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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF QWEST COMMUNICATIONS INTERNATIONAL INC.'S, QWEST SERVICES CORPORATION'S, AND QWEST CORPORATION'S NOTICE OF SALE, REQUEST FOR WAIVER, OR APPLICATION FOR APPROVAL OF THE SALE OF THE ARIZONA OPERATIONS OF QWEST DEX, INC.

DOCKET No. T-01051B-02-0666

QWEST CORPORATION'S NOTICE OF FILING

Qwest Corporation ("Qwest") hereby provides notice of filing the Testimony and Exhibits of Maureen Arnold, George A. Burnett, Peter C. Cummings and Brian G. Johnson in the above referenced matter.

DATED this 28th day of January, 2003.

FENNEMORE CRAIG

By ______________________
Timothy Berg
Theresa Dwyer
3003 North Central Avenue, #2600
Phoenix, AZ 85012-2913

Mark Brown
QWEST CORPORATION
3033 N. 3rd Street
Phoenix, AZ 85012

Attorneys for Qwest Corporation

ORIGINAL and **13 COPIES** filed
this 28th day of January, 2003, to:

Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007

COPY hand-delivered
This 28th day of January, 2003,to:

Christopher Kempley, Chief Counsel
Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Lyn Farmer
Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Ernest G. Johnson
Director, Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, Arizona 85007

COPY mailed this
28th day of January, 2003, to:

Scott S. Wakefield
Chief Counsel
Residential Utility Consumer Office
1110 West Washington, Suite 220
Phoenix, AZ 85007

Thomas F. Dixon
WorldCom, Inc.
707 17th Street, 39th Floor
Dever, CO 80202

Thomas H. Campbell
Michael T. Hallem
Lewis and Roca
40 N. Central Avenue
Phoenix, AZ 85004

Thomas F. Dixon
WorldCom, Inc.
707 17th Street, 39th Floor
Dever, CO 80202

Thomas H. Campbell
Michael T. Hallem
Lewis and Roca
40 N. Central Avenue
Phoenix, AZ 85004

Russell P. Rowe
William C. Brittan
Campbell, Bohn, Killin, Brittan & Ray, LLC
270 St. Paul Street, Suite 200
Denver, CO 80206

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF QWEST COMMUNICATIONS, INTERNATIONAL INC.'S, QWEST SERVICES CORPORATION'S, AND QWEST CORPORATION'S NOTICE OF SALE, REQUEST FOR WAIVER, OR APPLICATION FOR APPROVAL OF THE SALE OF THE ARIZONA OPERATIONS OF QWEST DEX, INC.	)	DOCKET NO. T-01051B-02-0666

TESTIMONY OF

MAUREEN ARNOLD

ON BEHALF OF

QWEST CORPORATION

JANUARY 28, 2003

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I. IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Maureen Arnold. My business address is 3033 N. 3rd Street, Phoenix, Arizona.

Q. WHAT IS YOUR POSITION WITH QWEST AND WHAT ARE YOUR RESPONSIBILITIES?

A. As the Director of Regulatory Matters, I am responsible for all regulatory activity for the state of Arizona.

Q. WHAT IS YOUR WORK EXPERIENCE AND EDUCATIONAL BACKGROUND?

A. In 1972 I began my career with C&P Telephone in Washington, D.C. I transferred to Albuquerque, New Mexico in 1975 and began working for Mountain Bell (now Qwest Corporation). I held various positions in the customer services area until 1985. Since 1985, I have held several positions in Regulatory Affairs in New Mexico and Arizona. I have been in Arizona Regulatory Affairs since 1993. I have a Bachelor of Science Degree from the University of New Mexico and a Masters of Business Administration from Webster University.

Q. HAVE YOU PREVIOUSLY APPEARED BEFORE THIS COMMISSION AS A WITNESS IN REGULATORY PROCEEDINGS?

A. Yes. I testified in Docket No. T-01051B-99-0105 (Rate Case), Docket No. U-3021-96-448 et. al. (Interconnection Service Measurements), Docket No. T-1051-97-0689 (Qwest Depreciation Rates), Docket No. T-01051B-99-0737 (Sale of Assets to Citizens), and Docket No. T-01051B-99-0497 (Qwest Merger).

II. PURPOSE AND SUMMARY OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS DOCKET?

A. The purpose of my testimony is to address the public policy and regulatory issues surrounding Qwest Communications International Inc.'s ("QCI") sale of the directory publishing assets and business of Qwest Dex, Inc. ("Dex"). My testimony will provide an overview of the transaction and also describe the relevant regulatory history in Arizona relating to directory publishing. I will further demonstrate that, if the Commission deems it necessary to approve the sale, it should do so as expeditiously as possible, as consistent with the public interest, and without conditions that would defeat the purpose of the transaction.

Q. WHAT ISSUES WILL YOU ADDRESS IN YOUR TESTIMONY?

A. My testimony addresses the following issues:

- the structure of the transaction;

- the relevant regulatory history relating to directory publishing issues;
- the necessity of the sale in light of QCI's precarious financial condition and the impact of QCI's financial condition on Qwest Corporation ("QC");
- QC's current responsibilities with regard to directory publishing and how those obligations will continue to be met after the sale;
- the effect of the sale on QC's rates.

Q. PLEASE IDENTIFY THE OTHER QC WITNESSES AND THE TOPICS THEY WILL ADDRESS.

A. Brian G. Johnson and Pete Cummings will testify as to the financial necessity of the sale. George A. Burnett will testify as to operational facts of the transaction and the nature of Dex's business.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. On August 19, 2002, QCI agreed to sell Dex's directory publishing business to an entity formed by the private equity firms of The Carlyle Group and Welsh, Carson, Anderson & Stowe ("Buyer"). The total purchase price for the transaction is $7.05 billion. The sale is divided into two stages. The first stage, called Dexter, included Dex operations in Colorado, Iowa, Minnesota, Nebraska, New Mexico, North Dakota and South Dakota. Of the total purchase price, $2.75 billion was allocated to the Dexter stage, which closed on November 8, 2002. The remaining $4.30 billion, subject to adjustments I describe herein, is allocated to the second stage of the transaction, called Rodney, which is scheduled to close in 2003 and includes the remaining Dex operations in Arizona, Idaho, Montana, Oregon, Utah, Washington and Wyoming.

This transaction does not fall within the scope of Arizona's asset transfer statute, A.R.S. § 40-285, as that statute pertains only to the transfer of assets owned by a regulated public service corporation. Neither Dex, nor QCI, Dex's ultimate parent, are regulated public service corporations as defined by Article 15, Section 2 of the Arizona Constitution. In a 1988 Settlement Agreement between the Commission and The Mountain States Telephone and Telegraph Company ("Mountain Bell"), Qwest's predecessor, the Commission acknowledged that the directory publishing assets that are the subject of this transaction had been conveyed from Mountain Bell to U S WEST Direct (Dex's predecessor). The Commission accepted that transfer as valid and agreed that it would take no further action to challenge the transfer. Accordingly, since that Settlement Agreement became effective on June 13, 1988, the directory publishing assets that are the subject of this transaction have not been assets of the regulated public service corporation.

Further, to the extent that this transaction would be deemed to fall within the scope of Arizona's affiliate interest rules applicable to QC (A.A.C. R14-2-801 – 806), it should be subject to the standing waiver of those rules granted by the Commission in ACC Decision No. 58087 and reaffirmed in ACC Decision No. 64654. I will demonstrate that this transaction falls within the scope of that waiver because: 1) it will not result in increased capital costs to QC; 2) it will not result in additional costs allocated to the Arizona jurisdiction; and 3) it will not result in a reduction of QC's net operating income.

Because the Commission may nonetheless decide that it does need to approve this transaction, I then demonstrate that the sale of Dex is in the public interest for at least three compelling reasons. First, it is essential that QC remain a financially strong company in order to maintain its network and provide quality service to its retail and wholesale customers in Arizona. QC's financial viability is directly affected by the financial viability of QCI. As explained by Mr. Johnson and Mr. Cummings, the sale of Dex is a major component of QCI's effort to restructure its debt and de-lever its balance sheet, and is necessary to avoid bankruptcy and address QCI's and QC's liquidity needs.

Second, QC currently has a variety of regulatory obligations related to directories. Today, these obligations are largely met through a Publishing Agreement with Dex. As part of the Dex sale transaction, the Buyer has entered into a new Publishing Agreement with QC under which QC's obligations will continue to be fulfilled. Mr. Burnett explains this in greater detail in his testimony.

Third, the 1988 Settlement Agreement ensures that the benefit of directory imputation included in current rates will remain in place, and will insulate ratepayers from any adverse rate affects based on the sale of Dex. QC's rates will not increase as a consequence of this sale.

III. THE TRANSACTION

Q. PLEASE PROVIDE AN OVERVIEW OF THE STRUCTURE OF THE TRANSACTION.

A. As explained in more detail by Mr. Burnett, the Buyer has all requisite technical, managerial and financial qualifications to serve as QC's official directory publisher. The sale will be completed in two stages for a total sale price of $7.05 billion. The first stage of the sale (Dexter) included all Qwest Dex operations in Colorado, Iowa, Minnesota, Nebraska, New Mexico, North Dakota and South Dakota for an agreed purchase price of $2.75 billion. This stage of the sale closed on November 8, 2002.

The second stage of the sale (Rodney) includes all Dex operations in Arizona, Idaho, Montana, Oregon, Utah, Washington and Wyoming for an agreed purchase price of $4.30 billion and is scheduled to close in 2003. The purchase price for Rodney is subject to adjustment based upon the Dexter adjusted EBITDA number and the working capital of Rodney at the time of closing. The second stage is contingent upon the receipt of any necessary state regulatory approvals (assuming the conditions of such approvals do not exceed the terms set forth in the purchase agreement) and on the Buyer's ability to receive debt financing for the transaction and to secure additional equity financing. The two-stage approach has allowed the Buyer to gain control of a portion of the assets and to begin operations quickly. It has also allowed QCI to receive a portion of the sale proceeds in 2002, in furtherance of the company's debt restructuring and de-levering strategy.

Q. WHAT IS THE RELATIONSHIP BETWEEN QCI, QC AND DEX?

A. QCI is QC's ultimate parent, or holding company. QCI owns Qwest Services Corporation ("QSC"), which in turn owns QC. QSC also owns Qwest Dex Holdings, Inc., which in turn owns Dex. Mr. Cummings has included an organizational chart in his testimony. QC is the incumbent local exchange carrier in many parts of the state of Arizona and the Commission regulates many aspects of its business. Dex is an integrated directory publishing operation and is not regulated by the Commission. Although QCI indirectly owns both QC and Dex, the two companies are otherwise financially separate and operationally independent.

IV. OVERVIEW OF REGULATORY HISTORY RELATING TO DIRECTORY PUBLISHING OPERATIONS AND 1988 SETTLEMENT AGREEMENT

Q. PLEASE DESCRIBE THE BACKGROUND OF THE 1988 SETTLEMENT AGREEMENT BETWEEN THE ARIZONA CORPORATION COMMISSION AND MOUNTAIN BELL.

A. Prior to 1983, Mountain Bell, QC's predecessor, was a Bell Operating Company and a subsidiary of the American Telephone and Telegraph Company ("AT&T"). With the divestiture of AT&T in 1984, the Plan of Reorganization separated the Bell Operating Companies including Mountain Bell from AT&T. Seven regional holding companies were created and ownership of the twenty-two Bell Operating Companies was divided among the seven regional holding companies. As a result of this process, Mountain

Bell became a wholly owned subsidiary of U S WEST, Inc., one of the seven newly created regional holding companies.

Prior to the divestiture, each Bell Operating Company published white pages and yellow pages directories for its service areas. At divestiture, the district court assigned the directory publishing assets and business to the Bell Operating Companies.

In 1984, Mountain Bell transferred its directory publishing assets and business to U S WEST Direct ("USWD"), a subsidiary of U S WEST, Inc. This Commission issued an order to show cause requiring Mountain Bell to appear and demonstrate why it had not violated Arizona law in transferring the directory publishing assets without Commission approval. Following a hearing, the Commission issued an order declaring the transfer to be invalid. Mountain Bell appealed that order to the Superior Court. In 1988, the Commission and Mountain Bell reached a settlement of that litigation which was incorporated into the Settlement Agreement I have previously described.

Q. PLEASE DESCRIBE THE TERMS OF THE SETTLEMENT AGREEMENT.

A. The Settlement Agreement is attached to Qwest's Application filed in this Docket. It provides that the parties would accept the transfer of the directory publishing assets from Mountain Bell to USWD as valid and the Commission would take no further action to challenge the transfer. The Settlement Agreement further provides that in future rate cases, the Commission, in arriving at Mountain Bell's test year operating income, will consider the fees and value of the services received by Mountain Bell from USWD. The Commission approved the Settlement Agreement on June 13, 1988, in Decision No. 56020.

Q. HOW WAS THE SETTLEMENT AGREEMENT TREATED IN MOUNTAIN BELL'S 1993 RATE CASE?

A. On July 15, 1993, USWC applied for an increase in its intrastate rates. In calculating the revenue requirement contained in its rate application, the Company imputed $43 million in directory revenues pursuant to the Settlement Agreement. In its filing, Staff proposed an adjustment to impute additional directory revenues of $17.6 million for a total proposed directory revenue imputation adjustment of more than $60 million. In proposing this adjustment, Staff imputed profits associated with USWD's "Yellow Pages" operations in excess of the rate of return it proposed for USWC's regulated operations. The Commission ultimately adopted a revenue requirement that included Staff's proposed directory revenue imputation adjustment. (See Decision No. 58927).

USWC appealed the Commission's order to the Arizona Court of Appeals. On February 8, 1996, the Court of Appeals issued an opinion determining that the Commission's directory adjustment violated the Settlement Agreement and that the Commission was limited to imputing the fees and value of services received by USWC from USWD. The Court of Appeals also indicated that it was inappropriate for the Commission to treat USWD's assets as if they were still a part of the regulated utility. The Court found that the Commission had "unequivocally agreed in 1988 to accept the transfer of directory publication to an unregulated subsidiary."[1]

Q. HAS THE SETTLEMENT AGREEMENT BEEN APPLIED IN RATE CASES SUBSEQUENT TO THE 1996 COURT OF APPEALS DECISION?

A. QC and its predecessors have filed only one rate case since 1996, on January 8, 1999, which resulted in a Commission order on March 30, 2001 approving a settlement agreement between Commission Staff, QC and other parties. At the hearing, Staff testified in support of the settlement and indicated that a directory revenue imputation of $43 million was considered in arriving at the revenue requirement under the settlement.[2]

Q. BASED ON THIS HISTORY, AND THE 1988 SETTLEMENT AGREEMENT, CAN THE DIRECTORY PUBLISHING ASSETS THAT ARE THE SUBJECT OF THIS TRANSACTION BE CONSIDERED REGULATED PUBLIC SERVICE CORPORATION ASSETS?

A. I don't believe so. As I indicated, in the Settlement Agreement the Commission accepted as valid the transfer of these directory-publishing assets from Mountain Bell to UWSD, and agreed to take no further action to challenge that transfer. This means that, upon the Commission's approval of the Settlement Agreement in June 1988, these directory publishing assets were no longer the assets of Mountain Bell, QC's predecessor and the

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[1] *US West Communications, Inc. v. Arizona Corporation Comm'n*, 185 Ariz. 277, 915 P.2d 1232 (App. 1996).

