pursuant to paragraph 52B within fifteen (15) business days of the Minnesota Attorney General's Office, the Minnesota Public Utilities Commission, or a consumer's forwarding such a complaint to Qwest.

D. Except for those consumers identified in paragraph 52(A), Qwest will provide full restitution to Minnesota consumers whose long distance service was switched to Qwest without their authorization since January 1, 1999 and who disconnected such service within ninety (90) days. Within forth-five (45) days of execution of this Assurance, Qwest will forward a letter, a copy of which is attached hereto as Exhibit B, to all Minnesota consumers whose long distance service was switched to Qwest since January 1, 1999 and who disconnected such service within ninety (90) days. For each consumer who contacts Qwest within sixty (60) days from the date of the letter, Qwest will investigate his or her inquiry. Qwest will have fifteen (15) days to determine whether the company obtained the consumer's authorization to switch his or her long distance service to Qwest pursuant to all applicable federal or state laws and regulations. If Qwest cannot provide the consumer with evidence that it legally switched his or her long distance service to Qwest, Qwest will forward by first class mail a check or bill credit, as appropriate, within fifteen (15) days of receiving the consumer's request. If Qwest has evidence that it legally switched the consumer's long distance service to Qwest, Qwest will provide that customer with this evidence within twenty (20) days of receiving the consumer's request.

E. The amount of a check or bill credit provided pursuant to paragraph 52D shall be calculated to include any of the following charges not already refunded or credited to each such consumer: (1) the total amount of charges Qwest assessed to the consumer while Qwest provided long distance service to that customer without authorization; and (2) any and all switch fees paid by the consumer to switch to Qwest's service and any and all switch fees paid by the consumer to switch from Qwest to another long distance carrier. In most cases, Qwest will issue a bill credit. However, if that is not possible or if the consumer's incumbent local exchange company will not apply the bill credit to the consumer's account because he or she does not have an outstanding balance owed to Qwest or an active account with Qwest, Qwest will issue a refund check.

F. The Minnesota Attorney General shall be the final arbiter of whether a consumer is entitled to restitution and the amount of that restitution in accordance with the eligibility requirements established in this Assurance.

G. Qwest shall pay the direct and incidental costs incurred in providing the restitution required by this Assurance, including but not limited to, the costs of preparing and mailing refund checks to eligible consumers in Minnesota.

H. Within one hundred and eighty (180) days of the execution of this Assurance, Qwest shall forward to the Attorney General an affidavit, subscribed to by a Qwest officer authorized to bind Qwest, confirming that Qwest is in full compliance with each and every term of this Assurance. In addition, this affidavit will include the following information:

(1) The name, address, telephone number, and amount of check or bill credit, if given, for each consumer to whom Qwest mailed Exhibit A pursuant to the terms of this Assurance; and

(2) The name, address, telephone number, and amount of check or bill credit, if given, for each consumer to whom Qwest mailed Exhibit B pursuant to the terms of this Assurance;

Monetary Payment

53. Qwest shall pay to the State of Minnesota a civil penalty in the amount of $500,000 pursuant to Minnesota Statutes, section 8.31, subd. 2(b) & 3 (1998). This amount shall be paid by an electronic transfer to the State of Minnesota, which is made before an executed copy of this Assurance is delivered to the Office of Attorney General.

Dated: ______________________	Dated: ______________________
MARK PITCHFORD	LIANNE KNYCH
______________________	______________________
Senior Vice President Consumer Markets Qwest Communications Corporation	Assistant Attorney General
1000 Qwest Tower 555 - 17th Street Denver, CO 80202	1200 NCL Tower 445 Minnesota Street St. Paul, MN 55101-2130 (651) 296-8714

AG: 370115,v. 01

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

COMMONWEALTH OF PENNSYLVANIA ACTING BY ATTORNEY GENERAL D. MICHAEL FISHER	:	
PETITIONER	:	M.D. 2001
v	:	
QWEST COMMUNICATIONS CORPORATION	:	**ASSURANCE OF VOLUNTARY COMPLIANCE**
RESPONDENT	:	

COUNSEL FOR PETITIONER

E. BARRY CREANY
SENIOR DEPUTY ATTORNEY GENERAL
ATTORNEY NUMBER 39543
OFFICE OF ATTORNEY GENERAL
BUREAU OF CONSUMER PROTECTION
EBENSBURG REGIONAL OFFICE
171 LOVELL AVENUE, SUITE 202
EBENSBURG, PA 15931
(814) 949-7900

COUNSEL FOR RESPONDENT

RACHEL O'BRYAN, ESQUIRE
QWEST COMMUNICATIONS
CORPORATION
1801 CALIFORNIA STREET
SUITE 3800
DENVER, CO 80202

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

COMMONWEALTH OF PENNSYLVANIA ACTING BY ATTORNEY GENERAL D. MICHAEL FISHER	:	
PETITIONER	:	M.D. 2001
v	:	
QWEST COMMUNICATIONS CORPORATION	:	
RESPONDENT	:	

ASSURANCE OF VOLUNTARY COMPLIANCE

WHEREAS, the Commonwealth of Pennsylvania, acting by Attorney General D. Michael Fisher, through the Bureau of Consumer Protection (hereinafter "Commonwealth"), has caused an investigation to be made into the business practices of Qwest Communications Corporation, a Delaware corporation with its principal place of business at 1801 California Street, Denver, Colorado (hereinafter "Qwest");

WHEREAS, Qwest engaged in trade and commerce within the Commonwealth of Pennsylvania directly and through its agents in marketing for sale, selling and the provisioning of intrastate and interstate long distance telecommunication services to Pennsylvania telephone subscribers and in the billing and collection for such services;

WHEREAS, based upon its investigation, the Commonwealth alleges that Qwest has engaged in conduct alleged to be violative of the Unfair Trade Practices and Consumer Protection Law, Act of December 17, 1968, P.L. 1225, No. 387, as amended and reenacted by the Act of November 24, 1976, P.L. 1166, No. 260, and the Act of December 3, 1996, P.L. 906, No. 146, 73 P.S. §201-1 *et seq.* (hereinafter the "Consumer Protection Law"), generally as follows:

1. Unauthorized Carrier Switches

A. Beginning in 1997 and continuing through 1999 Qwest employed independent contractors or third party distributors ("marketing agents") to solicit Pennsylvania telephone subscribers to change their long distance telecommunication services (*i.e.*, interLATA, intraLATA and/or local toll services) to Qwest. Specifically, said marketing agents solicited Pennsylvania telephone subscribers to change their primary interexchange carrier ("PIC") to Qwest by using written Letters of Agency ("LOAs").

B. A long distance carrier must obtain valid LOAs before initiating a PIC change for any telephone subscriber. Federal regulations require that in order to be valid LOAs must contain the signature of either the telephone subscriber for the line being changed or a person who the subscriber has designated with the authority to make such a change.

C. Qwest initiated PIC changes for Pennsylvania telephone subscribers upon orders it received from its marketing agents despite the fact that its marketing agents had not obtained LOAs from the telephone subscribers or its marketing agents had LOAs which contained forged signatures of the telephone subscribers. Qwest was responsible for the unauthorized PIC changes of Pennsylvania telephone subscribers.

2. "Fly Free America" Telemarketing Program

A. Beginning in September of 1998 and continuing through July of 1999, Qwest employed a third party telemarketer ("telemarketing agent") who contacted Pennsylvania consumers and offered them two (2) airline tickets as an incentive for their agreement to switch their long distance telecommunication services to Qwest (hereinafter the "Fly Free America Program"). In order to qualify to receive the two (2) free airline tickets, Pennsylvania consumers were required to remain a customer of Qwest for sixty (60) days at an agreed upon per minute rate, a monthly fee of four and 95/100 dollars ($4.95) and other recurring charges. Although the airline tickets were represented as "free" they could only be used in connection with the purchase of accommodations at participating hotels and condominiums at fixed prices for mandated lengths of stay.

B. In some instances in their initial call to Pennsylvania consumers, Qwest's telemarketing agent did not disclose the material fact that consumers had to purchase accommodations in order to use the two (2) airline tickets which purportedly were "free". When Qwest's telemarketing agents did disclose that the purchase of accommodations was required, they failed to disclose other material facts including the terms and conditions relating to the use of the "free" airline tickets until after consumers had agreed to switch their long distance telecommunication services to Qwest. Specifically, consumers were not informed of the mandated lengths of stay and the high daily rates they would be required to pay for accommodations. In fact, consumers did not receive information about such material terms and conditions until several weeks after they switched to Qwest. Only upon their receipt of the "Fly Free America Pricing Guide" and information packet would consumers learn that in order to use their "free" airline tickets they would have to stay between three (3) and fourteen (14) days (depending upon destination) at rates ranging from one hundred fifty-four and 00/100 dollars ($154.00) per day to four hundred twenty-seven and 00/100 dollars ($427.00) per day. In addition to these high daily rates consumers would also be required to pay service charges, taxes and other fees, the amounts of which were not even disclosed in the "Fly Free America Pricing Guide". Further, consumers traveling to certain destinations were required to purchase commuter airline tickets to reach their destinations in addition to paying for accommodations.

C. Many of the Pennsylvania consumers who switched carriers pursuant to the Fly Free America Program and remained as customers of Qwest for more than sixty (60) days never received either the "Fly Free America Pricing Guide" or the two (2) "free" airline tickets they had been promised.

D. Although represented as "free", the net amount paid by consumers who traveled on the Fly Free America Program was approximately equal to the price a consumer would pay for the same airfare and accommodations booked through a conventional travel agency.

E. As a result of Qwest's Fly Free America Program fifty-eight thousand twenty-four (58,024) Pennsylvania telephone subscribers changed their telecommunication services to Qwest.

3. Customer Billing

A. Qwest began processing and charging some accounts before confirmation that the Pennsylvania consumers subscribed to such accounts were connected to and receiving the long distance telecommunication services of Qwest. As a result, certain consumers were billed monthly fees and other recurring charges at times when Qwest was not their primary interexchange carrier.

B. Qwest continued to process and charge some accounts after the Pennsylvania consumers subscribed to such accounts had switched their long distance telecommunication services to another carrier. As a result, certain consumers were billed monthly fees and other recurring charges at times when Qwest was not their primary interexchange carrier.

C. Prior to January 1998 local telephone companies, known as local exchange companies ("LECs"), billed long distance companies such as Qwest an access charge on a per minute basis for the access to and use of their telephone lines. In January 1998 the Federal Communications Commission ("FCC") lowered the allowable per minute access charge that LECs bill long distance companies and at that time instituted a presubscribed interexchange carrier charge ("PICC") which LECs could bill long distance companies for access to and use of the LECs telephone lines.[1] The FCC capped the PICC amount that long distance companies could be required to pay LECs at $0.53 per month for a primary line,[2] $1.50 per month for non-primary residential lines,[3] and $2.75 per month for a multi-line business line.[4] The PICC is not a tax or a FCC or other governmental agency mandated charge upon a telephone subscriber, rather it is a charge that LECs were permitted to assess and require the long distance companies to pay for access to and use of their telephone lines. The FCC did not require long distance companies to add this to the telephone subscribers' phone bills. From January 1, 1998, through November 1998, Pennsylvania telephone subscribers who received direct bills from Qwest were charged a PICC of $0.79 which was listed in a category described as "FCC Mandated Charges".

WHEREAS, the Commonwealth maintains that the above allegations fall within the definition of unfair methods of competition and unfair or deceptive acts or practices under the Consumer Protection Law §§201-2(4)(v), (vii), (ix), and (xxi);

---

[1] In the Matter of Access Charge Reform, *et al.*, released May 16, 1997, 12 F.C.C.R. 15982

[2] Primary line is defined by the FCC as the principal phone line of a residence or a single-line business line.

[3] Non-primary line is defined by the FCC as any phone line a residence may have in excess of, or in addition to, the primary line phone line.

[4] A multi-line business line is defined by the FCC as any phone line a business may have in excess of, or in addition to, the primary line phone line.

WHEREAS, Qwest is willing to cease and desist from engaging in the types of business practices alleged above and shall not violate the Consumer Protection Law in the future;

WHEREAS, Qwest denies any and all allegations of statutory violations or other wrongdoing as alleged by the Commonwealth and has agreed to enter into this Assurance of Voluntary Compliance for settlement without any admission of any matters of fact or any violations of law, wrongdoing or liability of any kind and this Assurance of Voluntary Compliance shall not be construed as an admission of a violation for any purpose; and

WHEREAS, the Commonwealth agrees to accept this Assurance of Voluntary Compliance pursuant to §201-5 of the Consumer Protection law in lieu of commencing statutory proceedings pursuant to §201-4 thereof.

NOW THEREFORE, while engaged in future trade and commerce within the Commonwealth of Pennsylvania, from the date of execution of this Assurance of Voluntary Compliance, Qwest, for itself and its administrators, successors, assigns, agents (including, but not limited to third party marketing agents), employees and all persons acting on its behalf, directly or through any corporate or other business device (including, but not limited to corporate subsidiaries), agrees as follows:

A. Qwest shall only allow orders for its telecommunication services to be marketed by employees, independent contractors, third party distributors or persons or other entities which it has directly authorized, and Qwest shall require any such persons or entities involved in such practices to comply with the provisions of this Assurance of Voluntary Compliance.

B. Before submitting a PIC change to a local exchange carrier which will affect any Pennsylvania telephone subscriber's service, Qwest shall comply with all Federal Communication Commission's rules and orders now in effect, or as hereinafter modified or amended, which relate to the change of a telephone subscriber's primary interexchange carrier.

C. Before submitting a PIC change to a local exchange carrier which will affect any Pennsylvania telephone subscriber's service, Qwest shall obtain the express authorization of any such subscriber or person designated as authorized to make a change on their behalf.

D. For a period of two (2) years from the date of execution of this Assurance of Voluntary Compliance, Qwest will not submit a PIC change order based upon a LOA unless it has first been independently verified by a third party that the person is the subscriber or is authorized to make the switch and that it is their intent to do so.

E. Qwest shall not represent, expressly or implicitly, or offer, advertise or promote any good or service to any consumer as free, or use any term of similar import, unless the consumer is not charged for their receipt or use of any portion of the product or service represented as free. Further, the recipients of any non-telecommunication goods or services offered as an incentive ("non-telecommunication incentive") in the marketing of Qwest telecommunication services shall not be required to purchase other non-telecommunication services in order to receive and use the non-telecommunication incentive.

F. Qwest shall not use or allow to be used any incentive offers in telemarketing its services unless its telemarketers disclose in a clear and conspicuous manner accurate and complete information regarding all material terms and conditions of any such incentive offer including, but not limited to, any restrictions or costs related to the receipt or use of any incentive offered. For purposes of this Assurance of Voluntary Compliance "clear and conspicuous" means that the required disclosures are presented in a manner that a consumer will hear and understand at a normal speed in the same tone and volume as other information presented. Further, such disclosures must be given prior to obtaining a consumer's approval to accept the services being offered.

G. Qwest shall not begin billing Pennsylvania telephone subscribers for monthly fees or other recurring fees until the local exchange carrier has switched the subscriber's long distance services to Qwest.

H. Qwest shall promptly discontinue billing Pennsylvania telephone subscribers for all fees including, but not limited to, monthly fees and other recurring charges as soon as Qwest receives notification from any local exchange carrier that a PIC change has been submitted switching the telephone subscriber's long distance services from Qwest to another long distance carrier in accordance with the subscriber's monthly billing cycle.

I. For subscribers direct billed by Qwest, Qwest shall not misrepresent any PIC charge or PIC fee as a tax or FCC or other governmental agency mandated charge by describing it as such and shall distinguish any discretionary surcharges it may impose upon its subscribers as being Qwest surcharges.

J. Qwest shall notify its current officers, directors, management level employees and any independent contractors who are engaged in marketing Qwest services in Pennsylvania of the subject matter and terms and conditions of this Assurance of Voluntary Compliance. Further, Qwest shall provide a copy of this Assurance of Voluntary Compliance to any of the aforementioned individuals or entities upon request.

K. For a period of two (2) years after the entry of this Assurance of Voluntary Compliance, Qwest shall maintain and make available to the Office of Attorney General, Bureau of Consumer Protection within fourteen (14) days of a receipt of a written request from the Office of Attorney General, Bureau of Consumer Protection, records of all consumer complaints containing any allegations of events occurring after the entry date of this Assurance of Voluntary Compliance and which relate to the subject matter of this Assurance of Voluntary Compliance. The record of consumer complaints shall include the name, address and telephone number of each complainant, Qwest's response, and the final disposition of each complaint.

NOW THEREFORE, Qwest, its administrators, successors, assigns, agents, employees and all other persons acting on its behalf, directly or through any corporate or other business device (including, but not limited to, corporate subsidiaries) as follows:

A. Within sixty (60) days of the date of the execution of this Assurance of Voluntary

Compliance, Qwest shall contact, via first class mail, all Pennsylvania consumers who had their long distance service switched to Qwest as a result of marketing by any of the agents identified on Exhibit "A" and who disconnected such service within sixty (60) days. The letter shall inquire as to whether the consumer in fact authorized the change in long distance service to Qwest. If the consumer did not authorize the change and has not received a refund from Qwest, he or she will be directed to return a prepaid postcard within thirty (30) days. In response to its receipt of any postcards from consumers indicating they did not authorize a change in long distance service to Qwest, Qwest shall provide a refund of any amount not previously returned to each consumer which shall include, at a minimum:

1. A re-rating of long distance charges incurred during the time of the unauthorized change which will give the consumer the benefit of any lower rate the consumer would have been charged by their prior carrier for such service; and.
2. Any switching fees attributed to the unauthorized change.

In the event that Qwest should deny any consumer a request for refund it shall provide prompt notice of the same to the Office of Attorney General, Bureau of Consumer Protection with documentation and an explanation as to why a refund was not granted. The Office of Attorney General, Bureau of Consumer Protection shall be the final arbitrator of whether the consumer is entitled to a refund in accordance with the provisions of this Assurance of Voluntary Compliance.

Refunds due consumers pursuant to this paragraph shall be made upon the consumer's provision of sufficient information or authorization to verify the rates the consumers were charged by their prior carrier and any switching fees that may have been paid.

B. Within one hundred fifty (150) days from the date of the execution of this Assurance of Voluntary Compliance, Qwest shall provide the Office of Attorney General, Bureau of Consumer Protection with a certified report setting forth the names, addresses and telephone numbers of all Pennsylvania consumers who had claims for refunds under any provision of this Assurance of Voluntary Compliance and the amount of any such refunds.

C. Qwest shall refund the charge any Pennsylvania consumer incurred to switch to Qwest long distance service in response to its "Fly Free America" program to the extent it has not previously refunded or credited any such charges. This duty to refund switching fees for the "Fly Free America" program shall apply to all Pennsylvania consumers who have already filed complaints or, within one hundred twenty (120) days of the entry of this Assurance of Voluntary Compliance file complaints with the Pennsylvania Attorney General's Bureau of Consumer Protection, Pennsylvania Office of Consumer Advocate, Pennsylvania Public Utility Commission or the Federal Communications Commission. Refunds due consumers pursuant to this paragraph shall be made upon the consumer's provision of sufficient information or authorization to verify the switching fees that may have been paid.

D. Qwest shall provide refunds or credits equal to any amounts paid by any Pennsylvania consumers who were billed for monthly fees or other recurring charges at any time before they were connected to Qwest's services to the extent it has not already refunded or credited such fees or charges.

E. Upon signing this Assurance of Voluntary Compliance, Qwest shall pay the sum of three hundred fifty thousand dollars ($350,000.00) to the Commonwealth of Pennsylvania as costs of investigation and/or for future public protection purposes.

PROVIDED, that nothing contained herein shall be construed to waive any private right of action by any consumer or any action by any other Pennsylvania governmental entity. However, this Assurance of Voluntary Compliance constitutes full and final resolution between the Pennsylvania Office of Attorney General, Bureau of Consumer Protection and Qwest of all claims which may have been brought by the Office of Attorney General, Bureau of Consumer Protection for the alleged conduct described in this Assurance of Voluntary Compliance up to and including the date of the Attorney General's acceptance of this Assurance of Voluntary Compliance.

NOW THEREFORE, Qwest agrees by the signing of this Assurance of Voluntary Compliance that Qwest shall henceforth abide by each and every one of the aforementioned terms of this Assurance of Voluntary Compliance, and that the Commonwealth may enforce this Assurance of Voluntary Compliance pursuant to §§201-8, 201-9 and 201-9.1 of the Consumer Protection Law by petitioning the Commonwealth Court of Pennsylvania or the Cambria County Court of Common Pleas, or any other Court of competent jurisdiction, to order any equitable relief which may be deemed necessary and appropriate as provided herein.

WITNESS, the following signatures this 27th day of March, 2001.

FOR THE COMMONWEALTH

D. MICHAEL FISHER
ATTORNEY GENERAL

FRANK T. DONAGHUE
CHIEF DEPUTY ATTORNEY GENERAL

E. BARRY CREANY
SENIOR DEPUTY ATTORNEY GENERAL

FOR THE RESPONDENT

QWEST COMMUNICATIONS
CORPORATION

BY Mark Pitchford
MARK PITCHFORD, SENIOR VICE
PRESIDENT - CONSUMER MARKETS

Rachel O'Bryan
RACHEL O'BRYAN, ESQUIRE
QWEST COMMUNICATIONS
CORPORATION

CORPORATE AUTHORIZATION

I, Mark Pitchford, being first duly sworn on oath, depose and say that I am the Senior Vice President - Consumer Markets of Qwest Communications Corporation, and I have been fully authorized and empowered to sign this Assurance of Voluntary Compliance on behalf of Qwest Communications Corporation and bind the same to the terms hereof.

Mark Pitchford

Mark Pitchford
Senior Vice President - Consumer Markets
QWEST COMMUNICATIONS CORPORATION

Sworn to and subscribed to before me

this 27th day of March, 2001.

Notary Public

EXHIBIT "A"

ACN (American Communications Network)

Alliance Communication Technologies

Dino Group

Ethnic Telemanagement International, Inc.

Eurasia Telecom

Everlasting Telecom, Inc.

MT Marketing

Pacific and Sons Company

Teletouch

Voice Network

STATE OF OREGON
MARION COUNTY COURTS

APR 21 1999

FILED
#1

CIRCUIT COURT OF OREGON

MARION COUNTY

IN THE MATTER OF:	)	No. 99C13334
LCI INTERNATIONAL	)	ASSURANCE OF VOLUNTARY COMPLIANCE
Respondent.	)	[ORS 646.632(2)]

1.

LCI International does business in Oregon and is respondent herein. This agreement is between respondent and the Oregon Department of Justice (DOJ) acting pursuant to ORS 646.632(1).

PROCEDURE

2.

This Assurance of Voluntary Compliance [AVC] is a settlement of a disputed matter. It shall not be considered an admission of a violation for any purpose. Respondent and DOJ agree that no provision of this AVC operates as a penalty, forfeiture, or punishment under the Constitution of the United States, under the Constitution of the State of Oregon, or under any other provision of law.

3.

Respondent waives receipt of a notice from the State of Oregon pursuant to ORS 646.632(2) of the alleged unlawful trade practice and the relief to be sought.

DEPARTMENT OF JUSTICE
1162 COURT STREET NE
SALEM, OREGON 97310
PHONE 378-4732

or approves of respondent's: past business practices; current efforts to reform its practices; or, any future practices which respondent may adopt or consider adopting. DOJ's decision to settle this matter or to otherwise unilaterally limit current or future enforcement action does not constitute approval or imply authorization for any past, present, or future business practice.

13.

Upon execution of this AVC respondent shall pay the sum of $10,000.00 to DOJ for deposit to the Consumer Protection and Education Revolving Account established pursuant to ORS 180.095. Said sum shall be used by DOJ as provided by law.

14.

Restitution shall be paid as provided in this paragraph:

A. Immediately upon execution of this AVC, respondent shall remit the check to the Oregon Department of Justice.

15.

Effective immediately upon execution by respondent of this AVC, respondent agrees to adhere to each of the following requirements:

A. To re-rate or make restitution to all consumers listed in Attachment A of the Department of Justice Civil Investigative Demand dated December 29, 199~~9~~8. LCI is under no obligation to re-rate or make restitution to any consumer on the above list for which LCI was unable to locate an account.

B. To follow correct telemarketing procedures as required

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PHONE 378-4732

by rule and statute found in ORS 646.605 et seq. (1997).

RESPONDENT'S SIGNATURE AND ACKNOWLEDGMENT

Respondent has read and understands this agreement and each of its terms. Respondent agrees to each and every term.

Individual Respondent

Carol P Kuhnow
[Individual Respondent Signature]

CAROL P KUHNOW
Print Name

Address 4250 N FAIRFAX DRIVE
ARLINGTON VA 22203

SUBSCRIBED AND SWORN to before me this 12 day of March, 1999.

[Notary's Signature]
Affix Stamp My Commission Expires February 28, 2001

Corporate Respondent

I, JOHN C. TAYLOR being first duly sworn on oath depose and say that I am the SENIOR VICE PRESID of CONSUMER MARKETS and am fully authorized and empowered to sign this Assurance of Voluntary Compliance on behalf of LCI INT'L and bind the same to the terms hereof.

[Corporate Officer's Signature]

JOHN C. TAYLOR
Print Name

SVP
Title

Address

DEPARTMENT OF JUSTICE
1162 COURT STREET NE
SALEM, OREGON 97310
PHONE 378-4732

SUBSCRIBED AND SWORN to before me this 12 day of March, 1999.

[Notary's Signature]
Affix Stamp My Commission Expires February 28, 2001

ACCEPTANCE BY DOJ

Accepted this 20 day of ~~March~~ April, 1999.

HARDY MYERS
Attorney General

Elizabeth A. Gordon #90274
Assistant Attorney General

APPROVAL BY COURT

APPROVED FOR FILING and SO ORDERED this 21 day of April, 1999.

/s/ Richard D. Barber
Circuit Court Judge

DEPARTMENT OF JUSTICE
1162 COURT STREET NE
SALEM, OREGON 97310
PHONE 378-4732

RECEIVED

JAN 24 2001

ATTORNEY GENERAL
CARSON CITY, NEVADA

OCT 0 3 2000

FILED

JAN 19 2001

AMY HARVEY, CLERK
By T. Clements
DEPUTY CLERK

CODE: 1845 A
FRANKIE SUE DEL PAPA
Attorney General
MARSHALL S. SMITH
Deputy Attorney General
Nevada Bar #3606
1000 East William Street, Suite 200
Carson City, NV 89701 - 775-687-6300, x238
Attorneys for State of Nevada

SECOND JUDICIAL DISTRICT COURT

STATE OF NEVADA, WASHOE COUNTY

STATE OF NEVADA, OFFICE OF THE ATTORNEY GENERAL, ex rel. FRANKIE SUE DEL PAPA, Attorney General,

Plaintiff,

vs.

QWEST COMMUNICATIONS INTERNATIONAL INC a Delaware Corporation; DOES 1-10 in their individual and/or corporate capacity,

Defendants.

CASE NO. CV-00-07391

Dept. No. 4

Attorney General's Office
1325 Airmotive Way # 340
Reno, Nevada 89502

CONSENT JUDGMENT

Plaintiff, STATE OF NEVADA, OFFICE OF THE ATTORNEY GENERAL, ex. rel. ("STATE") by and through FRANKIE SUE DEL PAPA, Attorney General, by her Deputy, MARSHALL SMITH, and Defendant, QWEST COMMUNICATIONS INTERNATIONAL INC., ("QWEST") by and through its counsel, STEVEN AUGUSTINO, hereby STIPULATE to entry of the CONSENT JUDGMENT herein.

The Court having considered the stipulation of the Parties, and good cause appearing therefore, it is hereby ADJUDGED, DECREED and ORDERED that:

JURISDICTION AND VENUE

1. The Court has jurisdiction over the subject matter of this action and of the Parties. Venue as to all matters between the Parties relating hereto lies with the Court. Plaintiff's Complaint

states claims upon which relief may be granted pursuant to the Nevada Deceptive Trade Practices Act, Nevada Revised Statutes (NRS) 598.0903, et seq.

SUBJECT MATTER

2. This Consent Judgment applies to the practices of the Defendant relative to the management and operations of Defendant including, but not limited to, conducting business as a provider of telecommunications services as defined by NRS 598.9682.

GENERAL PROVISIONS

3. Defendant waives any further procedural steps and any rights it may have to seek judicial review or otherwise challenge or contest the validity of this Consent Decree.

4. This Consent Decree is for settlement purposes only. Nothing herein shall constitute findings as to the matters raised in the Complaint filed herein, and Defendant does not admit any alleged violation or liability on its part or on the part of any of its officers, directors, agents, employees, representatives, or assigns, for the specific acts alleged in the Compliant or in any informal complaints received by the State of Nevada on or before the effective date of this Consent Decree.

5. Defendant shall verify and inspect each letter of agency prior to submitting an order to any local telephone/exchange company in the State of Nevada, pursuant to the requirements of NRS 598.969 (9) (h).

INJUNCTION

6. Defendant shall be enjoined and restrained from engaging in any violation of the current or any amended provisions of NRS Chapter 598, the Nevada Deceptive Trade Practices Act, including but not limited to the unauthorized switching of consumers interexchange or intraexchange carriers, and billing of consumers for services not requested nor authorized.