[2] Docket No. T-01051B-99-0105, Tr. 12/01/2000 at 507.

regulated public service corporation at that time. Accordingly, today, these assets are not the assets of QC, the regulated public service corporation. Based on my understanding of A.R.S. § 40-285, this transaction should therefore not require Commission approval pursuant to that statute, which applies to transfers of regulated public service corporation assets.

Q. DOES THIS TRANSACTION FALL WITHIN THE SCOPE OF THE LIMITED WAIVER OF ARIZONA'S AFFILIATE INTEREST RULES, GRANTED IN ACC DECISION NO. 58087 AND REAFFIRMED IN ACC DECISION NO. 64654?

A. I believe that it does. In Decision No. 58087, this Commission determined that USWCI, its parents and affiliates are only required to file a notice of intent to organize or reorganize when the organization or reorganization is likely to: (1) result in increased capital costs to USWCI; (2) result in additional costs allocated to the Arizona jurisdiction; or (3) result in a reduction of USWCI's net operating income. This waiver was recently reaffirmed for Qwest in ACC Decision No. 64654.

Q. ARE THOSE CRITERIA FOR APPLICATION OF THE WAIVER SATISFIED HERE?

A. Yes. First, this transaction will not result in increased capital costs to QC. In fact, as Mr. Cummings explains in his testimony, the Dexter sale reduced the cost of capital for QC and the expected completion of the Rodney sale will maintain or slightly improve the capital cost reduction. Second, this transaction will not result in the allocation of any additional costs to the

Arizona jurisdiction since no DEX costs have ever been allocated to Arizona regulated results of operations. Third, the transaction will not result in a reduction of QC's net operating income. These are not QC assets or revenues, and QC's net operating income is not affected. To the extent that one might consider Dex revenues to be part of QC's net operating income as a consequence of imputation, the Commission should note that this transaction does not alter in any way the imputation specified in the Settlement Agreement. QC will continue to abide by the Settlement Agreement after the transfer is completed, and continue to impute directory revenues in accordance with the Settlement Agreement. Therefore, even if imputed directory revenues were considered to be part of QC's net operating income, the third criterion for the limited waiver is still satisfied, as the amount of directory revenues imputed to QC remains governed by the Settlement Agreement, and is not impacted by the sale.

Q. IF THE COMMISSION, NONETHELESS, BELIEVES THAT IT IS REQUIRED TO APPROVE THIS TRANSACTION, SHOULD IT DO SO?

A. Yes, if the Commission still believes that it is required to approve this transaction it should do so expeditiously, as consistent with the public interest. The sale of Dex is consistent with the public interest in at least three compelling ways.

First, it is essential that QC remain a financially strong company in order to maintain its network and provide quality service to its retail and wholesale customers in Arizona. QC's financial viability is directly affected by the financial viability of QCI. As explained by Mr. Johnson and Mr. Cummings, the sale of Dex is a major component of QCI's effort to restructure its debt and de-lever its balance sheet and is necessary to avoid bankruptcy and address QCI's and QC's liquidity needs.

Second, QC currently has a variety of regulatory obligations related to directories. Today, these obligations are largely met through a Publishing Agreement with Dex. As part of the Dex sale transaction, the Buyer has entered into a new Publishing Agreement with QC under which QC's obligations will continue to be fulfilled. Mr. Burnett explains this in greater detail in his testimony.

Third, the 1988 Settlement Agreement ensures that the benefit of directory imputation included in current rates will remain in place, and will insulate ratepayers from any adverse rate effects based on the sale of Dex. QC's rates will not increase as a consequence of this sale.

I discuss each of these critical public interest considerations in turn.

V. PUBLIC INTEREST ANALYSIS

Q. HAS THE COMMISSION RECOGNIZED THAT THE FINANCIAL INTEGRITY OF QC IS AN IMPORTANT PUBLIC INTEREST CONSIDERATION?

A. Yes. It has always been recognized that the financial health and viability of a public utility is a primary consideration in the public interest. In fact, the Arizona Constitution requires the Commission to establish rates for the companies it regulates based on the fair value of their rate base in order to ensure that they have the opportunity to earn a fair rate of return.[3] The Commission also recognized the importance of QC's continuing financial viability by imposing several conditions on approval of the merger between QCI and USW designed to maintain QC's financial integrity.[4]

Q. WHY IS IT IMPORTANT THAT QC HAVE CONTINUING ACCESS TO CAPITAL MARKETS?

A. QC needs access to capital markets to ensure that it can continue to meet growth, provide new services and maintain a reliable local network. This, in turn, directly benefits the public interest and Arizona ratepayers by ensuring their access to a robust local network through a sound local telephone company.

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[3] *Scates v. Arizona Corporation Commission*, 118 Ariz. 531, 578 P.2d 612 (App. 1978).

[4] Decision No. 62672 at pages 16-17.

Q. WHAT IS THE RELATIONSHIP BETWEEN QC'S FINANCIAL VIABILITY AND QCI'S FINANCIAL CONDITION?

A. All of QCI's subsidiaries, including QC, gain access to equity markets through QCI. In addition, even though QC issues its own debt, its access to and cost of debt is affected by the debt rating of QCI. Mr. Cummings explains the relationship between QCI and QC bond ratings and costs of debt in his testimony. Thus, it is imperative that QCI maintain its financial integrity to the direct benefit of QC and its customers.

Q. WHAT DOES THE SALE OF DEX HAVE TO DO WITH QCI'S FINANCIAL VIABILITY?

A. As explained by Mr. Johnson, QCI decided to sell Dex as a critical component of its strategy to preserve and strengthen the financial integrity of QCI. If QCI had been unable to sell Dex, the specter of bankruptcy for QCI would have been very real. This alone is a compelling reason to find that the sale of Dex serves the public interest, as it allows QCI to avoid bankruptcy.

Q. WILL QC CONTINUE TO MEET ITS LEGAL OBLIGATIONS RELATED TO DIRECTORIES?

A. Yes. QC does have certain obligations related to directories under federal and state law, and QC's new Publishing Agreement with Buyer ensures that QC will continue to fulfill these obligations after the sale is completed.

Q. WHAT ARE QC'S OBLIGATIONS RELATED TO DIRECTORIES UNDER FEDERAL LAW?

A. Under Section 222 of the Federal Telecommunications Act of 1996, like every provider of local telecommunications services, QC is required to provide certain Subscriber List Information ("SLI") to all competing directory publishers on a reasonable and nondiscriminatory basis.[5]

In addition, Section 271 of the federal Act imposes certain requirements on QC for access and interconnection that specifically include "[W]hite pages directory listings for customers of the other carrier's telephone exchange service."[6] This requires QC to include its competitors' customer listings in any directories that QC or its affiliates publish.

Q. DOES QC HAVE OBLIGATIONS RELATED TO DIRECTORIES UNDER ARIZONA LAW?

A. Yes. The Commission's interconnection rules require that local exchange service providers must provide nondiscriminatory access to SLI.[7] In addition, the Commission's universal service rules define basic telecommunication service as including access to a white page or similar directory listing.[8] Under Qwest's Arizona tariffs, customers who purchase certain classes of service are entitled to a directory listing as part of the service.

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[5] 47 U.S.C. § 222(e).

[6] 47 U.S.C. § 271 (c)(2)(B)(viii).

[7] A.A.C. R14-2-1306

[8] A.A.C R14-2-1201

Q. HOW DOES QC CURRENTLY FULFILL ITS DIRECTORY OBLIGATIONS ARISING UNDER FEDERAL AND STATE LAW?

A. QC currently fulfills its directory publishing obligations in three ways:

- through a Publishing Agreement with Dex whereby Dex publishes and distributes White Page directories for QC;
- through its interconnection agreements with competitive carriers that either extend to directories or facilitate competitors' contact with Dex; and,
- by integrating listings from competitive carriers and including them in the information that QC transmits to Dex for publishing.

QC will continue to fulfill these obligations in the same way with the Buyer after the sale of the business and assets of Dex. In addition, as described by Mr. Burnett, QC will remain in control of its SLI as it does today, so that customers' privacy is protected.

Q. PLEASE DESCRIBE THE CURRENT DIRECTORY PUBLISHING AGREEMENT.

A. Currently, QC fulfills its obligations to publish and distribute White Pages directories in Arizona through a Publishing Agreement with Dex. In this contractual relationship, QC licenses its SLI to Dex. In turn, Dex compiles, publishes and distributes white page directories. In addition, Dex replaces directories as necessary and re-publishes directories at certain set intervals, usually annually.

Q. HOW WILL THIS PUBLISHING AGREEMENT CHANGE AFTER THE SALE?

A. There will be no essential change in these directory-publishing arrangements after the sale. Buyer has entered into a new Publishing Agreement with QC modeled on the current QC-Dex Publishing Agreement. Buyer has agreed that for the 50-year duration of that Publishing Agreement, it will compile the directories from SLI provided by QC and publish and distribute White Pages directories in the exchanges served by QC.

In addition, the new Publishing Agreement defines the legal obligations of the Buyer to assist QC in fulfilling its obligations. These provisions ensure that QC will continue to be able to satisfy its directory publishing obligations after the sale is completed. The new Publishing Agreement contains consultation provisions whereby the Buyer has agreed to consult with QC on any proposed material changes to a White Pages directory. There are also provisions allowing QC to terminate the agreement if it cannot fulfill its obligations through the agreement. Under Section 6.2(b) of the Publishing Agreement, if the Buyer breaches the agreement "in a manner that results in a material and continuing failure to discharge the Publishing Obligation with respect to any Primary Directory," QC may terminate the agreement with respect to that directory and fulfill its regulatory directory publishing obligations itself. Finally, per the terms of the Publishing Agreement, the Buyer's successors in interest, if any, will be legally bound to meet the obligations imposed upon the Buyer under the agreement. As a consequence, through the Publishing Agreement, QC has ensured continuous performance and fulfillment of its directory publishing obligations.

In addition, and important to Arizona telephone customers, QC will retain control of its own SLI post-sale, as it does today, ensuring that customers' privacy continues to be protected.

Q. HOW DOES QC CURRENTLY MANAGE OTHER PROVIDERS' INFORMATION IN THE DIRECTORY PUBLISHING CONTEXT?

A. QC integrates the subscriber lists of other providers into its SLI and transmits that information to Dex. Other providers' SLI is not differentiated from its own in any way.

Q. WILL QC CONTINUE TO INTEGRATE OTHER PROVIDERS' SLI AFTER THE SALE?

A. Yes. The only difference is that it will be transmitted to a Dex that is under new ownership. In addition, just as Dex does now, the Buyer will also be free to continue to independently negotiate with other providers to obtain their SLI.

Q. WHAT IMPACT WILL THE SALE OF DEX HAVE ON QC'S RATES?

A. None. Based on the Settlement Agreement, Arizona ratepayers will continue to receive the benefit of directory revenue imputation, and are insulated from any rate impact based on this transaction.

Q. DOES THE SETTLEMENT AGREEMENT CONTINUE TO APPLY EVEN THOUGH THE DIRECTORY PUBLISHING BUSINESS IS BEING SOLD TO A THIRD PARTY?

A. Yes. While I cannot render a legal opinion, nothing in my review of the agreement forbids a further transfer of the directory publishing business. The Agreement appears to me to be clear that, from the date of its approval, the Commission accepted as valid Mountain Bell's transfer of the directory operations to an unregulated subsidiary and the parties agreed to imputation under the terms of the agreement in future rate cases. QC and the Commission have treated the Settlement Agreement as binding since 1988 despite significant corporate changes in the telephone company.

VI. CONCLUSION

Q. WHAT IS YOUR CONCLUSION?

A. I conclude that the sale of the business and assets of Dex is in the public interest. The sale is a necessary component of QCI's overall debt restructuring and de-levering strategy, and will help ensure QC's ongoing access to capital markets that is necessary for the creation and maintenance of Arizona's robust local telecommunications network. The publishing agreement between QC and buyer ensures that QC will continue to meet its directory publishing obligations. Finally, the 1988 Settlement Agreement ensures that this transaction will not impact QC rates, and provides for continued imputation to the benefit of ratepayers.

Because the sale is in the public interest, if the Commission determines that it is required to approve the sale, it should approve the sale as expeditiously as possible, without imposing any conditions on approval that would defeat the purpose of the transaction.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF QWEST COMMUNICATIONS, INTERNATIONAL INC.'S, QWEST SERVICES CORPORATION'S, AND QWEST CORPORATION'S NOTICE OF SALE, REQUEST FOR WAIVER, OR APPLICATION FOR APPROVAL OF THE SALE OF THE ARIZONA OPERATIONS OF QWEST DEX, INC.	)	**DOCKET NO. T-01051B-02-0666** **AFFIDAVIT OF MAUREEN ARNOLD**
STATE OF ARIZONA **COUNTY OF MARICOPA**	) :	**SS**

Maureen Arnold, of lawful age being first duly sworn, depose and states:

1. My name is Maureen Arnold. I am Director of Regulatory Matters for Qwest Corporation in Phoenix, Arizona. I have caused to be filed written direct testimony in Docket No. T-01051B-02-0666.

2. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Further affiant sayeth not.

Maureen Arnold

Maureen Arnold

SUBSCRIBED AND SWORN to before me this 28th day of January, 2003.

Josie M Maldonado

Notary Public

My Commission Expires: 9/18/04

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

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF QWEST COMMUNICATIONS, INTERNATIONAL INC.'S, QWEST SERVICES CORPORATION'S, AND QWEST CORPORATION'S NOTICE OF SALE, REQUEST FOR WAIVER, OR APPLICATION FOR APPROVAL OF THE SALE OF THE ARIZONA OPERATIONS OF QWEST DEX, INC.	)	DOCKET NO. T-01051B-02-0666

TESTIMONY OF

GEORGE A. BURNETT

ON BEHALF OF

QWEST CORPORATION

JANUARY 28, 2003

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I. INTRODUCTION

Q. STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is George A. Burnett and my business address is 198 Inverness Drive West, Suite 800, Englewood, Colorado, 80112.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. Please see Exhibit GAB-1, attached hereto, which details my education and experience.

Q. BY WHOM ARE YOU EMPLOYED, AND IN WHAT CAPACITY?

A. Since 2000 have been employed by Qwest Dex, Inc. ("Dex") as its Chief Executive Officer. Dex is an affiliate of Qwest Corporation ("QC"). I am also the Chief Executive Officer of Dex Media, Inc. and all of its subsidiaries, including Dex Media East LLC ("Dex Media East"), which is a new company formed by a consortium that includes the two private equity firms of The Carlyle Group ("Carlyle") and Welsh, Carson, Anderson & Stowe ("WCAS") (collectively known as the "Buyer"). Dex Media East consists of the former Dex operations in Colorado, Iowa, Minnesota, Nebraska, New Mexico, North Dakota and South Dakota, which were transferred to Dex Media East when the first phase of the Dex sale transaction ("Dexter") closed on November 8, 2002.

After close of the second stage of the Dex sale transaction ("Rodney") for the Dex operations in Arizona, Idaho, Montana, Oregon, Utah, Washington, and Wyoming, I will also be the Chief Executive Officer for Dex Media West, LLC ("Dex Media West"), which is also a new company formed by the Buyer. Because of financing requirements, two separate entities, Dex Media East and Dex Media West, which are indirect subsidiaries of Dex Media, Inc., will actually own the former Dex operations. I have dual responsibility for Dex and Dex Media East until the Rodney close, as I further describe in my testimony.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I will testify regarding the nature of Dex's historical operations and its relationship to QC, and then discuss the particulars of the Dex sale transaction.

II. SUMMARY

Q. PLEASE PROVIDE A BRIEF SUMMARY OF YOUR TESTIMONY.

A. I first discuss the relationship between Dex and QC, a regulated local exchange service provider in Arizona. Dex publishes directories on behalf of QC, pursuant to a Publishing Agreement, which enables QC to satisfy its specific directory-related obligations.

In addition to publishing primary directories on behalf of QC, Dex also publishes regional, community and specialty directories, and continues to expand its Internet-based directory service. In fact, Dex's operations now go far beyond the publication of directories related to QC's directory obligations and the Publishing Agreement between these two affiliates. Since its predecessor, U S WEST Direct, was created in 1984, Dex has substantially expanded and changed its products and offerings, and over 30 percent of the company's revenue now derives from those sources.

On August 19, 2002, Qwest Communications International Inc. ("QCI") agreed to sell Dex to the Buyer for a total purchase price of $7.05 billion. That sale will be transparent to customers. The same management team and employees that today produce world class directories will use the same resources they use today to continue to produce world class directories after the transaction is complete. In essence, all that is changing is the ownership of the directory operations. The transaction was also structured to ensure that QC would continue to meet its publishing obligations going forward, through a Publishing Agreement between QC and Buyer modeled on the current Publishing Agreement between QC and Dex.

III. BACKGROUND

Q. WHAT IS DEX'S RELATIONSHIP TO QC?

A. At divestiture of AT&T, U S WEST, Inc. consolidated its directory operations into a newly created subsidiary, U S WEST Direct, which became U S WEST Dex, and ultimately Qwest Dex. All the tangible and intangible assets, intellectual property, human resources and operational know-how for directory operations were transferred to the new entity. Dex publishes directories on behalf of QC. While this Commission regulates QC as a local exchange carrier, it does not regulate Dex, as a publisher, or the rates that Dex charges for advertising.

Q. DESCRIBE THE PUBLISHING AGREEMENT BETWEEN DEX AND QC PRIOR TO THE SALE.

A. QC currently meets its directory-related obligations in Arizona through a Publishing Agreement with Dex, under which Dex is designated as the "official publisher"[1] for QC and acquires its listings to publish White Pages for a per-subscriber fee under a separate Directory List License

Agreement. The Publishing Agreement requires Dex to annually publish primary directories of white page listings covering QC's exchanges, including premium listings in the white pages. Primary directories also include listings of customers of Competitive Local Exchange Carriers ("CLEC") and Independent Local Exchange Carriers ("Independent LEC"), which information Dex either obtains through its Directory List License Agreement with QC, or, in some cases, directly from the CLEC or Independent LEC. The Publishing Agreement also requires Dex to deliver directories to all the subscribers of QC and of other included CLECs and Independent LECs. Dex also acquires Subscriber List Information ("SLI") under the Publishing Agreement with QC. After loading that information into its databases, Dex re-formats it to support its list marketing business, as can any other publisher that acquires SLI. Pursuant to the Publishing and Directory List License Agreements, Dex is authorized to use the SLI to publish other specialty and secondary directories, including neighborhood directories, regional directories and On-The-Go (car) directories, both in print and electronically or on-line. The Publishing Agreement fully protects subscribers' privacy rights under federal and state law.

[1] Although any publisher may publish directories using QC's Subscriber List Information ("SLI"), in addition, QC has contracted with Dex to fulfill QC's regulatory directory-related obligations and Dex thereby has the right to represent itself publicly as QC's "official publisher."

Q. HOW IS DEX COMPENSATED FOR WHAT IT DOES UNDER THE PUBLISHING AGREEMENT?

A. QC does not pay Dex for the services that Dex performs, nor does Dex pay QC under the Publishing Agreement for the right to be QC's official publisher. As I discussed above, under the Directory List License Agreement Dex does pay a per-subscriber fee to QC to obtain its SLI. QC charges this same fee to all other publishers of directories that purchase SLI, on a non-discriminatory basis. Dex then sells advertising in its directories to support its operations. With very limited exceptions, the price and terms of that advertising are not set or controlled by QC or monitored or regulated by the Arizona Corporation Commission. That is true for all Yellow Pages, directory cover, and Internet advertising.

Q. WHAT ARE PRIMARY DIRECTORIES?

A. Primary directories include the geographical areas served by QC's exchanges. They include the White Page listings of the SLI of QC customers and CLEC or Independent LEC customers and they meet QC's directory-related obligations under state and federal law. They also include associated Yellow Pages, but exclude specialty or secondary directories, such as regional or local directories. When Dex's predecessor, U S WEST Direct, was created in 1984, primary directories were essentially its sole business product.

IV. DEX OPERATIONS

Q. DESCRIBE THE BUSINESS OPERATIONS OF DEX.

A. Dex publishes directories which contain white and yellow page listings, sells advertising in its primary, secondary and specialty directories, creates and sells other information, distributes directories for QC and others, and furnishes Internet, electronic and talking Yellow Pages. In addition, Dex's white page listings are more than simple directories, including informational supplements, enhanced listings and certain advertising.

Q. HOW HAVE THESE BUSINESS OPERATIONS CHANGED SINCE DEX'S PREDECESSOR, U S WEST DIRECT, WAS CREATED IN 1984?

A. Driven by the desire to continue to expand and improve its business, since 1984 Dex has made substantial changes and enhancements to the directories it publishes and has widely expanded its product offerings. These include the development of a unique and copyrighted font for its directories, colored maps, community information and audio-text, colored advertising, and advertising in White Pages and on directory covers. See Exhibit GAB-2 for a list of enhancements and product introductions since 1984.

At the same time, the nature of Dex's business has evolved, so that Dex is now much more than just a publisher of QC's primary white page directories. Dex has developed Internet-based directories and products, talking Yellow Pages, and secondary directories, which include area, neighborhood, local directories, and specialty directories such as On-The-Go. In addition, Dex has become the official publisher for over 100 Independent LECs and CLECs, expanding the scope of its publishing activities beyond QC and its customers.

Even the primary directories that Dex publishes have changed significantly. In 1984, 100 percent of listings were for U S WEST's customers, as U S WEST was, at that time, a regulated monopoly. Today, roughly 75 percent of the listings in Dex primary directories are QC customer listings; more than 25 percent of the primary directory listings are for customers of alternative providers. In the same vein, today roughly 75 percent of Dex primary directories are delivered to QC customers, as opposed to 100 percent in 1984. During the same period, advertising revenues from non-QC retail customers and telephone service providers other than QC have grown from 0.1 percent to nearly 30 percent of total advertising revenues.

Q. HOW HAVE DIRECTORY OPERATIONS BEEN FUNDED SINCE 1984?

A. Directory operations are independent from local telephone operations and are self-supporting. They require no capital infusions from the parent corporation.

V. THE DEX SALE TRANSACTION

Q. DESCRIBE THE SALE TRANSACTION, GENERALLY.

A. I have previously described Dexter and Rodney. The transaction involves the sale of the entire business and all of the tangible and intangible assets of Dex, and includes a number of ancillary agreements between Buyer and QC to establish and continue the publishing relationship between Buyer and QC like the one that exists today between Dex and QC. Most important of these are the Publishing Agreement and Directory List License Agreement between Buyer and QC, which I describe in greater detail.

Q. PLEASE DESCRIBE THE BUYER, AND THE ORGANIZATIONAL STRUCTURE OF THE FORMER DEX OPERATIONS, POST-SALE.

A. As previously described in the summary of my testimony, the Buyer is a consortium that includes two private equity firms, Carlyle and WCAS. The Buyer is financially stable, and is, and will continue to be, capitalized through debt and equity raised by Carlyle, WCAS, and a consortium of the world's largest financial institutions, including JP Morgan, Bank of America, Deutsche Bank, Lehman Brothers and Wachovia Securities. Carlyle and WCAS collectively have more than $25 billion in capital under management. Moreover, many of their principals have extensive telecommunications industry and regulatory experience. As a result, both Carlyle and WCAS have established a track record of successful investment in telecommunications-related companies.

The former Dex operations will be divided into two regions, based on the Dexter and Rodney stages of the transaction: Dex Media East will include operations specific to the Dexter states, and Dex Media West will include operations specific to the Rodney states. Many functions common to directory publishing operations in both regions will remain consolidated and will operate from within Dex Media, Inc. Even though there will be two separate companies after Rodney closes, the Buyer plans to operate as an integrated entity and expand Dex's directory publishing and list marketing activities while servicing the same exchange areas for QC as it does today.

Q. WHAT IS YOUR ROLE WITH REGARD TO DEX, DEX MEDIA, INC., DEX MEDIA EAST, AND DEX MEDIA WEST?

A. As I have described above, I have dual responsibilities as CEO of Dex Media, Inc. and its subsidiaries, including Dex Media East, and as CEO of Dex until Rodney closes. When Rodney closes, my senior management team and I will assume responsibility for running the directory operations of Dex Media West, the newly-created entity for the Rodney states.

Q. EXPLAIN HOW YOU WILL BE ABLE TO DIRECT BOTH THE REMAINING DEX OPERATIONS IN THE RODNEY STATES, AS WELL AS DEX MEDIA EAST.

A. First, I will serve as CEO of Dex and of Dex Media East only until the Rodney stage of the sales transaction closes in 2003. QC and Dex executed a number of ancillary agreements to ensure that all directory operations would continue without interruption or change during the period between the Dexter close and the Rodney close.

The parties executed a Professional Services Agreement to ensure a seamless transition to the Buyer between the Dexter and Rodney closings. For an interim period leading up the Rodney close, this agreement requires Dex Media, Inc. to provide Dex with intellectual property licenses as well as certain professional services (including information technology, website management, operations and production, and vendor relationship management services). This agreement also establishes the key covenants and obligations necessary to share resources while maintaining operational integrity of the two separate companies. This agreement further allows Dex to continue to operate during the interim period without replicating the capabilities that were transferred to Dex Media East at the Dexter close.

A Joint Management Agreement provides that Dex, as well as Dex Media, Inc. and its subsidiaries, will each employ the six key management team executives, including myself, during the transition period. Dex, on the one hand, and Dex Media, Inc. and its subsidiaries, on the other, will each bear a proportionate share of our salaries, benefits and overhead expenses. The management team will run both companies consistent with applicable fiduciary duties and responsibilities. A liaison committee will resolve any conflicts of interest.

The Buyer also executed a Transition Services Agreement with QCI, which is effective for 18 months following the close of Dexter. For defined fees, and through an appropriate subsidiary, QCI will make available to Buyer real estate, finance and accounting, procurement, treasury and cash management, human resources, marketing and public relations, legal, corporate/executive, IT, billing and other services. That and the other agreements in place will ensure that customary directory operations continue without interruption or impediment and that directories will be produced by these companies in QC's region as expected or required.

Q. DESCRIBE THE TRANSACTION FROM THE PERSPECTIVE OF ITS IMPACT ON THE BUSINESS OPERATIONS OF DEX.

A. The Buyer is committed to maintaining and enhancing directory operations, and it expects to use the same human and business resources to deliver the same products and services in Arizona. The Buyer has the support of both unions recognized by Dex, the IBEW and the CWA, and has indicated that it will accept the collective bargaining agreements in place with these unions.

In addition, as the ownership consortium that comprises the Buyer is well capitalized and includes two of the largest financial operators in the United States, Buyer has access to financial and capital resources sufficient to sustain and grow existing operations.

Buyer has also executed a new Publishing Agreement with QC, which Maureen Arnold also discusses in her testimony, and other associated agreements that will ensure that all existing regulatory mandates in Arizona are fully met.

Q. WHAT IMPACT WILL THE SALE HAVE ON CONSUMERS OF DIRECTORY SERVICES?

A. Consumers should not see any adverse change in their directories because of this transaction. The Buyer will continue to produce high quality directories, pursuant to the Publishing Agreement with QC. This transaction should be transparent to consumers from a directory perspective, as the Buyer is essentially acquiring the directory operations just as they exist today. It expects to retain the employees and management Dex has now. All that is changing is the ownership of the Dex operations. Buyer will receive a turnkey operation with its existing, world-class operational capabilities and employees, supported by a continuation of existing vendor contracts. The Buyer will likely continue the process of expansion and improvement that was begun by Dex and its predecessors.

Since the first phase of this transaction closed on November 8, 2002, Buyer has successfully published 46 different directories in the states of Colorado, New Mexico, Iowa, Minnesota and Nebraska. The directories have been published in the same fashion that Dex previously published directories, using the same resources that Dex previously used.

Q. WILL CUSTOMERS' DIRECTORIES BE DIFFERENT AFTER THE SALE?

A. Customers will notice no adverse changes in their directories. The buyer will continue to use the "Qwest Dex" brands and trademarks for a period of five years, and will continue to use the Dex brand name thereafter. The directories that Buyer has published since closing the first phase of this transaction have been virtually indistinguishable from those previously published by Dex for these same localities. These provisions will help ensure that the transaction is transparent to Dex customers.

Q. DESCRIBE THE NEW PUBLISHING AGREEMENT AND RELATED AGREEMENTS BETWEEN QC AND BUYER.

A. QC, the Buyer, Dex Media East and Dex Media West entered into a long term Publishing Agreement designating Dex Media East and Dex Media West as QC's official publisher in its 14-state local service region, through which QC fulfills its White Pages publishing and delivery obligations with respect to the directories in that region. Dex Media East and Dex Media West will use QC's designated branding scheme and follow QC's trademark instructions. In conjunction with the Publishing Agreement, QC also entered into a Directory List License Agreement with Dex Media East and Dex Media West, granting them a restricted license to use the directory publisher lists and directory delivery lists for the sole purpose of publishing and delivering the directories in the 14-state region.

In addition, Dex Media East and Dex Media West will place directories in all public pay stations in QC's exchanges for the term of the Publishing Agreement, pursuant to a Public Pay Stations Agreement.

The Publishing Agreement and related agreements ensure that QC will continue to be able to meet its directory-related regulatory obligations through Dex Media East and Dex Media West, particularly given the specific provisions in the Publishing Agreement that provide QC the necessary recourse to ensure that these obligations are met. Dex Media East and Dex Media West must consult with QC on issues related to publication and scoping of directories. They also may be liable for damages to QC and/or lose their status as "official" publisher for QC in the event that they do not discharge their obligations per the agreement. In the event of a material breach, QC, an affiliate or other selected company is entitled to re-enter the directory business. Maureen Arnold summarizes these provisions, largely set forth in Section 6.2 of the Publishing Agreement, in her testimony.

In short, the structure established by the Publishing Agreement and related agreements between QC, on the one hand, and Dex Media East and Dex Media West, on the other, is identical to the model in place today.

VI. CONCLUSION

Q. PLEASE STATE YOUR CONCLUSION.

A. Since the AT&T divestiture in 1984, the directory business that was transferred to a separate affiliate has expanded with shareholder capital in powerful new ways, including: the scale and scope of primary directories and introduction of secondary directories; electronic, Internet and talking directories; specialty directories; list businesses; delivery and replenishment services for other Independent LECs; and, other new ventures. Post close, directory services can be expected to continue and evolve for a Buyer that has access to fresh sources of capital and financial resources.