Attorney General's Office
1315 Alamo? Way #270
Reno, Nevada 89502

7. Defendant shall not state or imply, or cause to be stated or implied, that the OFFICE OF THE ATTORNEY GENERAL has approved, sanctioned, or authorized any practice, act, or conduct of a Defendant by this Consent Judgment or otherwise.

8. With respect to provision of telecommunications services in the State of Nevada, Defendant agrees to abide and be bound by the terms of conditions relating to its telecommunications practices found at *QWEST COMMUNICATIONS INTERNATIONAL INC, Consent Decree, FCC 00-254 (July 19, 2000). ("Consent Decree")* for the duration the FCC Consent Decree is in effect. The FCC Consent Decree is attached hereto as Exhibit 1 and hereby incorporated in its entirety by reference.

PAYMENTS BY DEFENDANT

9. Prior to submission of this Consent Judgment to the Court, Defendant shall deliver to the OFFICE OF THE ATTORNEY GENERAL a check in the amount of $175,000.00 (one hundred and seventy-five thousand dollars) payable to "Office of the Attorney General" for attorneys fees, investigative costs, for consumer education, litigation or local consumer aid funds, or for public protection or consumer protection purposes, at the discretion of the Attorney General as allowed by state law.

10. If, upon submission to the Court, this Consent Judgment is disapproved by the Court, the funds identified in paragraph "9" herein shall be returned to Counsel for Defendant within sixty (60) days of notification by the Court to the OFFICE OF THE ATTORNEY GENERAL of said disapproval.

RELEASE BY THE OFFICE OF THE ATTORNEY GENERAL

11. In consideration for entry into this Stipulated Judgment and the payments by Defendants, the OFFICE OF THE ATTORNEY GENERAL hereby releases any and all claims, demands, or causes of action, known or unknown, suspected or unsuspected, civil or criminal, the State of Nevada may have against the Defendant, its officers, directors, agents, employees, representatives, or assigns, for

Attorney General's Office
1325 Airmotive Way #340
Reno, Nevada 89502

conduct occurring on or before the date of this Consent Judgment, under NRS Chapter 598 relative to the Subject Matter of this Consent Judgment.

ADDITIONAL PROVISIONS

12. Nothing contained herein may be taken or construed to be an admission or concession of any violation of law, or of any other matter of fact or law, or of any liability or wrongdoing, all of which Defendant expressly denies.

13. Nothing in paragraphs "6" or "7" herein shall prohibit Defendant from stating that the Consent Judgment was entered with the stipulation of the OFFICE OF THE ATTORNEY GENERAL and the Defendant, or from providing copies of this Consent Judgment to any person.

14. Any individual signing in a representative capacity for the Defendant represents that he is authorized to bind such Corporation to this Consent Judgment.

15. Each party to this Consent Judgment has independently investigated all material facts, and therefore executes the same based on independent knowledge and judgment.

16. Except as set forth in paragraph "9" herein, each of the parties will bear his, her, or its own costs and attorney's fees.

SO STIPULATED.

STATE OF NEVADA, OFFICE OF
ATTORNEY GENERAL, ex rel.
FRANKIE SUE DEL PAPA
Attorney General

BY: ______________________ DATED: 11 / 3 / 00

MARSHALL SMITH
Deputy Attorney General
Nevada Bar No. 3606

Office of the Attorney General
Bureau of Consumer Protection
1000 East William Street, Suite 200
Carson City, NV 89701
Telephone: (775) 687-6300, x238

Attorney General's Office
1325 Airmotive Way #340
Reno, Nevada 89501

BY: Mark D Pitchford
MARK D. PITCHFORD
Senior Vice President, Consumer Markets
Qwest Communications Corporation

DATED: 9/27/00

APPROVED AS TO
CONTENT AND FORM:

DATED: 10/2/00

BY: Jennifer Katherine for SAA
STEVEN A. AUGUSTINO, Esq.
Kelley Drye & Warren LLP
General Counsel to Qwest Communications International Inc.
1200 19th Street, N.W. #500
Washington, D.C. 20036

Attorneys for Defendants

APPROVED AND SO ORDERED:

Connie J. Steinheimer
District Court Judge

Dated this 17 day of January, 2001

Attorney General's Office
1325 Airmotive Way # 340
Reno, Nevada 89502

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: PETITION BY QWEST COMMUNICATIONS INTERNATIONAL, INC. FOR APPROVAL OF PROPOSED SETTLEMENT AGREEMENT WITH THE DEPARTMENT OF LEGAL AFFAIRS, OFFICE OF THE ATTORNEY GENERAL OF THE STATE OF FLORIDA.	DOCKET NO. 020563-TI ORDER NO. PSC-02-0998-PAA-TI ISSUED: July 23, 2002

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON
BRAULIO L. BAEZ
MICHAEL A. PALECKI

NOTICE OF PROPOSED AGENCY ACTION ORDER REGARDING QWEST COMMUNICATIONS INTERNATIONAL INC.'S PETITION FOR APPROVAL OF SETTLEMENT AGREEMENT

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

CASE BACKGROUND

On June 25, 2002, Qwest Communications International Inc. (QWEST) filed a Petition in which it asks this Commission to enter an order accepting a proposed settlement agreement between the Office of the Attorney General of the State of Florida (OAG) and QWEST as satisfying any potential claims for issues related to the subject matter of an investigation by the OAG over which we may have overlapping jurisdiction.

In its Petition, QWEST states that the OAG opened an inquiry of QWEST in February 2001. Based on that investigation, the OAG asserted that certain of QWEST's third-party vendors conducted improper marketing practices designed to change Florida consumers' long distance providers to QWEST without first obtaining appropriate authority. The OAG also asserted that QWEST is legally accountable for the activities of its third party vendors. QWEST denied committing any violation of law, citing in support of its position, internal measures designed by QWEST to intercept and reject any deficient orders submitted by its vendors; QWEST's imposition of monetary penalties on vendors who breached contractual provisions prohibiting unauthorized transfers; QWEST's insistence that vendors discharge agents who committed those acts; and QWEST's termination of relationships with vendors who failed, after being notified of deficiencies, to police their agents.

In its Petition, QWEST recites that, in the interest of avoiding costly litigation, QWEST and the OAG entered into lengthy negotiations, and have now agreed to the terms of a settlement. However, under Section 364.603, Florida Statutes, and Rule 25-4.118, Florida Administrative Code, this Commission also has regulatory jurisdiction over the subject matter of the OAG's investigation. QWEST asks that we accept the Settlement Agreement, the terms of which include a compliance program and a monetary payment, as satisfying and dispositive of any claims of unauthorized transfers occurring during the period covered by the OAG's investigation over which the Commission would have overlapping jurisdiction. QWEST states that this action is needed to remove any aspect of the risk of litigation that the settlement is designed to eliminate, and thereby allow QWEST to consummate the settlement.

In the proposed Settlement Agreement, which is attached to this Order as Attachment A, the term "investigative period" is identified as the period beginning January 1, 1997, and ending on the date of the execution of the Settlement Agreement. The term "Matters Investigated" is defined as ". . . the activities of QWEST and its agents relating to their efforts to solicit and transfer consumers' incumbent long distance service providers to QWEST occurring in the State of Florida, or from other jurisdictions to consumers located in the State of Florida, and includes the investigation into allegations that some of these activities involved the switching or attempted switching of long distance telephone service providers to QWEST without the consumer's knowledge, consent or legal authorization." For purposes of this Order, we adopt and incorporate these and the other definitions contained in the Settlement Agreement as defining the scope in time and subject matter of this Order.

The Settlement Agreement between QWEST and the OAG includes the following terms. QWEST will:

- Send a written notice to its Florida customers informing them that they have the option to remain with QWEST or choose another provider;

- Continue to provide credits and rate adjustments to all complaining Florida consumers who experienced unauthorized carrier changes by QWEST that resulted from solicitations during the period January 1, 1997, up to and including the date the proposed settlement agreement is executed;

- Refrain from effecting any change in its form of doing business, its organizational structure or from forming a separate entity or corporation to circumvent the Agreement;

- Issue a directive to all management personnel, employees and distributors who are responsible for implementing the obligations set forth in the Settlement Agreement providing information about the general terms and conditions of the Agreement;

- Comply with all applicable Federal and State of Florida rules and statutes;

- Implement or continue providing adequate training, policies and guidelines for its representatives, agents, employees and distributors who are responsible for implementing the obligations set forth in the Settlement Agreement to prevent unauthorized carrier changes.

- Continue to promptly resolve complaints from Florida consumers regarding unauthorized carrier changes by QWEST; and

- Provide a monetary settlement of $3,250,000.

In the proposed Settlement Agreement the OAG stipulates that:

> . . . upon acceptance of the Agreement by the Attorney General, the OAG shall terminate its investigation and not pursue any further investigation of QWEST for unauthorized carrier changes for the period January 1, 1997, to the effective date of the Settlement Agreement.

The Settlement Agreement is attached to this Order as "Attachment A."

DISCUSSION

The Settlement Agreement states that QWEST enters the agreement for settlement purposes only; the Settlement Agreement is not to be construed as either an admission or finding of any wrongdoing or violation of any state or federal law, rule, or regulation. In the Petition, QWEST states that the OAG has authorized it to represent that the Attorney General is prepared to approve the Settlement Agreement.

Through its enforcement of Rule 25-4.118, Florida Administrative Code, this Commission prohibits regulated carriers from transferring customers without first obtaining authorization in the manner prescribed (slamming). As QWEST acknowledges in its petition, in the past this Commission conducted show cause proceedings related to this rule against QWEST Communications Corporation and LCI International Telecom Corp., both of which are affiliates of QWEST, and both of which are included in the terms of the Settlement Agreement. On October 9, 1998, we issued Order No. PSC-98-1318-AS-TI in Docket No. 971487-TI, in which we accepted LCI's settlement offer of $110,000. More recently, on September 5, 2001, we issued Order No. PSC-01-1791-AS-TP, in Docket No. 000778-TI, in which we accepted an offer by QWEST Communications Corporation in the amount of $18,000 to settle the allegations of unauthorized carrier changes raised in that docket. In addition, QWEST entered a settlement with the Federal Communications Commission (FCC) in July of 2000 for apparent unauthorized carrier changes, which required the implementation of corrective measures by QWEST; many of these corrective measures are incorporated and continued under the terms of QWEST's proposed Settlement Agreement with the OAG.

QWEST correctly states that currently we have no slamming-related enforcement proceedings against any affiliate or subsidiary of QWEST over which we have regulatory jurisdiction. We have reviewed the complaints filed with the Commission against QWEST for the calendar year 2002 and find that QWEST's efforts to reduce unauthorized carrier changes apparently have been effective. We also note that under the terms of the Settlement Agreement, any individual customers who may have been switched to QWEST without authorization will continue to have the right to submit complaints and have their situations rectified. Further, under the terms of the Settlement Agreement, QWEST agrees to follow in good faith the procedures for obtaining authority to transfer customers prescribed in Rule 25-4.118, Florida Administrative Code.

Based upon our review of the Petition, of the Settlement Agreement between QWEST and the OAG, and of the progress of QWEST in reducing complaints of unauthorized carrier changes, we find it in the public interest to grant QWEST's Petition. Once it has been executed and has become effective, the Settlement Agreement between the OAG and QWEST, attached hereto, will satisfy, and be dispositive of, any and all claims of violation of Rule 25-4.118, Florida Administrative Code, occurring between January 1, 1997 and the date of this Order by the QWEST affiliated entities encompassed by the Settlement Agreement over which we would have regulatory jurisdiction.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the requests set forth in the body of Qwest Communications International, Inc.'s Petition for Approval of Settlement Agreement are hereby granted. It is further

ORDERED that the specific findings set forth in this Order are approved in every respect. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that upon execution of the proposed Settlement Agreement between Qwest Communications International, Inc. and the Office of the Attorney General and acceptance of that Agreement by the Attorney General, as specified therein, and this Order becoming final, no action by this Commission shall be taken to impose any penalties or seek any remedies against Qwest Communications International, Inc. affiliated entities related to violations of Rule 25-4.118 that are alleged to have occurred between January 1, 1997 and the date of this Order. It is further

ORDERED that in the event this Order becomes final, this Docket shall be closed administratively upon verification by our staff of the execution of the settlement agreement.

By ORDER of the Florida Public Service Commission this 23rd Day of July, 2002.

BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records and Hearing
Services

(S E A L)

CLF

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on August 13, 2002.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

SETTLEMENT AGREEMENT

THIS SETTLEMENT AGREEMENT (the "Agreement") is entered into on this __ day of ____, 2002, between the Department of Legal Affairs, Office of the Attorney General of the State of Florida ("OAG"), and Qwest Communications International, Inc. ("Qwest").

WITNESSETH:

WHEREAS, the OAG caused an investigation to be made into the marketing and sales practices of Qwest and LCI International Telecom Corp. (LCI) (now a Qwest subsidiary) relating to the acquiring of telecommunications Consumers (as defined below) in or from the State of Florida;

WHEREAS, the investigative period for the OAG's investigation of Qwest (which includes the investigation of LCI) is from January 1, 1997 to present;

WHEREAS, the Parties acknowledge that Qwest enters into this Agreement for settlement purposes only. Qwest does not admit to any of the factual allegations made by the OAG and this Agreement shall not be construed as either an admission or finding of any wrongdoing or violation of any state or federal law, rule, or regulation; and

WHEREAS, Qwest and the OAG desire to conclude the Investigation and reach an Agreement that will fully and finally settle, resolve, release, discharge, and compromise the Matters Investigated (as defined below) related to the Investigative Period (as defined below) concerning Qwest and LCI and all claims and causes of action by the OAG against Qwest or LCI relating thereto. [The parties agree to provide acknowledgment of the course taken relative to the FPSC and insert it here in a final recital, reflecting that there has also been a full resolution of their claims for the same period, if the FPSC agrees to grant Qwest's Petition.]

NOW THEREFORE, in consideration of the premises and the mutual promises, agreements, covenants and obligations contained herein, and for other good and valuable consideration as stated herein, the receipt of which are hereby acknowledged, the OAG and Qwest hereby agree and stipulate to the following:

EXHIBIT A

ATTACHMENT A

DEFINITIONS

1. The term "Claim" shall mean any claims or causes of action for fines, damages, liabilities, penalties, attorneys' fees, losses, costs, expenses, or other relief of any kind or character whatsoever, at law or equity, regarding the Matters Investigated.

2. The term "Consumer" means any person, a natural person, individual, governmental agency or entity, partnership, corporation, limited liability company or corporation, trust, estate, incorporated or unincorporated association, and any other legal or commercial entity however organized located in the State of Florida.

3. The term "Distributor" means a third-party entity or agent engaging in face-to-face sales or engaging in telemarketing of Long Distance Services to Consumers on behalf of Qwest.

4. The Term "Effective Date" means the date upon which Qwest receives notice that the Florida Attorney General has accepted this Agreement, but shall be no later than thirty (30) days subsequent to the last date of execution of this Agreement.

5. The term "Investigation" shall mean the OAG's investigative case, number L01-3-1193, which was opened on or about January 31, 2001, and covers the time period from January 1, 1997 through the date of execution of this Agreement.

6. The term "Investigative Period" shall mean the time period of the Investigation, January 1, 1997 through the date of execution of this Agreement.

7. The term "Long Distance Services" means any 1+ service provided directly by Qwest to a Consumer.

8. The term "Long Distance Telephone Service Provider" means the entity that is chosen by a Consumer to transport "Long Distance Services" and shall include and is synonymous with the terms "Primary Interexchange Company," "Interexchange Carrier," "Primary Interexchange Carrier," "Preferred Carrier," "Interexchange Company," and "long distance company".

9. The term "Matters Investigated" means the activities of Qwest and its agents

relating to their efforts to solicit and transfer Consumers' incumbent Long Distance Telephone Service Providers to Qwest occurring in the State of Florida or from other jurisdictions to Consumers located in the State of Florida, and includes the investigation into allegations that some of these activities involved the switching or attempted switching of Long Distance Telephone Service Providers to Qwest without the Consumers' knowledge, consent or legal authorization.

10. The term "Parties" as used in this Agreement shall mean Qwest and the OAG.

11. The term "Qwest" as used herein means Qwest Communications International, Inc., and any of its affiliates, subsidiaries, branches, divisions, departments, groups, Distributors, employees, officers, directors, consultants, agents, attorneys or representatives; and any corporate predecessors, successors or assigns controlling or controlled by Qwest Communications International Inc The term "Qwest" is expressly intended to include, but is not limited to, Qwest Communications Corporation and its subsidiary LCI. The term "Qwest" does not mean or include any switchless, switch based, or facilities based carrier or reseller of Long Distance Services that has contracted with Qwest.

REPRESENTATIONS AND WARRANTIES

12. Qwest represents and warrants that it is a properly named Respondent with respect to the Investigation and the Matters Investigated and a properly named Party to this Agreement and can incur the obligations set forth herein.

13. The Parties represent and warrant that this Agreement is entered into by the Parties as their own free and voluntary acts and with full knowledge and understanding of the nature of the proceedings and the obligations and duties imposed by this Agreement. Each Party represents and warrants that no waivers, offers, agreements, representations, warranties or inducements of any nature whatsoever concerning this Agreement, other than those contained herein, have been made to it by the other Party to procure this Agreement.

14. Qwest represents and warrants that it is solvent and it has good and sufficient funds available to meet fully all financial obligations called for in this Agreement. Qwest also

represents and warrants that it has reviewed its financial situation and that it currently is solvent within the meaning of 11 U.S.C. § 547(b)(3), and will remain solvent following its payment to the OAG hereunder.

15. Qwest represents and warrants that, within ninety (90) days of the Effective Date of this Agreement, it will send a written notice to all Consumers whose Long Distance Telephone Service was with Qwest on the date of execution of this Agreement. Qwest further warrants and represents that said notice shall clearly and conspicuously state to each such Consumer that his/her Long Distance Telephone Service Provider is Qwest and that the Consumer would have the option to remain with Qwest or switch to a Long Distance Telephone Service Provider of the Consumer's choice without cost to the Consumer if the Consumer was transferred to Qwest in error and without consent. A copy of the notice required by this Paragraph 15 is attached hereto as Exhibit A.

16. Qwest represents and warrants that it has provided and will continue to provide rate adjustments, credits, change of Long Distance Telephone Service Provider, or other redress, to all complaining Consumers whose Long Distance Telephone Service Provider was changed to Qwest without proper authorization as a result of solicitations and activities by or on behalf of Qwest involving Consumers located in the State of Florida during the time period specified in the Matters Investigated up to and including the date of this Agreement.

17. Qwest represents and warrants that neither Qwest nor any of its representatives, employees, agents or any other person acting directly under, by, through or on behalf of Qwest, shall state, represent or imply that the Attorney General of the State of Florida, the OAG, or any other governmental unit or subdivision of Florida has approved, sanctioned, or authorized any practice, act or conduct of Qwest pursuant to this Agreement except to the extent that this Agreement expressly mandates or incorporates such practices and procedures as adequate corrective action measures to meet the terms and conditions of the obligations undertaken by Qwest in this Agreement.

18. Qwest represents and warrants that it shall not effect any change in its form of

doing business or its organizational identity or participate directly or indirectly in any activity to form a separate entity or corporation for the purpose of engaging in acts prohibited by this Agreement or for any other purpose which would otherwise circumvent any part of this Agreement or the spirit or purposes of this Agreement.

APPLICATION

19. This Agreement shall be binding upon and inure to the benefit of the Parties, and their respective successors and assigns. This Agreement shall also be binding upon and inure to the benefit of any corporate parent, holding company, dba, affiliate or subsidiary of Qwest to the extent necessary to ensure that the rights and obligations created by this Agreement are effectuated and survive any merger, dissolution, or change in Qwest's corporate name, identity, organization or function.

20. This Agreement applies to Qwest acting directly, or through a Distributor which Qwest directs or controls, in connection with the offering for sale, selling or providing Qwest Long Distance Services in or from the State of Florida to Consumers within the State of Florida.

21. This Agreement applies to any current and future officer, servant, representative, employee, agent, Distributor, or any other person who acts on behalf of Qwest in or affecting the sale of Long Distance Services within the State of Florida. Where applicable, for the three years following the Effective Date of this Agreement, Qwest shall be responsible for making the substantive terms and conditions of this Agreement known to its respective officers, directors, successors, and appropriate managers, employees and those persons associated with Qwest, including Distributors acting on Qwest's behalf, who are responsible for implementing the obligations set forth in this Agreement.

22. For a period of three (3) years following the Effective Date of this Agreement and termination of the Investigation, prior to any sale, dissolution, reorganization, assignment, merger, acquisition or other action that would result in any successor or assign of any of Qwest's obligations with regard to selling Long Distance Services and/or acquiring long distance telephone Consumers in the State of Florida, Qwest shall furnish a copy of this Agreement to

such prospective successor or assign and advise same of its duties and obligations under this Agreement.

COMPLIANCE

23. Qwest shall, within sixty (60) days of the Effective Date of this Agreement, deliver a summary of this Agreement to all applicable managerial and supervisory employees having responsibilities for the implementation of the subject matter of this Agreement. Within thirty (30) days following the Effective Date of this Agreement, Qwest's Corporation's Executive Vice Presidents for Consumer Sales and National Business Accounts shall send a directive to: (1) all Qwest employees; and (2) all Distributors of Qwest involved in the sale of Long Distance Services to Florida Consumers having duties and responsibilities related to the subject matters of this Agreement, including solicitation of customers and monitoring of distributors. The directive shall provide information about the general terms and conditions of this Agreement, with instructions to Distributors that such information be provided to their employees.

24. Qwest shall implement and maintain a corporate compliance program for each of Qwest's divisions or operations providing Long Distance Services to Consumers. For the three years following the Effective Date of this Agreement, continuation by Qwest of its current practices implemented in compliance with Sections 13, 14, 15, 16, 17, 18, and 19, of the Consent Decree entered into by Qwest Communications International Inc. and the Federal Communications Commission captioned In the Matter of Qwest Communications International, Inc. (July 19, 2000), file No. ENF-99-11, NAL/ Acct. No. 916EF008 and attached hereto as Exhibit B shall satisfy the requirements of this Paragraph 24.

25. With regard to selling or providing Long Distance Services in or from the State of Florida to Consumers, Qwest, its representatives, officers, agents, Distributors, employees, or consultants shall:

(a) comply with Title 47 of the Code of Federal Regulations relating to Telecommunications;

(b) follow in good faith the procedures for transferring Consumers delineated in Title 25-4.118 of the Florida Administrative Code relating to the Public Service Commission; and

(c) comply with Sections 812.014, 831.01 and 831.02, Florida Statutes.

26. It is hereby agreed by Qwest that immediately upon the Effective Date of this Agreement and for a period of three (3) years thereafter, Qwest shall, with regard to selling Long Distance Services in or from the State of Florida to Consumers, adopt and implement adequate and responsible training, policies, guidelines, and procedures to monitor and ensure regularly and routinely that Qwest or its representatives, officers, agents, Distributors, employees, and consultants shall not receive, submit, change or attempt to receive, submit, or change Consumer orders or selections of Long Distance Telecommunications Providers, under false pretenses or without authorization or consent from the Consumer to be affected.

27. Qwest shall, within ninety (90) days of the Effective Date of this Agreement, begin providing the notice required by Paragraph 15 above and shall complete the notice within one hundred and twenty (120) days of the Effective Date of this Agreement.

28. Qwest shall continue to promptly resolve any and all Consumer complaints involving the Matters Investigated, which are referred to Qwest directly by the Consumer, referred to Qwest by the OAG, or referred to Qwest by any other source.

29. For a period of three (3) years after the Effective Date of this Agreement, Qwest shall continue its current practice of maintaining records of Consumer complaints for a period of two years following the date that a complaint is lodged (calculated on a rolling basis from each and every complaint made) and shall make such complaint information available to the OAG for inspection and copying during normal business hours upon reasonable notice, which shall mean at least five (5) business days notice, although, when necessary, the Parties shall work cooperatively and Qwest shall be given additional time to comply as needed

<u>CERTIFICATION AND VERIFICATION</u>

30. Qwest shall provide certification to the OAG within one hundred and thirty (130) days of the Effective Date of this Agreement. Said certification shall be in writing by an

appropriate employee of Qwest, who has personal knowledge of the matters contained in the certification. Qwest shall send the original certification to the OAG. The certification shall include:

(a) a statement indicating the position and title of the person providing the certification;

(b) a statement that the person providing the certification is executing the certification on behalf of Qwest pursuant to this Agreement; and

(c) a statement that Qwest has complied with the notification provisions of Paragraphs 15 and 27, is complying with and will continue to comply with the complaint redress provision of Paragraph 28, and all other provisions of this Agreement.

MONETARY PROVISIONS & TERMINATION OF INVESTIGATION

31. In consideration of the mutual agreements, conditions and covenants set forth herein, upon execution of this Agreement, Qwest shall pay to the OAG the sum of 3.25 million dollars ($ 3,250,000). This monetary obligation to the OAG shall be paid at the time of execution of this Agreement by Qwest, made payable to the "Legal Affairs Revolving Trust Fund". Payment shall be by wire transfer and notification of payment of said funds shall be delivered to Assistant Attorney General John A. Topa, Office of the Attorney General, The Capitol PL-01, Tallahassee, Florida 32399-1050.

32. Upon acceptance of the Agreement by the Florida Attorney General the OAG shall immediately terminate the Investigation and shall not pursue any further investigation of or action or Claims by the OAG against Qwest, or against past or present officers, directors, and employees of Qwest, regarding the Matters Investigated that are related to the Investigative Period

GENERAL PROVISIONS AND CONDITIONS

33. The Parties agree that venue for any and all matters or disputes arising out of this Agreement and asserted by or against the OAG shall lie solely in Leon County, Florida.

34. This Agreement shall become effective upon its acceptance by the Florida

Attorney General, who may refuse to accept it at his discretion. The Florida Attorney General will accept or reject this Agreement within thirty (30) days of its submission and execution by Qwest and the submission of the total payment set forth in Paragraph 31. Upon his acceptance of the Agreement, the Florida Attorney General shall terminate the Investigation and notify Qwest. In the event the Florida Attorney General does not accept this Agreement, the payment made pursuant to Paragraph 31 shall be immediately returned to Qwest and this Agreement shall become null and void.

35. This Agreement constitutes the entire agreement between Qwest, on the one hand, and the OAG, on the other hand, with regard to terminating the Investigation and resolving the Matters Investigated, and all prior negotiations and understandings between Qwest and the OAG shall be deemed merged into this Agreement.

36. No waiver, modification or amendment of the terms of this Agreement shall be valid or binding unless made in writing, signed by all Parties affected and then only to the extent set forth in such written waiver, modification, or amendment.

37. Qwest retains the right to modify and improve its Customer service policies, training programs and Distributor agreements and is not bound to maintain such policies, programs or agreements in any particular form. Substance, text and content of policies, programs and agreements adopted to implement the requirements set forth in this Agreement may be modified by Qwest at any time as long as the Customer service goals of eliminating unauthorized switches of Customers' Long Distance Service are continued and the underlying purposes of this Agreement are not thwarted.

38. Any failure by either Party to this Agreement to insist on strict performance by the other Party of any provision of the Agreement shall not be deemed a future waiver of any of the provisions of this Agreement, and such Party, notwithstanding such failure, shall have the right thereafter to insist upon the specific performance of any and all provisions of this Agreement.

39. This Agreement shall be governed by, construed and enforced in accordance with

the laws of the State of Florida, including, but not limited to, its conflict of law principles.

40. If any clause, provision, or section of the Agreement shall, for any reason, be held illegal, invalid, or unenforceable, such illegality, invalidity, or unenforceability shall not affect any other clause, provision, or section of this Agreement, and this Agreement shall be construed and enforced as if such illegal, invalid, or unenforceable clause, section, or other provision had not been contained herein.

41. With regard to its conduct, Qwest denies any liability, wrongful acts, or violation of law, and enters into this Agreement without any admission of liability, wrongful acts, or violation of law. While by this Agreement Qwest seeks to cooperate with, and to address and resolve concerns that the OAG may have with respect to the Matters Investigated, this Agreement does not constitute an admission of any sort by Qwest.

42. Qwest specifies in Paragraph 46 the address and telephone number where it can be contacted and served with process in the event of default under this Agreement. In addition, Qwest shall provide the new address, telephone number and facsimile number within five (5) business days of any future change to the contact information provided in Paragraph 46. Service upon Qwest for the purposes of enforcing the provisions of this Agreement in the event of default shall be effective upon mailing a notice via first class mail and facsimile transmissions.

43. Nothing in this Agreement shall be construed to limit the authority of the Florida Attorney General to protect the interests of the State or the people of the State of Florida except to the extent of the express settlement of Claims delineated herein and as expressly stated in this Agreement.

44. Nothing in this Agreement shall be construed as relieving Qwest of its obligation to comply with all state and federal laws, regulations or rules, nor shall any of the provisions of this Agreement be deemed to be permission to engage in any acts or practices prohibited by such law, regulation or rule.

45. This document shall not be construed against the "drafter" because both Parties

participated in the drafting of this document.

46. Except as otherwise provided herein, any notice, affidavit, certification, or statement, sworn or otherwise, required to be sent to the OAG or Qwest by this Agreement shall be sent by United States mail, certified mail return receipt requested or other nationally recognized courier service that provides for tracking services and identification of the person signing for the document. The documents shall be sent to the following:

For the OAG:
John A. Topa, Assistant Attorney General
Office of the Attorney General
PL-01 The Capitol
Tallahassee, Florida 32399-1050
Phone: 850-414-3600
Fax: 850-488-4483

For Qwest:
Andrew D. Holleman, Senior Attorney
1801 California Street, Suite 3800
Denver, Colorado 80202
Phone: 303-672-2774
Fax: 303-672-2757

and:
James A. Smith, Executive Vice President
Consumer Markets
1801 California Street, Suite 5200
Denver, CO 80202
Phone: 303-992-6001
Fax: 303-296-4977

47. This Agreement sets forth the entire agreement between the parties, and there are no representations, agreements, arrangements, or understandings, oral or written, between the Parties relating to the subject matter of this Agreement which are not fully expressed herein or attached hereto.

48. Except for the Parties' respective obligations hereunder, and for and in consideration of the mutual promises and covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged the OAG and the Attorney General for the State of Florida do hereby and forever discharge and release

Qwest, and its respective parent, subsidiary and affiliate corporations, officers, directors, shareholders, employees, agents, successors, Distributors, consultants, representatives, attorneys and assigns, of and from any and all manner of demands, actions, causes of action, Claims, suits, debts, sums of money, promises or damages whatsoever, in law or in equity, suspected or unsuspected, whether heretofore asserted or not, arising out of, or occurring as a result of, or in any way connected with the Claims that exist as of the date of this Agreement, concerning the Matters Investigated during the Investigative Period.

QWEST COMMUNICATIONS INTERNATIONAL, INC.

____________________________ Dated:__________________

By:

Title:

OFFICE OF THE ATTORNEY GENERAL

____________________________ Dated:__________________

By: Mary Leontakianakos

Chief of Economic Crimes

Exhibit A

IMPORTANT NOTICE TO ALL QWEST CUSTOMERS

Our records indicate that you selected Qwest Communications Corporation as your long distance carrier for long distance calls. Qwest is working with the Office of the Attorney General of the State of Florida and other entities to ensure that no customers are or have been switched to Qwest without proper authorization. Some of you have been with Qwest for many years while others may have recently selected Qwest as your long distance carrier, but you are all valued customers and we want to ensure that you are receiving the long distance service that you need *and* that you have *chosen.* We know that you have many choices in long distance carriers and we appreciate your selection of our company to provide you this service. If you believe that our records are in error regarding your selection of Qwest as your long distance provider, please contact your Qwest customer service representative within the next 30 days at: ______________.

Only your local phone company (also referred to as a "Local Exchange Carrier" or "LEC") or a new Long Distance Service Provider can make a change to effectuate your choice in the designation of your Long Distance Service Provider. If it is determined that you were switched to Qwest in error without proper authorization and you wish to select a different Long Distance Service Provider, you will need to contact either your LEC and inform it that you were switched improperly, and designate your chosen Long Distance Service Provider or you will need to directly contact the Long Distance Service Provider you have chosen to serve you in order for the change to be made. Qwest cannot make this change for you.

IN THE CIRCUIT COURT OF THE SEVENTH JUDICIAL CIRCUIT
SANGAMON COUNTY, ILLINOIS

FILED
JAN 03 2001 CIV.-3
Clerk of the Circuit Court

THE PEOPLE OF THE STATE OF ILLINOIS)
)
Plaintiff,)
)
-vs-) 2000-CH-00328
)
QWEST COMMUNICATIONS CORPORATION,)
a Delaware corporation,)
)
Defendant.)

CONSENT DECREE

Plaintiff, the PEOPLE OF THE STATE OF ILLINOIS, by JAMES E. RYAN , Attorney General of Illinois, has filed a complaint for a permanent injunction and other relief in this matter pursuant to the Illinois Consumer Fraud and Deceptive Business Practices Act (815 ILCS 505/1 *et seq.* [West 1998] (the "Consumer Fraud Act"), charging the defendant with violations of the Consumer Fraud Act.

Plaintiff, by its counsel, and the defendant, by its counsel, have agreed to the entry of this Consent Decree by the Court without trial or adjudication of any issue of fact or law, and without admission of any of the violations of law alleged in the complaint.

FINDINGS

1. On July 13, 2000, the plaintiff filed a complaint in this cause pursuant to the provisions of the Consumer Fraud Act, the allegations of which are incorporated herein.

2. The Illinois Attorney General is charged with, among other things, the responsibility of enforcing the Consumer Fraud Act.

3. On or about July 17, 2000, the defendant was served with the plaintiff's complaint and with summons.

4. The defendant is a corporation organized under the law of Delaware, with its principal place of business in Colorado. The defendant's registered agent in Illinois is CT Corporation System, 208 South LaSalle Street, Chicago, Illinois 60604-1136.

5. On or about January 12, 1994 (resold interexchange), June 17, 1998 facilities-based interexchange), and June 3, 1999 (facilities-based local), the Illinois Commerce Commission granted to the defendant authority to provide certain telecommunications services within Illinois.

6. The defendant, at all times relevant hereto, engaged in trade and commerce within the meaning of the Consumer Fraud Act in the State of Illinois, including, but not limited to, Sangamon County, in that it advertised, solicited, offered for sale, sold, and provided telecommunications service, and caused Illinois consumers to be billed for the same.

7. Plaintiff, by and through its complaint, has alleged that the defendant has engaged in unfair and deceptive acts or practices in the conduct of trade and commerce, in violation of sections 2 and 2DD of the Consumer Fraud Act.

8. The terms of this Consent Decree apply to the defendant, whether acting directly or through any corporation, partnership, subsidiary, division, or other device, or through any employee or agent.

9. This Court has jurisdiction over the subject matter of the complaint having been filed herein and over the parties to this Consent Decree.

10. This Final Judgment and Consent is for settlement purposes only, and the defendant does not admit to any of the factual allegations by the plaintiff or to any violation of state or federal law, rule or regulation, wrongdoing, or liability of any kind on its part or on the part of any

of Qwest's officers, directors, agents, employees, representatives, independent contractors, marketers, or assigns, nor does this Consent Decree constitute any finding of any such violations, wrongdoing, or liability of any kind on its part or on the part of any of Qwest's officers, directors, agents, employees, representatives, independent contractors, marketers, or assigns.

ORDER

NOW THEREFORE, on the basis of these findings, and for the purpose of effecting this Consent Decree,

IT IS HEREBY ORDERED, ADJUDGED AND DECREED as follows:

11. The defendant is permanently enjoined from engaging in the following acts in connection with the advertising, offering for sale, or selling of any of its products or services to any Illinois consumer:

    a. misrepresenting to an Illinois consumer, expressly or by implication, its identity;

    b. misrepresenting, expressly or by implication, to an Illinois consumer the purpose of the defendant's call;

    c. representing, expressly or by implication,

        i. to a particular consumer that the defendant is offering to that consumer a lower long distance rate, unless the defendant knows that the offered rate is in fact lower than that which the consumer currently pays;

        ii. that the defendant's rates for telecommunications service are lower than other carriers' rates, unless such representation is true, and the defendant has a basis for making such a representation at the time the representation is made;

d. representing, expressly or by implication, that the defendant is the consumer's local telephone company and needs to update the consumer's account information;

e. representing, expressly or by implications, that the defendant is the consumer's local telephone company and needs to replace the consumer's calling cards;

f. representing, expressly or by implication, that the defendant is conducting a survey, when, in fact, the defendant is gathering information to enable the defendant to switch the consumer's telecommunications carrier from his or her current carrier to QWEST;

g. failing to inform any consumer that, by giving a positive response to the defendant's offer, the consumer's telecommunications carrier will be changed from his or her current carrier to QWEST;

h. failing, before obtaining authorization from a consumer for a telecommunications carrier change from his or her current carrier to QWEST, to disclose clearly and conspicuously to the consumer all material terms and conditions of the defendant's offer;

i. switching or causing any consumer's telecommunications carrier to be switched from the consumer's current carrier to QWEST without first obtaining authorization for such switch from a person with the power to give such authorization in accordance with rules promulgated by the Federal Communications Commission and codified at 47 C.F.R. §§64.1100, *et seq.*, as those rules are now, and as they may be amended;

j. failing to verify an order to change any consumer's telecommunications carrier from the consumer's current carrier to QWEST in accordance with the rules promulgated by the Federal Communications Commission and codified at 47 C.F.R. §§64.1100, *et seq.*, as those rules are now, and as they may be amended;

k. failing promptly to cease billing any consumer or causing a consumer to be billed for QWEST monthly recurring service charges after the consumer switches from, or is switched from, QWEST as his or her carrier; and

l. representing, expressly or by implication, or offering, advertising, or promoting any good or service to any consumer as free, or so using any term of similar import, unless the consumer is not charged for any portion of the product or service characterized as free, or any term of similar import, and all material terms and conditions associated with such offer are disclosed clearly and conspicuously at the outset of the offer.

RESTITUTION

12. The defendant shall undertake, with respect to any unresolved Illinois consumers' complaints previously directed to the plaintiff alleging that the defendant switched the consumer's telecommunications carrier to QWEST without his or her authorization or knowledge, or as a result of express or implied misrepresentations, and with respect to any such complaints so directed within ninety (90) days following the date of entry of this Consent Decree, to adjust such complaints in accordance with the following procedure:

a. Within twenty (20) days following the deadline for receiving complaints pursuant to this paragraph, the plaintiff will provide the defendant with a list of names and addresses of these complaining consumers, to the extent such information has not already been provided to the defendant;

b. The defendant shall investigate such complaints and determine, within thirty (30) days of receipt of such a complaint, shall determine whether to grant a credit or refund, or to dispute the complaint. For each undisputed complaint, QWEST shall reimburse consumers in an amount equal to that amount which they would receive in accordance with the rules promulgated by the Federal Communications Commission and codified at 47 C.F.R. §§64.1100, *et seq.*, as those rules are now and as they may be amended;

c. Should QWEST grant a consumer's request for a credit or refund, it shall mail each complaining consumer the proper refund or notice of the proper credit amount within thirty (30) days of making the determination to grant a credit or refund;

d. Should QWEST deny a consumer's request for a credit or refund, it shall provide to the plaintiff in writing, within ten (10) days of denying the request, the reason for the denial. QWEST shall, at the same time, provide to the plaintiff the amount in dispute and any other evidence that QWEST relies upon to substantiate the denial. Should the plaintiff determine that QWEST was unjustified in denying a refund, the plaintiff will direct QWEST to issue a refund or a credit in the amount specified above. QWEST, within thirty (30) days of the plaintiff's determination that QWEST was unjustified in denying a refund or credit, shall mail to the complaining consumer the proper refund or notice of the proper credit amount.

e. The defendant shall, upon the plaintiff's request, provide the plaintiff with access to records and information relating to the restitution program, including, but not limited to, documents substantiating any refund amount given.

PAYMENT TO STATE

13. The Court enters a judgment in favor of the plaintiff and against the defendant in the amount of $50,000.00. The defendant shall pay the amount of $50,000.00, as a voluntary contribution to the Attorney General Court Ordered and Voluntary Compliance Payment Projects Fund, and shall be used by the Illinois Attorney General for law enforcement activity and education programs associated with enforcement of the Consumer Fraud Act. The plaintiff acknowledges receipt from defendant of a cashier's check, payable to the "Attorney General Court Ordered and Voluntary Compliance Payment Projects Fund", in the amount of $50,000.00, prior to the entry of this Consent Decree, for the purpose of satisfying the money judgment.

CONTINUING JURISDICTION

14. Jurisdiction is retained by this Court for the purpose of enforcing this Consent Decree.

GENERAL PROVISIONS

15. This Consent Decree shall not be construed as an approval by the plaintiff of QWEST's past, present, or future conduct or business practices. This Consent Decree finally resolves all claims that the Consumer Fraud Bureau of the Office of the Attorney General may have under the Consumer Fraud Act against the defendant in connection with the marketing of its telecommunications service prior to the date of entry of this Consent Decree.

16. To seek a modification of this Consent Decree, QWEST shall send a written request for modification to the plaintiff. The plaintiff shall respond within 30 days of receiving such request as follows:

a. If the plaintiff or any agency of Illinois charged with the administration of Illinois' consumer protection statutes, subsequently enacts or promulgates legislation, rules, regulations, formal opinions or comparable official statements, or guidelines with respect to the subject matter of this Consent Decree or if the applicable law of Illinois shall otherwise change so as to be inconsistent with any provision of this Consent Decree, the plaintiff shall agree to modify such provision to the extent necessary to eliminate such inconsistency.

b. If QWEST requests modification of this Consent Decree for any reason other than as set forth in subparagraph (a) above, the plaintiff shall give such petition reasonable consideration.

APPROVED:

PLAINTIFF, THE PEOPLE OF THE STATE OF ILLINOIS, by JAMES E. RYAN, Attorney General of Illinois

By: [signature]
Deborah Hagan
Assistant Attorney General
Chief, Consumer Fraud Bureau

By: Elizabeth A. Blackston
Elizabeth A. Blackston
Assistant Attorney General
Consumer Fraud Bureau

DEFENDANT, QWEST COMMUNICATIONS CORPORATION,

By: Mark Pitchford
Mark Pitchford
Senior Vice President-
Consumer Markets

APPROVED AS TO FORM:

KELLEY DRYE & WARREN LLP

By: Steven A. August
Steven A. Augustino
Attorneys for Defendant

Date Entered: 1/3/01

[signature]
JUDGE

** TOTAL PAGE **

STATE OF OHIO
OFFICE OF THE ATTORNEY GENERAL
CONSUMER PROTECTION SECTION

IN THE MATTER OF: DOCKET NO. 181601

Qwest Communications Corporation
555 17th Street
Denver, Colorado 80202

ASSURANCE OF VOLUNTARY COMPLIANCE

This Assurance of Voluntary Compliance (hereinafter, "Assurance") is entered into on this 30 day of May, 2003, by Qwest Communications Corporation, Inc. (hereinafter "Qwest"), and Jim Petro, Attorney General of Ohio (hereinafter "Attorney General"). For the purposes of this Assurance, the "Supplier" means Qwest Communications Corporation doing business under that name or any other name, its officers, principals, directors, partners, agents, servants, representatives, salespersons, employees, successors or assigns and all persons acting in concert or participation with it directly or indirectly, through any corporate device, partnership, or association, specifically including Distributors as defined in Section (A)(2) below, but excluding any switchless, switch-based or facilities-based carrier or re-seller of Long Distance Services that have contracted with Qwest.

Qwest, in the normal course of its business, offers the public, including residents of Ohio, telecommunication services, including long distance telephone services.

WHEREAS, the Attorney General has conducted an investigation of certain acts and practices of the named Supplier pursuant to the authority granted him by R.C. 1345.06; and

WHEREAS, the Attorney General may, pursuant to R.C. 1345.06(F), enter into and accept an Assurance of Voluntary Compliance; and

WHEREAS, the Attorney General and Qwest desire to conclude the Investigation and enter into this Assurance of Voluntary Compliance that will fully and finally settle, resolve, release and discharge the matters investigated into by the Attorney General and all claims relating thereto; and

WHEREAS, this Assurance of Voluntary Compliance is an assurance in writing by Qwest of its intent to conduct itself in a manner designed to comply with the provisions of the Ohio Consumer Sales Practices Act, R.C. 1345.01 *et seq.* (CSPA), and the Substantive Rules adopted thereunder, Ohio Adm. Code 109:4-3-01 *et seq.*

NOW, THEREFORE, in consideration of the mutual promises and conditions set forth herein, the parties hereto agree as follows:

(A) DEFINITIONS

1. The term "Consumer" shall have the same meaning set forth in Ohio Revised Code §1345.01(A).

2. The term "Distributor" means a third party entity engaging in marketing of Long Distance Provider Services to consumers on behalf of Qwest. The term "Distributor" does not mean or include any switchless, switch-based or facilities-based carrier or re-seller of Long Distance Services that has contracted with Qwest.

3. The term "Long Distance Service Provider" means the entity that is chosen by a "Consumer" to transport "Long Distance Services" and shall include and is synonymous with the terms "Primary

Interexchange Company," "Interexchange Carrier," "Primary Interexchange Carrier," "Preferred Carrier," "Interexchange Company," and "Long Distance Company."

4. The term "Qwest" as used herein means Qwest Communications Corporation and any of its parents, affiliates, subsidiaries, branches, divisions, departments, groups, employees, officers, or directors; and any corporate predecessors, successors or assigns controlling or controlled by Qwest.

(B) By accepting this written Assurance, the Attorney General agrees to terminate the current investigation of Qwest's business practices conducted before the date of the signing of this Assurance and acknowledges receipt from Qwest of Fifty Thousand Dollars ($50,000) as reimbursement of the Attorney General's investigatory costs and expenses, including reasonable attorney fees. Said payment shall be made payable to the "Ohio Attorney General" within thirty days of the execution of this Assurance.

(C) IT IS FURTHER AGREED, that pursuant to Ohio Revised Code § 1345.06(F), this Assurance of Voluntary Compliance is not evidence of an admission of Qwest's violation of Ohio Revised Code §§ 1345.01 et seq. or any administrative rule adopted thereunder.

(D) IT IS FURTHER AGREED, that by giving its written Assurance, Qwest agrees to conduct its business in compliance with all applicable Ohio consumer protection laws and substantive rules, including those currently codified at R.C. Section 1345.02(E), and that Qwest shall comply with all Federal Communications

Commission (FCC) rules and orders now in effect, or as hereafter modified or amended, including those currently codified at 47 C.F.R. sec. 64.1100 *et seq.*, before switching an Ohio Consumer's Long Distance Service from his/her existing Long Distance Services Provider to Qwest.

(E) IT IS FURTHER AGREED, that Qwest henceforth will conduct its business in compliance with R. C. Section 1345.01 *et seq.*, including but not limited to the following acts or practices:

1. Representing, offering, advertising or promoting any goods or service, expressly or by implication, to any Ohio Consumer as "free" unless the consumer is not charged for any portion of the product or service characterized as "free," except for any federal, state or local taxes, fees or surcharges, and all material terms and conditions associated with such offer are disclosed clearly and conspicuously at the outset of the offer.

2. Disclosing clearly and conspicuously all material terms and conditions for each and every product, service or discount offered to Consumers as an inducement to switch to Qwest's telecommunications service, such as minimum monthly service fees, in any advertisement or solicitation it disseminates or causes to be disseminated in the state of Ohio.

(F) IT IS FURTHER AGREED, that Qwest shall:

1. Promptly cancel long distance service upon the oral or written request of an Ohio Consumer. Qwest shall disclose to the Consumer the following information upon receipt of an oral cancellation request:

   i. The Consumer must directly contact their local exchange carrier (LEC) to inform the LEC that Qwest is no longer their Long Distance Service Provider and select another Long Distance Service Provider;

   ii. If the Consumer does not arrange for another Long Distance Service Provider with the Consumer's LEC, the Consumer's Long Distance calls will continue to be carried by Qwest at a substantially higher rate.

   The above information shall be disclosed until such date that the information is no longer needed to effectuate a switch of long distance service.

2. Disclose to all Ohio Consumers who contact Qwest directly about obtaining Long Distance Service or who are telemarketed about Qwest's Long Distance Service information sufficient to ensure the consumer understands the characteristics and cost of the service to which he or she is subscribing. All material terms of the offer of service disclosed by Qwest shall be in compliance with the

provisions of Ohio Administrative Code Rule 109:4-3-02(A) which presently requires disclosure to all Ohio consumers the following:

i. The price of interstate (interLATA) toll service, including any difference in price for day, evening, night or weekend calls;

ii. The price of intrastate (interLATA) toll service, including any difference in price for day, night or weekend calls;

iii. The amount of any minimum volume requirements, and if applicable that a fixed flat rate service charge, surcharge, termination charge or other non-service specific charge may be charged, and the fact that their local service provider may charge a one time fee for changing long distance carriers.

3. Maintain procedures with regard to the prompt handling of oral and written complaints and/or requests for refunds from Consumers residing in Ohio, including but not limited to, maintaining a copy of all written complaints or requests for refunds received, maintaining a record of all oral complaints or requests for refunds received, including name and address of such Consumers, the resolution of each complaint and amount credited, if any, and Qwest's responses to each request or complaint for a period of two (2) years from the date of receipt of complaint or request and shall

make such complaint information or documentation of Qwest's current procedures available to the Attorney General. Any confidential, proprietary or trade secret information/documentation, of Qwest or its customers, provided by Qwest shall be held "confidential" by the Attorney General and shall not be considered a public record by the Attorney General.

4. With regard to selling Long Distance Services in the State of Ohio to Consumers, adopt and implement adequate and responsible compliance steps including training, policies, guidelines and procedures to monitor and ensure regularly and routinely that neither Qwest nor its employees or Distributors receives, submits, changes or attempts to receive, submit or change Consumer orders or selections of Long Distance Service Providers, without authorization or consent from the affected Consumer.

(G) IN FURTHERANCE OF the obligations set forth in paragraph (F)4. above, Qwest shall undertake the following compliance steps:

1. Endeavor to provide within thirty (30) days, but in any event, no later than forty-five (45) days of the Effective Date of this Assurance, notification to all applicable employees and Distributors of a summary of this Assurance to prevent the unauthorized change of an Ohio Consumer's Long Distance Service Provider.

2. Review sales presentation materials used by Qwest employees, agents, officers, directors and Distributors engaged in marketing and soliciting Ohio Consumers to select Qwest Long Distance Services.

3. Provide training to all new Qwest employees and Distributors regarding federal and state prohibitions against unauthorized primary interexchange carrier ("PIC") changes, and update the employees and Distributors, within a reasonable time after changes are made to the applicable federal or Ohio prohibitions.

4. For a period of twenty-four (24) months from the execution of this Assurance, Qwest shall require every Qwest employee or Distributor employee involved in the sale of Qwest Long Distance Service to Ohio Consumers to review and sign an acknowledgment, or reply to an e-mail acknowledgment, at least once every six months, certifying their understanding of the prohibitions on making unauthorized changes, in accordance with rules promulgated by the Federal Communications Commission and codified at 47 C.F.R. § 64.1100 *et seq.* and Ohio Revised Code § 1345.02(E), as presently enacted or as may be subsequently amended, in the selection of a Consumer's Long Distance Service Provider. The Attorney General agrees not to seek recourse if Qwest shows a violation of this provision resulted from a bona fide error, notwithstanding the maintenance of procedures reasonably

adopted to avoid the error, or if the affected quantity of its non-compliant employees or Distributors is of a "de minimis" amount.

5. Terminate Qwest employees or Distributors who engage in the willful unauthorized change of an Ohio Consumer's Long Distance service Provider subject to the terms and conditions of any applicable contract or collective bargaining agreement.

(H) IT IS FURTHER AGREED that this Assurance constitutes the entire agreement between Qwest and the Attorney General, with regard to terminating the Investigation and resolving the matters investigated, and all prior negotiations and understandings between Qwest and the Attorney General are merged into this Assurance.

(I) IT IS FURTHER AGREED that Qwest retains the right to modify its Consumer service policies, training programs, record retention programs, and Distributor agreements and is not bound to maintain such policies, programs or agreements in any particular form as long as Qwest remains in compliance with this Assurance of Voluntary Compliance.

(J) IT IS FURTHER AGREED that nothing in this AVC shall limit the Attorney General's lawful use of compulsory process to investigate whether Qwest has violated any provision of this AVC or Ohio law.

(K) IT IS FURTHER AGREED that Qwest shall not represent directly or indirectly, or in any way whatsoever, that the Attorney General has sanctioned, condoned or approved any part or aspect of Qwest's business practices.

(L) IT IS FURTHER AGREED that this Assurance of Voluntary Compliance shall be filed in the Public Inspection File pursuant to R.C. 1345.05(A)(3).

(M) IT IS FURTHER AGREED that the Attorney General of the State of Ohio pursuant to his statutory authority does hereby release, waive and forever discharge Qwest from and against any and all claims, demands, causes of action and actions, whatsoever, whether known or unknown, in law or in equity, which the Attorney General has, had, could have or may claim to have, in the past, or through the effective date of this Agreement, arising out of or in consequence of any of the transactions that are the subject of this agreement, including but not limited to the sale, switching and/or provision of long distance services by Qwest to Consumers in the State of Ohio. It is expressly understood and agreed to by the parties that only those powers and duties of the Attorney General pursuant to Ohio Revised Code Chapter 1345 are released hereto and no other authority or powers of the Attorney General are released, discharged or waived.

WHEREAS, the parties hereto affix their signatures in recognition and acceptance of the terms contained herein and warrant and represent that by affixing their signatures below they have the legal right to do so on this 30th day of May, 2003.

APPROVED:

Jim Petro
Attorney General of Ohio

Michele A. Shuster (0062500)
Senior Deputy Attorney General
Consumer Protection Section
30 East Broad Street – 14th Floor
Columbus, Ohio 43215-3428

Annette Jacobs
Qwest Communications Corporation
Executive Vice President
President Qwest Consumer Markets

614/644-9618

Sandra L. Lynskey (0067618)
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614/644-9618
Counsel for the Attorney General
157045.v1

Thomas L. Rosenberg (0024898)
Ulmer & Berne, LLP
88 East Broad Street, Suite 1600
Columbus, Ohio 43215-3506
614/228-8400

Counsel for Qwest

STATE OF OHIO
OFFICE OF THE ATTORNEY GENERAL
CONSUMER PROTECTION SECTION

IN THE MATTER OF: DOCKET NO. 181601

Qwest Communications Corporation
555 17th Street
Denver, Colorado 80202

RECEIPT

I, SANDRA L. LYNSKEY, on behalf of the Ohio Attorney General, acknowledge that on June 2, 2003, I received from Thomas L. Rosenberg on behalf of Qwest Communications Corporation a check (Check No. 02267732) in the amount of $50,000 made payable to the Ohio Attorney General in accordance with the terms and provisions of the Assurance of Voluntary Compliance entered into by Qwest Communications Corporation and the Ohio Attorney General.

Sandra L. Lynskey
Assistant Attorney General

Kristy L. Hiebert, #14716
Assistant Attorney General
Office of the Attorney General
120 W. Tenth Street, 2nd Floor
Topeka, Kansas 66612-1597
(785) 296-3751

FILED BY CLERK
KS. DISTRICT COURT
THIRD JUDICIAL DIST
2000 NOV 21 P 2 55
GENERAL JURISDICTION
TOPEKA, KANSAS

RECEIVED
NOV 22 2000

IN THE DISTRICT COURT OF SHAWNEE COUNTY, KANSAS
Division 7

STATE OF KANSAS, ex rel. CARLA J. STOVALL, Attorney General, Plaintiff, vs. QWEST COMMUNICATIONS CORPORATION and LCI INTERNATIONAL TELECOM CORP., d/b/a QWEST COMMUNICATIONS SERVICES Defendants.	Case No. 00 C 1527

(Pursuant to K.S.A. Chapter 60)

JOURNAL ENTRY OF CONSENT JUDGMENT

NOW on this 21st day of November, 2000, the Petition for Approval of Consent Judgment comes before the Court pursuant to K.S.A. 50-632(b). The Plaintiff, the State of Kansas, *ex rel.* Carla J. Stovall, Attorney General, appears by and through Kristy L. Hiebert, Assistant Attorney General. Defendants Qwest Communications Corporation and LCI International Telecom Corp. (hereinafter referred to as "Qwest", "LCI" or "Defendants" respectively) appear by and through Jennifer P. Kyner, Armstrong Teasdale, LLP, Kansas City, Missouri.

WHEREUPON the parties advise the Court that they have stipulated and agreed to the following:

PARTIES, JURISDICTION AND VENUE

1. Carla J. Stovall is the Attorney General of the State of Kansas.

2. The Attorney General's authority to bring this action is derived from the statutory and common law of the State of Kansas, specifically the Kansas Consumer Protection Act, K.S.A. 50-623 *et seq.*

3. Defendant Qwest is a foreign corporation organized under the laws of the State of Delaware. The principal office of the corporation is located at 700 Qwest Tower, 555 Seventeenth Street, Denver, Colorado 80202. Qwest applied with the Kansas Secretary of State for authority to do business in Kansas in September 1994, as Southern Pacific Telecommunications Company, by filing a Foreign Corporation Application.

4. Defendant Qwest obtained a Certificate to provide interexchange telecommunications services in Kansas from the Kansas Corporation Commission in January 1995, as Southern Pacific Telecommunications Company. In August 1995, the Commission approved Southern Pacific changing its name to Qwest Communications Corporation.

5. Defendant LCI was a foreign corporation organized under the laws of the State of Delaware. The principal office of the corporation was located at 4650 Lakehurst Ct, Dublin, Ohio 43016. LCI applied with the Kansas Secretary of State for authority to do business in Kansas in October 1991, by filing a Foreign Corporation Application.