My testimony then really has one simple conclusion: the sale will benefit users of the Dex directories, and Dex's advertising customers alike. What Dex did before the sale, it will do after the sale, under new ownership and with a new name, but using the assets, people and intellectual capital it uses today. Instead of QCI, the Buyer will supply the capital, and its financial capabilities are substantial. The public interest is served, and served well, by the sale, which will ensure that customers will see the continuation of the directory and other services that they have come to expect, and that QC will continue to meet all listing and directory-related regulatory obligations through its various agreements with Buyer. If this Commission determines that it needs to approve the sale, it should do so expeditiously, consistent with the public interest, to enable the parties to close this transaction as soon as possible.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF QWEST COMMUNICATIONS, INTERNATIONAL INC.'S, QWEST SERVICES CORPORATION'S, AND QWEST CORPORATION'S NOTICE OF SALE, REQUEST FOR WAIVER, OR APPLICATION FOR APPROVAL OF THE SALE OF THE ARIZONA OPERATIONS OF QWEST DEX, INC.	)	DOCKET NO. T-01051B-02-0666

EXHIBITS OF

GEORGE A. BURNETT

ON BEHALF OF

QWEST CORPORATION

JANUARY 28, 2003

Arizona Corporation Commission
Qwest Corporation – GAB-1
Exhibits of George A. Burnett
Docket No. T-01051B-02-0666
January 28, 2003

GEORGE A. BURNETT

WORK EXPERIENCE

2000-Present **President, CEO QwestDex**
Chief Marketing Officer, Qwest

Overall responsibility for $1.6 billion yellow page directory and direct marketing business with nearly 3,000 employees. Business serves 11 million households, 400,000+ local businesses and 5,000+ national advertisers. Delivered six consecutive quarters of on target revenue and EBITDA results, achieving 2 times industry revenue growth and double-digit bottom line growth. Strengthened leadership team and initiated business process reengineering program. Developed and currently implementing 5-year strategic growth plan projected to produce significant incremental shareowner value. Working productively with both CWA and IBEW unions.

Responsible for numerous corporate marketing functions including brand, advertising, media, sponsorships, research, database and competitive analysis.

2000-2000 **President, CEO American Electric Power Consumer Retail**

Responsible for start-up venture in delivering deregulated electricity and natural gas to retail consumers. Plan included joint venture with other incumbent producers nationwide. Venture proved unworkable given the uncertainty of deregulation and the economics of energy resale.

1994-2000 **President, AT&T Local Services**
Vice President, AT&T Consumer Markets Division

General management responsibility for AT&T's entry into local residential service in Bell Atlantic and Ameritech territories. Oversight of all business functions including Product Management for all local services (copper), long distance, wireless and Internet access; IT for all ordering, provisioning, billing and care systems; Marketing for segmentation, offers, channels, market research, public relations and advertising; Law & Government Affairs for all negotiations with Bell Cos. and state/federal regulators; and

Finance for business case development and results reporting. **(1999-2000)**

Assumed profit responsibility for "Developing and Education Market Segments" -- 47 million residential customers, 400 colleges/universities and 2 million students, representing over $6 billion in revenue. Responsibilities included marketing, distribution and service strategies for long distance, intralata toll, calling card, wireless, and Internet access to provide integrated solutions to segmented sets of customers. **(1997-1998)**

Accountable for a portfolio of core calling card, operator and directory products with revenues of over $4 billion, representing 30% of the profits of the Consumer Division. Developed new calling card product (1-800-CALL ATT), and launched "all distance" directory assistance. **(1996-1997)**

Managed one of the most advertised brands in the world with a media budget in excess of $1 billion and communications in 37 languages. Responsible for one of the largest direct mail and fulfillment operations in the world and the largest sponsorship in the history of AT&T for the 1996 Olympic Games at $100+ million. **(1994-1996)**

1977-1993 **Senior Vice President, D'Arcy, Masius, Benton & Bowles**
Sixteen years progressive responsibility with worldwide advertising agency (now part of Bcom3 Group). Wide ranging account experience and line P&L responsibility for 4 years in Latin America, 2 years in Canada and 10 years in the U.S.

EDUCATION AND PROFESSIONAL AFFILIATIONS

1979-1981	**M.B.A. Dartmouth College, Amos Tuck School**
1973-1977	**A.B. Dartmouth College**
1998-Present	**Board of Trustees-American Foundation for the Blind**
2001-Present	**Board of Trustees-Colorado Special Olympics**

PERSONAL **Married with 3 children, instrument rated private pilot, professional ski instructor**

Arizona Corporation Commission
Qwest Corporation – GAB-2
Exhibits of George A. Burnett
Docket No. T-01051B-02-0666
January 28, 2003

Year Introduced	Product
1986	White Pages Business Card
1988	White Pages Billboard, One Spot Color, Yellow Highlight, Full Page Ads Tabs,
	Outside Back Cover, Business Listings, By-Location
1989	Display Multi Color
1990	White Pages Image Builders
1991	Easy Reference Guide, Inside Back Cover, 4 Inch In-Column Ads
1992	Superbold Listings, White Pages Banners, Perforated Tabs, Knockouts
1993	Coupons
1994	Inside Front Cover, Double Truck, Processed Photo, Display Spectrum Color Blue
	and Green Superbold Listings
1995	Audio Services, Restaurant Menus, On-The-Go Directories
1996	Internet Listings
1998	White Pages In-Column
1999	Triple Trucks, Internet Yellow Pages, Internet Pointers, Hispanic Index Internet Guide
2000	In-Column Knockout, Spine Ads, Replica Ads, CD ROM
2001	White Pages Display, Superbold In-Column, Dining Guide Front Cover Banner Ads,
	Front Tip-on Coupons, Specialty Guide
2002	In-Column Spectrum Color, Top Tabs, White Pages Repeating Corner Ad Knockout
	in Trade

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF QWEST COMMUNICATIONS, INTERNATIONAL INC.'S, QWEST SERVICES CORPORATION'S, AND QWEST CORPORATION'S NOTICE OF SALE, REQUEST FOR WAIVER, OR APPLICATION FOR APPROVAL OF THE SALE OF THE ARIZONA OPERATIONS OF QWEST DEX, INC.

DOCKET NO. T-01051B-02-0666

AFFIDAVIT OF GEORGE BURNETT

STATE OF COLORADO
COUNTY OF ARAPAHOE : **SS**

George Burnett, of lawful age being first duly sworn, depose and states:

1. My name is George Burnett. I am President and Chief Executive Officer – for Qwest Dex Corporation in Englewood, Colorado. I have caused to be filed written direct testimony in Docket No. T-01051B-02-0666.

2. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Further affiant sayeth not.

George Burnett

George Burnett

SUBSCRIBED AND SWORN to before me this 24 day of January, 2003.

Suzanne M. Boon

Notary Public

8677 Grand Cypress Ln
Lone Tree, CO 80124
Douglas County, Colorado

NOTARY PUBLIC
SUZANNE M. BOON
STATE OF COLORADO

My Commission Expires: September 2, 2003

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF QWEST COMMUNICATIONS, INTERNATIONAL INC.'S, QWEST SERVICES CORPORATION'S, AND QWEST CORPORATION'S NOTICE OF SALE, REQUEST FOR WAIVER, OR APPLICATION FOR APPROVAL OF THE SALE OF THE ARIZONA OPERATIONS OF QWEST DEX, INC.	)	**DOCKET NO. T-01051B-02-0666** **AFFIDAVIT OF PETER C. CUMMINGS**
STATE OF WASHINGTON	) :	**SS**
COUNTY OF KING	)	

Peter C. Cummings, of lawful age being first duly sworn, depose and states:

1. My name is Peter C. Cummings. I am Director–Finance– for Qwest Corporation in Seattle, Washington. I have caused to be filed written direct testimony in Docket No. T-01051B-02-0666.

2. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Further affiant sayeth not.

Peter Cummings

Peter C. Cummings

SUBSCRIBED AND SWORN to before me this 24th day of January, 2003.

Lori L. White

Notary Public

LORI L. WHITE NOTARY PUBLIC STATE OF WASHINGTON COMMISSION EXPIRES 7-10-03

My Commission Expires: 7/10/03

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF QWEST COMMUNICATIONS, INTERNATIONAL INC.'S, QWEST SERVICES CORPORATION'S, AND QWEST CORPORATION'S NOTICE OF SALE, REQUEST FOR WAIVER, OR APPLICATION FOR APPROVAL OF THE SALE OF THE ARIZONA OPERATIONS OF QWEST DEX, INC.	)	DOCKET NO. T-01051B-02-0666

TESTIMONY OF

PETER C. CUMMINGS

ON BEHALF OF

QWEST CORPORATION

JANUARY 28, 2003

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I. IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME, ADDRESS AND EMPLOYMENT.

A. My name is Peter C. Cummings and my business address is 1600 Bell Plaza, Room 3005, Seattle, Washington, 98191. I am employed by Qwest Corporation as Director - Finance.

Q. WHAT ARE YOUR JOB RESPONSIBILITES AT QWEST?

A. My responsibilities include financial analysis of capital costs and capital structure of Qwest Corporation. I develop cost of capital estimates for company cost studies, capital budgeting and economic analysis, and I testify on financial issues.

Q. PLEASE REVIEW YOUR WORK EXPERIENCE.

A. I began my career at Northwestern Bell in 1969 and have held positions in Operator Services, Marketing, and Finance departments. For the last 16 years, my job responsibilities have been focused on cost of capital and rate of return.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND OTHER QUALIFICATIONS.

A. I received my B.A. degree from Bemidji State College in Minnesota. I have a Master of Public Administration Degree from the University of Oklahoma and a Master of Business Administration Degree from Creighton University in Omaha, Nebraska. I am a Chartered Financial

Analyst and a member of the Association for Investment Management and Research, the Financial Management Association, and the Seattle Society of Financial Analysts.

Q. HAVE YOU EVER TESTIFIED IN REGULATORY PROCEEDINGS?

A. Yes, many times. I have testified before the Federal Communications Commission and before state commissions in Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington, and Wyoming. I have testified primarily in rate cases and wholesale cost dockets on rate of return, capital structure, and other financial issues. I also provided testimony in support of the U S WEST/Qwest merger and in other special-purpose dockets.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS DOCKET?

A. My testimony is filed in tandem with that of Qwest witness Brian G. Johnson. The purpose of our testimony is to explain why the sale of Dex is critical to the continued financial viability of QC, and Qwest Communications International Inc. ("QCI"), QC's ultimate parent corporation. Mr. Johnson and I focus on the months prior to the announcement of the Dex sale transaction, conditions leading up to the decision to sell Dex, and the significance of the closing of the transaction.

In so doing, our testimony demonstrates that the sale of Dex is in the public interest.

My testimony focuses on Qwest's historical situation and current financial obligations and challenges. Mr. Johnson's testimony touches on those same subjects, but focuses to a greater extent on Qwest's strategic goals and the options Qwest evaluated and pursued to address its financial difficulties.

Q. WHAT ISSUES WILL YOU ADDRESS IN YOUR TESTIMONY?

A. My testimony addresses the following issues:

Section III: I provide a general description of QCI and QC financing. I describe how corporations, including QCI and QC, generate cash necessary to operate their businesses, through equity or debt financing, operating revenues, and occasional asset sales. I then discuss the importance of cash, or liquidity, to the business.

Section IV: I discuss how a number of events led to significant concerns about QCI's liquidity, its ability to service its debt load, and QCI's decision to sell Dex. QCI's declining revenues and a series of missed Wall Street expectations beginning in late 2001 resulted in QCI and QC being unable to access the commercial paper market. This required them to fully draw down and amend a $4 billion syndicated credit facility by February 2002. This in turn led credit rating agencies to downgrade both QCI's and QC's debt ratings, ultimately to "junk" status. Beginning in 2001, QCI's stock price began a steep decline, from $40 per share in January 2001, to the teens by year-end 2001. The stock price ultimately sank as low as $1.07 in August 2002. This discussion provides the necessary background for Mr. Johnson's testimony regarding QCI's decision to sell Dex, his summary of the Dex sale transaction and his discussion of the critical need to close both phases of the sale transaction.

I discuss the Second Amended and Restated Credit Agreement (the "ARCA") and the results of QCI's December 2002 private debt exchange as they relate to the Dex transaction. The ARCA is a re-negotiation of the $4 billion Amended Credit Facility, which was set to mature in May 2003. The ARCA, which would likely not have been possible without the Dex transaction, greatly improved Qwest's short-term liquidity position and eased critical financial covenants under which Qwest was very likely to default. The just-completed private debt exchange also relates to and improved Qwest's liquidity situation. Along with the sale of Dex, the ARCA and the private debt exchange demonstrate Qwest's diligent efforts to de-lever its balance sheet, improve its liquidity position and stabilize its financial situation in order to avoid bankruptcy.

Section V: I examine the impact of the Dex sale on QC capital costs. The capital markets' reaction to the close of the first phase of the Dex sale has resulted in higher stock prices for QCI and lower bond yields for QC reflecting a lower cost of capital. With investor expectations already incorporating completion of the entire Dex sale, I expect the close of the second phase of the Dex sale to have a neutral to slightly positive impact on QC capital costs.

III. GENERAL DESCRIPTION OF QCI AND QC FINANCING

Q. PLEASE DISCUSS HOW QC IS RELATED TO QCI.

A. QC is a regulated local exchange carrier, and provides basic local exchange, IntraLATA toll and other telecommunications services to customers in Arizona and 13 other states. QC is a subsidiary of Qwest Services Corporation ("QSC"), which in turn is a subsidiary of the parent holding company, QCI. QSC also owns Qwest Dex Holdings, Inc., which in turn owns Dex. An organizational chart depicting this structure is attached as Exhibit PCC-1.

Q. EXPLAIN THE IMPORTANCE OF CASH TO QCI AND QC.

A. Cash is a corporation's lifeblood. QCI and QC use cash to pay expenses (interest payments, vendor expenses, payroll, taxes, etc.), make capital investments, and repay debt obligations as they mature.

Q. WHAT ARE THE SOURCES OF CASH AVAILABLE TO QCI AND QC?

A. QCI and QC can generate cash from three basic corporate activities: operating activities, financing activities and investing activities. Cash from operating activities, as its name suggests, is cash generated by the day-to-day operations of the business. Cash from financing activities comes from sales of equity and debt. These are the primary sources of cash for

QC and QCI. Cash from investing activities comes from investment returns and sales of assets.

Q. PLEASE DESCRIBE "CASH FROM OPERATIONS."

A. Cash from operations is obtained from the operations of the company, generally through the sale of telecommunications products and services. This source of cash is generally recurring in some pattern such as monthly, quarterly, or annually and is primarily used to pay ongoing operating expenses such as wages, vendor invoices, taxes, etc.

Q. PLEASE DESCRIBE CASH FROM THE SALE OF EQUITY.

A. Cash from the sale of equity is derived from the sale of stock in the corporation. The sale of stock normally happens at the start-up of a corporation. The corporation may issue additional stock as the firm grows to pay for additional plant and investment. While cash can be used to pay for any product or service, cash from equity often provides the cash for necessary start-up expenses and investments incurred before revenues are sufficient to pay for the ongoing operations of the firm. QCI is the Qwest entity whose stock is publicly traded on the New York Stock Exchange. The equity recorded on QC's books came from equity investment by QCI and its predecessor companies.

Q. PLEASE DESCRIBE CASH FROM THE SALE OF DEBT.

A. Debt can generally be divided into three categories: short, intermediate, and long term. The distinction between intermediate and long term debt maturity is rather arbitrary and deals with both the time to maturity and the interest rate paid by the entity issuing the debt. The interest rate generally increases as the length of the debt maturity increases. The cash raised by selling debt can be used to pay operating expenses, make investments, and to pay-off or reduce other debt, generally of a shorter maturity. Intermediate and long-term debt is often associated, like equity, with the financing of capital investments. Short-term debt is debt due within one year and includes maturing intermediate and long term debt issues, bank loans, and commercial paper.

Q. EXPLAIN THE TERM "COMMERCIAL PAPER."

A. Commercial paper is an unsecured, short-term security issued by companies that provides ready access to cash. Commercial paper, due to its very short maturities, carries low interest rates. It is the corporate equivalent of short term U.S. Treasury Bills. Commercial paper is frequently paid off and reissued as the needs of the business dictate. Corporations that issue commercial paper are required to maintain bank loan lines of credit, or credit facilities, as a backup to their commercial paper programs. The bank loan credit facilities generally carry higher interest rates than commercial paper issues.

Q. PLEASE DESCRIBE CASH FROM THE SALE OF ASSETS.

A. A company can also raise cash by selling assets. A company may sell assets when it no longer needs them, when it reorganizes its business, or when, as with the sale of Dex, it has a greater need for the immediate cash from the sale than the cash flow that can be obtained over time from the asset itself.

Q. WHAT IS CASH FLOW?

A. Cash flow is the difference between all inflows of cash (such as revenues) and all outflows of cash (such as cash expenses). A company can improve cash flow by increasing cash proceeds flowing into the business, decreasing cash flowing out of the business, or both.

Q. WHAT IS FREE CASH FLOW?

A. Free cash flow is cash generated by operating activities, less cash used for capital expenditures. The cash flow remaining is free cash flow. Free cash flow is the net cash from operations that is available for payments to capital providers (e.g., payment of maturing debt and dividends to shareholders).

Q. WHEN ANALYSTS DISCUSS LIQUIDITY, WHAT ARE THEY TALKING ABOUT IN RELATION TO CASH, CASH FLOW, AND FREE CASH FLOW?

A. Liquidity refers to the availability of sufficient cash to operate the business, including cash to satisfy short-term obligations (expenses) and long term obligations (debt maturity). A textbook definition of liquidity is cash and cash equivalents that can be readily accessed to meet payment obligations when they come due. Cash equivalents would include assets that can be readily converted to cash such as exchange-traded common stock, investments in other companies, accounts receivable, short term investments, and readily marketable assets such as real estate.

IV. THE FINANCIAL SITUATION OF QCI AND QC

Q. PLEASE DESCRIBE THE PRE-SALE FINANCIAL SITUATION OF QCI AND QC.

A. It is necessary to review the events in the months leading up to the Dex sale transaction in August 2002 in order to understand the financial situation that led QCI to consider selling Dex. In January 2002, QCI had declining EBITDA, declining revenues, and over $25 billion in debt on its balance sheets.[1] QCI's fourth quarter financial report stated:

> "Reported revenue for the quarter was down approximately six percent to $4.70 billion, down 314 million from $5.02 billion in the same period last year."
>
> "For the quarter, pro forma normalized earnings before interest, taxes, depreciation and amortization (EBITDA) was $1.61 billion compared with pro forma normalized EBITDA for the same period last year of $1.99 billion."

QCI's stock price had steadily declined from the mid-$40's in January 2001 to the mid-teens by January 2002. *See* Exhibit PCC-2 (QCI stock price chart). There was concern in the financial markets and a high-level of scrutiny from investment analysts regarding QCI's financial condition. By the beginning of 2002, it was apparent that the economic downturn

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[1] *See* QCI Form 8-K, Jan. 29, 2002 (4th Quarter Financial Results Announcement). I reference a number of QCI SEC filings throughout my testimony. These are available at http://www.sec.gov, and through the Qwest Investor Relations section of the Qwest website at http://www.qwest.com.

coupled with reduced demand and overcapacity in the telecommunications industry placed QCI at serious risk of being unable to generate sufficient cash flow to service its debt obligations.

Q. WHAT STEPS DID QCI TAKE IN RESPONSE TO ANALYSTS' CONCERNS?

A. As part of its earnings announcement on January 30, 2002, QCI stated that it was evaluating various plans to generate additional cash to reduce the debt on its balance sheet, sometimes referred to as "de-levering" the balance sheet.[2] QCI stated that it was considering a number of alternatives to address these issues, including: "issuing equity-based securities, [and] sales of assets or of securities associated with those assets, including, among others, wireless, access lines, directories, its applications service provider business and other non-core assets."[3]

Q. DID QCI'S AND QC'S FINANCIAL SITUATION IMPACT THEIR ABILITY TO OBTAIN FINANCING?

A. Yes. QCI's and QC's steadily worsening financial situation did impact their ability to obtain financing. This first became an issue with regard to their ability to refinance, or "roll over" their commercial paper. As I previously explained, commercial paper is an unsecured, short-term security that provides ready access to cash. Commercial paper carries low interest rates, and has therefore historically been a critical component

2 *See* QCI Form 8-K, Jan. 29, 2002.

3 *Id.*

of QCI's and QC's financing portfolio. Beginning in early 2002, it became increasingly difficult for QCI and QC to roll over their commercial paper. Eventually, QCI and QC were forced from the commercial paper market because investors were not willing to reinvest in new QCI or QC commercial paper. By mid-February 2002, they were effectively shut out of the commercial paper market, requiring them to fully draw down the existing $4 billion syndicated bank credit facility ("Credit Facility") that backed up their commercial paper program, in order to repay their existing commercial paper indebtedness.[4]

Q. HOW DID THE BOND RATING AGENCIES REACT TO QCI AND QC NOT HAVING ACCESS TO THE COMMERCIAL PAPER MARKET?

A. When QCI and QC became unable to access the commercial paper market, the bond rating agencies reacted with downgrades of both QCI's and QC's long-term and short-term debt ratings. Moody's Investor Service lowered QCI's long-term and QC's long-term and short-term ratings, commenting that:

> Qwest's difficulty in rolling its commercial paper has required the company to utilize its $4.0 billion bank facility. Without access to commercial paper, the company's alternate liquidity has been reduced by the drawdown on its bank facility. This lack of alternate liquidity considerably limits the company's financial flexibility and poses a risk to damage Qwest's overall competitive profile if not resolved expeditiously.[5]

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[4] "On February 14, 2002, Qwest issued a press release announcing that it had taken steps to address short-term liquidity pressures in the commercial paper market by drawing down on its $4 billion credit facility." QCI Form 8-K, Feb. 15, 2002.

[5] Moody's Investor Service Rating Action, February 14, 2002, "Moody's Lowers Ratings of Qwest Communications International and Subsidiaries, Keeps All Ratings On Review For Possible Further Downgrade."

Standard & Poor's similarly lowered its long-term ratings on both QCI and QC. Fitch Ratings also downgraded both QCI and QC, commenting:

> The downgrades reflect Fitch's view that the liquidity of the company has been materially reduced following the draw down of its previously untapped $4 billion bank facility on February 13 and 14. ... To resolve the rating outlook that exists at the current "BBB" level, Fitch will continue to monitor Qwest's operating performance in the currently weak environment for telecom services, as well as evaluate measures Qwest may undertake to strengthen its balance sheet. Such measures may include the sale of non-core assets and/or the issuance of equity-like securities.[6]

Q. EXPLAIN WHAT THESE CREDIT AGENCY RATINGS MEAN, AND THE SIGNIFICANCE OF THESE DOWNGRADES.

A. Bond ratings are indicators of credit quality. The interest rate cost to the company issuing the bonds increases as its bond rating decreases. The February 14, 2002 rating downgrades recognized the additional risk inherent in QCI and QC bonds due to their exit from the commercial paper market and draw down of the Credit Facility, but kept the ratings within the investment grade category. Bonds rated within the "BBB" (S&P and Fitch) or "Baa" (Moody's) rating categories and above are considered investment grade bonds. Bonds rated in the "BB" and "Ba" rating categories and below are considered high yield or "junk". A further series of downgrades, which I discuss later in my testimony, ultimately left both QCI and QC with junk ratings. I have attached as Exhibit PCC-3 a chart depicting the chronology of the credit rating agency actions.

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[6] Fitch Ratings, February 14, 2002, "Fitch Ratings Downgrade Qwest; Maintains Negative Outlook."

Q. WHAT OTHER EVENTS IN THIS TIME FRAME CONTRIBUTED TO QCI'S FINANCIAL CONCERNS?

A. On March 11, 2002, QCI received an informal inquiry from the Denver Regional Office of the SEC relating to matters involving Qwest's accounting policies, practices and procedures in 2000 and 2001.[7] The announcement of the informal investigation likely created doubts in the minds of investors about how to evaluate QCI, because the inquiry raised questions as to QCI's prior financial results and future earnings. On April 3, 2002, the SEC issued a formal order of investigation. Because of the SEC investigation, QCI could not issue new stock or bonds to the public in a registered offering, as its financial records could no longer be verified in the registration document required to issue such securities.

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[7] "On March 11, 2002, Qwest Communications International Inc. ("Qwest") issued a press release disclosing an informal inquiry from the Securities and Exchange Commission." QCI Form 8-K, March 11, 2002. A copy of the press release is attached to the 8-K and reads in part: "Qwest Communications International Inc. today said it received an informal inquiry from the Denver regional office of the Securities and Exchange Commission (SEC) requesting voluntary production of documents. Qwest intends to respond fully to this request, which was received in a letter Friday, March 8, 2002. The matters identified by the SEC as the focus of the informal inquiry have previously been the subject of disclosure by Qwest and have been widely reported in the investment community and in the media. The matters relate to three areas of Qwest's accounting policies, practices and procedures in 2000 and 2001, including revenue recognition and accounting treatment of (i) sales of optical capacity assets (often referred to as Indefeasible Rights of Use or "IRUs"), particularly sales to customers from whom the company agreed to purchase optical capacity; (ii) the sale of equipment by Qwest to customers from which Qwest bought Internet services or to which Qwest contributed equity financing, including equipment sales to KMC and Calpoint; and (iii) Qwest Dex, particularly changes in the production schedules and lives of some directories. The SEC informed Qwest that this informal inquiry is not an indication that it or its staff believes any violation of law has occurred, nor should Qwest consider the inquiry an adverse reflection on any entity or security."

Q. WHAT WERE QCI AND QC DOING IN RESPONSE TO BEING SHUT OUT OF THE COMMERCIAL PAPER MARKET?

A. On March 12, 2002, QC completed a $1.5 billion offering of 8.875% 10 year bonds. QC used a portion of the proceeds to pay off its share of the indebtedness on the $4.0 billion Credit Facility, leaving QC with no further obligations under the Credit Facility. On March 15, 2002, QCI announced an amendment to the Credit Facility.[8] The amendment relaxed the financial covenants associated with the Credit Facility, permitting QCI to maintain a ratio of consolidated debt to consolidated EBITDA for the trailing four quarters of not more than 4.25x at March 31, June 30 and September 30, 2002, and a ratio of 4.0x at December 31, 2002 and March 31, 2003. The previous debt coverage ratio limit had been 3.75x. The amendment also reduced the amount of funds available under the Credit Facility to $3.4 billion, and required QCI to use a portion of net proceeds from future sales of assets and capital market transactions, including the issuance of debt and equity securities, to prepay the Credit Facility until the outstanding balance was $2 billion or less. The Credit Facility was originally scheduled to mature on May 3, 2002, but QCI exercised its option to extend the maturity to May 3, 2003.[9] Hereinafter, I refer to the

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[8] "On March 15, 2002, Qwest Communications International Inc. ("Qwest") amended its $4 billion unsecured bank agreement." QCI Form 8-K, March 18, 2002. A copy of a press release is attached to the 8-K and states: "Qwest Communications International Inc. (NYSE: Q) today announced it has amended its $4 billion unsecured bank credit agreement. The company believes that available cash and borrowings available under the bank facility will be sufficient to pay debt maturing in the next twelve months and to fund its capital and operating expenditures during that period. Qwest continues to expect to become cash flow positive in the second quarter of 2002. . .

[9] *Id.* "As part of the amendment, Qwest is permitted to maintain a ratio of debt to Consolidated EBITDA (as defined in the agreement) for the trailing four quarters of not more than 4.25 at March 31, June 30 and September 30, 2002 and 4.0 at December 31, 2002 and March 31, 2003. The

Credit Facility, as amended on March 15, 2002, as the "Amended Credit Facility."

Q. DID THIS ADDITIONAL FINANCING RESOLVE QCI'S FINANCIAL CONCERNS?

A. Only for the very short term, meaning through the second quarter of 2002. QCI still carried a debt load in excess of $26 billion and was continuing to see declining revenues, resulting in decreasing EBITDA. On April 18, 2002, QCI announced a downward revision to its 2002 financial guidance, citing continuing weakness in both the telecommunications sector and the regional economy, and announced that, "It has decided to proceed with seeking proposals from potential buyers for its Dex (directories) and Wireless businesses and is also working on selling its Qwest Cyber Solutions business and other assets, including access lines and wireless towers."[10] On April 30, 2002, QCI announced first quarter financial results:[11]

> "Reported revenue for the quarter was down approximately 13.5 percent to $4.37 billion from $5.05 billion in the same period last year, primarily due to the absence of optical capacity asset sales and certain Internet equipment sales."

> "For the quarter adjusted EBITDA (adjusted earnings before interest, taxes, depreciation and amortization) was $1.45 billion compared with adjusted EBITDA for the same period last year of $2.0 billion."

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previous debt coverage ratio limit was 3.75. The bank facility matures May 3, 2002, but the company presently expects to exercise its option to extend the maturity to May 3, 2003, as permitted by the agreement."

[10] *See* QCI Form 8-K, April 19, 2002

[11] *See* QCI Form 8-K, May 1, 2002.

> "For 2002, it expects recurring revenues for local service to decline by 3% to 4% compared with 2001. . . It expects net debt at the end of 2002 of just over $25 billion."

The credit rating agencies again reacted, downgrading QCI's and QC's bond ratings in April 2002. A series of further downgrades finally dropped QCI's and QC's bond ratings into junk status. *See* Exhibit PCC-3 (chronology of credit rating agency action). QCI's stock price also continued to decline. *See* Exhibit PCC-2 (QCI stock price chart).

Q. EXPLAIN THE SIGNIFICANCE OF "JUNK" CREDIT RATING STATUS.

A. On May 22, 2002, Standard & Poor's downgraded both QCI and QC from investment grade "BBB-" to the non-investment grade ("junk") bond rating of "BB+". Moody's and Fitch soon followed with downgrades to junk grade ratings as shown in Exhibit PCC-3. The significance of junk ratings for corporate bond issuers is that they have to pay significantly higher interest rates than investment grade issuers, reflecting their companies' higher risk. Additionally, the market for junk bonds is smaller than the investment grade market. Many institutional investors are prohibited from acquiring or retaining junk bonds in their portfolios, or are limited in the quantity they may acquire or retain. Having their credit ratings downgraded to junk status further reduced QCI's and QC's ability to raise cash through debt financing.