6. Defendant LCI obtained a Certificate to resell telecommunications services in Kansas from the Kansas Corporation Commission in April 1992, under the name of LiTel Telecommunications Corporation d/b/a LCI International. In November1994, LCI was granted a Certificate to provide both operator services and interexchange carrier services.

7. Each of the Defendants' representatives signing this Journal Entry of Consent Judgment warrants that the representative has been duly authorized by the Defendant, for whom the representative appears to be acting, to enter and execute this Journal Entry of Consent Judgment on behalf of such Defendant.

8. Defendants stipulate and admit that the Court has subject matter jurisdiction over this case and *in personam* jurisdiction over the parties.

9. Defendants stipulate and admit that venue is proper in this Court.

10. Defendants are suppliers within the definition of K.S.A. 50-624(i) and engaged in consumer transactions in Kansas within the definition of K.S.A. 50-624(c).

11. Defendants engaged in business as providers of long distance telecommunication services, including both intrastate and interstate service, hereinafter referred to as "long distance service," to Kansas consumers.

12. Defendants control the nature, quality and price of the long distance services provided to its customers.

ALLEGATIONS

13. Beginning at a time unknown to Plaintiff but at least since January 1995, Defendants, through their agents, employees and representatives, have been conducting telemarketing contacts and direct face-to-face contacts with Kansas consumers in an effort to persuade consumers to use their long distance service.

14. The Attorney General alleges that the Defendants, directly or through their third party distributors, engaged in the following acts and practices:

a. Switching consumers' long distance telephone service to the Defendants' service without their proper authorization, otherwise known as "slamming";

b. Forging consumers' signatures on Defendants' "Authorization to Change Long Distance Carrier";

c. Misrepresenting Defendants' "Fly Free America" program in telemarketing contacts;

d. Failing to provide free airline tickets as promised in return for switching to Defendants' long distance service;

e. Misrepresenting Defendants' rates and calling plans in telemarketing contacts.

15. The Attorney General alleges that the acts and practices described in paragraph fourteen (14) herein are deceptive and unconscionable acts and practices in violation of Kansas Statutes Annotated (K.S.A.) 50-626, 50-627, 50-6,103 (K.S.A. 1999 Supp.), 50-676 and 50-677, in that Defendants, their agents or representatives:

a. Engaged in activity, conduct or representations while soliciting changes in consumers' telecommunications carriers to the Defendants' service that had the capacity to mislead, deceive or confuse the consumers;

b. Submitted orders to change consumers' telecommunications carriers to the Defendants' service without having obtained the express authorization of the consumers authorized to make the change and recapturing or switching consumers back to the Defendants' service without the consumers' authorizations after they switch away from the Defendants;

c. Made representations knowingly or with reason to know that the services had a sponsorship, approval, accessories, characteristics, ingredients, uses, benefits or quantities that they did not have;

d. Committed violations of the consumer protection act against elderly consumers.

This Consent Judgment is entered into for settlement purposes only, and Defendants do not admit to any of the practices set forth in paragraphs fourteen (14) and fifteen (15) herein, or to any violation of state or federal law, rule, or regulation, wrongdoing, or liability of any kind on its part or on the part of any of Qwest's officers, directors, agents, employees, representatives, independent contractors, marketers, or assigns.

17. Defendants agree to this Consent Judgment without trial or adjudication of any issue of fact or law.

INJUNCTIVE RELIEF

18. Defendants agree to refrain from, and to be permanently enjoined from, engaging in those acts and practices set forth in paragraphs fourteen (14) and fifteen (15) herein and Defendants agree that engaging in any such acts or similar acts, after the date of this Consent Judgment, shall constitute a violation of this Consent Judgment.

19. Defendants agree to be permanently enjoined from switching a consumer's current long distance service to the Defendants' service and from switching a consumer back that has switched away from the Defendants (recapture), without having obtained the consumer's express authorization to make the change as defined in K.S.A. 50-6,103 (K.S.A. 1999 Supp.) and the Defendants shall, at a minimum, comply with all Federal laws, statutes, rules and regulations, including but not limited to 47 C.F.R. 64.1150, as they now exist or as amended in the future and all Kansas laws, statutes, rules and regulations, as they now exist or as amended in the future.

20. Defendants agree to be permanently enjoined from entering into, forming, organizing or reorganizing into any partnership, corporation, sole proprietorship or any other legal structures, for the purpose of avoiding compliance with the terms or this Consent Judgment.

21. Defendants agree to make available and/or disclose the provisions of this Consent Judgment to each officer, director and employee of management level that is involved in Kansas operations of the Defendants within thirty (30) days of signing the Consent Judgment.

22. Defendants agree to maintain all records of authorization to switch long distance service of Kansas consumers for a period of two years and to allow the Attorney General to inspect such records in the future.

CONSUMER RESTITUTION

23. Defendants agree to provide a full refund or credit for each consumer in Exhibit 1, attached hereto and incorporated herein as though fully set forth herein, to the extent such full refund or credit has not already been received by each consumer from the Defendants. Any refunds shall be provided to the Office of the Attorney General in checks made payable to such consumers within ten (10) days of signing this Consent Judgment. If the complainant has not paid the Defendants and has outstanding bills, the Defendants will credit the account so that it has a zero balance. The Defendants will also reimburse such complainants for any switching charges incurred. The Defendants also agree that no negative credit information has been or will be reported to any credit reporting agency for nonpayment of a bill from the Defendants for such complainants. The Defendants agree to take all action necessary to remove and correct any negative information already reported related to a switch by the Defendants and subsequent billing for such complainants, and agree to forego any collection of present outstanding amounts owed to the Defendants by such complainants.

24. Defendants agree to provide, within ten (10) days of signing this Consent Judgment, an affidavit signed by an officer of Qwest which acknowledges that all action required in paragraph twenty-three (23) herein has been taken by the Defendants and which provides a listing of the refund/credit amounts provided to each consumer listed in Exhibit 1.

25. For any complaints filed with or supplied to the Office of the Attorney General within ninety (90) days of the entry of this Consent Judgment, which complaints are meritorious as determined by the Office of the Attorney General, regarding a switch of long distance services occurring prior to the date of this Consent Judgment, the Defendants agree to resolve such complaints by providing relief consistent with the type of relief provided to consumers in paragraph twenty-three (23) above or as provided under federal or state law, whichever provides the greatest relief for the consumer.

INVESTIGATIVE FEES AND CIVIL PENALTIES

26. Defendants agree to pay to the "Office of the Attorney General" of the State of Kansas $350,000 for investigation fees and expenses and other consumer protection purposes pursuant to K.S.A. 50-632. Payment shall be made by a cashier's check and shall be delivered to the Attorney General of the State of Kansas at the time of signing the Consent Judgment.

OTHER PROVISIONS

27. The provisions of this Consent Judgment will be applicable to the Defendants, and every employee, agent or representative of the Defendants.

28. Jurisdiction is retained by this Court for the purpose of enabling any of the parties to this Consent Judgment to apply to this Court at any time for such further orders and directions as may be necessary or appropriate for the modification of any of the provisions hereof, for the enforcement of compliance herewith, and for the punishment of violations thereof.

29. If any portion, provision, or part of this Consent Judgment is held to be invalid, unenforceable, or void for any reason whatsoever, that portion shall be severed from the remainder and shall not affect the validity or enforceability of the remaining provisions, portions or parts.

30. Compliance with this Consent Judgment does not relieve the Defendants of any obligation imposed by applicable federal, state, or local law, nor shall the Attorney General be

precluded from taking appropriate legal action to enforce civil or criminal statutes under her jurisdiction. The parties agree that this Consent Judgment constitutes a full and final resolution of all claims relating to the acts and practices alleged to be deceptive or unconscionable under the Kansas Consumer Protection Act in paragraphs fourteen (14) and fifteen (15) up to the date of the signing of this Consent Judgment. The Kansas Attorney General agrees that she and her office will not pursue any claims, demands or civil cause of action under the Kansas Consumer Protection Act against Defendants for the acts and practices alleged to be deceptive and/or unconscionable in paragraphs fourteen (14) and fifteen (15) of this Consent Judgment up through the date of the signing of this Consent Judgment, excepting only any action which may be required to enforce the provisions of this Consent Judgment.

31. The parties understand that this Consent Judgment shall not be construed as an approval of or sanction by the Attorney General of the business practices of the Defendants nor shall the Defendants represent the decree as such an approval. The parties further understand that any failure by the State of Kansas or by the Attorney General to take any action in response to any information submitted pursuant to the Consent Judgment shall not be construed as an approval of or sanction of any representations, acts or practices indicated by such information, nor shall it preclude action thereon at a later date.

IT IS THEREFORE ORDERED, ADJUDGED AND DECREED that the stipulation and agreement of the parties contained herein are adopted and approved as the findings of fact and conclusions of law of the Court.

IT IS FURTHER ORDERED, ADJUDGED AND DECREED that judgment is entered against Defendants and in favor of Plaintiff in the amount of $350,000.

IT IS FURTHER ORDERED, ADJUDGED AND DECREED that pursuant to the Kansas Consumer Protection Act, and the provisions of K.S.A. 50-632(b), the court hereby approves the terms of the Consent Judgment and adopts the same as the Order of the Court.

IT IS SO ORDERED.

DISTRICT COURT JUDGE

Approved by:

PLAINTIFF

CARLA J. STOVALL, #11433
Attorney General

Kristy L. Hiebert, #14716
Assistant Attorney General
Kansas Judicial Center, 301 W. 10th
Topeka, Kansas 66612-1597
(785) 296-3751

Attorneys for Plaintiff

DEFENDANTS

Jennifer P. Kyner

Jennifer P. Kyner, #18107
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2345 Grand Boulevard, Suite 2000
Kansas City, MO 64108
(816) 221-3420

Attorney for Defendants

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FILE #	NAME AND ADDRESS	PHONE #
Z9-2763	Judy Hiebert 1545 N. 15 Highway Hillsboro, KS 67063	316-947-2599
Z9-5560	Yoke Leng Wong 1702 E. Fairmont Wichita, KS 67208	316-686-1349
00-0878	Kristy Engstrom 156 S. 10th St. Salina, KS 67401	785-823-5896 785-823-2269
00-1380	Bernard Nelson 820 N. Jefferson Wellington, KS 67152	316-326-6835
00-1520	Lorraine A. Chippeaux 305 E. View Arma, KS 66712	316-347-8585
00-1750	Marie Jones PO Box 538 New Strawn, KS 66839	316-364-8459
00-1751	William Dinkel 2720 SE 30th Topeka, KS 66605	785-266-7899
00-1845	Lori Swearinger 1510 280th St. Hiawatha, KS 66434	785-742-2853
00-2124	Maureen Kile 201 S. Grant Clearwater, KS 67026	316-584-6496
00-2143	Samer Al-Hashmi 111 West 2nd St. Hugoton KS 67951	316-544-7543
00-2344	Matias Borjon 2830 Highland Court Topeka, KS 66607	785-235-2520

00-2459	Nina L. Brown 804 Dane Waverly, KS 66871	785-733-2626
00-2565	Merla Greer 502 S. Main Dexter, KS 67038-0069	316-876-5643
00-2896	Margaret Wuggazer 3003 Fairway Coffeyville, KS 67337	316-251-0157
00-2966	Rebecca L. Horst 1530 Bochtold Ave. Salina, KS 67401	785-827-3812
00-3398	Barbara Wilson PO Box 82 Abilene, KS 67410	785-263-3505
00-3536	Jim Williams Rt 1 Box 24 Rolla, KS 67954	316-593-4751
00-3665	Sheryl Werner 3003 Deer Rd. Abilene, KS 67410	785-388-2612
00-3755	Alma Strunk 317 NE 9th Abilene, KS 67410	785-263-3205
00-3898	Claudia Willyard 137 NE Lincoln Melvern, KS 66510	
00-4139	Kevin Kemp 700 West 12th St. Baxter Springs, KS 66713	316-856-5337
00-4140	Steve Vandevord 4331 West 165th Scranton, KS 66537	785-793-2416

EXHIBIT 1

00-4573	Audrey Steenbock 284 Indian Rd. Longford, KS 67458-9426	785-263-1259
00-4764	Connie Tschantz PO Box 394 Waverly, KS 66871	785-733-2790
00-5089	Stormy Lee Kennedy 1814 Claflin Rd. Manhattan, KS 66502	785-776-3771
00-5090	Nadine Seaman 601 N. Buckeye Apt. 211 Abilene, KS 67410	785-263-1735
00-5542	Woody Smith 701 Spruce P.O. Box 805 Coffeyville, KS 67337	316-251-6161
00-5803	Lorene Damewood 906 W. 27th St. Lawrence, KS 66046	785-749-5488
00-5805	Linda Thomas 40121 Pleasant Val Rd. Lane, KS 66042	785-869-3148
00-5993	Alfred Moore, Jr. 217 N. 5th Street Sabetha, KS 66534-2309	785-284-3006
00-5996	Alice Widner 12710 N. 4th Street Pleasanton, KS 66075	913-352-6441
00-6148	George Thompson 2798 Fair Road Abilene, KS 67410	785-388-2756
00-6400	Thomas Von Seggern 701 Plum Street Wamego, KS 66547	785-456-6989

00-6455	Claude Mattox 1101 Court Wathena, KS 66090	785-989-4832
00-6647	Marcia Wheatcroft 126 Redbud Drive Winfield, KS 67156	316-221-2096

EXHIBIT 1

STATE OF WISCONSIN CIRCUIT COURT DANE COUNTY

STATE OF WISCONSIN,
123 West Washington Avenue
Post Office Box 7857
Madison, Wisconsin 53707-7857,

Plaintiff,

v.

Case No. 00CV3280
Unclassified - Civil: 30703

QWEST COMMUNICAITONS
CORPORATION, a foreign corporation
555 17th Street,
Denver, CO 80202

Defendant.

THIS IS AN AUTHENTICATED COPY OF THE ORIGINAL DOCUMENT FILED WITH THE DANE COUNTY CLERK OF CIRCUIT COURT.

00 DEC 12 AM 9:11

SUMMONS

JUDITH A. COLEMAN
CLERK OF CIRCUIT COURT

THE STATE OF WISCONSIN

To each person named above as a defendant:

You are hereby notified that the plaintiff named above has filed a lawsuit or other legal action against you. The complaint, which is attached, states the nature and basis of the legal action.

Within forty-five (45) days of receiving this summons, you must respond with a written answer, as that term is used in Wis. Stat. ch. 802, to the complaint. The court may reject or disregard an answer that does not follow the requirements of the statutes. The answer must be sent or delivered to the court at the Dane County Courthouse, 210 Martin Luther King Jr. Boulevard, Madison, Wisconsin 53709, and to Assistant Attorney General David J. Gilles, plaintiff's attorney, whose address is Post Office Box 7857, Madison, Wisconsin 53707-7857. You may have an attorney help or represent you.

If you do not provide a proper answer within forty-five (45) days, the court may grant judgment against you for the award of money or other legal action requested in the complaint, and you may lose your right to object to anything that is or may be incorrect in the complaint. A judgment may be enforced as provided by law. A judgment awarding money may become a lien against any real estate you own now or in the future, and may also be enforced by garnishment or seizure of property.

Dated this 12th day of December, 2000.

JAMES E. DOYLE
Attorney General

DAVID J. GILLES
Assistant Attorney General
State Bar Number 1016051

Attorneys for Plaintiff,
State of Wisconsin

Wisconsin Department of Justice
Post Office Box 7857
Madison, Wisconsin 53707-7857
608/266-1792

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STATE OF WISCONSIN CIRCUIT COURT DANE COUNTY

STATE OF WISCONSIN,
123 West Washington Avenue
Post Office Box 7857
Madison, Wisconsin 53707-7857,

Plaintiff,

v.

Case No. 00CV3280
Unclassified - Civil: 30703

QWEST COMMUNICAITONS
CORPORATION, a foreign corporation
555 17th Street,
Denver, CO 80202

Defendant.

STIPULATION

IT IS HEREBY CONSENTED AND STIPULATED:

1. Defendant QWEST COMMUNICATIONS CORPORATION ("Qwest"), is a foreign corporation with its principal place of business at 555 17th Street, Denver, Colorado, 80202, and is engaged in the business as a provider of telecommunications services.

2. Defendant, by entering into this stipulation, makes a general appearance and consents to the jurisdiction of the court over the subject matter of this action and over defendant Qwest.

3. Qwest denies any wrongdoing as alleged by the State of Wisconsin. This stipulation and attached judgment do not constitute any evidence or admission of any kind. The annexed judgment does not constitute a finding by this court that Qwest has engaged in any act or practice declared in violation of Wis. Stat. § 100.207.

4. The parties hereby consent to the entry of the annexed judgment without further pleading, notice or appearance.

Consented to by Plaintiff,
State of Wisconsin

JAMES E. DOYLE
Attorney General

Dated: 12/11/00 By: ____________________
DAVID J. GILLES
Assistant Attorney General
State Bar Number 1016051

Attorneys for Plaintiff,
State of Wisconsin

Consented to by Defendant,
Qwest Communications Corporation

Dated: 11/30/00 By: ____________________
MARK PITCHFORD
Senior Vice President

Approved as to Form:
Kelley, Drye & Warren, LLP

Dated: 12/4/00 By: ____________________
Steven A. Augustino
Attorneys for Defendant,
Qwest Communications Corporation

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STATE OF WISCONSIN CIRCUIT COURT DANE COUNTY

RICHARD J. CALLAWAY
CIRCUIT COURT, BR. 6

STATE OF WISCONSIN
123 West Washington Avenue
Post Office Box 7857
Madison, Wisconsin 53707-7857,

Plaintiff,

v.

Case No. 00CV3280

Unclassified - Civil: 30703

QWEST COMMUNICAITONS
CORPORATION, a foreign corporation,
555 17th Street,
Denver, Colorado 80202

Defendant.

JUDGMENT

The State of Wisconsin ("plaintiff"), QWEST COMMUNICATIONS CORPORATION, defendant, having executed the annexed stipulation, and the court having reviewed the file herein,

NOW, THEREFORE, IT IS HEREBY ORDERED, ADJUDGED AND DECREED:

I. JURISDICTION

1. That said stipulation is approved and made a part of the record herein.

2. That this court has jurisdiction over the defendant and over the subject matter of this action. Defendant QWEST COMMUNICATIONS CORPORATION. ("Qwest") is engaged in the business of selling interstate and intrastate commercial and residential long distance telecommunications service.

II. INJUNCTION

3. That pursuant to Wis. Stat. § 100.207(6)(b)1., defendant, its employees, officers, agents, including independent marketers, representatives, successors and assigns, are enjoined and restrained with respect to the offer, solicitation and provision of telecommunications service to Wisconsin residents as follows:

a. QWEST shall comply with all Federal Communications Commission (FCC) rules and orders now in effect, or as hereafter modified or amended, before submitting a PIC change order to any local exchange carrier (LEC).

b. QWEST shall obtain the express authorization of a person authorized to change the subscriber-of-record's current telecommunications service carrier to QWEST.

c. Regarding the face-to-face marketing of telecommunications services to Wisconsin consumers:

1. QWEST sales representatives, at point of sale, shall match the consumer's name and signature on the Letter of Authorization (LOA) to the name and signature on the consumer's picture identification. In addition:

a) The QWEST sales representative shall note on the LOA the type of picture identification provided by the consumer, *e.g.*, a Wisconsin driver's license;

b) The QWEST sales representative shall write his or her identification number, assigned by QWEST, on the LOA so that QWEST can trace consumer dissatisfaction with a particular transaction directly to the QWEST sales representative who handled the transaction;

c) QWEST shall retain LOAs signed as a result of face-to-face marketing to Wisconsin consumers for a period of two years from the date the consumer signed the LOA.

2. QWEST shall not submit a PIC change order based on an LOA signed by a Wisconsin consumer as a result of face-to-face marketing that does not contain the notation regarding the consumer's picture identification and the QWEST sales representative's identification number unless the PIC change order has been subject to independent third-party verification under the FCC rules.

d. QWEST shall revise, if necessary, its sales manuals regarding face-to-face marketing of telecommunications services to residential consumers in Wisconsin to make clear the following:

1. That it is illegal for QWEST sales representatives to sign LOAs on a consumer's behalf;

2. That the QWEST sales representatives must verbally confirm with the consumer that he or she is the person authorized to change the subscriber-of-record's telecommunications service;

3. That in face-to-face solicitations directed to Wisconsin consumers, QWEST sales representatives shall match the consumer's name and signature on the LOA to the name and signature on the consumer's

picture identification and shall note on the LOA the QWEST sales representative's identification number or name.

e. QWEST shall provide its sales manual, reflecting the requirements set out in paragraph 3.d., to the Attorney General's Office within thirty (30) days of initiating face-to-face marketing of telecommunications services to residential consumers in Wisconsin.

f. QWEST shall inform current principals, partners, officers, directors, managers, sales representatives and contract marketers having responsibilities with respect to face-to-face marketing to Wisconsin consumers within thirty (30) days of Qwest policies procedures for the prevention of unauthorized PIC change orders, and for a period of two years, future principals, partners, officers, directors, managers, sales representatives and contract marketers having responsibilities with respect to face-to-face marketing to consumers in Wisconsin within thirty (30) days of the date on which said agents assume those responsibilities.

g. QWEST shall take appropriate disciplinary action, up to and including dismissal, against any QWEST sales representative who forges the signature of a Wisconsin consumer to an LOA.

h. QWEST shall take timely corrective action against any QWEST sales representative who fails to match the consumer's name and signature on the LOA to the name and signature on the consumer's picture identification where such matching procedure is required under the terms of this consent judgment;

i. Qwest shall ensure reasonable access to customer service representatives through a toll free number which affords a caller the opportunity to speak in person with a customer service representative within a reasonable time period, provided that the opportunity to speak in person to a customer service representative may be limited to normal business hours and other reasonable limitations; and

j. Qwest shall cancel service upon request of a subscriber. Upon receipt of a cancellation request, Qwest shall clearly and conspicuously disclose to the subscriber the following information:

i) the subscriber must select an alternative long distance service provider;

ii) if the subscriber does not arrange for presubscribed long distance service within a designated number of days, Qwest will block the customer's calls, the subscriber will not have 1+ long distance service and the subscriber will have to use another carrier long distance service to make long distance calls;

iii) the subscriber should contact another long distance company or the local exchange company to arrange for replacement service, if desired.

4. That pursuant to Wis. Stat. §§ 100.20(6) and 100.171(8)(a), defendant, its employees, officers, agents, including marketers, representatives, successors and assigns are enjoined and restrained with regard to the offer and solicitation of telecommunications services as follows:

a. Failing to provide a written prize notice in the event a telemarketing solicitation involves a prize as defined by Wis. Stat. § 100.171(1)(a);

b. Failing to disclose all costs that a recipient must pay or other conditions related to the use of a gift or service offered as an incentive to obtain a customer's agreement to subscribe or purchase telecommunications services.

III. CORRECTIVE ACTION AND RESTITUTION

5. That pursuant to Wis. Stat. § 100.18(11)(d), defendant shall discontinue any and all incentive payments to any agents, including employees, based upon the number of persons in Wisconsin who agree to order defendant's service unless such incentive payment program includes provisions for monitoring, ensuring a proper authorization, and verification is obtained from customers and that employees are disciplined for improper conduct.

6. That pursuant to Wis. Stat. § 100.18(11)(d), the defendant shall undertake to address all complaints filed with the State of Wisconsin before ninety (90) days from the entry of this judgment by former and current subscribers who allege that their long distance service was switched to Qwest without authorization as follows:

a. The defendant shall reimburse persons where Qwest, in its good faith judgment, concludes that it switched their long distance service without proper authorization. Subscribers may submit their complaints to Qwest telephonically, and it will make every effort to resolve the complaints, where possible, during this initial call. Qwest will also review complaints that are filed with the State of Wisconsin and referred to defendant. The State of Wisconsin shall provide Qwest with copies of all applicable complaints and, no later than one hundred twenty (120) days after the entry of this judgment, a list of those complaints that it believes qualify for consideration under this paragraph.

b. If defendant determines that a consumer's long distance service was switched with proper authorization, Qwest shall notify the consumer of this finding and that if the customer disagrees, he or she may submit the matter to the Department of Agriculture, Trade and Consumer Protection ("DATCP") for its review. (Qwest shall provide the customer with DATCP's toll free number.)

c. In the event that after investigating the allegations and considering carefully defendant's response, DATCP determines that a complaint of an unauthorized primary interexchange carrier ("PIC") change against Qwest is valid, DATCP shall inform defendant of such determination and the basis for it. Qwest shall reimburse such persons pursuant to subsection d. of this paragraph.

d. For those customers who qualify for reimbursement, defendant's obligation shall be as follows. Defendant shall pay an amount equal to all payments paid by such subscribers for switching charges related to the provision of Qwest service and shall re-rate all toll charges that occurred while Qwest provided service after the PIC change in question. Qwest shall issue the refund or credit within one hundred twenty (120) days of the date of the judgment, or the determination by DATCP that a PIC change was unauthorized, whichever is later. Toll charges will be re-rated on the basis of rates paid by such subscribers to their prior carriers. In the event such subscribers are unable to provide documentation regarding rates prior to the unauthorized change, defendant shall base re-rating on 10 cents per minute for intra- and interstate toll charges.

7. Quest shall provide DATCP with a report regarding credits issued to Wisconsin residents within sixty (60) days of completion of the restitution program.

IV. PENALTIES

8. That pursuant to Wis. Stat. § 100.207(6)(c), defendant is obligated for and shall pay to the State of Wisconsin $250,000, such amount consisting of $225,000 in civil forfeitures, which includes a penalty assessment pursuant to Wis. Stat. § 165.87, and $25,000 as costs pursuant to Wis. Stat. § 100.263.

V. COMPLIANCE

9. That defendant shall maintain procedures with regard to the handling of oral and written complaints from customers residing in Wisconsin and/or requests for refunds, including maintaining a copy of all written complaints or requests for refunds received, maintaining a record of all oral complaints or requests for refunds, including the name and address of such customer from whom each complaint or request for refund was received from such customers, the amount of refund requested, the resolution of each complaint and amount refunded, if any, and defendant's response to each request or complaint for a period of at least thirty-six (36) months from the date of receipt of the complaint or request.

10. In the event that the provisions of 47 C.F.R. § 64.1100, 47 C.F.R. § 64.1150 or any other state or federal law or regulation are amended, or in the event that any other law or regulation is enacted in a manner which would render compliance with any term of this judgment a violation of such law or regulation, it is understood that QWEST's compliance with such amended or newly enacted law or regulation will constitute compliance with this judgment. The remainder of the terms and conditions of this judgment shall not be effected thereby.

VI. CUSTOMER RIGHTS AND CONTINUING JURISDICTION

11. That nothing contained in this judgment shall be construed to deprive any customer or other person or entity of any private right under the law.

12. That nothing contained in this judgment shall be construed as approval, sanction or authorization of any act, practice or conduct of defendant.

13. This judgment may be enforced only by the parties hereto.

14. That nothing in this judgment shall be construed to limit the authority of plaintiff to enforce prospective laws, regulations or rules against defendant.

15. That jurisdiction is retained by this court for the purpose of enabling any of the parties to this proceeding to apply to this court for any other such further orders and directions as may be necessary and appropriate for the enforcement of, or compliance with, this judgment.

Dated this 12 day of December, 2000.

BY THE COURT:

J C Albert

Dane County Circuit Court Judge

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IN THE CIRCUIT COURT OF JACKSON COUNTY, MISSOURI
AT INDEPENDENCE

STATE OF MISSOURI, ex rel. JEREMIAH W. (JAY) NIXON, Attorney General, Plaintiff, v. **CAMPUS PROMOTION NETWORK, INC.,** et al., Defendant.	)	**Case No. CV97-023268**

CONSENT PERMANENT INJUNCTION AND FINAL JUDGMENT

Comes now plaintiff State of Missouri and ("Defendants"): LCI International Telecom Corp., (now known as "Qwest") and Campus Promotion Network, Inc., ("CPN") and present this Consent Permanent Injunction and Final Judgment ("Consent Injunction"). This Court being fully advised in the premises, now finds:

1. The parties to this Consent Injunction have read and understand the nature, terms, and content of this Consent Injunction and agree to be bound by all the provisions contained herein.

2. This Consent Injunction constitutes a fair and adequate settlement of all of the issues involved, as between the State of Missouri and each of the Defendants individually, in this cause of action.

3. The parties recommend that this Court issue this Consent Injunction.

I. General Provisions

IT IS HEREBY ORDERED, ADJUDGED, AND DECREED that:

4. Jurisdiction. This Court has jurisdiction over this Consent Injunction and the parties hereto through their consent and under §407.100, RSMo 1994. This Court is empowered to order this Consent Injunction by agreement of the parties pursuant to §407.100.8, RSMo 1994.

5. Jurisdiction Retained. Jurisdiction and venue are retained by this Court to enable any party to this Consent Injunction to apply to this Court at any time for such further orders and directions as may be necessary or appropriate for the construction, modification, or enforcement of the provisions of this Consent Injunction.