Q. MR. JOHNSON REFERS TO THE ARCA. WHAT ARE THE KEY TERMS OF THE ARCA?

A. The Second Amended and Restated Credit Agreement ("ARCA") refinanced approximately $3.354 billion of indebtedness then existing under the Amended Credit Facility.[12] QSC assumed all of the currently outstanding debt under the Amended Credit Facility. Qwest Capital Funding ("QCF") and QC, which were the borrowers under the Amended Credit Facility, are not obligated under the ARCA as borrowers. The ARCA provided additional security for the bank lenders and established a new maturity date of May 3, 2005, requiring intermediate payments before that date with specific payments tied to the sale of Dex and other asset sales. The ARCA also relaxed the debt to EBITDA ratio covenants under the Amended Credit Facility, providing that QCI must maintain a 6.0x debt to EBITDA ratio, and QC must maintain a 2.5x debt to EBITDA ratio.

Q. GIVEN THAT THE ARCA IS IN PLACE, DOES QCI STILL NEED TO PROCEED WITH THE DEX SALE?

A. Yes. While the ARCA provided additional headroom on QCI's financial covenants, and extended the maturity dates under the Amended Credit Facility, it did not provide any new cash to make payments, and that remains a critical issue. Absent the Dex sale, QCI would lack the necessary cash to make the required payments under the ARCA, and other upcoming maturities, including the Dex Term Loan. The chart below

[12] "On September 4, 2002 Qwest Communications International Inc. ("Qwest") announced that it had reached unanimous agreement with the 29 lenders in its syndicated credit facility to amend Qwest's $3.4 billion credit facility." QCI Form 8-K, September 5, 2002.

depicts, as of November 1, 2002 (prior to the close of "Dexter" – the first stage of the Dex sale), the debt maturities of QCI subsidiaries, including QC, through the end 2007:

TABLE A:

QCI Consolidated Debt Maturities ($ millions)

	2002	2003	2004	2005	2006	2007	TOTAL
QC		1,155	850	441		160	2,606
QSC	1,354*	1,500*		1,250			4,104
QCF			1,250	500	1,250		3,000
QCI						11	11
QCC						350	350
TOTAL	1,354	2,655	2,100	2,191	1,250	521	10,071

* Includes Dexter close and assumes Rodney phase of Dex sale closes as scheduled.

Q. DID QCI USE THE PROCEEDS OF THE DEXTER CLOSING TO REPAY A PORTION OF ITS INDEBTEDNESS?

A. Yes. Pursuant to the terms of the ARCA, QCI paid $1,354 million from the Dexter proceeds to reduce the QSC borrowings under the ARCA to $2.0 billion. Unless QC is able to refinance its $1,155 million of debt maturing in the first half of 2003, which is unlikely due to the continuing SEC investigation, the Dexter proceeds will also be used to repay QC debt obligations.

Q. AFTER COMPLETING THE FIRST STAGE OF THE DEX SALE AND APPLYING THE PROCEEDS TO DEBT REDUCTION, IS IT STILL NECESSARY TO SELL THE REMAINDER OF DEX?

A. Yes. Completion of both phases of the Dex sale is critical to providing the cash for Qwest to de-lever its balance sheet and meet its debt service obligations. The entire Dex sale is absolutely necessary, as demonstrated by QCI's previous disclosure that, even if QCI does realize the proceeds from both phases of the Dex sale, it still may be unable to meet its debt service obligations through 2005:

> "After giving effect to the first stage of the sale of Dex and the repayment of certain Qwest Corporation Notes in October 2002, our consolidated debt was $24.5 billion as of September 30, 2002. Thus, despite these recent measures, there is substantial risk that our free cash flow from operations as presently conducted and the cash proceeds from the sale of the remainder of our Dex publishing business will be insufficient to meet our debt service obligations after 2005. Even if we are successful in our de-leveraging efforts, we may be unable to meet our debt service obligations through 2005 (which include $6.9 billion of debt maturities) without obtaining additional financing if we are unsuccessful in improving our operations as we expect, if the declines in our revenues and profits are worse than we expect, if economic conditions do not improve, or if the sale of the Dex West business does not occur."[13]

Q. PLEASE DESCRIBE QCI'S RECENTLY COMPLETED DEBT EXCHANGE AND EXPLAIN HOW IT AFFECTS THE MATURITY SCHEDULE OF OUTSTANDING DEBT?

A. On November 20, 2002, QCI announced an offer to exchange approximately $12.9 billion aggregate principal amount of outstanding

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[13] *See* QCI Form 8-K, Nov. 14, 2002.

debt securities of QCF through a private placement for new debt securities.[14] On December 23, 2002, QCI announced that, as of the December 20, 2002 offer expiration date, $5.2 billion in total principal amount of QCF notes had been validly tendered and accepted for exchange for $3.3 billion of new QSC notes. The result of that exchange was to reduce QCI's total debt by over $1.9 billion and to extend some near-term maturities.[15] The exchange converts $735m of QCF debt previously set to mature in 2004, 2005, and 2006 into $547m of new QSC debt set to mature in 2007.

Q. DOES THE DEBT EXCHANGE REDUCE THE NEED TO COMPLETE THE SALE OF DEX?

A. No. The debt exchange provided some additional financial flexibility in the near term, but completion of the sale of Dex remains the key component in QCI's business plan to stabilize its financial position over the near and intermediate term. The Wall Street Journal described the exchange as "at

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[14] *See* QCI Form 8-K, Nov. 20, 2002. A press release attached to the 8-K notes: "Qwest Communications International Inc. (NYSE: Q; QCII) announced today that it has commenced a private offer to exchange $12,902,653,000 aggregate principal amount of outstanding debt securities of Qwest Capital Funding, Inc. (QCF), a wholly-owned subsidiary of QCII, in a private placement for new debt securities. The new securities include up to $4,000,000,000 of new senior subordinated secured notes of Qwest Services Corporation (QSC), a wholly-owned subsidiary of QCII."

[15] *See* QCI Form 8-K, Dec. 23, 2002. A press release attached to the 8-K states: "Qwest Communications International Inc. (QCII) (NYSE: Q) today announced the successful results of its offer to exchange $12.9 billion aggregate principal amount of outstanding debt securities of Qwest Capital Funding, Inc. (QCF), a wholly-owned subsidiary of QCII, in a private placement for new debt securities. As of the expiration of the offer on Friday, December 20, 2002, approximately $5.2 billion in total principal amount of the QCF notes had been validly tendered and accepted for exchange. This will reduce Qwest's total debt by over $1.9 billion-from approximately $24.5 billion to approximately $22.6 billion-and extend some near-term maturities."

the low end of the deal's expected range" and went on to note QCI's continuing problems:[16]

> "Qwest, based in Denver, will cut its debt to $22.6 billion from $24.5 billion through the debt exchange. The company has been racing to reduce a debt load that investors fear could force it into bankruptcy law protection. At the same time, Qwest has been struggling with a flagging core business, investigations into its accounting, and collapse of its stock price."

Standard & Poor's rated the new bonds equivalent to the old bonds and commented further saying that, "near-term liquidity still remains a source of concern, particularly if closing of the $4.3 billion second phase of the company's directories sale is delayed beyond 2003."[17] After the debt exchange, the near-term schedule of debt maturities for QCI and its subsidiaries is as follows, as of January 2003:

TABLE B:

QCI Consolidated Debt Maturities ($ millions)

	2003	2004	2005	2006	2007	TOTAL
QC	1,155	850	441		160	2,606
QSC	1,500*		1,250		547	3,297
QCF		963	421	881		2,265
QCI					11	11
QCC					350	350
TOTAL	2,655	1,813	2,112	881	1,068	8,529

* Includes Dexter close and assumes Rodney phase of Dex sale closes as scheduled.

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[16] *See* The Wall Street Journal, December 24, 2002, page C-5. (Attached as Exhibit PCC-4)

[17] *See* Standard & Poor's Press Release December 26, 2002. (Attached as Exhibit PCC-5).

After the debt exchange, QCI has more than $8.5 billion of debt maturing in the next five years and more than $6.5 billion maturing in the next three years. The cash to be provided by the sale of Dex remains critical to reducing the company's high level of debt.

V. IMPACT OF THE DEX SALE ON QC CAPITAL COSTS

Q. WHAT IMPACT WILL THE SALE OF DEX HAVE ON CAPITAL COSTS FOR QC?

A. The capital market reaction to the announcement of the Dex sale and completion of the first phase (Dexter) has been positive for the company, resulting in lower capital costs. QC's cost of capital reflects the risk of the company and is determined by the actions of buyers and sellers of debt and equity securities in the capital markets. The market reaction to the announcement of the sale of Dex and the completion of the first phase of the sale has been an increase in the price for QCI stock and a decrease in the investor required bond yield for QC bonds, reflecting a lower cost of capital.

I expect completion of the second phase of the Dex sale (Rodney) will have a neutral to slightly positive impact on QC's cost of debt and equity capital because investor expectations already reflect completion of the entire sale. Stated another way, if the second phase sale was delayed significantly or not completed at all, I would expect an increase in capital costs for QC.

Q. WHAT EVIDENCE DO YOU HAVE THAT THE DEX SALE HAS LOWERED CAPITAL COSTS?

A. Exhibit PCC-2 shows the daily stock prices for QCI. Higher stock prices equate to lower capital costs. A share of stock sold to the public for $10 is worth more to the company than a share of stock sold at $9. During the month before the 8/20/2002 announcement of the Dex sale, QCI stock traded at prices under $2.00 per share. Since that date, QCI stock price has steadily increased, generally trading above $4.00 per share since the 11/8/2002 Dexter sale close and ending the year 2002 at $5.00 per share.

Exhibit PCC-6 shows the third and fourth quarter 2002 estimates of QC's borrowing costs – the estimated costs of issuing new debt securities. Over this time period spanning the Dexter sale close, the bond ratings are consistent and U.S. Treasury benchmark interest rate yields are up slightly. The credit spreads for QC are significantly lower resulting in lower borrowing costs for QC. The following extract from Exhibit PCC-6 shows the decrease in borrowing costs for typical long term financing. Driven by the lower credit spreads, the all-in cost for 10 year bonds declined 1.683% from 11.177% to 9.494%. The cost for 30 year bonds declined 1.187% from 10.5755% to 9.3885%.

QC Borrowing Costs 3Q 2002

Term (years)	Benchmark Yield	Credit Spread	Reoffer Yield	Underwriting Commission	All-in Cost
10 yr	3.590%	7.542%	11.132%	0.0450%	11.1770%
30 yr	4.668%	5.820%	10.488%	0.0875%	10.5755%

QC Borrowing Costs 4Q 2002

Term (years)	Benchmark Yield	Credit Spread	Reoffer Yield	Underwriting Commission	All-in Cost
10 yr	3.814%	5.635%	9.449%	0.0450%	9.4940%
30 yr	4.779%	4.522%	9.301%	0.0875%	9.3885%

Q. HOW DO THE BOND RATING AGENCIES VIEW THE DEX SALE?

A. The bond rating agencies view the sale of Dex as a critically important element in QCI's strategy to reduce debt and improve liquidity. After the close of the Dexter phase of the Dex sale, Standard & Poor's said,

> The ratings and outlook for Qwest already incorporated the receipt of these proceeds by year-end 2002. However, the company still faces the challenge of obtaining state regulatory approvals for the close of the western region, and the close of this $4.3 billion transaction is expected to occur in 2003. These additional proceeds are critical in enabling the company to meet upcoming maturities on both the bank debt and

> public debt, which total about $7 billion from 2003 through 2005, of which about $4.8 billion is due through 2004, after the $1.4 billion pay-down of the $3.4 billion bank loan.[18]

Moody's Investors Service believes it is critical that the Dex sale proceed on course:

> Moody's believes it is critical that the Dex sale proceed on course, and if it does, Qwest could have over $4 billion of cash (net of mandatory bank debt repayments from the Dex sale) and available bank facilities (assuming compliance with the new covenants) to deal with capital needs to cover operating shortfalls and maturing long term debt.[19]

Fitch focuses on the company's liquidity and ability to manage debt maturities:

> From Fitch's perspective the company's ability to manage its maturity schedule and liquidity is a key rating consideration given the company's lack of capital market access to refinance maturities and limited pool of assets available for sale in a timely manner. Fitch acknowledges that the Dex sale coupled with the amended credit facility provides the company with a level of near term liquidity stability, however continued deterioration of the company's core operations pressure the company's credit profile and capacity to generate free cash flow and compromise the company's ability to meet debt service requirements.[20]

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[18] Standard & Poor's Press Release, "S&P Comments on Qwest Communications International" November 12, 2002.

[19] Moody's Investor Service Press Release, "Moody's Downgrades Ratings Of Qwest Capital Funding And Qwest Communications International, But Not The Ratings Of Qwest Corporation And Its Subsidiaries; All Ratings Remain On Review For Possible Downgrade." September 5, 2002.

[20] Fitch Ratings Press Release, "Fitch Ratings Comments on Qwest Debt Exchange." November 20, 2002.

The key message is that completion of the Dex sale is factored into the current ratings. The sale of Dex and other things need to happen to improve the bond ratings and, absent the sale of Dex, the ratings are likely to be downgraded.

VI. CONCLUSION

Q. COULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?

A. Yes. Qwest is facing very difficult financial times. Falling revenues, decreased cash flows, high debt, outside investigations, a collapsed stock price, and a lack of access to the commercial paper market left the company in a critical liquidity situation and approaching bankruptcy by early 2002. As Mr. Johnson describes in his testimony, Qwest concluded that the sale of assets, specifically Dex, was necessary to its strategy of de-levering its balance sheet and stabilizing its liquidity situation. The Dex transaction was also critical to allowing Qwest to successfully negotiate the ARCA. Absent the ARCA, Qwest would almost certainly have been facing bankruptcy given the payment obligation of $3.4 billion in May 2003 and its inability to meet the debt covenants specified in the Amended Credit Facility.

The sale of Dex (both phases) remains critical to Qwest's ability to avoid bankruptcy in the short and intermediate term. The closing of the Rodney stage, while vital to Qwest's strategy, may still not be sufficient in and of itself to allow Qwest to meet its upcoming debt maturities. Whether the Rodney proceeds prove to be sufficient they are clearly necessary in Qwest's efforts to avoid bankruptcy.

Q. DOES THIS CONCLUDE YOUR TESTIMONY.

A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF QWEST COMMUNICATIONS, INTERNATIONAL INC.'S, QWEST SERVICES CORPORATION'S, AND QWEST CORPORATION'S NOTICE OF SALE, REQUEST FOR WAIVER, OR APPLICATION FOR APPROVAL OF THE SALE OF THE ARIZONA OPERATIONS OF QWEST DEX, INC.	)))))))))	DOCKET NO. T-01051B-02-0666

EXHIBITS OF

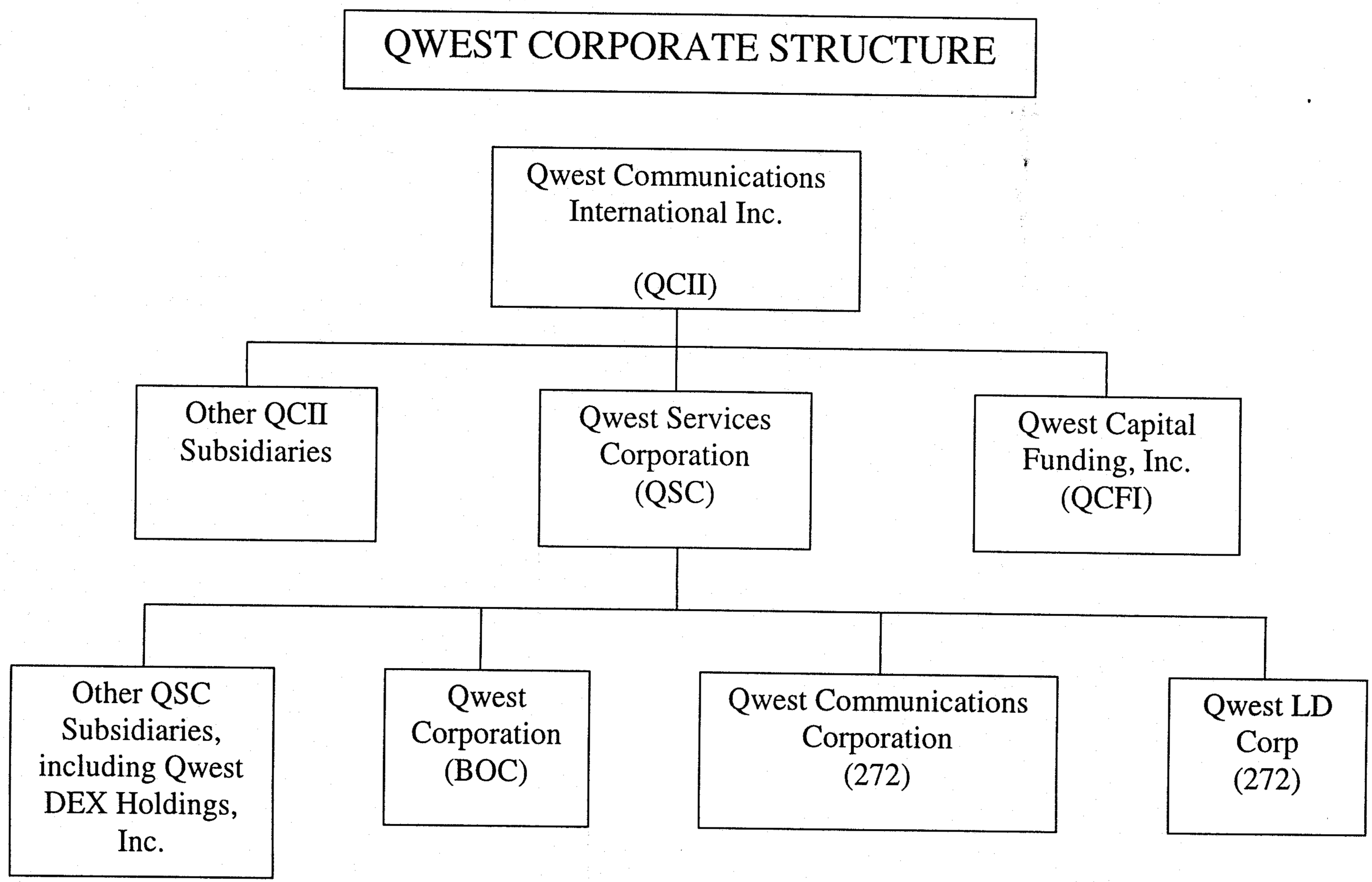
PETER C. CUMMINGS

ON BEHALF OF

QWEST CORPORATION

JANUARY 28, 2003

Arizona Corporation Commission
Qwest Corporation – PCC-1
Exhibits of Peter C. Cummings
Docket No. T-01051B-02-0666
January 28, 2003



BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF QWEST COMMUNICATIONS, INTERNATIONAL INC.'S, QWEST SERVICES CORPORATION'S, AND QWEST CORPORATION'S NOTICE OF SALE, REQUEST FOR WAIVER, OR APPLICATION FOR APPROVAL OF THE SALE OF THE ARIZONA OPERATIONS OF QWEST DEX, INC.	)	DOCKET NO. T-01051B-02-0666

TESTIMONY OF

BRIAN G. JOHNSON

ON BEHALF OF

QWEST CORPORATION

JANUARY 28, 2003

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I. IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME, ADDRESS AND EMPLOYMENT.

A. My name is Brian G. Johnson. My business address is 7074 Rocky Point Road, Polson, Montana, 59860. Qwest has retained me as a consultant to assist in the regulatory process related to the sale of the Qwest Dex, Inc. ("Dex") directory publishing assets and business. I am submitting this testimony in support of Qwest Corporation's ("QC") application in this matter.

Q. PLEASE REVIEW YOUR WORK EXPERIENCE AND EDUCATION.

A. From 1970 to 1999, I was employed by QC's predecessors: The Mountain States Telephone and Telegraph Company, and U S WEST Communications, Inc. Throughout my 29 years with these companies, I served in various capacities including Assistant Treasurer, State Regulatory Director for the state of Colorado, and Executive Director of Corporate Public Policy.

As Assistant Treasurer, I was responsible for overseeing the financing for the Mountain States Telephone and Telegraph Company. As a result, I am familiar with financial filings, documents, terms, practices and policies. As the Colorado State Regulatory Director, I was responsible for numerous regulatory and legislative issues, including rate cases and alternative forms of regulation filings, tariff filings, depreciation cases, and rulemakings. My role as Executive Director of Corporate Public Policy required me to develop strategy and company policy, as well as serve as the company spokesperson for these policies before individual commissions and the Regional Oversight Committee. Part of my responsibilities included the oversight of regulatory issues associated with retail product and marketing initiatives, including all aspects of rate cases. I am familiar with the history of Dex and its predecessors, and with the interrelationships between Dex and the regulated local exchange provider, today known as QC.

I summarize my education and work experience in Exhibit BGJ-1.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS DOCKET?

A. My testimony is filed in tandem with that of Peter C. Cummings. The purpose of our testimony is to explain why the sale of Dex is critical to the continued financial viability of QC, and Qwest Communications International Inc. ("QCI"), QC's ultimate parent corporation. Mr. Cummings and I focus on the months prior to the announcement of the Dex sale transaction, conditions leading up to the decision to sell Dex, and the significance of the closing of the transaction. In so doing, our testimonies demonstrate that the sale of Dex is in the public interest.

Mr. Cummings' testimony focuses on Qwest's[1] historical situation, and current financial obligations and challenges. My testimony touches on those same subjects, but focuses to a greater extent on Qwest's strategic goals and the options Qwest evaluated and pursued to address its financial difficulties.

[1] When the term Qwest is used it refers to the global group of Qwest entities and not specifically to the parent corporation or an individual entity.

Q. WHAT ISSUES WILL YOU ADDRESS IN YOUR TESTIMONY?

A. My testimony addresses the following issues:

Section III: Following on Mr. Cummings' general description of how QCI and QC finance their operations and his discussion of the numerous events leading to concerns about QCI's liquidity and its ability to service its debt, I discuss QCI's decision to sell Dex. With QCI's heavy debt load and significant liquidity issues, the specter of bankruptcy was very much a reality. The options available to QCI were extremely limited, but I explain what they were and why QCI chose to sell Dex. I also explain the critical role of the Dex transaction in facilitating the renegotiation of QCI's syndicated credit facility, without which QCI likely would have defaulted on covenants relating to QCI's debt to EBITDA (earnings before interest, taxes, depreciation and amortization) ratio, leading to a possible bankruptcy.

Section IV: I provide a high level summary of the Dex sale transaction, and discuss the decision to complete the sale in two phases. I discuss the critical need to close both phases of the sale transaction, as well as the intended uses of the proceeds from the transaction.

Section V: I conclude my testimony by demonstrating that the Dex sale transaction is in the public interest, from the perspective of the financial well-being of both QCI and QC, and recommending that this Commission approve the transaction on an expeditious basis.

III. THE DECISION TO SELL DEX

Q. WHAT IS THE SIGNIFICANCE OF QWEST'S FINANCIAL DOWNTURNS IN 2002?

A. As Mr. Cummings describes more fully in his testimony, by 2002 QCI was in a situation where it needed to improve liquidity and reduce debt, and it needed to do so quickly. In the Amended Credit Facility, QCI had been able to marginally improve the covenants relating to its debt to EBITDA ratios. The continuing decline of EBITDA, however, made it very possible that QCI would soon be in violation of those covenants, even with the slightly relaxed debt to EBITDA ratio requirements.

Further, QCI had ever dwindling options to raise cash necessary to make upcoming required payments under the Amended Credit Facility in 2003. QCI was required to repay in full its borrowing under that facility, $3.4 billion, in May 2003. QC also had $1.1 billion of other debt maturing by June 2003. QCI and QC were locked out of the commercial paper market. Their ability to issue intermediate and long term debt was increasingly hampered by the decline, ultimately into junk status, of their credit ratings. Even had they been able to issue replacement debt, it would likely have been on much more onerous terms, given their credit ratings, and it would not have reduced the risk associated with the debt to EBITDA ratio covenants. QCI's dwindling stock price made a public stock issue impractical; the SEC investigation made a public stock issue impossible. By April 2002, having explored numerous options, QCI decided to move ahead with a possible sale of Dex, and solicited proposals from potential purchasers.

Q. WHAT WERE THE DIFFERENT OPTIONS AVAILABLE TO QCI TO RAISE CASH TO IMPROVE ITS LIQUIDITY AND REDUCE ITS DEBT LOAD?

A. Increased revenue from internal operations was not an option, due to declining demand for telecommunications products and services, decreasing sales in the context of high fixed costs, increased competition and loss of access lines, and excess capacity in the fiber market.

Further reducing operational expenses was also not a viable option to significantly increase cash flow. QCI had already reduced its employee levels and expenses significantly in 2001, and continued to reduce expenses in 2002. The additional reductions could help improve cash flow and free cash flow, but not nearly to the degree necessary to meet maturing debt obligations.

Issuing additional equity or debt also proved infeasible. QCI did file an S-3 Registration Statement with the SEC on February 5, 2002 for issue of up to $2.5 billion of common stock or debt securities. However, the SEC investigation initiated on March 11, 2002 precluded any public stock sale. In any event, the severe drop in QCI's stock price made a stock issue impractical. The declining credit ratings of both QCI and QC and the severe drop in market prices for the company's bonds made further debt offerings equally impractical.

The other option to raise sufficient cash was a potential sale of assets, including the wireless business, wireless towers, access lines, or Dex. The sale of wireless assets could raise cash quickly, but not in sufficient amounts to satisfy QCI's short- and intermediate-term cash needs. Access line sales could raise sufficient cash, but would likely require several years to complete, based on QC's past experience.

QCI determined that the sale of Dex was the most promising and appropriate strategy for raising necessary cash on a short timeline. The sale of Dex would also provide enough proceeds to perhaps persuade the bank members of the Amended Credit Facility to negotiate an extension of the repayment dates and further relax the debt to EBITDA ratio covenants, which was an equally important consideration. After significant due diligence by potential purchasers and negotiations with potential purchasers, QCI reached an agreement on August 19, 2002 to sell Dex. I further describe the sale transaction in Section IV of my testimony.

Q. YOU STATED THAT THE DEX SALE WAS IMPORTANT TO QCI'S EFFORTS TO FURTHER AMEND ITS AMENDED CREDIT FACILITY. WHY WOULD THIS BE NECESSARY, GIVEN THAT QCI HAD JUST NEGOTIATED AN AMENDMENT IN MARCH 2002?

A. QCI's continued declining EBITDA and lack of cash to reduce its $26 billion debt load still left QCI in jeopardy of violating its debt-to-EBITDA ratio covenants even though these had been slightly relaxed by in the Amended Credit Facility . In fact, by August 19, 2002, QCI had disclosed that, unless it was able to renegotiate the Amended Credit Facility or obtain waivers from the banks relating to the debt-to-EBITDA ratio covenants, it would be in violation of those covenants, and therefore in default by the end of the third quarter, 2002.[2] In addition, the entire $3.4 billion indebtedness under the Amended Credit Facility was coming due in May 2003, and QC also had $1.1 billion of other debt maturing by June 2003. There was simply insufficient cash to meet these obligations when they came due, necessitating an extension of the maturity date under the Amended Credit Facility.

Q. WAS QCI ABLE TO NEGOTIATE FURTHER AMENDMENTS TO THE AMENDED CREDIT FACILITY?

A. Yes. As discussed in greater detail by Mr. Cummings, the resulting credit agreement is referred to as the Second Amended and Restated Credit Agreement ("ARCA"), which QCI announced on September 4, 2002.[3] QCI also negotiated a $750 million term loan (the "Dex Term Loan"), due in full upon completion of the second phase of the Dex sale transaction, expected in 2003, but in no event later than September 2004.

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[2] "Based on our expectations for the remainder of 2002, we must complete the amendment of the syndicated credit facility or obtain waivers from the banks prior to September 30, 2002. Unless we accomplish one of these alternatives, we anticipate we will fail to satisfy the financial covenants under the syndicated credit facility as of the end of the third quarter." QCI Form 8-K, Aug. 19, 2002.

[3] "On September 4, 2002 Qwest Communications International Inc. ("Qwest") announced that it had reached unanimous agreement with the 29 lenders in its syndicated credit facility to amend Qwest's $3.4 billion credit facility. " QCI Form 8-K, Sept. 5, 2002.

Q. WHAT WOULD HAVE HAPPENED HAD QCI NOT BEEN ABLE TO NEGOTIATE THE ARCA?

A. Absent a renegotiation of the Amended Credit Facility or a waiver relating to the debt-to-EBITDA ratio covenants, QCI would have violated those covenants by the end of the third quarter, 2002.[4] This would have put QCI in default under the terms of the Amended Credit Facility, which likely would have driven QCI into bankruptcy. Setting aside the issue of these financial covenants, QCI would almost certainly have lacked sufficient cash to make the $3.4 billion payment on the Amended Credit Facility required in May 2003. Again, this could have potentially driven QCI into bankruptcy. Bankruptcy, however, is not a business plan, and QCI had no intention of pursuing that option until and unless it exhausted all other alternatives. Accordingly, QCI continued to move forward with its plan to sell Dex and renegotiate the Amended Credit Facility.

Q. WOULD QCI HAVE BEEN ABLE TO NEGOTIATE THE ARCA ABSENT THE DEX SALE TRANSACTION?

A. No. The Dex sale transaction effectively facilitated QCI's ability to negotiate the terms and conditions in the ARCA. The banks recognized that, absent the sale of Dex, QCI had insufficient cash to make the $3.4 billion payment that would have been due on May 3, 2003. The ARCA requires interim payments in the event of asset sales, specifically including the sale of Dex. In particular, the close of the Dexter phase of the Dex sale transaction required a $1.354 billion pay down of the ARCA, and the close of the Rodney phase of the Dex sale transaction requires a further $750 million pay down of the ARCA. In addition,

[4] QCI Form 8-K, Aug. 19, 2002.