6. Severability. If any provision(s) of this Consent Injunction is or are declared invalid by a court of competent jurisdiction, the remainder of this Consent Injunction shall, at the option of plaintiff, remain in full force and effect and shall not be effected by such declaration.

7. Non-admission. It is understood and agreed between the parties that this Consent Injunction and settlement shall not be construed as a finding of fault or wrong-doing or an admission of liability by Defendants, their directors, officers, employees, agents, representatives, and/or affiliates, or as an admission that Defendants have committed or engaged in any deceptive or unlawful act, violation, or breach of contract or duty imposed by law.

II. Definitions

IT IS FURTHER ORDERED, ADJUDGED AND DECREED that the following terms shall have the following meanings:

8. "Independent third party" means a party: (1) operating from a facility physically separate from any Qwest facility; (2) in which Qwest does not have any direct or indirect ownership interest; (3) that Qwest does not manage, control or direct either by itself or through

agents, representatives, or insiders, including relatives; and (4) that does not derive commissions or compensation based on the number of sales or authorizations affirmatively confirmed.

9. "Clear and conspicuous" means that the required disclosures are presented in such a manner, given their size, color, contrast and proximity to any related information as to be readily noticed and understood by consumers. A disclosure is not clear and conspicuous, if among other things, it is ambiguous or it is obscured by the background against which it appears or by its location within a lengthy discourse of non-material information. In an oral presentation, clear and conspicuous also means that the information is presented in a manner that a consumer will hear and understand, at normal speed and in the same tone and volume as the sales offer.

10. "Merchandise" means any objects, wares, goods, commodities, intangibles, real estate, or services.

11. "Material" means that the representation or fact is likely to influence the consumer's purchasing decision.

12. "Telecommunications carrier" means the provider of telecommunications services.

13. "Telecommunications service" means interLATA, intraLATA, local and long distance telephone service.

14. "Subscriber" means 1) the consumer in whose name the local exchange carrier has listed a telephone number; or 2) the consumer who is primarily responsible for paying the telephone bill for the listed telephone number, or 3) a consumer authorized by either 1 or 2 to make changes with respect to the subscribed services for the listed telephone number; or, if a commercial or business consumer, a person with apparent authority to act for the business or the

person primarily responsible for the business' decision-making.

15. "Consumer" means any natural person or his legal representative, partnership, firm, for-profit or not-for-profit corporation, whether domestic or foreign, company, foundation, trust, governmental entity, business entity or association.

16. "Letter of agency" ("LOA") means written authorization by a consumer to change his, her or its, telecommunications carrier and/or to authorize the provision of telecommunication services.

17. "Contest promotion" means any contest, sweepstakes, or prize offer of any kind directed toward consumers to solicit them to change their telecommunications carrier or to purchase telecommunications service(s).

III. Injunctive Relief

IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that:

18. Defendants shall not directly or indirectly represent that a consumer has authorized the transfer of the consumer's telecommunications carrier or agreed to the provision of telecommunications service without the express authorization of the consumer.

19. Qwest shall clearly and conspicuously disclose, in all advertisements, solicitations, publications, circulars, marketing or promotional materials of any description whatever, circulated or distributed within the State of Missouri, that are intended to solicit consumers to authorize any change of telecommunications carrier or to authorize the provision of any telecommunication service, the following:

a. That the purpose of the advertisement, solicitation, publication, circular, marketing, or promotional material is to solicit consumers to authorize a change of telecommunications carrier, or the provision of telecommunications service;

b. The amount of all minimum monthly service fees, one time fees, per minute usage fees or other material terms associated with the telecommunications service plan promoted. And when applicable, that the consumer's local exchange carrier will assess a fee for changing the consumer's telecommunications carrier; and

c. Any other material conditions associated with the consumer's use or receipt of the telecommunications service plan promoted.

20. Qwest shall cause Qwest's corporate name and a toll free customer service telephone number answered by Qwest's employees or a party designated by Qwest to receive customer service calls during regular business hours to appear clearly and conspicuously on any bill for telecommunications service(s) provided by Qwest to any consumer in the State of Missouri.

21. Qwest shall not solicit LOAs from consumers in the State of Missouri through a contest promotion that uses a box or other receptacle to physically collect the contest entry forms, unless an Qwest sales agent is physically present, available, and able to answer material questions about the contest promotion and Qwest's telecommunications service(s) when the consumer executes and provides the LOA.

22. Qwest shall cause an independent third-party to verify all of Qwest's LOAs derived from every marketing source soliciting consumers in the State of Missouri, except as provided in ¶24 below. The independent third-party shall obtain appropriate verification data, such as the consumer's date of birth or social security number, and shall verify with the consumer and obtain the consumer's assent in accordance with 47 C.F.R. §1150(d). The terms of this paragraph shall remain in effect until December 31, 2002, at which time Qwest may discontinue the third-party verification procedures required in this paragraph. However, if the number of

consumer complaints received by Missouri Attorney General's Office against Qwest, its successors, agents or assigns, increases by 25% or more during any consecutive six-month period after Qwest stops its third-party verification compared with the number of complaints received by the Missouri Attorney General during any consecutive six-month period in which Qwest performed third-party verification, then Qwest shall resume the third-party verification requirements required herein.

23. The independent third-party shall inform Qwest of any LOAs that were not affirmatively verified and of any consumer who denies having authorized the transaction that is the subject of the LOA. Qwest shall not change a consumer's telecommunications carrier or provide telecommunications services purportedly authorized by an LOA, unless and until Qwest receives confirmation from the independent third-party that it has affirmatively verified the LOA as required above.

24. Nothing herein shall obligate Qwest to verify PIC change requests submitted by a consumer via the Internet ("Internet LOAs"), unless the Internet LOA is submitted in response to a contest promotion. If a consumer submits an Internet LOA in response to a contest promotion, then Qwest shall verify the Internet LOA as required in ¶22. In addition, regardless of the circumstances under which Qwest receives an Internet LOA, Qwest agrees to comply with any verification procedures adopted by the Federal Communications Commission for Internet LOAs.

25. If a subscriber denies having authorized Qwest to provide telecommunications services, then Qwest shall immediately discontinue billing Missouri subscribers for any charges, including but not limited to, the monthly fee, as soon as Qwest receives electronic notification from the LEC that a subscriber has canceled his or her telecommunications service with Qwest

and selected another carrier. Nothing in this paragraph prohibits Qwest from billing for services rendered prior to Qwest's receipt of such notification. If Qwest relied on an LOA in providing the disputed services, and (1) the LOA was not authorized by the subscriber to the telephone lines(s) affected by the LOA; or (2) the LOA was not verified as required above; or (3) the third-party verification cannot be located within (30) days of first receiving a consumer's complaint, then Qwest shall refund to the consumer all charges caused by the disputed transaction that were incurred within the first 90 days of service, including any fees assessed to switch the consumer's chosen telecommunications carrier to Qwest and then back again, any long distance charges, minimum monthly service charges, one time fees, per minute usage fees, or other charges associated with the telecommunications services in dispute. If the consumer has not paid some or all of the charges caused by the disputed transaction, then Qwest shall remove all such unpaid charges. If the consumer has already paid some or all of the charges caused by the dispute, then Qwest shall refund these amounts to the consumer, unless applicable federal or state law requires payment be made to some other person (including but not limited to a third-party administrator or another carrier).

26. With respect to any contest promotion used to solicit consumers to change their telecommunications carrier to Qwest or to purchase telecommunications service from Qwest, if Qwest uses an LOA that also acts as a form for entering the contest promotion ("LOA entry form"), then it must also, provide a non-LOA entry form physically attached to the LOA entry form (which may be separable by a perforation). This non-LOA entry form must be at least as simple, accessible, clear and conspicuous, and at no greater cost to the consumer than the LOA entry form. In addition, any LOA entry form must clearly and conspicuously include the

following:

a. a statement in bold and capital letters requiring the entrant to certify that the entrant is at least 18-years-old and that the entrant is the subscriber to all of the telephone numbers listed on the LOA entry form.

b. a statement explaining that the LOA entry form is authorization to change the entrant's long distance carrier and to provide telecommunications services.

IV. Restitution and Other Payment

27. Judgment is hereby entered for restitution in an amount determined below. Within sixty days (60) days of the date of this Order, Qwest shall undertake, with respect to each consumer identified in Exhibit A, attached hereto and incorporated herein by reference, to provide restitution in accordance with the following procedure:

a. Except as provided in subparagraph (b), Qwest shall provide a credit or refund in an amount equal to all charges billed to that consumer for the first 90 days of disputed service, less any credits for refunds previously received by the consumer.

b. If Qwest determines that no refund is due, Qwest shall provide to the Missouri Attorney General's Office, c/o Patricia Molteni, Assistant Attorney General, a written reason for the denial, within 10 days of Qwest's determination. Qwest shall, at the same time, provide the Attorney General the amount in dispute and any other evidence that Qwest relies upon to substantiate the denial. If, in the sole discretion of the

Missouri Attorney General, Qwest was unjustified in denying a credit or refund, the Attorney General will direct Qwest to make a refund and will specify the amount to be refunded.

Within 90 days of the date of this Order, Qwest shall provide to the Missouri Attorney General's Office, c/o Patricia Molteni, Assistant Attorney General, a report showing the dollar amount of restitution paid for each consumer in Exhibit A, the date the consumer's long distance service was switched to Qwest, the date the Qwest service was discontinued, and the dollar amount of long distance charges assessed by Qwest.

29. Qwest shall pay as reimbursement for the expenses incurred by the Missouri Office of the Attorney General, including attorneys fees and cost of investigation, the amount of ten thousand dollars ($10,000) payable to the Merchandising Practices Act Revolving Fund, and judgment is hereby entered in this amount. Payment of this amount shall be made on or before the entry date of this Order.

V. Other Relief

30. Defendants shall be registered with the Missouri Secretary of State at all times while doing business in the State of Missouri.

31. Defendants shall not construe this Consent Injunction as relieving them of the obligation to fully comply with all state or federal laws, regulations, or rules.

32. This Consent Injunction is binding on Defendants and their respective agents, servants, heirs, successors and assigns, and any other persons or entities acting directly or indirectly on their behalf.

33. Defendants represent that the signatories to this Consent Injunction have authority

to act for and bind Defendants.

34. This document shall not be construed against the drafter because all parties hereto participated in drafting this document.

35. Defendants shall bear any costs of court.

36. This Consent Injunction may be executed in one or more counterparts and facsimile signatures shall be deemed to constitute original signatures of the parties hereto.

SO ORDERED: ______________________________ **DATE:** ________
Circuit Court Judge

QWEST COMMUNICATIONS CORPORATION

By: Mark Pitchford
Mark Pitchford
Senior Vice President for Qwest

By: Jeremy Miller
Jeremy Miller, Esq.
4250 North Fairfax Dr.
Arlington, VA 22203
Attorney for QWEST

Connie R. Mather
My Commission Expires:
June 24, 2000

Maureen Peacock

My Commission Expires May 31, 2003

CAMPUS PROMOTION NETWORK, INC.

By: ______________________________
Thomas Clendining
President of CPN

By: ______________________________
Marvin Benn, Esq.
Hamman & Benn
10 South LaSalle St., Suite 3300

CAMPUS PROMOTION NETWORK, INC.

By: ______________________
Thomas Clendining
President of CPN

By: ______________________
Marvin Benn, Esq.
Hinman & Benn
10 South LaSalle St., Suite 3300
Chicago, IL 60603-1002
Attorney for CPN

STATE OF MISSOURI

JEREMIAH W. (JAY) NIXON
Attorney General

By: ______________________
Patricia A. Molteni (#43257)
Assistant Attorney General
221 W. High St.
Broadway Office Building, 8th Floor
Jefferson City, MO 65101
Attorneys for Plaintiff

Chicago, IL 60603-1002
Attorney for CPN

STATE OF MISSOURI

JEREMIAH W. (JAY) NIXON
Attorney General

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221 W. High St.
Broadway Office Building, 8th Floor
Jefferson City, MO 65101
Attorneys for Plaintiff

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Complaints And Inquiries Against LCI International Telecom Corp. And Campus Promotion Network, Inc.

C/T	L. Name	F. Name	Addr	Addr	City	State	Zip	Phone	Phone
~~[illegible]~~	~~Hughes~~	~~Charles~~	~~[illegible]~~		~~[illegible]~~	~~MO~~	~~[illegible]~~	~~[illegible]~~	~~[illegible]~~
CF-1997-10496	Brennan	Kim	16101 Terry		Belton	MO	64012	816-331-6670	
CF-1997-47965	El-Fehmawi	Hasen	655 Clover		St. Louis	MO	63126	314-961-0759	
CF-1993-48376	Bender	Gerry	1504 NE Yorkshire Circle		Lee's Summit	MO	64086	816-524-4455	816-524-5605 (H)
CF-1997-10220	Meta	Mineo	156 Canfield Square		St. Louis	MO	63141	314-577-3072	314-549-1020
CF-1997-10711	Casada	Debbie	215 S. Magnolia		Republic	MO	65738	417-732-9046	
~~CF-1997-13661~~	~~Miller~~	~~Gina~~	~~4027 Pleasant St~~		~~St. Louis~~	~~MO~~	~~[illegible]~~	~~[illegible]~~	
CF-1997-13821	Coleman	Julius	7000 Brandon Ave. Apt 29		St. Louis	MO	63136	314-382-9141	
CF-1997-14024	Laird	Mark	1430 S. Briar Ave.		Springfield	MO	65809	417-869-2065	
CF-1997-14135	Gettino	Paula	10 West Concord		Kansas City	MO	64113	816-363-3049	
CF-1997-15154	Hill	Harold	Rt. 3, Box 260		Gravois Mills	MO	65037	573-372-5071	
CF-1997-15763	Delnes	Charles	1774 Lay Road		St. Louis	MO	63134	314-432-7473	
CF-1997-16852	Povey	Carl	11653 Brierbrae Ct.		St. Louis	MO	63138	314-741-4708	
CF-1997-17165	Mayfield	Glen	7279 State Highway 72		Jackson	MO	63755	573-243-5501	
CF-1997-17623	Ballew	Eleanor	1910 Merlin Drive		Jefferson City	MO	65101	573-636-7809 x23	573-636-3166 (S)
CF-1997-17726	Batek	George	1611 Doris Dr.		Columbia	MO	65202	573-442-7043	573-682-9703
?-1997-18076	Paison	Lannie	420 N. Stone		Centralia	MO	65240	573-682-3031	
~~1997-18598~~	~~Hughes~~	~~Dian~~	~~331 N. Harvey~~		~~St. Louis~~	~~MO~~	~~[illegible]~~	~~[illegible]~~	
1997-19301	Beatty	Ronald	341 West V Hwy		Lamar	MO	64759-0160	417-682-2639	417-682-6081 (?)
CF-1997-19356	Park	Catherine	5671 Waterman Apt 17		St. Louis	MO	63112	314-569-2492	314-367-4118 (H)
CF-1997-19630	Seeda	Candee	119 Beacon Hill Dr.		St. Charles	MO	63301	314-946-5217	314-946-0323
CF-1997-19648	Amir	Elaine	2433 Greentree Road		Jefferson City	MO	65101	573-635-2657	
CF-1997-20452	Delzel	Norma	4411 Gannett Street		St. Louis	MO	63116	314-832-2217	
CF-1997-21037	Gowan	Donna	846 Hawkjaw Ct.		St. Louis	MO	63110	314-962-3616	314-962-3114 (H)
CF-1997-21502	Pauk	Barbara	3532 Maybrook		Independence	MO	64055	816-373-6717	
CF-1997-21742	Huber	Emily	6 Greymore Dr		Chicago	MO	63017	314-469-3373	
CF-1997-21752	McGraw	Lori	11320 Fawnhaven		St. Louis	MO	63126	314-949-2653	
CF-1997-21973	Gist	Mary	7 Winchester Way		St. Charles	MO	63303	314-441-2616	
CF-1997-22650	McAvoy	William	1809 West Woodbine		Kirkwood	MO	63122	314-822-0377	314-361-0029
CF-1997-22460	Aring	Sharon	16120 County Rd B		Smithville	MO	64089	816-532-4798	
CF-1997-23526	Berghoefer	Charles	Box 272		Fenton	MO	63026-0277	314-376-4966 x337	
CF-1997-23857	Washington	Booker	2770 Redman Ave.		St. Louis	MO	63136	314-355-5716	
CF-1997-24309	Kies	John	215 Patterson Ln.		Florissant	MO	63031-2119	314-839-5918	
CF-1997-24401	Hazeltner	Lawrence	4818 Michigan Ave.		St. Louis	MO	63111	314-481-1110	314-569-5617 (S)
CF-1997-24669	Bostwick	Verna	1740 Banstead		Florissant	MO	63033	314-830-7010	
CF-1997-24762	Mansfield	Berthe	9911 E. 90th St.		Raytown	MO	64138	816-356-1544	
CF-1997-26479	Mathis Haynes	Dolores	5901 Elm		Raytown	MO	64133	816-737-3431	816-737-8705
CF-1997-27105	Waldo	Dale	5110 Hagemann Dr.		St. Louis	MO	63128	314-233-1515	
CF-1997-27137	Carey	Jill	633 Silver Maple Dr		Fenton	MO	63026	314-343-1292	314-961-4373
CF-1997-27044	Johnson	Sheral	305 Hill St.		Auxvasse	MO	65231	573-386-2939	
CF-1998-01744	Keith	Luanne	American Equipment Company	1313 E. 16th Avenue	Kansas City	MO	64116	816-221-1460	
CF-1998-03275	Milam	Jim	2132 Queen Ridge Drive		Independence	MO	64055		
CF-1998-07180	Scudder	Robert	1004 Cowden Dr		Gladstone	MO	64118	816-459-0567	
CF-1998-07312	Hinds	Stephen	11911 Newton, #66		Grandview	MO	64030	816-597-5327	816-765-6953
CF-1998-11170	Jett	Glen	7700 McGee		Kansas City	MO	64134-1903	816-444-2236	816-753-1737
CF-1998-11180	Hickernell	John	3741 N. Lister Drive		Kansas City	MO	64137-2756	816-274-3032	816-274-1733
?-1998-11413	McWilliams	Myba	8167 Briarhaven, Apt 103		Affton	MO	63123-2458	314-842-7104	
1998-11620	Bowman	Harold	8437 E. 45th Terr.		Raytown	MO	64133	816-737-0637	816-229-0808
1998-11797	Foster	C	7720 So Oakhill School Rd.		Oak Grove	MO	64075	816-229-4165	
CF-1998-11285	Kendez	Ernesto	3090 N. State Highway T		Bois D Arc	MO	65612	417-732-2499	
CF-1998-11643	Jansen	Mary Lou	4720 S. Range Line, #45		Joplin	MO	64804	417-624-0731	

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Complaints And Inquiries Against LCI International TeleCom Corp.
And Campus Promotion Network, Inc.

C/T	L. Name	F. Name	Addr	Addr	City	State	Zip	Phone	Phone
CT-1998-14691	Marino	Louise	5789 Woodland		Kansas City	MO	64130	816-363-1914	
CF-1998-15512	Langley	Darlene	633 Louis		Cape Girardeau	MO	63703	573-651-9149	
CF-1998-16572	Comisky	Charles	264 Oxford Ln.		Lee's Summit	MO	64063	816-524-0448	
CF-1998-17044	Goldenberg	Stuart	438 Stryker Court		Ballwin	MO	63021	314-391-8901	
CF-1998-21485	Castro	Charla	12045 Goddie and Park		St. Louis	MO	63126	314-843-7166	

FINAL TOTALS
COUNT 56

* * END OF REPORT * * *

STATE OF NEW YORK
OFFICE OF THE ATTORNEY GENERAL
120 BROADWAY, NEW YORK, NEW YORK 10271

ELIOT SPITZER
Attorney General

MARY ELLEN BURNS
Assistant Attorney General in Charge
Bureau of Telecommunications and Energy

(212) 416-8336

RECEIVED
SEP 14 1999
By________

September 13, 1999

Via: Overnight Mail

Theresa Gaugler, Esq.
Assistant General Counsel
Qwest Communications, Inc.
4250 North Fairfax Drive
Arlington, Virginia 22203

Dear Ms. Gaugler:

Please find enclosed an original Assurance of Discontinuance between the New York State Attorney General's Office and Qwest Communications, et. al.

Sincerely yours,

Jill Ellen Sandford
Assistant Attorney General

---X

IN THE MATTER OF

QWEST COMMUNICATIONS CORPORATION
LCI INTERNATIONAL TELECOM CORP
d/b/a
QWEST COMMUNICATIONS SERVICES,
PHOENIX NETWORK, INC., and
USLD COMMUNICATIONS, INC.

Respondents.

---X

ASSURANCE OF DISCONTINUANCE

Pursuant to the provisions of Executive Law § 63(12) and General Business Law ("GBL") Article 22-A, ELIOT SPITZER, Attorney General of the State of New York, caused an inquiry to be made into certain business practices of Qwest Communications Corporation, LCI International Telecom Corp. d/b/a Qwest Communications Services, Phoenix Network, Inc., and USLD Communications, Inc. (hereinafter collectively referred to as "Qwest"). As a result of such inquiry, the Attorney General has determined as follows:

FINDINGS

General

1. Qwest Communications Corporation is a corporation organized in 1990 under the laws of the State of Delaware. LCI International Telecom Corp. d/b/a Qwest Communications Services is a corporation organized in 1983 under the laws of the State of Delaware. Phoenix Network, Inc. is a corporation organized in 1989 under the laws of the State of Delaware. USLD Communications, Inc. is a corporation organized in 1986 under the laws of

the State of Texas. Qwest has its principal offices at 555 Seventeenth Street, Suite 700, Denver, Colorado 80202.

2. Qwest in the normal course of its business offers the public, including residents of New York State, telecommunications services, including long distance telephone services.

3. Qwest Communications Corporation, LCI International Telecom Corp. d/b/a Qwest Communications Services, USLD Communications, Inc., and Phoenix Network, Inc., are registered with the New York Secretary of State as foreign corporations authorized to do business in the State of New York.

4. On November 9, 1989, April 1, 1991, and January 19, 1994, USLD Communications, Inc., Phoenix Network, Inc., and Qwest Communications Corporation, respectively, received from the New York State Public Service Commission ("PSC") a Certificate of Public Convenience authorizing each entity to offer and provide intrastate telecommunications services, including long distance telephone services, to residents of the State of New York. On May 8, 1989, LCI International Telecom Corp. ("LCI") received such a Certificate of Public Convenience, and on September 23, 1998, LCI obtained approval to do business as Qwest Communications Services.

5. Qwest has provided telecommunications services, including long distance telephone services, to residents of the State of New York since at least May 1989.

6. The choice of which long distance carrier provides primary service to a given telephone line belongs to the "subscriber of record", i.e., the individual, business or other entity in whose name the local telephone company that provides the line registers the line.

7. Local telephone companies control the physical equipment that connects a telephone line to the primary long distance carrier for that line and carry out the operations that switch the line's primary long distance service from one long distance carrier to another.

8. Pursuant to Federal Communications Commission ("FCC") regulations, specifically 47 CFR § 64.1100, local telephone companies switch consumers' primary long distance carriers based solely on orders from long distance carrier representations that consumers have authorized the switches and do not independently confirm that the consumers have, in fact, given the necessary authorization.

9. Local telephone companies charge consumers a fee for switching a consumer's primary long distance carrier.

10. Long distance carriers engage in marketing and advertising campaigns to solicit consumers to switch their primary long distance service to a given carrier.

11. Since at least October 1998, Qwest has solicited New York consumers by telemarketing and internet e-mail offering two free airline tickets through "Fly Free America" to those consumers who switch their primary long distance service to Qwest.

12. Qwest's marketing specifies that consumers must stay at a participating hotel for a minimum number of nights at the regular published rate but does not specify the terms and conditions of that stay until after the consumer has switched to Qwest long distance service.

13. Depending on the destination, the required stay to obtain tickets could be anywhere from four nights for a New York consumer to travel to Florida to twelve nights for a New York consumer to travel to Hawaii. The relevant published rates for participating hotels range from $170 per night to $427 per night. The cost for a New York consumer to travel to and stay in Hawaii through Fly Free America is approximately $2000. Additionally, the number of required nights varies depending on the departure location of the consumer within New York State.

14. Qwest's Fly Free America Pricing Guide lists the relevant hotel rates and required stays. However, Qwest does not provide consumers the guide until several weeks after a consumer has switched to Qwest long distance service.

15. Approximately eighty-eight thousand (88,000) New York consumers switched to Qwest long distance service in response to Qwest's Fly Free America promotion.

Qwest Long Distance Service Pricing Plan

16. Qwest's long distance service is offered to New York consumers at 9¢ per minute for state-to-state calls and 10¢ per minute for all in-state long distance and regional toll calls, with a monthly service fee of $4.95. Qwest charges its customers the monthly service fee regardless of whether a customer makes any long distance calls through Qwest that month.

17. Qwest's telemarketers have not specified the rate for in-state and regional toll calling or the existence of a $4.95 monthly fee.

18. Qwest's e-mail solicitations as well as Qwest's website have not specified the rate for in-state long distance and regional toll calling or the existence of the $4.95 fee.

19. Qwest employs third party verification before switching a New York consumer to its service. In the course of its third party verification, the operator has confirmed to the consumer that Qwest's rate for state-to-state calling is 9¢ per minute but has not specified Qwest's rate for in-state long distance and regional toll calling or the $4.95 monthly service fee.

New York Law

20. General Business Law ("GBL") § 349 makes unlawful "deceptive acts or practices in the conduct of any business, trade or commerce or in the furnishing of any service" in New York State.

21. Executive Law § 63(12) makes unlawful "persistent fraud or illegality in carrying on, conducting or transacting of business" in New York State.

22. The Attorney General believes that by engaging in the practices described above, including not specifying the terms and conditions of its "Fly Free America" promotion and not specifying the terms and conditions of its long distance service, Qwest has engaged in deceptive practices in violation of GBL § 349.

23. The Attorney General believes that Qwest has engaged in repeated violations of GBL § 349 and has thereby violated Executive Law § 63(12).

24. GBL § 350 makes unlawful "[f]alse advertising in the conduct of any business, trade, commerce or in the furnishing of any service" in New York State.

25. GBL § 350-a defines false advertising as including the failure "to reveal facts material in the light of ... representations" made concerning a product or service offered.

26. The Attorney General believes that Qwest has repeatedly made or caused deceptive representations of its services and has engaged in false advertising in violation of GBL § 350.

27. The Attorney General believes that Qwest has engaged in repeated violations of GBL § 350 and has thereby violated Executive Law § 63(12).

28. **IT NOW APPEARS** that Qwest is willing to enter into this Assurance of Discontinuance without admitting to the Attorney General's findings or to any violation of law, and that the Attorney General is willing to accept this Assurance of Discontinuance pursuant to Executive Law § 63(15) in lieu of commencing a statutory special proceeding.

AGREEMENT

I.

Parties Subject To Order

29. **IT IS HEREBY UNDERSTOOD AND AGREED** by and between Qwest and the Attorney General (hereinafter "the parties") that this Assurance of Discontinuance (hereinafter "Assurance") shall apply to Qwest Communications Corporation, LCI International Telecom Corp. d/b/a Qwest Communications Services, Phoenix Network, Inc., and USLD Communications, Inc., whether acting through their principals, directors, officers, shareholders, employees, representatives, agents, assigns, successors, or other business entities, whose acts, practices or policies are directed, formulated or controlled by Qwest (hereinafter collectively referred to as "Qwest").

II.

Prohibited Practices

30. **IT IS FURTHER UNDERSTOOD AND AGREED** that Qwest shall permanently refrain from engaging in any fraudulent, deceptive, or illegal acts in violation of GBL § 349 or GBL § 350; including, but not limited to, any and all of the following acts or practices:

a. Misrepresenting, either orally, in writing, through any electronic medium or through any other means of communication, directly or by implication, that a New York consumer will receive free airline tickets for switching to Qwest's telecommunications service, without disclosing that there are conditions or costs to the consumer associated with obtaining or using the airline tickets;

b. Failing to disclose clearly and conspicuously in any advertisement or solicitation it disseminates or causes to be disseminated in New York State any and all material terms and conditions for the use of each and every premium offered to consumers as an inducement to switch to Qwest's telecommunications service;

c. Failing to disclose clearly and conspicuously in any advertisement or solicitation it disseminates or causes to be disseminated in New York State any and all monthly minimum charges or monthly service fees;

d. Failing to disclose clearly and conspicuously in any advertisement or solicitation it disseminates or causes to be disseminated in New York State either any and all rates for its services, including, but not limited to, state-to-state long distance service, in-state long distance service, and in-state regional toll service, or a toll-free number where such rates may be provided;

e. Failing to maintain sufficient staff and sufficient area code 800 or other toll free telephone lines to enable New York State residents to make telephone inquiries and complaints and to respond to such consumer inquiries and complaints promptly and adequately; and

f. Failing to respond in good faith to consumer inquiries and complaints within a reasonable time after receipt of an inquiry or complaint about long distance or any other retail telecommunications service Qwest provides within New York State. "Reasonable time" means within forty-eight (48) hours or by noon of the next business day, whichever is later, for telephone call inquiries and complaints, and mailed within ten (10) business days after receipt for written inquiries or complaints.

31. **IT IS FURTHER UNDERSTOOD AND AGREED** that Qwest shall have thirty (30) days from the date of execution of this Assurance to review its marketing materials to ensure compliance with the terms of paragraph 30 without being subject to legal action by the Attorney General.

III.

Restitution

32. **IT IS FURTHER UNDERSTOOD AND AGREED** that within thirty days (30) of execution of this Assurance, Qwest shall review its records to ascertain the name and address of each and every New York consumer who

(a) switched to Qwest long distance service in response to Qwest's Fly Free America promotion within the sixty (60) days before execution of this Assurance or

(b) switched to Qwest long distance service in response to Qwest's Fly Free America promotion and disconnected such service within the first sixty (60) days of service.

33. **IT IS FURTHER UNDERSTOOD AND AGREED** that within forty five (45) days of execution of this Assurance, Qwest shall forward by first class mail a letter containing the text annexed hereto as "Exhibit A" to each of the consumers identified in paragraph 32(a) and a letter containing the text annexed hereto as "Exhibit B" to each of the consumers identified in paragraph 32(b). For each consumer who contacts Qwest in response to such letters within 30 (30) days from the date of the letters and requests or has requested to disconnect his or her long distance service with Qwest and switch back to their former carrier, Qwest shall forward by first class mail a restitution check or issue a bill credit, as appropriate. The amount of the restitution check or bill credit shall be calculated to include any of the following charges not already refunded or credited to each such consumer: (1) the total amount of monthly service fees paid to Qwest by that consumer; (2) any and all switch fees paid by the consumer to switch to Qwest's service and any and all switch fees paid by the consumer to

switch from Qwest to another long distance carrier; and (3) an amount equal to the difference between what a consumer paid Qwest for intra-state or regional toll calls and the price of those calls at a 9¢ per minute rate. If the consumer has an active account with Qwest, Qwest shall issue a bill credit for those charges listed above whether or not the consumer has paid for such charges. If the consumer does not have an active account with Qwest, Qwest shall forward a restitution check for those charges listed above that have been paid by the consumer.

34. **IT IS FURTHER UNDERSTOOD AND AGREED** that in addition to the consumers who switched to Qwest in response to its Fly Free America promotion, Qwest shall investigate and provide restitution for charges not already refunded or credited, to each and every former or current customer of Qwest who has already filed a written complaint or inquiry or who files a written complaint or inquiry within one-hundred and twenty days (120) of execution of this Assurance with the New York State Attorney General's Office, with the PSC, or directly with Qwest, alleging Qwest did not specify its in-state rates or the existence of a monthly fee. Qwest shall forward a letter containing the text attached hereto as "Exhibit C" and a restitution check or bill credit calculated pursuant to paragraph 33 above within fifteen (15) business days of the Attorney General's Office, the PSC's, or a consumer's forwarding such a complaint or inquiry to Qwest.

35. **IT IS FURTHER UNDERSTOOD AND AGREED** that Qwest shall determine the restitution check or bill credit due each consumer eligible under paragraphs 33 or 34 from September 1, 1998 through one-hundred and twenty (120) days from execution of this Assurance.

36. **IT IS FURTHER UNDERSTOOD AND AGREED** that in addition to providing credits to consumers who have refused to pay Qwest's charges, Qwest shall extinguish from its accounts receivable those charges in amounts equal to the bill credits provided to consumers. Additionally, Qwest shall not attempt collection of those charges or sell or otherwise transfer ownership of said unpaid charges to a third party.

<u>Attorney General Is Final Arbiter</u>

37. **IT IS FURTHER UNDERSTOOD AND AGREED** that the Attorney General of the State of New York shall be the final arbiter of whether a consumer is entitled to restitution and the amount of that restitution in accordance with the eligibility requirements established in this Assurance.

<u>Payment Of Restitution Costs</u>

38. **IT IS FURTHER UNDERSTOOD AND AGREED** that Qwest shall pay the direct and incidental costs incurred in providing the restitution required by this Assurance, including but not limited to, the cost of preparing and mailing refund checks to eligible consumers in New York State.

<u>Undistributed Restitution</u>

39. **IT IS FURTHER UNDERSTOOD AND AGREED** that Qwest shall collect any cash refund checks issued under the terms of this Assurance but returned to Qwest as undeliverable and within one hundred and eighty (180) days of return place the checks in the keeping of Qwest's counsel, who shall retain said checks for their true owners until the first

anniversary of the execution of this Assurance and then turn any undistributed checks over to the New York State Comptroller, Office of Abandoned Property.

IV.

Payment to State of New York

40. **IT IS FURTHER UNDERSTOOD AND AGREED** that simultaneous with the execution of this Assurance, Qwest shall pay fifty thousand dollars ($50,000) to the State of New York.

V.

Costs

41. **IT IS FURTHER UNDERSTOOD AND AGREED** that simultaneous with the execution of this Assurance, Quest shall pay to the Attorney General costs in the amount of five thousand dollars ($5,000).

VI.

Compliance

42. **IT IS FURTHER UNDERSTOOD AND AGREED** that within one hundred and eighty (180) days of the execution of this Assurance, Qwest shall forward to the Attorney General an affidavit, subscribed to by a Qwest officer authorized to bind Qwest, confirming that Qwest is in full compliance with each and every term of this Assurance, including but not limited to:

a. The name, address, and telephone number of each consumer to whom Qwest mailed a letter containing the text attached hereto as "Exhibit A" pursuant to the terms of this Assurance;

b. The amount of the refund check or bill credit provided to each such consumer;

c. The name, address, and telephone number of each consumer to whom Qwest mailed a letter containing the text attached hereto as "Exhibit B" pursuant to the terms of this Assurance;

d. The amount of the refund check or bill credit provided to each such consumer;

e. The name, address, and telephone number of each consumer to whom Qwest mailed a letter containing the text attached hereto as "Exhibit C" pursuant to the terms of this Assurance; and

f. The amount of the refund check or bill credit provided to each such consumer.

VII.

Record Retention

43. **IT IS FURTHER UNDERSTOOD AND AGREED** that in order to assure compliance with this Assurance, Qwest shall keep, for a period of twenty-four (24) months from the execution of this Assurance, the following records relating to Qwest's promotion of retail telecommunications services in New York State:

a. Copies of all versions of letters of authorization, print and electronic media advertising materials, telemarketing scripts and direct mail promotional and solicitation materials;

b. The name and last known address of each consumer who purchases retail telecommunications services from Qwest in New York State, the date of activation, the service provided, and the date of termination (if any); and

c. Written business record documentation with regard to the handling of oral and written consumer complaints and/or requests for telephone bill credits or refunds from New York State consumers, including maintaining: (1) a copy of all written complaints or requests for refunds or telephone bill credits received from a New York State consumer, (2) a record of all such complaints or requests for refunds or telephone bill credits, including the name and address of the consumer from whom each complaint or request for refund or telephone bill credit was received and the amount of refund or telephone bill credit requested, and (3) Qwest's responses to all such complaints and requests for refunds or telephone bill credit.

Qwest shall promptly make such records, complaints, requests and responses available for review by the Attorney General, upon request by the Attorney General, and shall provide to the Attorney General copies of these and such other documents as the Attorney General shall from time to time determine are necessary to assure compliance with this Assurance.

VIII.

Performance Bond

44. **IT IS FURTHER UNDERSTOOD AND AGREED** that if the Attorney General believes that Qwest has violated any provision of this Assurance, in addition to any other remedies provided therein or otherwise under law, petitioners may apply to a Court of competent jurisdiction on five (5) days notice to Qwest, and if the Court finds that Qwest has violated this Assurance, the Court may enter, as it deems appropriate, an order permanently enjoining Qwest from engaging in the business of providing or offering to provide retail telecommunications services in New York State, unless and until Qwest files with the Attorney General a performance bond by a surety or bonding company licensed by and in good standing with the New York State Department of Insurance and in a sum sufficient to guarantee that Qwest will comply with the provisions of this Assurance, but in no event shall the sum be less than five hundred thousand dollars ($500,000).

IX.

Private Rights

45. **IT IS FURTHER UNDERSTOOD AND AGREED** that nothing contained in this Assurance shall be construed to deprive any consumer or other person or entity of any private right under the law.

X.

Rights Reserved

46. **IT IS FURTHER UNDERSTOOD AND AGREED** by Qwest that the execution of this Assurance shall not bar the imposition of injunctive or other relief for any violation, other than the acts alleged in this Assurance, of GBL §§ 349 or 350, Executive Law § 63(12) or FCC regulations by Qwest in the transaction of any business in New York State, nor shall it bar the Attorney General from proceeding against Qwest for other violations of law. By accepting this Assurance the Attorney General agrees not to institute legal action against Qwest concerning the acts alleged in this Assurance.

XI.

Enforcement

47. **IT IS FURTHER UNDERSTOOD AND AGREED** that any violation of the terms of this Assurance shall constitute prima facie evidence of violation of the applicable law in any civil action or proceeding thereafter commenced against Qwest by the Attorney General.

XII.

Nonapproval

48. **IT IS FURTHER UNDERSTOOD AND AGREED** that the acceptance of this Assurance by the Attorney General shall not be deemed approval by the Attorney General of any of Qwest's business practices, and Qwest shall make no representation to the contrary.

Qwest enters into this Assurance without admitting that it has violated any federal, State or local law, code, or regulation.

WHEREFORE, the following signatures are affixed hereto this

13th day of September, 1999.

ELIOT SPITZER

Attorney General of the
State of New York

by: Mary Ellen Burns
Mary Ellen Burns
Assistant Attorney General
in charge
Bureau of Telecommunications
and Energy

Jill Ellen Sandford
Jill Ellen Sandford
Assistant Attorney General
of counsel

QWEST COMMUNICATIONS CORPORATION

by: John C. Taylor
John C. Taylor
Senior Vice President
Consumer Markets

CORPORATE ACKNOWLEDGMENT

STATE OF VIRGINIA)
: ss
COUNTY OF ARLINGTON)

John C. Taylor, being duly sworn, deposes and says:

I am Senior Vice President—Consumer Markets of Qwest **Communications** Corporation, respondent described in and which executed the foregoing Assurance of Discontinuance. I have executed the aforesaid instrument with the consent and authority of Qwest Communications Corporation, LCI International Telecom Corp. d/b/a Qwest Communications Services, Phoenix Network Inc., and USLD Communications Inc., and those responsible for the acts of said entity and duly acknowledge same.

Sworn to before me this 7th
day of September, 1999

Notary Public

My Commission Expires May 31, 2003

EXHIBIT A

[Date]

Dear Qwest Customer:

Pursuant to an agreement with the Attorney General of the State of New York, Eliot Spitzer, we are writing to confirm the following terms and conditions of your long distance service with Qwest:

Monthly fee: $4.95 (waived for the first month of service).
State-to-state rate: 9¢ per minute
Instate rate for calls within New York: 10¢ per minute

Additionally, under the Fly Free America promotion offered to you when you switched your service to Qwest, you will receive two free airline tickets after staying with Qwest long distance service for 60 days. When you use these airline tickets, you must stay at one of the participating hotels for a minimum number of nights at the regular published rate found in the Pricing Guide. If you have not already received the Pricing Guide, one will be forwarded to you shortly.

If you believe the terms specified in this letter differ from what you were offered when you initially switched your service to Qwest, you may be entitled to credits. If so, please contact us at 800-267-8915 by [date—30 days from letter].

Yours truly,

Qwest Communications Corporation

EXHIBIT B

[Date]

Dear former Qwest Customer:

Pursuant to an agreement with the Attorney General of the State of New York, Eliot Spitzer, we are writing to confirm the following terms and conditions of your former long distance service with Qwest:

Monthly fee: $ 4.95 (waived for the first month of service)
State-to-state rate: 9¢ per minute
Instate rate for calls within New York: 10¢ per minute

Additionally, under the Fly Free America promotion offered to you when you switched your service to Qwest, you were offered two free airline tickets after staying with Qwest long distance service for 60 days and were required to stay at one of the participating hotels for a minimum number of nights at the regular published rate when you used these airline tickets.

Our records indicate that you have disconnected your service with Qwest. If you believe the terms specified in this letter differ from what you were offered when you initially switched your service to Qwest, you may be entitled to credits. If so, please contact us at 800-267-8915 by [date—30 days from letter].

Yours truly,

Qwest Communications Corporation

EXHIBIT C

[Date]

Dear [Customer name]:

We have completed our review of the issues raised in your complaint. Pursuant to an agreement with the Attorney General of the State of New York, Eliot Spitzer, we are [issuing a bill credit to your account/enclosing a check] in the amount of [amount] representing refunds for [Qwest's $4.95 monthly service fee billed to your account and/or the difference between Qwest's advertised state-to-state rate of 9¢ per minute and its instate rate of 10¢ per minute, which you were billed for your calls within New York].

If you have any further questions, please contact us at 800-267-8915.

Yours truly,

Qwest Communications Corporation

NO. 97-13728

AT&T CORP. AND AT&T COMMUNICATIONS OF THE SOUTHWEST, INC.	§	IN THE DISTRICT COURT
V.	§	
QWEST INTERNATIONAL COMMUNICATIONS, INC., QWEST COMMUNICATIONS, INC., SP CONSTRUCTION, INC. AND C&S DIRECTIONAL BORING COMPANY, INC.	§	OF TRAVIS COUNTY, TEXAS
	§	261ST JUDICIAL DISTRICT

FINAL JUDGMENT

On the 23rd day of October, 2000, came to be heard the above entitled and numbered cause wherein AT&T Corp. and AT&T Communications of the Southwest, Inc. (collectively "AT&T" or "Plaintiffs") are Plaintiffs; Qwest Communications International, Inc., Qwest Communications Corporation, and SP Construction Services (collectively "Qwest") are Defendants and Cross-Plaintiffs; C&S Directional Boring Company, Inc. is a Defendant and Cross-Defendant; and CK Directional Drilling and Charles Loyd Nelson are Defendants. The parties appeared in person and by and through their respective attorneys of record and announced ready for trial. A jury of twelve men and women was duly selected, impaneled and sworn, and thereafter, heard the evidence and arguments of counsel.

At the conclusion of Plaintiffs' evidence, all Defendants moved jointly for a directed verdict on Plaintiffs' trespass claims. The Court, having considered the motion, the arguments of counsel, and the record of this case, rendered judgment as a matter of law in favor of Defendants with respect to Plaintiffs' trespass claims. Defendant C&S Boring Company, Inc. moved for a directed verdict on Plaintiffs' negligence claims. The Court, having considered the motion, the arguments of counsel, and the record of this case, denied the motion and directed the jury to return a verdict on the merits because Plaintiffs raised a fact issue with respect to CK Directional Drilling's and Charles Loyd Nelson's status as independent contractors. CK Directional Drilling and Charles Loyd Nelson moved for a directed verdict on Plaintiffs' claims for exemplary damages. The Court, having considered the motion, the arguments of counsel, and the record of this case, denied the motion and directed the jury to return a verdict on the merits because Plaintiffs raised a fact issue with respect to CK Directional Drilling's and Charles Loyd Nelson's liability for exemplary damages.

In response to written questions, definitions, and explanatory instructions submitted to it in the Charge of the Court, at the conclusion of all of the evidence, the jury made findings that the Court received, filed, and entered of record. The Charge of the Court as to Phases I and II of the trial and the jury's answers thereto are attached hereto as Exhibit A and incorporated herein by reference.

Plaintiffs moved for entry of judgment on the jury's verdict with respect to Plaintiffs' claims against Defendants. The Court is of the opinion that judgment should be entered on the jury verdict with respect to Plaintiffs' claims against Defendants.

IT IS THEREFORE ORDERED, ADJUDGED AND DECREED that AT&T Corp. and AT&T Communications of the Southwest, Inc. have and recover of and from Qwest Communications International, Inc., Qwest Communications Corporation, and SP Construction Services, jointly and severally, compensatory damages and prejudgment interest in the amount of $746,704.54.

IN ADDITION, IT IS FURTHER ORDERED, ADJUDGED AND DECREED that AT&T Corp. and AT&T Communications of the Southwest, Inc. have and recover of and from

Qwest Communications International, Inc., Qwest Communications Corporation, SP Construction Services, and C&S Directional Boring Company, Inc., jointly and severally, compensatory damages and prejudgment interest in the amount of $59,738.74.

IN ADDITION, IT IS FURTHER ORDERED, ADJUDGED AND DECREED that AT&T Corp. and AT&T Communications of the Southwest, Inc. have and recover of and from Qwest Communications International, Inc., Qwest Communications Corporation, SP Construction Services, C&S Directional Boring Company, Inc., CK Directional Drilling, and Charles Loyd Nelson, jointly and severally, compensatory damages and prejudgment interest in the amount of $472,196.64.

IN ADDITION, IT IS FURTHER ORDERED, ADJUDGED AND DECREED that AT&T Corp. and AT&T Communications of the Southwest, Inc. have and recover of and from C&S Directional Boring Company, Inc. exemplary damages in the amount of $51,000.00.

IN ADDITION, IT IS FURTHER ORDERED, ADJUDGED AND DECREED that AT&T Corp. and AT&T Communications of the Southwest, Inc. have and recover of and from Defendants Qwest Communications International, Inc., Qwest Communications Corporation, and SP Construction Services, jointly and severally, punitive damages in the sum equal to two times Plaintiffs' economic damages, that amount being $467,808.91.

IN ADDITION, IT IS FURTHER ORDERED, ADJUDGED AND DECREED that the amounts awarded in this Judgment shall bear interest at the highest rate allowed by law, not less than the rate of 10% per annum, compounded annually, from the date of entry of judgment until paid.

IN ADDITION, IT IS FURTHER ORDERED, ADJUDGED AND DECREED that all costs of court incurred in this cause are taxed against Qwest Communications International, Inc., Qwest Communications Corporation, SP Construction Services, C&S Directional Boring Company, Inc., CK Directional Drilling, and Charles Loyd Nelson, jointly and severally. All writs and processes for the enforcement and collection of this judgment or the costs of court may issue as necessary. All other relief not expressly granted in this Judgment is expressly denied. This judgment finally disposes of all parties and all claims in this suit and is appealable.

SIGNED this 25th day of October, 2001.

SUZANNE COVINGTON
TRAVIS COUNTY DISTRICT JUDGE

APPROVED AS TO FORM ONLY:

[illegible]
Attorney for Plaintiffs

Delno J. Grosenheider
[illegible] C. Wright
Attorneys for Defendants Qwest Communications International, Inc., Qwest Communications Corporation, and SP Construction Services

Michael J. Clark
Attorney for Defendant C&S Directional Boring Company, Inc.

C. Mark Stratton
Attorney for Defendants CK Directional Drilling and Charles Loyd Nelson

[illegible] : AUSTIN-1 [illegible]

000005

** TOTAL PAGE.06 **

Qwest Communications International, Inc.; Qwest Communications Corporation; and SP Constructions Services, Inc./AT&T Corp.; AT&T Communications of the Southwest, Inc.; CK Directional Drilling; and Charles Loyd Nelson, Appellants v. AT&T Corp.; AT&T Communications of the Southwest, Inc./Qwest Communications International, Inc.; Qwest Communications Corporation; SP Construction Services, Inc.; C&S Directional Boring Company, Inc.; CK Directional Drilling; and Charles Loyd Nelson, Appellees

NO. 03-02-00030-CV

COURT OF APPEALS OF TEXAS, THIRD DISTRICT, AUSTIN

114 S.W.3d 15; 2003 Tex. App. LEXIS 4898

June 12, 2003, Filed

SUBSEQUENT HISTORY: [*1] Released for Publication June 12, 2003. Petition for review filed by, 09/11/2003

PRIOR HISTORY: FROM THE DISTRICT COURT OF TRAVIS COUNTY, 261ST JUDICIAL DISTRICT. NO. 97-13778, HONORABLE SUZANNE COVINGTON, JUDGE PRESIDING. *Qwest Communs. Int'l v. AT&T Corp., 2000 Tex. App. LEXIS 8724 (Tex. App. Austin, Oct. 19, 2000)*

DISPOSITION: Affirmed in Part; Reversed and Rendered in Part.

LexisNexis (TM) HEADNOTES - Core Concepts:

COUNSEL: For CK & Nelson: C. Mark Stratton, Sue M. Lee, Henslee Fowler Hepworth & Schwartz, LLP., Austin, TX.

For: C&S: Michael J. Clark, Thornton Summers Biechlin Dunham & Brown, Inc. Austin, TX.

For Qwest & SP: Thomas C. Wright, Julia L. Kurtz, The Wright Law Firm, Houston, TX. , Molly H. Hatchell, Hatchell P.C., Tyler, TX.

For AT&T: Joseph Latting, John K. Schwartz, Barbara Ellis, E. Lee Parsley, Jennifer L. Mathis, Locke, Liddell & Sapp, L.L.P. Austin, TX.

JUDGES: Before Justices B. A. Smith, Yeakel and Aboussie *

* Before Marilyn Aboussie, Chief Justice (retired), Third Court of Appeals, sitting by assignment. See Tex. Gov't Code Ann. § 74.003(b) (West 1998).

OPINIONBY: Lee Yeakel

OPINION:

OPINION

Qwest Communications International, Inc., Qwest Communications Corp., and SP Construction Services, Inc. (together "Qwest") appeal a final judgment awarding economic and exemplary damages to AT&T Corporation and AT&T Communications of the Southwest, Inc. (together "AT&T") for damage to an AT&T fiber-optic cable. CK Directional Drilling and Charles Nelson (together "CK") and AT&T also appeal the final judgment, challenging the district court's calculation of damages. We will affirm in part and reverse and render in part.

FACTUAL AND PROCEDURAL BACKGROUND

In 1996 Qwest began the construction of a nationwide fiber-optic communication network to compete against AT&T and other communications companies. **n1** By the fall of 1997, with the permission of [*2] the Texas Department of Transportation, Qwest was laying fiber-optic cable in highway rights-of-way between Austin, San Antonio, and Houston. AT&T

fiber-optic cables lay buried in the same rights-of-way. The rights-of-way also accommodate cables, pipes, and lines of various other utility companies. The rights-of-way's narrow width dictates that underground cables be buried near to one another. Qwest informed AT&T of its cable-laying operations, and AT&T had representatives at the various sites to aid in coordination, mark the AT&T cable, and avoid potential damage. This action involves Qwest's cable-laying operations along State Highway 21 between Austin and Seguin.

> **n1** A fiber-optic communications network is comprised of thousands of miles of underground fiber-optic cable, which carries voice, data, and video telecommunications services.

On September 16, 1997, Qwest severed an AT&T fiber-optic cable. The next month, CK, a subcontractor employed by C&S Directional Boring Company, Inc. ("C&S") to perform [*3] boring operations for Qwest, cut the cable a second time. **n2** Qwest had contracted with C&S to perform cable-laying operations, and C&S, in turn, had retained CK. A third cut occurred in December, when CK employees again cut the AT&T cable. AT&T filed suit against Qwest and C&S, seeking damages and an injunction to stop Qwest's cable-installation practices. AT&T obtained a temporary restraining order against Qwest; however, at the courthouse immediately before a scheduled temporary-injunction hearing, Qwest and AT&T reached an agreement (the "Agreement"), which they announced to the district court.

> **n2** During boring operations, an operator, using a drilling rig, sends a boring device into the ground and along a predetermined, horizontal path. At a preselected point, the operator turns the bore upwards, drilling a path to the surface. At the exit hole, a larger drilling head and the underground cable are attached to the bore. The boring device reverses direction, widening the hole, and pulls the cable back through the original hole to where it began, thus installing the cable. As the bore travels underground, it transmits a radio signal, which is detected by a worker-operated sensor, such as a "DigiTrak locator," monitored at the surface. The length and depth of the horizontal bores vary depending on conditions; however, the operations that led to the second and third cuts were about 500 feet in length and four to six feet below the surface.

[*4]

The Agreement embodied a nationwide cooperative plan regarding Qwest's fiber-optic-network installation. **n3** AT&T dictated the Agreement into the court record without objection. Later, AT&T filed a motion for contempt and sanctions, alleging that Qwest had violated the terms of the Agreement while conducting cable-laying operations in another state. Qwest then disputed the validity of the Agreement. At a district-court hearing, AT&T presented an "Agreed Order," which it asserted was the exact rendition of the Agreement previously read into the record. Qwest objected, arguing the order was incomplete as a *rule 11* agreement. *See Tex. R. Civ. P. 11* (agreement between parties enforced if in writing, signed, and filed as part of record, or agreement made in open court and entered of record). The district court signed the order and made findings of fact and conclusions of law that the Agreement was an enforceable *rule 11* agreement. **n4**

> **n3** The Agreement essentially provided: (1) restrictions on excavation work and boring operations by Qwest when in the vicinity of an existing AT&T cable, (2) procedures for Qwest to notify AT&T of its activities, (3) requirements of meetings between Qwest and AT&T, (4) requirements for approval of Qwest's work plans by AT&T, and (5) provisions for AT&T to have a site representative present during Qwest's operations in proximity to an AT&T cable. The Agreement was to expire in three years. [*5]

> **n4** On the last page of the order, the district court annotated that "no enforcement of paragraphs (b) [and] (c) will be entertained until a Feb 25, 26, 1998 hearing on clarification." The court signed a final order on March 25, 1998. The enforcement restriction noted in the first order is of no consequence to this appeal. Both orders were signed by Judge John Dietz.

This Court dismissed Qwest's appeal of the order, holding it to be a nonappealable interlocutory order over which we lacked jurisdiction. *Qwest Communications Int'l Inc. v. AT&T Corp., 983 S.W.2d 885 (Tex. App.--Austin 1999)*. The supreme court reversed and remanded the cause to this Court, holding that the order was appealable because it granted a temporary injunction. *Qwest Communications Corp. v. AT&T Corp., 24 S.W.3d 334, 43 Tex. Sup. Ct. J. 600 (Tex. 2000)* (citing Act of April 2, 1997, 75th Leg., R.S., ch. 1296, § 1, 1997 Tex. Gen. Laws 4936, 4936-37 (amended 2001) (current provision at *Tex. Civ. Prac. & Rem. Code Ann. §*

51.014(a)(4) (West 2003)). After remand, this Court dismissed **[*6]** the interlocutory appeal on the joint motion of the parties. *Qwest Communications Int'l Inc. v. AT&T Corp., No. 03-98-111-CV (Tex. App.--Austin Oct. 19, 2000, no pet.)* (not designated for publication). The case then proceeded to trial in the district court. **n5**

n5 The case was tried before Judge Suzanne Covington, who signed the final judgment.

The jury awarded economic damages to AT&T for all three cable cuts: for the first cut, the jury awarded $ 205,187.69 against Qwest, finding that Qwest acted with malice; for the second cut, the jury awarded $ 339,809.98 against CK; for the third cut, the jury awarded AT&T $ 143,583.83, with responsibility apportioned between Qwest (20%), C&S (30%), and CK (50%), and found that Qwest and C&S acted with malice. Additionally, the jury found Qwest had breached the Agreement and awarded $ 317,814 to AT&T. The jury found that at all times C&S was responsible for the conduct of CK, its subcontractor, and that Qwest was responsible for the conduct of C&S. The jury **[*7]** awarded AT&T $ 350 million in exemplary damages against Qwest and $ 51,000 in exemplary damages against C&S. **n6** After the verdict, the district court advised the parties that the calculation of exemplary damages would not include: (1) prejudgment interest, (2) breach-of-contract damages, or (3) damages resulting from the second cut; in addition, twenty percent of the damages found arising from the third cut would be included in calculating exemplary damages. The court also stated that prejudgment interest against CK began on May 5, 2000, the date AT&T amended its petition to name CK as a defendant. The final judgment employed the formula previously announced by the district court and, in addition, reduced the exemplary-damages award against Qwest to two times economic damages in accordance with the statutory cap on exemplary damages, resulting in exemplary damages of $ 467,808.91. The judgment did not toll the accrual of prejudgment interest as to CK's portion of the damages.

n6 The parties and the district court use the term "punitive damages" to describe the exemplary damages allowed by the civil-practice-and-remedies code. *See Tex. Civ. Prac. & Rem. Code Ann. § § 41.001-.013* (West 1997 & Supp. 2003). For clarity, we will use the legislature's term.

[*8]

By four issues, Qwest challenges: (1) the legal and factual sufficiency of the evidence supporting the exemplary-damages award; (2) the existence of a *rule 11* agreement; (3) the damages award for breach of the Agreement; and (4) Qwest's liability for the negligence of the independent contractors. AT&T, by two issues, argues that the district court miscalculated the exemplary damages and incorrectly calculated prejudgment interest. Finally, CK argues that the district court erred in failing to toll prejudgment interest as to the damages awarded against it.

DISCUSSION

I. The Exemplary-Damages Award

By its first issue, Qwest challenges the legal and factual sufficiency of the evidence supporting the jury's award of exemplary damages. The jury found that Qwest's actions were the result of its malice. Specifically, Qwest contends that AT&T did not meet the clear-and-convincing-evidence burden required for such a finding because: (1) a corporation cannot be liable for exemplary damages unless a managerial agent participates in the conduct and (2) there was no proof of malice. *See Tex. Civ. Prac. & Rem. Code Ann. § 41.001* (West **[*9]** 1997).

Because AT&T's burden of proof at trial was by clear-and-convincing evidence, our legal-and-factual-sufficiency review must incorporate this heightened standard. In two recent opinions, the supreme court has articulated the standards for conducting a legal-and-factual-sufficiency review when the burden of proof at trial was by the clear-and-convincing standard. *See In re J.F.C., 96 S.W.3d 256, 46 Tex. Sup. Ct. J. 328 (Tex. 2002), In re C.H., 89 S.W.3d 17, 45 Tex. Sup. Ct. J. 1000 (Tex. 2002); see also Bentley v. Bunton, 94 S.W.3d 561, 597, 45 Tex. Sup. Ct. J. 1172 (Tex. 2002)* (for purpose of proving actual malice in defamation action, evidence is clear and convincing if it supports firm conviction that fact to be proved is true).

In *J.F.C.* the supreme court held that the legal-sufficiency review "must take into consideration whether the evidence is such that a fact finder could reasonably form a firm belief or conviction about the truth of the matter on which the [plaintiff] bears the burden." *96 S.W.3d at 265-66.* The court stated that the a reviewing court, in conducting a legal-sufficiency review, should "look at all the evidence in the light most favorable to the finding to determine **[*10]** whether a reasonable trier of fact could have formed a firm belief or conviction that its finding was true." *Id. at 266.* Deference to the fact finder's conclusion requires "looking at the evidence in the light most favorable to the judgment [which] means that a reviewing court must assume that the fact finder resolved disputed facts in favor of its finding if a reasonable fact finder could do so . . . a court should disregard all evidence that a reasonable fact finder could have disbelieved or found to have been incredible." *Id.* The court continued, stating:

This does not mean that a court must disregard *all* evidence that does not support the finding. Disregarding undisputed facts that do not support the finding could skew the analysis of whether there is clear and convincing evidence.

If, after conducting its legal sufficiency review of the record evidence, a court determines that no reasonable fact finder could form a firm belief or conviction that the matter that must be proven is true, then that court must conclude that the evidence is legally insufficient.

Id.

Regarding a factual-sufficiency review under the clear-and-convincing standard, **[*11]** the court opined that "a court of appeals must give due consideration to evidence that the fact finder could reasonably have found to be clear and convincing." *Id.* The court held that the inquiry must be "whether the evidence is such that a fact finder could reasonably form a firm belief or conviction about the truth of the . . . allegations." *Id.* The court then stated:

a court of appeals should consider whether disputed evidence is such that a reasonable fact finder could not have resolved that disputed evidence in favor of its finding. If, in light of the entire record, the disputed evidence that a reasonable fact finder could not have credited in favor of the finding is so significant that a fact finder could not reasonably have formed a firm belief or conviction, then the evidence is factually insufficient. A court of appeals should detail in its opinion why it has concluded that a reasonable fact finder could not have credited disputed evidence in favor of the finding.

Id. at 266-67.

In Texas a party may recover exemplary damages if the jury finds the defendant acted with malice. *See Tex. Civ. Prac. & Rem. Code Ann. § 41.003(a)(2)* **[*12]** (West 1997). Jury Questions 4, 8, and 14 asked whether, by clear-and-convincing evidence, the harm to AT&T from the three cuts resulted from malice. The charge defined malice as:

An act or omission by [Qwest, C&S, or CK],

(i) which, when viewed objectively from the standpoint of that party at the time of its occurrence, involved an extreme degree of risk, considering the probability and magnitude of the potential harm to others; and

(ii) of which the party had actual, subjective awareness of the risk involved, but nevertheless proceeded with conscious indifference to the rights, safety, or welfare of others.

This language tracks the civil-practice-and-remedies code. *See id. § 41.001(7).* The jury found that no party acted with malice with regard to the second cut and no malice on CK's part with regard to the third cut. However, the jury found that the first cut resulted from Qwest's malice and the third cut from the malice of Qwest and C&S.

Malice includes two elements: (1) viewed objectively from the actor's standpoint, the act or omission must involve an extreme degree of risk, considering the probability and magnitude of the potential harm to others, and **[*13]** (2) the actor must have actual, subjective awareness of the risk involved, but nevertheless proceed in conscious indifference to the rights, safety, or welfare of others. *Mobil Oil Corp. v. Ellender, 968 S.W.2d 917, 921, 41 Tex. Sup. Ct. J. 763 (Tex. 1998)* (citing *Transportation Ins. Co. v. Moriel, 879 S.W.2d 10, 23, 37 Tex. Sup. Ct. J. 883 (Tex. 1994)).* **n7** Evidence of simple negligence is not enough to prove either the objective or subjective elements. *Id.* Under the first element, "extreme risk" is not a remote possibility of injury or even a high probability of minor harm, but rather the likelihood of serious injury to the plaintiff. *Id.* Under the second element, actual awareness means that the defendant knew about the peril, but its acts or omissions demonstrated that the actor did not care. *Id.* Both elements may be proved by circumstantial evidence. *Id.*

n7 In *Mobil Oil Corp. v. Ellender,* the supreme court noted that, in 1995, the legislature substituted "malice" for "gross negligence" as a prerequisite for exemplary damages. *968 S.W.2d 917, 921 n.2, 41 Tex. Sup. Ct. J. 763 (Tex. 1998).* The *Ellender* court stated that the definition of malice in *section 41.001(7)(B)* "mirrors this Court's definition of gross negligence in *Transportation Ins. Co. v. Moriel, 879 S.W.2d 10, 23, 37 Tex. Sup. Ct. J. 883 (Tex. 1994).* Therefore, this opinion's legal sufficiency review of gross negligence is relevant to legal sufficiency review of malice as redefined by *section 41.001(7)(B).*" *Id.*

[*14]

A corporation may be liable for exemplary damages resulting from malice only if the corporation itself acts with malice. *Id.* A corporation "can act only through agents of some character." *Id.* A corporation is liable for exemplary damages if it authorizes or ratifies an agent's gross negligence or if it is grossly negligent in hiring any unfit agent. *Id.* Liability is present if the corporation acts maliciously through the actions or inactions of a corporate vice principal or officer. *Id. at 922*; *ONI, Inc. v. Swift, 990 S.W.2d 500, 503 (Tex. App.--Austin 1999, no pet.)*. In *Ellender*, the supreme court applied the vice-principal approach to determine whether a corporation was liable for exemplary damages. *Ellender, 968 S.W.2d at 922* (citing *Hammerly Oaks, Inc. v. Edwards, 958 S.W.2d 387, 389, 41 Tex. Sup. Ct. J. 187 (Tex. 1997))*. A vice principal embodies: (1) corporate officers; (2) those who have authority to employ, direct, and discharge servants of the master; (3) those engaged in the performance of nondelegable or absolute duties of the master; and (4) those to whom the master has confided the management of the whole or a department or **[*15]** a division of the business. *Id.*

In determining whether acts are directly attributable to the corporation, the reviewing court does not simply judge individual elements or facts. *Id.* Instead, to determine if the corporation acted with malice, the court should review all the surrounding facts and circumstances and "the reasonable inferences the fact finder can draw from what the corporation did or failed to do and the facts existing at relevant times that contributed to a plaintiff's alleged damages." *Id.*

Qwest asserts that none of its vice principals were involved in the cable cuts and that the evidence is legally and factually insufficient as to the objective element of malice. We disagree. There is ample evidence, when viewed objectively from Qwest's standpoint, that fostering a corporate environment of rapid cable-laying operations in the same rights-of-way and in close proximity to AT&T's cable created an extreme risk of damage to AT&T's fiber-optic system. The jury heard testimony that Qwest's upper management was involved in the project and that they promoted a hurried pace for its completion. Qwest laid its fiber-optic cable within the same highway right-of-way **[*16]** as AT&T, and the Qwest cable was buried about fourteen feet from the AT&T cable. Fiber-optic cables are fragile and expensive conduits that transport enormous amounts of information every second; if damaged, thousands of customers lose service.

Scott Howerton, Qwest's construction manager for work along Highway 21, testified that Qwest was funding its fiber-optic-cable installation by contracting with other communications companies that paid Qwest upon the completion of network segments. In the event Qwest fell behind schedule, it would be liable to pay a penalty to the contracting companies. Howerton stated that he had eleven months, from February 1997 to January 1998, to complete this leg of the installation. He testified as to Qwest's hiring practices, stating that when he arrived in Texas he supervised six Qwest employees, and by September he had hired over one hundred more to facilitate construction. He was the person ultimately responsible for the hiring process in Texas. Howerton stated that Qwest was about two months behind schedule when the first cut occurred.

Moreover, the evidence showed that Qwest's nationwide installation operations had resulted in numerous cuts to other **[*17]** fiber-optic cables and buried utility lines. Danny Bottoms, a former Qwest senior manager, testified about the hurried atmosphere at Qwest to finish the fiber-optic-cable system. He testified that "every member of the management team" at Qwest was pushing to get the job done.

There is also evidence to support the subjective component of malice. John Huffman, the AT&T employee who investigated the first cut for AT&T, testified that after the cut, AT&T attempted to facilitate cooperation between the two corporations. He read into the record a memorandum recounting a telephone conversation between Steve Szabo, AT&T's cable-network manager, and Qwest's "call before you dig" center, during which Szabo requested Qwest's project plan information and the names of construction project managers. AT&T desired the information in an attempt to prevent future cable cuts. Huffman testified that, to his knowledge, AT&T received no information from Qwest after the call. Similarly, Huffman read a second Szabo memorandum into the record where Szabo, after the second cut, wrote that he met with two Qwest representatives, asking them to provide AT&T with project plans and seeking cooperation with Qwest **[*18]** at the work site. The memo stated that Szabo never received any response. Huffman also testified that Szabo communicated with Qwest two more times as well. Thereafter, Szabo talked to another Qwest employee, and this time Qwest indicated that it would cooperate with AT&T. However, the third and final cut occurred shortly thereafter. Huffman testified that between the first and the third cable cuts, AT&T received no meaningful cooperation from Qwest.

Terry Philips, another AT&T employee, supervised crews that were marking AT&T's cable ahead of the crews installing the Qwest cable. She testified that Howerton "basically [] told me that [Qwest] had a schedule to keep, that they weren't going to stop or slow down for [AT&T] and that it was our problem if we didn't have enough people out there to cover them on that job." Howerton's testimony corroborated Philips's.

AT&T employee Charles Rotan patrolled AT&T's cable system for malfunctions and mishaps. He testified to observing Qwest crews working twelve-to-thirteen-hour days, often without lunch.

Regarding the first cut, Huffman told the jury that the Qwest employee driving a plow was digging six inches from where AT&T's cable was [*19] marked. As the Qwest driver approached a road sign, he turned to go around it. Huffman testified that the AT&T observer told the plow driver to stop because the plow was very close to AT&T's cable and the AT&T observer wanted to verify its location. After a momentary stop, the driver's supervisor directed him to continue; the driver proceeded to cut AT&T's cable. Walt Donovan, a Qwest vice president, testified that the driver's personnel record did not indicate any training by Qwest and that he had not discovered information of any such training. Donovan also testified that the plow driver's first day on the job was only three days before the first cut. Moreover, Howerton testified that the plow driver's supervisor had no construction experience listed in his personnel record and that Qwest gave him no training regarding excavation in the vicinity of underground utilities.

Charles Nelson, CK's cofounder, testifying about the third cut, stated that he had drilled the initial bore with a four or four-and-one-half inch drill bit, which came close to AT&T's cable during the boring. The next day, when a ten-to-twelve-inch back-reamer bore was used to widen the hole, CK cut AT&T's cable. [*20] **n8** Nelson stated that the bore "ended up where I didn't think it was supposed to be." Nelson agreed that while he used the bore, the drill drifted under AT&T's cable, resulting in the cut; however, during this process, the DigiTrak locator indicated that the bore was eleven feet from AT&T's cable. Nelson stated that before the third cut, he had heard that there had been "interference" or problems with the DigiTrak locators. Moreover, Nelson testified that subsequent tests of the DigiTrak demonstrated that it was showing a deviation error of five feet. Nelson stated that he did not know how AT&T's cable was cut and that he did not intend for the bore to move toward AT&T's cable. However, he testified that either "something was out of control" or he could have been turning it.

> **n8** Nelson testified that another employee operated the drill, while he located and supervised.

Dr. Samuel Ariaratnam testified that CK deviated from "good practice" and industry standards when the second and third cuts occurred. [*21] Specifically, he cited the failure to maintain a log of all the DigiTrak readings as the bore proceeded underground and the inadequate calibration of the DigiTrak. Ariaratnam testified that the drill would only deviate on its own if it hit something but that, if the calibration was correct and the operator had control of its movement, the bore should have traveled straight along its intended path. Reviewing Nelson's deposition, Ariaratnam opined that Nelson's statement, in which he said that a driller should just work through any interference affecting the DigiTrak, demonstrated a lack of care akin to gambling, because loss of the signal from the bore could result in deviation from the intended path. Ariaratnam expressed the opinion that Nelson knew that he had bored close to AT&T's cable and that he should not have taken the chance at using the back-reamer bore to widen the hole. When asked if CK and Nelson committed "legal malice," Ariaratnam stated that Nelson did not intentionally cut AT&T's line, but he acted with recklessness when he operated the twelve-inch bore after initially drilling so close to AT&T's cable.

Based on a thorough review of *all* the evidence (1) in the [*22] light most favorable to the finding and (2) in light of the entire record, we hold that a reasonable trier of fact could have formed a firm belief or conviction that Qwest and CK acted with malice. We hold that the evidence is both legally and factually sufficient to support both elements of *Ellender*. *See 968 S.W.2d at 921*. We overrule Qwest's first issue.

II. The Agreement and Breach-of-Contract Damages

A. The Agreement

By its second issue, Qwest asserts that the Agreement is not a valid *rule 11* agreement. *See Tex. R. Civ. P. 11*. The district court submitted the issue of the Agreement's breach to the jury, who found that Qwest had breached the Agreement. Qwest argues that the court had no authority to enforce the Agreement over Qwest's objection and that the award of contract damages was error. Additionally, Qwest contends that the Agreement lacked "material" terms. AT&T rejoins that judgment on the Agreement was rendered in open court when the Agreement was dictated into the record and that attorney's fees are recoverable for Qwest's breach.

Rule 11 provides in its entirety:

> Unless otherwise provided in these rules, no agreement [*23] between attorneys or parties touching any suit pending will be enforced unless it be in writing, signed and filed with the papers as part of the record, *or unless it be made in open court and entered of record.*

Id. (emphasis added). The rule provides threshold requirements that apply to all settlement agreements. *Padilla v. LaFrance, 907 S.W.2d 454, 460, 38 Tex. Sup.*

Ct. J. 663 (Tex. 1995) (citing *Kennedy v. Hyde, 682 S.W.2d 525, 528, 28 Tex. Sup. Ct. J. 146 (Tex. 1984)* ("*Rule 11* is a minimum requirement for enforcement of all agreements concerning pending suits, including, but not limited to, agreed judgments.")); *Roeglin v. Daves, 83 S.W.3d 326, 330 (Tex. App.--Austin 2002, pet. denied)*. "Compliance with *Rule 11* is a general prerequisite for any judgment enforcing an agreement touching a pending suit." *Kennedy, 682 S.W.2d at 529*. As a general rule, "judgment is rendered when the trial court officially announces its decision in open court or by written memorandum filed with the clerk." *Reppert v. Beasley, 943 S.W.2d 172, 174 (Tex. App.--San Antonio 1997, no writ)* (citing *S & A Rest Corp. v. Leal, 892 S.W.2d 855, 857 n.1, 38 Tex. Sup. Ct. J. 303 (Tex. 1995))*. [*24] "The words used by the trial court must clearly indicate the intent to render judgment at the time the words are expressed." *S & A Rest., 892 S.W.2d at 858*. Consent also must exist at the time the court undertakes to make the agreement the judgment of the court. *Id.* (citing *Quintero v. Jim Walter Homes, Inc., 654 S.W.2d 442, 444, 26 Tex. Sup. Ct. J. 570 (Tex. 1983))*. A party has the right to revoke consent to an agreement at any time before, but not after rendition of judgment. *Quintero, 654 S.W.2d at 444*; *Arriaga v. Cavazos, 880 S.W.2d 830, 833 (Tex. App.--San Antonio 1994, no writ)*. When a trial court has knowledge that one of the parties to a suit does not consent to a judgment, the trial court should refuse to sanction the agreement as the judgment of the court. *Quintero, 654 S.W.2d at 444*. The court rendering an agreed judgment must do so "in strict or literal compliance with that agreement." *Vickrey v. American Youth Camps, Inc., 532 S.W.2d 292, 292, 19 Tex. Sup. Ct. J. 131 (Tex. 1976)*.

At a December 1997 hearing scheduled for the purpose of hearing AT&T's request for a temporary injunction against Qwest, precipitated by [*25] Qwest's cutting AT&T's cable, the parties announced in open court that they had resolved the immediate dispute, and AT&T dictated the Agreement into the district-court record. When the court questioned Qwest about additions or deletions before AT&T's recitation, Qwest responded: "I hope to just say, agreed, Your Honor." AT&T then read the Agreement into the record, and Qwest offered one addition:

And that the agreement does not act to release us from any liability that we had to them--that the defendants had to the plaintiffs before today's date. It doesn't constitute an admission of our liability and it does not act as a release of any liability the plaintiffs have to the defendant for any damage they have done to our property.

AT&T responded: "That's correct, Your Honor." Qwest, responding to the court's question concerning its authority to enforce the agreement for operations conducted out of state, stated that "it is contemplated that this agreement will actually be reduced to a contract between these parties to resolve any problems we had in Texas." The court then asked when performance was required.

The Court: How is it that you know that you're within 30 feet [*26] of an AT&T optic cable.

AT&T: Because what happens when they--before they start to dig any time they think they might be, they call us and we go out there and we tell them exactly where the cable is.

The Court: Okay.

Qwest: I believe the agreement provides, Your Honor, and correct me if I'm wrong, Mr. Schwartz [AT&T's attorney], it is within X number of feet of where they have marked their cable, Your Honor.

. . . .

Qwest: What the agreement contemplates, Your Honor, is we won't do any of this within X feet of where they have marked on the ground.

AT&T: Well, and I think the agreement says this, but there are some locations where they are going under rivers and under highways where you're not out there painting.

The Court: Low percentage activity.

AT&T: Even AT&T hasn't figured that one out yet.

The Court: Okay. With respect to the plaintiff's application for temporary injunction, judgment is rendered. [AT&T], you'll do the order. Pass it by [Qwest] and discussion for forum [sic] and then you all will submit it to me.

The hearing concluded at this point. Qwest did not object to anything that occurred at the hearing, before, during, [*27] or after AT&T's reading of the Agreement. Only after AT&T reduced the recitation to a proposed written order for submission to the district court did Qwest object and refuse to approve the written proposal.

AT&T later filed a motion for contempt and sanctions, accusing Qwest of violating the Agreement. Following a hearing, the district court determined that there was no withdrawal of consent, no ambiguity, no mistake, no lack of an essential term, and that there was, in fact, an agreement. The district court signed an "Agreed Order," which memorialized the language of the Agreement previously announced in open court. **n9** The following month, the court overruled Qwest's motion to strike and motion to determine that no *rule 11* agreement existed. Qwest argues that it did not consent and that it objected to the "Agreed Order" signed February 17, 1998.

> **n9** The "Agreed Order" states that AT&T and Qwest had previously appeared and Qwest "announced that [Qwest] had reached an agreement with [AT&T] and requested that the Court enter the following agreement, which shall be enforceable by the contempt powers of this Court or any other court of competent jurisdiction." The order was drafted by counsel for AT&T and signed by the district court over the objection of Qwest. Regardless of whether there was a *rule 11* agreement, the *order* was not "agreed."

[*28]

Approval of a settlement may not constitute rendition of an order enforcing that settlement. *Cf. S & A Rest., 892 S.W.2d at 857* (approval of settlement does not necessarily constitute rendition of judgment). But the facts before this Court differ from those of *S & A Restaurant*. There, the parties announced a settlement in open court, which the trial court accepted. *Id.* The court then explained to the plaintiff that once the court signed a judgment "everything else, it's full, final and complete." *Id. at 858*. The supreme court stated that for an agreement to constitute an agreed judgment, "the words used by the trial court must clearly indicate the intent to render judgment at the time the words are expressed," and held that there was no agreed judgment rendered at the time the court accepted the settlement. *Id.* Here, the district court heard the settlement agreement as it was read into the record, announced "judgment is rendered," and instructed counsel to prepare an appropriate written order. There can be no doubt that the court intended at that time to dispose of the issues before him in the manner announced by the parties. Moreover, **[*29]** the parties sought the ruling. *See Burnaman v. Heaton, 150 Tex. 333, 240 S.W.2d 288, 291 (Tex. 1951)* ("consent must exist at the very moment the court undertakes to make the agreement the judgment of the court"). We will apply the same standard applicable to agreed judgments to agreed interlocutory orders and hold that Qwest's attempt to withdraw consent came too late.

We now turn to Qwest's contention that the Agreement failed for lack of material terms. *Rule 11* requires that an agreement be: (1) in writing and filed in court or (2) that the terms of the agreement be announced in open court and entered of record. *Ebner v. First State Bank, 27 S.W.3d 287, 295 (Tex. App.--Austin 2000, pet. denied)*. "These two provisions allow the agreement[] to be put into written form and kept with the court's records so that the parties to the suit cannot dispute its existence or contents." *Id.* (citing *Kosowska v. Kahn, 929 S.W.2d 505, 507 (Tex. App.--San Antonio 1996, writ denied))*. "There should be nothing left for adjustment between the parties relating to the subjectmatter [sic] of the agreement. Until all the terms of a final judgment **[*30]** have been definitely agreed upon by all parties . . . the court [is] without power to render a judgment by agreement." *Matthews v. Looney, 132 Tex. 313, 123 S.W.2d 871, 873 (1939)* (citing *Wyss v. Bookman, 235 S.W. 567 (Tex. Com. App. 1921)* (one essential feature required by party was omitted)). Whether a *rule 11* agreement fails for lack of an essential term is a question of law. *DaimlerChrysler Corp. v. Brannon, 67 S.W.3d 294, 298 (Tex. App.--Texarkana 2001, no pet.)* (citing *Ronin v. Lerner, 7 S.W.3d 883, 888 (Tex. App.--Houston [1st Dist.] 1999, no pet.))*.

The reason for the essential-term requirement is expressed in *McLendon v. McLendon*: "the law . . . only requires the parties to reach an agreement as to all material terms of the agreement [to] prevent[] the trial court from supplying additional terms to which the parties have not agreed." *847 S.W.2d 601, 606 (Tex. App.--Dallas 1992, writ denied)*. The *McLendon* court held that specific provisions in underlying documents regarding a partnership being used as a security interest for obligations in division of property did not affect the **[*31]** substantive division of the marital property. *Id.* In *Ronin*, the court opined that the law of contracts applies to *rule 11* agreements. *7 S.W.3d at 886* (citing *Padilla, 907 S.W.2d at 460* (writings embodying *rule 11* agreement analogized to those required by statute of frauds)). The court held that apportionment of liability for indemnification was not an essential term "because the record reflected the essential terms with sufficient detail to determine the obligations of the parties." *Id. at 888*.

Other case law speaks to when missing provisions are material and leave the trial court without power to render the judgment. In *Reppert*, the court held that an agreement lacked the essential element as to whether the judgment would be self-enforcing through the trial court's contempt power or breach of contract. *Reppert, 943 S.W.2d at 174*. In *Rogers v. Rogers*, the court of appeals held that an agreement dictated into the record concerning the division of property similarly failed for lack of a material term. *806 S.W.2d 886, 888 (Tex. App.--Corpus Christi 1991, no writ)*. The agreement in *Rogers* did not include [*32] the manner in which 240 payments of $ 3500 per month would be secured. *Id.* The court held this term crucial because of the extended time frame and risk involved, noting that an earlier opinion stated "the trial court has no power to supply terms, provisions or conditions not previously agreed to by the parties." *Id.* (quoting *Leal v. Cortez, 569 S.W.2d 536, 538 (Tex. Civ. App.--Corpus Christi 1978, no writ))*.

Here, Qwest argues that after the district court's rendition, the parties were ordered to reduce the Agreement to a written order, which never occurred. Qwest urges that the Agreement dictated in open court lacked some material terms, which should have been reflected in the written order. Qwest posits that these material terms include several distance requirements, which some portions of the Agreement contain but others lack. AT&T responds that some provisions do not have distance requirements, but that they are not required, and nothing on the face of the Agreement indicates that it is incomplete. AT&T contends that Qwest is simply attempting to avoid its Agreement.

The Agreement delineates the circumstances in which Qwest was to inform AT&T of its cable-installation [*33] operations and the precautions that Qwest was to take. These provisions explain the circumstances in detail, including distances, stating when Qwest was to notify AT&T of excavation operations. **n10** The parties agreed to closely cooperate on future operations. The Agreement requires Qwest to monitor its operations with electronic devices and qualified personnel. It also provides for the sanction of contempt if Qwest fails to abide by the Agreement. The absence of some distance requirements, when the Agreement contains others, is not indicative of missing essential or material terms. *See Scott v. Ingle Bros. Pac., Inc., 489 S.W.2d 554, 555, 16 Tex. Sup. Ct. J. 145 (Tex. 1972)* (parties may agree on some terms sufficient to create contract, leaving other provisions for later negotiation). Any missing distance requirements are not material and could, therefore, be left open for future negotiation without destroying the contract's effectiveness. We overrule Qwest's second issue.

n10 The Agreement (A) requires notice to AT&T if Qwest excavated within thirty feet of AT&T's cables; (B) states that Qwest would not engage in boring operations in the absence of continuous electronic location of the borehead during boring and pull-back operations, distance was not specified; (C) states a thirty-foot requirement for boring and digging test pits or holes to verify the location of the borehead; (D) requires the use of DigiTrak monitoring equipment, stating no distance requirement; (E) requires proper calibration of the DigiTrak; (F) requires Qwest to submit to AT&T any plans and the details of the operations if excavating within thirty feet of an AT&T cable; (G) requires AT&T approval for Qwest operations within two lateral feet and three vertical feet of an AT&T cable; and (H) specifies certain procedures when Qwest was boring within five feet of an AT&T "underground facility."

[*34]

B. Breach-of-Contract Damages

By its third issue, Qwest challenges the damages awarded AT&T for Qwest's breach of the Agreement. The jury was asked: (1) whether Qwest had breached the Agreement and (2) the "costs and expenses incurred by AT&T that were the natural, probable, and foreseeable consequence of Qwest's breach of the *Rule 11* Agreement." The jury found that Qwest breached the Agreement and awarded AT&T damages of $ 317,824.16. The record indicates that AT&T requested $ 300,000 in attorney's fees for the breach-of-contract claim and $ 17,824.16 in travel expenses AT&T incurred in attempting to monitor Qwest's activities across the country. Qwest argues that: (1) "Texas law does not permit recovery of attorney's fees as 'damages'" and (2) "attorney's fees do not meet the definition in the damage question." AT&T asserts that $ 150,000 in attorney's fees was incurred between January and March 1998, when the district court gave final approval to the "Agreed Order." The remaining $ 150,000 was incurred in defending Qwest's interlocutory appeal to this Court and the supreme court. Qwest rejoins that the attorney's fees proved were not a consequence of any breach but were [*35] incurred as the result of AT&T's response to Qwest's challenge to the validity of the Agreement and "Agreed Order." Qwest asserts that "no actual damages were presented or proven" by AT&T.

As a general rule, attorney's fees are not recoverable from an opposing party unless such recovery is provided for by statute or by contract between the parties. *Trinity Indus., Inc. v. Ashland, Inc., 53 S.W.3d 852, 869 (Tex. App.--Austin 2001, pet. denied)*. This general rule is not without exception. In some circumstances, damages measured by a plaintiff's attorney's fees are recoverable. *See, e.g., McCall v. Tana Oil & Gas Corp., 82 S.W.3d 337, 344 (Tex. App.--Austin 2001), rev'd on other grounds, 104 S.W.3d 80, 46 Tex. Sup. J. 452, 2003 Tex. LEXIS 11* (citing *Findley v. Mitchell, 50 Tex. 143, 147-48 (1878))* (recovery of attorney's fees as damages permitted where constable wrongfully denied plaintiff's right to replevy seized property). Additionally, equitable considerations have led to several narrow exceptions allowing attorney's fees to be recovered as damages even though not authorized by contract or statute. *See Knebel v. Capital Nat'l Bank, 518 S.W.2d 795, 798-800, 18 Tex. Sup. Ct. J. 120 (Tex. 1974)* [*36] (discussing "common fund" doctrine and "fee shifting"). In *McCall*, this Court discussed two such exceptions. *See 82 S.W.3d at 344-45.* The first exception applies "where the defendant's tort requires the plaintiff to act in the protection of his interests by bringing or defending an action against a third party, the plaintiff 'is entitled to recover compensation for the reasonably necessary loss of time, attorney fees and other expenditures thereby suffered or incurred.'" *Id. at 344* (citing *Restatement (Second) of Torts § 914*(2) (1977)); *see also Baja Energy, Inc. v. Ball, 669 S.W.2d 836, 838-39 (Tex. App.--Eastland 1984, no writ)*. The second exception permits recovery of damages measured by attorney's fees when the defendant "has acted in bad faith, vexatiously, wantonly, or for oppressive reasons." *Id. at 345* (citing *Alyeska Pipeline Serv. Co. v. Wilderness Soc'y, 421 U.S. 240, 258-59, 44 L. Ed. 2d 141, 95 S. Ct. 1612 (1975))*. However, these exceptions are inapplicable to the matter now before us.

AT&T argues that the attorney's fees are "properly recoverable as consequential damages" and that recovery [*37] should be permitted based on equitable principles. AT&T relies on *Nationwide Mutual Insurance Co. v. Holmes*, where the court held that attorney's fees were "recoverable as reasonable expenses when such expenses are the natural and proximate consequences of another's wrongful act." *842 S.W.2d 335, 341 (Tex. App.--San Antonio 1992, writ denied)* (citing *Baja Energy, 669 S.W.2d at 838*). Holmes was sued for injuries resulting from a car accident, and when his insurance carrier Nationwide indicated that it would not settle the claim, upon Nationwide's advice, Holmes hired an attorney to protect his interests. *Id. at 337*. The suit against Holmes went to trial and Nationwide provided representation; however, Nationwide, knowing that Holmes was obligated to pay his retained attorney $ 7500 upon commencement of trial, failed to notify Holmes that it would indemnify him for any judgment in excess of the policy limits. *Id. at 337-38*. Holmes sued Nationwide for violation of the DTPA and received a favorable judgment, including recovery of the attorney's fees. *Id. at 338*. The court noted that Holmes did not incur the attorney's fees in defending himself [*38] in the original suit, but rather incurred the expenses because of Nationwide's wrongful conduct. *Id.*

Nationwide Mutual Insurance is distinguishable because AT&T is not recovering damages under the DTPA, and Qwest did not act wrongfully in exercising its right to appeal the "Agreed Order." Although AT&T now argues that Qwest's interlocutory appeal was filed to effect a delay, AT&T did not assert this allegation nor did it request sanctions before this Court. Moreover, we find no evidence of bad faith by Qwest in pursuing the appeals. *See General Elec. Credit Corp. v. Midland Cent. Appraisal Dist., 826 S.W.2d 124, 125, 35 Tex. Sup. Ct. J. 25 (Tex. 1991)* (sanctions not appropriate where appellant's argument on appeal fails to convince court but has reasonable basis in law and constitutes informed, good-faith challenge to trial court's judgment).

Under these circumstances, we hold that AT&T's attorney's fees were not recoverable as consequential damages. In addition, we hold that the $ 17,824.16 in travel expenses incurred by AT&T in monitoring Qwest's activities in other parts of the country were not occasioned by any alleged breach of the Agreement. AT&T presented no other evidence [*39] of breach-of-contract damages. We hold that AT&T failed to present legally sufficient evidence of these two elements of damage and sustain Qwest's third issue.

III. Qwest's Liability for the Independent Subcontractors

By its fourth issue, Qwest argues that it is not liable for the negligence of the independent subcontractors. The district court submitted four questions to the jury concerning whether C&S was under Qwest's control and whether CK was under C&S's control at the time of the second and third cuts. As to the second cut, Question 9 asked the jury whether C&S was "conducting operations for the benefit of Qwest and subject to the control by Qwest as to the detail of the work." Question 10 asked whether CK was "conducting operations for the benefit of C&S Boring and subject to control by C&S Boring as to the details of its work." Questions 15 and 16 asked similar questions as to Qwest's control over C&S regarding the third cut. The jury answered all four questions affirmatively, and the district court found Qwest jointly and severally liable with C&S and CK for the second and third cuts. In its attempt to avoid liability for what Qwest argues are independent contractors, [*40] Qwest offers two arguments: (1) because AT&T did not request a question as to whether Qwest controlled the details of CK's work and Questions 9, 10, 15, and 16 did not submit a *respondeat superior* theory as to CK, AT&T waived the theory as between Qwest and CK, and (2) the evidence as to both contractors' lack of independence is legally and factually insufficient. AT&T responds that, based on the jury findings and the evidence, Qwest is vicariously liable for C&S's and CK's actions in cutting AT&T's cable.

Generally, an employer or owner is not liable for the acts of its independent contractors. *See Abalos v. Oil*

Dev. Co., 544 S.W.2d 627, 631, 20 Tex. Sup. Ct. J. 49 (Tex. 1976); *Scott Fetzer Co. v. Read, 945 S.W.2d 854, 859 (Tex. App.--Austin 1997), aff'd, 990 S.W.2d 732, 42 Tex. Sup. Ct. J. 264 (Tex. 1998)*; *see also Lee Lewis Const., Inc. v. Harrison, 70 S.W.3d 778, 783, 45 Tex. Sup. Ct. J. 232 (Tex. 2001)*. For a general contractor to be liable for its independent contractor's acts, it must have the right to control the means, methods, or details of the independent contractor's work. *Lee Lewis Const., 70 S.W.3d at 783*; *Elliott-Williams Co. v. Diaz, 9 S.W.3d 801, 804, 43 Tex. Sup. Ct. J. 200 (Tex. 1999)*; [*41] *Redinger v. Living, Inc., 689 S.W.2d 415, 418, 28 Tex. Sup. Ct. J. 404 (Tex. 1985)* (contractor responsible for physical harm caused by independent contractor if contractor retained control of work). The control must relate to the injury the negligence causes, and the contract must grant the contractor at least the power to direct the order in which work is to be done. *Elliott-Williams, 9 S.W.3d at 804*.

In *Cage Brothers v. Friedman*, Friedman sued Cage Brothers for trespass and damages to his property. *312 S.W.2d 532, 533 (Tex. Civ. App.--San Antonio 1958, writ ref'd n.r.e.)*. Cage Brothers had contracted with the State as general contractor to maintain a segment of highway. *Id.* Workers mistakenly destroyed a fence and cut trees on Friedman's property. Friedman sued, and Cage Brothers claimed the workers were employed by an independent subcontractor and, therefore, Cage Brothers was not responsible. *Id. at 534*. In holding Cage Brothers liable, the court reviewed the evidence indicating Cage Brothers' level of control over the workers. *Id.* The court observed that: (1) the State required contractors to seek approval of any subcontractors, [*42] which Cage Brothers failed to do; (2) all the employees were on Cage Brothers' payroll, tax, social security, and workman's compensation lists; (3) all were paid by Cage Brothers; (4) the person who signed the employees' checks was a partner of the subcontractor company; and (5) this partner and another partner of the subcontractor directed the employees on the job and were paid salaries by Cage Brothers. *Id.* The court concluded its review of the evidence by observing that: "We think there is more than slight testimony, and that the evidence is sufficient to meet the test of master and servant relationship." *Id.*

Qwest argues that the evidence to support the requisite level of control is neither legally nor factually sufficient. After reviewing the evidence, we disagree. Although the contract between C&S and CK indicates the existence of a contractor and independent subcontractor relationship, such fact is not dispositive. *See Farrell v. Greater Houston Transp. Co., 908 S.W.2d 1, 3 (Tex. App.--Houston [1st Dist.] 1995, writ denied)* (where contract does not grant control over work details to principal, evidence outside contract must show true operating agreement [*43] vested right of control in principal). Evidence at trial revealed that C&S contractually retained some control over CK's work, but CK personnel, and Nelson in particular, also exercised some oversight with regard to C&S's operations. Nelson, who had previously been employed with C&S, admitted to "guiding and helping" C&S construction crews, and he signed C&S drawings as the "foreman." C&S retained the right to control CK's employee-hiring decisions in the contract. Additionally, the evidence showed that CK and C&S shared equipment, as evidenced by the testimony of Nelson and C&S's president. As is germane to the events giving rise to this action, there is no practical difference between C&S and CK.

The contract between Qwest and C&S demonstrates Qwest's right to control C&S. The contract states that C&S was to follow Qwest's plans and that Qwest would review and advise C&S as to the work performed and its acceptability. Qwest also had the right to require C&S to hire more workers, increase overtime operations, or require additional days of work. Further, C&S agreed not to subcontract any of the work without Qwest's approval and to guarantee any subcontractor's work. Moreover, the [*44] contract stated that C&S would be "responsible for the proper and safe performance of the work." Qwest also retained the right to terminate any C&S employee it found objectionable. Qwest routinely had an inspector on site, including when the second and third cuts occurred. Nelson testified that Junior Drake "was a Qwest guy" who was in charge of CK's excavations in November. Nelson testified that after finishing two bores, Drake "come down and asked me would I consider to make a longer bore . . .," instead of the two bores that Nelson had drilled. In response to the request, Nelson stated: "And I told him, yes, I would try."

Qwest offered contrary evidence as to its control of C&S and CK. Regarding the testimony of Nelson, Qwest points out that Nelson stated that the Qwest employee "asked," not "directed," him to redo an excavation. Nelson also testified that no C&S personnel directed his operations at any time relevant to the second and third cuts. Qwest argues that its contracts with C&S and C&S's contract with CK clearly state that the relationship is that of an independent contractor. However, we conclude that there is legally and factually sufficient evidence to support the [*45] jury's finding to the contrary.

Qwest's argument that AT&T was required to submit a jury question concerning Qwest's control of CK is likewise without merit. Where issues that constitute only a part of a complete and independent ground are omitted and other issues necessarily referable to that ground are submitted and answered, the omitted elements are deemed found in support of the judgment if no objection to the omission is made, and the answers are supported by some evidence. *Tex. R. Civ. P. 279*; *Ramos v. Frito-Lay, Inc., 784 S.W.2d 667, 668, 33 Tex. Sup. Ct. J. 191 (Tex. 1990)* (omitted element of managerial capacity supported by some evidence deemed found). Although it was AT&T's burden to obtain an affirmative finding as to Qwest's control over CK, it was Qwest's responsibility to object to the omission. *See Tex. R. Civ. P. 279.* Qwest did not object, and the omitted issue constituted only a part of a complete and independent ground of recovery--Qwest's responsibility for the work of the independent contractors, and other evidence adduced at trial supports the finding.

Qwest hired C&S as a subcontractor. From the evidence, the jury could have determined that Qwest controlled C&S. **[*46]** Similarly, from the evidence the jury could have determined C&S controlled CK. Moreover, there is some evidence that Qwest exercised control over CK. Qwest did not object to AT&T's failure to request a jury question as to whether Qwest controlled the actions of CK. *Id.; Ramos, 784 S.W.2d at 668.* We overrule Qwest's fourth issue.

IV. Exemplary Damages and Prejudgment Interest

The district court calculated exemplary damages as follows: (1) damages resulting from the first cut were included; (2) prejudgment interest, breach-of-contract damages, and damages resulting from the second cut were not considered; and (3) twenty percent of the damages resulting from the third cut were considered. Applying the statutory cap, the district court reduced the jury's exemplary-damages award to two times the economic damages, or $ 467,808.91. **n11**

> **n11** The district court, based on the jury's finding, awarded AT&T $ 51,000 in exemplary damages against C&S for its role in the third cut and rendered judgment for that amount. Because the amount of exemplary damages against C&S was less than the economic damages found against C&S, the district court was not required to apply *section 41.008(b)*. *See Tex. Civ. Prac. & Rem. Code Ann. § 41.008(b)* (West Supp. 2003). No party appeals this portion of the judgment.

[*47]

A. The Exemplary-Damages Cap

By its first issue on appeal, AT&T argues that the district court improperly limited exemplary damages. The district court based the calculation of exemplary damages only on Qwest's actions associated with the findings of *malice*: the first cut and twenty percent of the third cut. AT&T contends that the district court should have used the following formula to calculate damages: "add[] prejudgment interest to the $ 1 million in actual damages that the jury found AT&T had suffered, and then double[] the sum to arrive at the proper amount of exemplary damages to be awarded against Qwest." Qwest responds, arguing that exemplary damages are not warranted, that joint and several liability is not available for exemplary damages, and that it should not be held responsible for the actions of C&S and CK. Alternatively, Qwest urges that if exemplary damages are proper, then the district court's calculation should be upheld. We will affirm the district court's application of the statutory exemplary-damages cap and the award of its exemplary damages.

The dispute over the calculation of the exemplary damages turns on chapter 41 of the civil-practices-and-remedies **[*48]** code. *See Tex. Civ. Prac. & Rem. Code Ann. § § 41.001-.013* (West 1997 & Supp. 2003). Statutory construction is a question of law, *Johnson v. City of Fort Worth, 774 S.W.2d 653, 656, 32 Tex. Sup. Ct. J. 504 (Tex. 1989)*, the resolution of which must begin by looking to the statute's words, *Liberty Mutual Insurance Co. v. Garrison Contractors, Inc., 966 S.W.2d 482, 484, 41 Tex. Sup. Ct. J. 637 (Tex. 1998)*. "The goal of statutory construction is to give effect to the intent of the legislature." *Monsanto Co. v. Cornerstones Mun. Util. Dist., 865 S.W.2d 937, 939, 37 Tex. Sup. Ct. J. 199 (Tex. 1993)* (citing *Harris County Dist. Attorney's Office v. J.T.S., 807 S.W.2d 572, 574, 34 Tex. Sup. Ct. J. 538 (Tex. 1991))*. Simply stated, where a statute is unambiguous, we discern the legislature's intent from the "plain and common meaning of the words and terms used." *Id.* (citing *Moreno v. Sterling Drug, Inc., 787 S.W.2d 348, 352, 33 Tex. Sup. Ct. J. 360 (Tex. 1990)*; *RepublicBank Dallas, N.A. v. Interkal, Inc., 691 S.W.2d 605, 607, 28 Tex. Sup. Ct. J. 516 (Tex. 1985))*.

As applied here, *chapter 41* limits an award of exemplary damages to two times the amount of economic damages. *Tex. Civ. Prac. & Rem. Code Ann. § 41.008(a)(1)(A)* **[*49]** (West Supp. 2003). Exemplary damages are "any damages awarded as a penalty or by way of punishment." *Id. § 41.001(5)*. Economic damages are "compensatory damages for pecuniary loss; the term does not include exemplary damages or damages for physical pain and mental anguish, loss of consortium, disfigurement, physical impairment, or loss of companionship and society." *Id. § 41.001(4)*. "Exemplary damages may be awarded only if the claimant proves by clear and convincing evidence that the harm with respect to which the claimant seeks recovery of exemplary damages results from . . . malice." *Id. § 41.003(a)* (West 1997); *see also id. § 41.004(b)*

(West 1997). Finally, "prejudgment interest may not be assessed or recovered on an award of exemplary damages." *Id. § 41.007* (West 1997).

The two-times-economic-damages award should be applied only to the damages for the actions where the jury found malice. The jury found no malice in connection with the second cut. Likewise, AT&T did not request a jury question asking for a finding of malice as to Qwest's breach of the Agreement. We hold that the district court was correct in excluding such damages in calculating allowable [*50] exemplary damages.

AT&T's contention that all the damages are "economic damages" and should be included in the calculation contravenes the statutory purpose of exemplary damages, which is to punish. *See id. § 41.001(5)*. If AT&T had brought a separate suit for each cut, resulting in the same jury findings as here, AT&T would not have been entitled to exemplary damages as to the second cut, because the jury did not find malice as to that act. To make such an award now would be counterintuitive; the jury found no malice as to Qwest's actions regarding the second cut. The supreme court has opined that: "our duty in civil cases . . . like the duty of criminal court, is to ensure that defendants who deserve to be punished in fact receive an appropriate level of punishment, while at the same time preventing punishment that is excessive or otherwise erroneous." *Moriel, 879 S.W.2d at 17*. Here, to award AT&T exemplary damages for what is essentially a negligent act would impose an inappropriate level of punishment.

Nor should prejudgment interest be doubled in the damages-cap calculation. In *Ellis County State Bank v. Keever*, the supreme court held that an award of [*51] prejudgment interest on exemplary damages was improper. *888 S.W.2d 790, 798, 37 Tex. Sup. Ct. J. 1117 (Tex. 1994)* (citing Act of June 3, 1978, 70th Leg., 1st C.S., ch. 2, § 2.12, 1978 Tex. Gen. Laws 37, 46 (amended 1995) (current version at *Tex. Civ. Prac. & Rem. Code Ann. § 41.007*)). The court opined that "punitive damages, being inherently penal in character, should not be enlarged by the imposition of prejudgment interest in the absence of an express legislative intent to do so." *Id.* Although AT&T advocates that it is not seeking prejudgment interest on the exemplary damages, but, rather, the inclusion of prejudgment interest as an "economic damage," its argument was rejected in *Seminole Pipeline Co. v. Broad Leaf Partners, Inc. 979 S.W.2d 730 (Tex. App.--Houston [14th Dist.] 1998, no pet.)* (noting that result of this argument was mathematically same where jury's award greatly exceeds cap). **n12** Adding prejudgment interest to the award of economic damages and then doubling the sum would be no different than adding two times the economic damages and two times the prejudgment interest to compute the final award. We overrule AT&T's [*52] first issue.

n12 In *St. Paul Surplus Lines v. Dal-Worth Tank Co.*, the supreme court held that under the DTPA, prejudgment interest should not be added to the "actual damages" and then trebled, reasoning that "trebling the sum of damages ["D"] and interest ["I"] is equal to the sum of treble damages and treble interest: in other words, 3(D + I) = 3D + 3I." *974 S.W.2d 51, 54, 41 Tex. Sup. Ct. J. 1357 (Tex. 1998)*. Here, AT&T's argument, reduced to an algebraic formula, would be 2(D + I) = 2D + 2I.

B. Prejudgment Interest

By its second issue, AT&T disputes the district court's calculation of prejudgment interest. CK, by its only issue on appeal, also argues that the district court erred in calculating the prejudgment interest. On November 12, 1997, AT&T filed suit only against Qwest and C&S. On January 23, 1998, C&S sued CK as a third-party defendant. On May 5, 2000, AT&T amended its petition, naming CK and Nelson as additional defendants. After the verdict, the district court determined that prejudgment [*53] interest began to accrue against CK on the date AT&T amended its petition to include CK as a defendant, May 5, 2000, and that CK's two settlement offers, which AT&T rejected, did not toll the accrual of prejudgment interest as to CK's portion of the damages.

1. Date of Accrual Against CK

AT&T argues that the prejudgment interest should have begun to accrue from December 12, 1997, the date the original suit was filed. Alternatively, AT&T contends that accrual should begin on January 23, 1998--the date CK first had notice of AT&T's claims by virtue of C&S's suit against CK--or 180 days after this date, because CK "could have, but chose not to settle those claims." *See Tex. Fin. Code Ann. § 304.104* (West Supp. 2003). CK responds that the district court properly held that prejudgment interest ran from May 5, 2000, the date AT&T amended its petition naming CK and Nelson. The Texas Finance Code provides:

Except as provided by *Section 304.105 or 304.108*, prejudgment interest accrues on the amount of a judgment during the period beginning on the earlier of the 180th day after the date the defendant receives written notice of a claim [*54] or the date the suit is filed and ending on the day preceding the date judgment is rendered. Prejudgment interest is computed as simple interest and does not compound.

Id.

In *Robinson v. Brice*, this Court, construing a predecessor of *section 304.104*, held that the defendant must receive written notice of a "claim." **n13** *894 S.W.2d 525, 528 (Tex. App.--Austin 1995, writ denied). Robinson* involved a one-car accident in which the injured passenger sued the driver, who was driving his employer's car. *Id. at 527.* The plaintiff argued that prejudgment interest began to run 180 days after the corporation's insurance company received a copy of the accident report from the corporation, or, in the alternative, 180 days from the plaintiff's request for additional payments. *Id. at 528-29.* Because the finance code did not define the term "claim," we determined that the term's ordinary meaning was: "a demand for compensation or an assertion of a right to be paid." *Id.* As a result, we held that notification of the accident and an injury were not enough; however, we further held that the request for additional payments directed [*55] to the insurance company was sufficient notice of a claim. *Id.* We construed the statute liberally to achieve its purposes of fully compensating plaintiffs and encouraging settlements. *Id. at 529* (citing *Tex. Gov't Code Ann. § 312.006(a)* (West 1998)).

> **n13** *Texas Revised Civil Statute article 5069-1.05 § 6(a)* preceded *section 304.104, Texas Finance Code*; however, the applicable language is identical. *Compare* Act of June 3, 1987, 70th Leg., 1st C.S., ch. 3, § 1, 1987 Tex. Gen. Laws 51, 51, *with Tex. Fin. Code Ann. § 304.104* (West 2003).

In *Lee v. Fenwick*, the court, interpreting the same civil statute, held that sending notice to an attorney not of record for the defendants does not provide notice to the defendants. *907 S.W.2d 88, 89 (Tex. App.--Eastland 1995, writ denied).* The applicable statutory language was "written notice of a claim" to the [*56] "defendant." *Id.* (quoting Act of June 3, 1987, 70th Leg., 1st C.S., ch. 3, § 1, 1987 Tex. Gen. Laws 51, 51 (amended 1995) (current version at *Tex. Fin. Code Ann. § 304.104*)). In *Lee*, the plaintiff's attorney sent notice to an attorney whom he believed represented the two defendants; however, a different attorney appeared of record. *Id. at 89-90.* The record did not reflect any authority on the part of the attorney. *Id. at 90.* The court held that there was no proof that the attorney who received notice was an attorney for both defendants, the attorney did not appear of record for the defendants, and there was no proof that the defendants received the written notice; therefore, the prejudgment interest ran from the date suit was filed and not from the date of the notice sent to the misidentified attorney. *Id.*

Finally, in *Thrift v. Hubbard*, the court held that "suit was filed" when plaintiffs amended their petition to include a claim for intentional infliction of emotional distress. *44 F.3d 348, 362 (5th Cir. 1995)* (interpreting Act of June 3, 1987, 70th Leg., 1st C.S., ch. 3, § 1, 1987 Tex. Gen. [*57] Laws 51, 51 (amended 1995)). Thus, plaintiffs would be allowed to recover prejudgment interest on their claim from the date of amendment and not from the date suit was first filed. *Id.* The *Thrift* court held the defendants had notice of the claim, and thus an opportunity to settle, when they received the amended petition, and that holding otherwise would defeat the statute's objective of encouraging settlements. *Id.* The court also ruled that the 180-day delay from the amendment to the accruing of prejudgment interest did not apply because the language "whichever is earlier" required the accrual to begin on the earlier of the two dates--the date the plaintiffs amended their petition. *Id.*

Here, the purpose of encouraging settlements would not be served if prejudgment interest began to run from December 12, 1997, the date AT&T filed suit against Qwest and C&S, because CK had received no notice at that time that AT&T asserted a claim against it. On January 23, 1998, the date C&S sued CK, CK received notice and an opportunity to settle the claim with C&S; however, AT&T had yet to present notice to CK of a claim; as of this date CK was a named defendant only as to C&S. Nelson [*58] had not yet been named as a defendant. AT&T argues that because the district-court judgment found Qwest and C&S jointly and severally liable to AT&T for the damages caused by CK, prejudgment interest should begin to run against CK on December 12, 1997. AT&T posits that by virtue of this holding, it would have been entitled to the damages caused by CK from Qwest and C&S without suing CK and prejudgment interest would have run from December 12, 1997. Therefore, it should not be penalized for filing suit against CK, which would result from designating the May 5, 2000 date as the date that prejudgment interest began to run against CK. AT&T directs this Court to no authority in support of this proposition, and we have found none. The fact remains that AT&T made no claim against CK to which it could respond until AT&T actually named CK as a defendant. In the hypothetical scenario described by AT&T, CK would not be liable for prejudgment interest. Only Qwest and C&S would be liable. We hold that AT&T did not give the required notice of its claim to CK until May 5, 2000, when AT&T

amended its petition to name CK as a defendant. Only then was CK required to consider whether it should settle [*59] with AT&T. We overrule AT&T's second issue.

2. Tolling

In its only issue, CK argues that the district court erred in failing to toll the accrual of prejudgment interest for the period after CK made its two settlement offers, until October 25, 2001, the date of entry of judgment. **n14** CK posits that tolling should have began on September 21, 2000, when it made an offer to settle for $ 200,000, and on April 25, 2001, when CK made its second settlement offer for $ 439,684.93. In the alternative, CK urges that the settlement offers were open to acceptance until AT&T rejected them in writing. Although, CK admits that AT&T had promptly rejected both offers, it argues that the rejections were not in writing and AT&T had the burden of proving that the rejections were "immediate," rather than "prompt."

> **n14** CK argues that the total amount of its damages to AT&T should be $ 439,803.34, a difference from the judgment of $ 32,393.30.

The purpose of prejudgment interest is twofold: "(1) encouraging [*60] settlements and (2) expediting both settlements and trials by removing incentives for defendants to delay without creating such incentives for plaintiffs." *Johnson & Higgins of Tex., Inc. v. Kenneco Energy, 962 S.W.2d 507, 529, 41 Tex. Sup. Ct. J. 268 (Tex. 1998)*; *West Beach Marina, Ltd. v. Erdeljac, 94 S.W.3d 248, 266 (Tex. App.--Austin 2002, no pet.)*. The finance code controls the effects of a settlement offer on the accrual of prejudgment interest. *See Tex. Fin. Code Ann. § 304.105* (West Supp. 2003). Specifically, "if judgment for a claimant is more than the amount of a settlement offer of the defendant, prejudgment interest does not accrue on the amount of the settlement offer during the period that the offer may be accepted." *Id. § 304.105(b)*. Further, a settlement offer must be in writing to affect the accrual of prejudgment interest. *Id. § 304.106*. The supreme court, in *C & H Nationwide, Inc. v. Thompson*, opined that the purpose of prejudgment interest is to "encourage settlement." *903 S.W.2d 315, 325, 37 Tex. Sup. Ct. J. 1059 (Tex. 1994)* (citing Act of June 3, 1987, 70th Leg., 1st C.S., ch. 3, § 1, 1987 Tex. Gen. Laws 51, 52 (amended [*61] 1995) (current provision at *Tex. Fin. Code Ann. § 304.105*)). The court noted that the tolling provisions suspend accrual of prejudgment interest during the period in which a settlement offer *may be accepted*. This is not merely an effort to arrive at an accurate measure of compensation for the plaintiff's loss of use of money, since a plaintiff who *declines* a settlement offer has been without the use of the money just as surely as one who received no offer.

Id. (emphasis added). The supreme court's language contemplates the possibility of the rejection of a settlement offer.

In *Harris v. Mickel*, a defendant made a settlement offer for an amount greater than the final damage award, but the plaintiff rejected it four days later. *15 F.3d 428, 429 (5th Cir. 1994)* (citing Act of June 3, 1987, 70th Leg., 1st C.S., ch. 3, § 1, 1987 Tex. Gen. Laws 51, 52 (amended 1995)). The court held that the defendant was entitled to have the prejudgment interest tolled for the four days, or from the time of the offer until the plaintiff's rejection. *Id. at 430-31*. The court opined that "once an offer is *rejected*, the general [*62] rule is that the offer is thereby terminated, and consequently it cannot be accepted." *Id. at 431* (emphasis added).

Although an intention of the legislature in authorizing prejudgment interest was to foster settlements, there is no legal prohibition against rejecting an offer and no requirement that an offer cannot be rejected or that the rejection be in writing. *See Thompson, 903 S.W.2d at 325*. Only the settlement offer need be in writing; the statute makes no mention of the form a rejection must take. *See Tex. Fin. Code Ann. § § 304.105, .106*. CK has directed this Court to no authority for its assertions and, moreover, stipulated to AT&T's "prompt" rejections of the offers. **n15** Furthermore, CK's argument that a settlement offer made after the jury verdict should toll the accrual of prejudgment interest is equally without merit. After the jury verdict, AT&T was entitled to the amount awarded, subject to the district court's approval. We overrule CK's issue.

> **n15** CK asked the district court to admit letters containing its two settlement offers into evidence. AT&T objected, unless CK stipulated to the fact that AT&T "promptly" rejected the offers. Before their admittance, CK asked for the court's ruling. The testimony proceeded as follows:
>
> AT&T: Well, subject to the-the stipulation that I mentioned.
>
> CK: That you rejected the one, and I assume that you're rejecting the second one? Because you haven't called me up and said you're not going to take it.
>
> AT&T: Well, I don't agree with that characterization of the facts and the--what I said

was that assuming that we are agreeing that our responses to these settlement offers, so-called, are--were prompt and negative, then I'm okay with having these come into evidence. Subject--otherwise, we want to prove what happened, with evidence.

CK: And that's fine. They did reject them, and that's fine.

The Court: Okay.

AT&T: Then, in that--and therefore, I have no objection to the letters coming in.

The Court: They [the settlement-offer letters] are admitted then on the stipulation stated on the record, with respect-with regard to the response by AT&T.

[*63]

CONCLUSION

We reverse the district court's judgment in so far as it awards AT&T damages for its breach-of-contract action and render judgment that AT&T take nothing by such claim. In all other respects, we affirm the district-court judgment.

Lee Yeakel, Justice

Affirmed in Part; Reversed and Rendered in Part