QCI is required to fully pay the $750 million Dex Term Loan upon the close of Rodney. Providing for these interim pay downs of QCI's $3.4 billion indebtedness, using Dex sale proceeds, was critical to QCI's ability to negotiate relaxed financial covenants and an extension in the maturity date to May 3, 2005. Absent the Dex sale agreement, it is very unlikely that QCI would have been able to negotiate the ARCA, which, as I previously described was absolutely critical to avoiding bankruptcy

IV. DEX SALE TRANSACTION

Q. PLEASE REVIEW THE MAJOR ASPECTS OF THE DEX SALE TRANSACTION.

A. On August 19, 2002, QCI reached an agreement to sell Dex for $7.05 billion to a new entity ("Buyer") formed by a consortium of private equity firms, including The Carlyle Group and Welsh, Carson, Anderson & Stowe. The sale is in two stages. The first stage (Dexter) included Dex operations in Colorado, Iowa, Minnesota, Nebraska, New Mexico, North Dakota and South Dakota, and closed on November 8, 2002. The second stage (Rodney) includes Dex operations in Arizona, Idaho, Montana, Oregon, Utah, Washington and Wyoming, and is expected to close in 2003.

Q. WHY WAS THE SALE TRANSACTION STRUCTURED TO CLOSE IN TWO PHASES?

A. The primary reason for a two-phased transaction was the need to quickly improve QCI's financial condition with an infusion of cash. QCI's $3.4 billion

Amended Credit Facility was coming due in May 2003. As Mr. Cummings' debt maturity charts show, QC also had $1.155 billion of debt maturing by June 2003. There was a concern about the ability to close the entire transaction in time to meet these repayment needs because of the belief that some states, including Arizona, would likely require a regulatory review of the transaction and such a review might not be completed in the necessary timeframe. A staged close would also allow Buyer to acquire a portion of the Dex operations and begin business sooner, recognizing that the regulatory process in certain Rodney states could delay the ability to close in those states.

Q. HOW WAS THE DEX SALE ARRANGED?

A. Qwest solicited potential purchasers for Dex worldwide from April to July 2002 and conducted a rigorous and widely-publicized auction for Dex in July and August 2002 to elicit the highest price for the asset. Qwest then received two fairness opinions with respect to the transaction from its respected financial advisors for the transaction to the effect that, subject to the assumptions, qualifications and terms contained in those opinions, the consideration to be received by Qwest in the transaction is fair to the Company from a financial point of view.

Q. WITH THE NEGOTIATION OF ARCA AND THE CLOSING OF DEXTER, IS THERE STILL A NEED TO COMPLETE THE RODNEY PHASE OF THE TRANSACTION?

A. Yes. Unless QCI completes the Rodney portion of the Dex sale transaction, it will be in great jeopardy of not being able to pay off its maturing debt. A portion of the Dexter proceeds have been used to pay the first installment of the ARCA loan, reducing QCI's indebtedness under the ARCA from $3.4 billion to $2.0 billion. See Mr. Cummings' debt maturity charts. However, QCI's financial position remains precarious. Without the proceeds from the second phase of the Dex sale, the only other source of cash is cash flow from internal operations. Even if it were to drastically reduce its capital budgets and operating expenditures, QCI would likely have insufficient cash from internal operations to meet upcoming ARCA payments and long-term debt maturities.

After the recent closing of the Dexter phase of the transaction, Standard and Poor's commented to the same effect:

> [T]he company still faces the challenge of obtaining state regulatory approvals for the close of the western region, and the close of this $4.3 billion transaction is expected to occur in 2003. These additional proceeds are critical in enabling the company to meet upcoming maturities both on the bank and public debt, which total about $7 billion from 2003 through 2005, of which about $4.8 billion is due through 2004, after the $1.4 billion pay-down of the $3.4 billion bank loan.[5]

Q. DID THE DECEMBER 2002 PRIVATE DEBT EXCHANGE ALLEVIATE ENOUGH FINANCIAL PRESSURE TO ALLOW QCI TO MEET ITS REPAYMENT OBLIGATIONS AND SURVIVE WITHOUT THE CLOSING OF RODNEY?

A. It did not. While QCI was pleased that a portion of eligible bondholders took advantage of the exchange offer, the results of the offer have no significant bearing on most of QCI's and QC's repayment obligations. As Mr. Cummings'

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[5] Standard and Poor's Press Release, December 26, 2002. See Exhibit PCC-5.

Table B shows, QCI and its subsidiaries still must make debt maturity payments of over $6.5 billion over the next three years and over $8.5 billion over the next five years. The Rodney proceeds are still vitally needed for QCI and its subsidiaries to avoid defaulting under their obligations.

V. THE SALE OF DEX IS IN THE PUBLIC INTEREST

Q. DESCRIBE WHY YOU BELIEVE THE SALE OF DEX IS IN THE PUBLIC INTEREST.

A. The sale of Dex is in the public interest because it goes a long way toward improving QCI's financial stability over the next several years, addressing critical liquidity concerns, and allowing QCI time to execute on its business plan. With the completion of the sale of Dex, QCI can focus on core telecommunications services and continue to maintain high levels of service quality. The sale of Dex averts what most considered a pending bankruptcy, which otherwise would have been a "lose-lose" solution for customers, employees and shareholders of the Qwest family of companies. Consequently, if the Commission finds that it is required to approve this transaction, I recommend that it do so as expeditiously as possible, consistent with the public interest. Time is of the essence to the parties in completing the transaction.

Q. ARE THERE ANY OTHER FACTORS THE COMMISSION SHOULD CONSIDER IN MAKING A PUBLIC INTEREST DETERMINATION?

A. Yes, there are. Earlier in my testimony I mentioned the issue of bankruptcy. The Commission should be concerned about this issue, and should conclude that to the extent that the Dex transactions reduce the possibility of such a filing, that factor weighs heavily in favor of a finding that the transactions are in the public interest.

Q. IF QCI, BUT NOT QC, WERE TO FILE FOR BANKRUPTCY, WHY SHOULD THE COMMISSION BE CONCERNED?

A. Such a filing could be disruptive for all the companies in the Qwest family of companies, for the employees of all of those companies, for the people who rely on those companies, and, potentially, for the service provided by some or all of those companies. Additionally, the Commission should be concerned because QCI is the parent company for both QC and Dex. Thus, even if QC were not the party directly seeking bankruptcy protection, QC and Dex, and their operations, would be subject to the jurisdiction of the bankruptcy court. They are assets of QCI, and as such could be sold or otherwise disposed of to satisfy the interests of the creditors of QCI. Under those circumstances, I am advised and believe that the bankruptcy court and the trustee in bankruptcy would give little, if any, consideration to ratepayer interests in connection with the disposition of the proceeds from any such sale.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. The Dex sale is a critical component of QCI's financial viability over the next few years. QCI needs the proceeds from the sale to provide enough cash to pay down maturing debts and continue operations over the next several years. Failure to rectify QCI's precarious financial position would have serious impacts on QC to the detriment of its customers, shareholders and employees.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF QWEST COMMUNICATIONS, INTERNATIONAL INC.'S, QWEST SERVICES CORPORATION'S, AND QWEST CORPORATION'S NOTICE OF SALE, REQUEST FOR WAIVER, OR APPLICATION FOR APPROVAL OF THE SALE OF THE ARIZONA OPERATIONS OF QWEST DEX, INC.	)	DOCKET NO. T-01051B-02-0666

EXHIBITS OF

BRIAN G. JOHNSON

ON BEHALF OF

QWEST CORPORATION

JANUARY 28, 2003

Arizona Corporation Commission
Qwest Corporation – BGJ-1
Exhibits of Brian G. Johnson
Docket No. T-01051B-02-0666
January 28, 2003

Education and Employment

Education

M.A. Economics, University of Montana, 1970
B.A. Economics, University of Montana, 1966

Employment

2002	Private Consultant
1997	Executive Director – Public Policy – US WEST
1993	Director - Colorado Regulatory Affairs – US WEST
1990	Director - Regulatory Finance – Mountain Bell
1987	Assistant Treasurer - Financial Planning - Mountain Bell
1984	District Staff Manager - Corporate Accounting and Financial Analysis- Mountain Bell
1979	District Manager - Payroll, Personnel and Cost Accounting – Mountain Bell

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF QWEST COMMUNICATIONS, INTERNATIONAL INC.'S, QWEST SERVICES CORPORATION'S, AND QWEST CORPORATION'S NOTICE OF SALE, REQUEST FOR WAIVER, OR APPLICATION FOR APPROVAL OF THE SALE OF THE ARIZONA OPERATIONS OF QWEST DEX, INC.	)	DOCKET NO. T-01051B-02-0666 AFFIDAVIT OF BRIAN G. JOHNSON
STATE OF COLORADO COUNTY OF DENVER	) :	SS

Brian G. Johnson, of lawful age being first duly sworn, depose and states:

1. My name is Brian G. Johnson. I am a consultant – for Qwest Corporation in Denver, Colorado. I have caused to be filed written direct testimony in Docket No. T-01051B-02-0666.

2. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Further affiant sayeth not.

Brian Johnson

Brian G. Johnson

SUBSCRIBED AND SWORN to before me this 24 day of January, 2003.

Tina M. Colvin

Notary Public

My Commission Expires: July 12, 2006

Arizona Corporation Commission
Qwest Corporation – PCC-2
Exhibits of Peter C. Cummings
Docket No. T-01051B-02-0666
January 28, 2003

Quote, Chart, News
Snapshot
Quotes
Charts
Historical
Real-Time Intraday
Key Developments
Recent News

Research
Company Report
SEC Filings
Advisor FYI
Stock Rating
Earnings Estimates
Analyst Ratings
Financial Results
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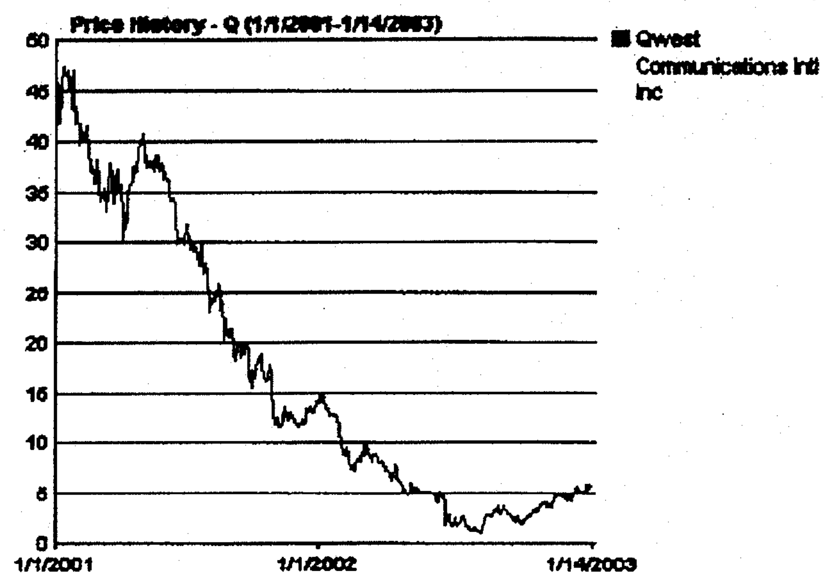

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Year

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To January Year: 2003

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Comparisons

Index:

Dow (DJIA) S&P 500 NASDAQ AMEX

Moving average:

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CSI Data Source: CSI
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Qwest Communications Intl Inc

Date	High	Low	Close	Volume
1/14/2003	6.140	5.870	6.020	9,365,900
1/13/2003	6.100	5.760	5.860	5,854,300
1/10/2003	5.860	5.580	5.750	5,913,900
1/9/2003	5.790	5.550	5.750	6,355,800
1/8/2003	5.900	5.490	5.510	10,187,100
1/7/2003	6.150	5.880	5.930	11,059,800
1/6/2003	5.990	5.410	5.930	14,019,300
1/3/2003	5.490	5.240	5.380	5,535,800
1/2/2003	5.410	5.040	5.350	7,868,700
12/31/2002	5.100	4.900	5.000	6,027,200
12/30/2002	5.190	4.820	5.100	7,699,100
12/27/2002	5.300	5.020	5.090	4,980,700
12/26/2002	5.540	5.200	5.340	5,245,500
12/24/2002	5.900	5.400	5.410	8,859,200
12/23/2002	5.710	5.290	5.690	13,446,500
12/20/2002	5.460	5.060	5.300	18,268,200
12/19/2002	5.110	4.800	5.070	10,044,200
12/18/2002	5.310	4.750	4.850	20,333,100
12/17/2002	5.000	4.400	5.000	10,748,500
12/16/2002	4.420	4.090	4.420	5,390,000
12/13/2002	4.370	4.150	4.280	4,700,800

12/12/2002	4.640	4.330	4.390	4,107,300
12/11/2002	4.680	4.510	4.640	6,006,700
12/10/2002	4.760	4.160	4.720	6,175,200
12/9/2002	4.330	3.920	4.260	7,222,300
12/6/2002	4.540	4.250	4.340	5,605,300
12/5/2002	4.760	4.400	4.430	5,701,200
12/4/2002	4.700	4.430	4.570	4,332,600
12/3/2002	4.770	4.530	4.620	4,050,400
12/2/2002	5.090	4.580	4.660	6,820,500
11/29/2002	4.980	4.800	4.840	2,302,200
11/27/2002	5.170	4.830	4.830	7,234,500
11/26/2002	5.120	4.600	4.960	11,316,500
11/25/2002	5.000	4.490	4.990	10,572,900
11/22/2002	4.750	4.420	4.620	7,253,200
11/21/2002	4.880	4.450	4.640	12,011,200
11/20/2002	4.970	4.250	4.330	39,355,800
11/19/2002	3.900	3.430	3.900	7,976,200
11/18/2002	3.760	3.430	3.630	7,312,800
11/15/2002	3.830	3.520	3.790	8,701,400
11/14/2002	4.000	3.710	3.710	7,798,300
11/13/2002	3.980	3.710	3.880	5,310,400
11/12/2002	3.910	3.730	3.870	6,624,600
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11/8/2002	4.320	3.980	4.000	10,107,700
11/7/2002	4.230	3.880	4.150	13,487,200
11/6/2002	4.100	3.850	4.090	10,092,400
11/5/2002	4.050	3.730	3.840	9,790,900
11/4/2002	3.940	3.650	3.900	14,086,900
11/1/2002	3.600	3.000	3.590	8,255,000
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10/30/2002	3.490	3.060	3.390	11,608,100
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10/28/2002	3.550	3.300	3.460	6,550,100
10/25/2002	3.330	3.170	3.260	4,380,100
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10/23/2002	3.210	2.980	3.210	10,488,200
10/22/2002	3.350	2.930	3.150	14,627,100
10/21/2002	3.030	2.770	3.000	7,916,200
10/18/2002	3.070	2.650	2.740	7,724,300
10/17/2002	2.960	2.770	2.850	5,831,900
10/16/2002	2.840	2.650	2.720	5,818,200
10/15/2002	2.850	2.590	2.790	7,687,800
10/14/2002	2.550	2.400	2.550	3,290,700
10/11/2002	2.530	2.350	2.430	5,892,500
10/10/2002	2.450	1.910	2.380	7,670,700
10/9/2002	2.020	1.820	1.980	10,401,800
10/8/2002	2.180	1.950	1.950	6,464,000
10/7/2002	2.200	1.960	2.050	7,095,500
10/4/2002	2.400	2.170	2.180	5,421,500
10/3/2002	2.680	2.300	2.340	7,689,700
10/2/2002	2.800	2.410	2.460	6,837,700
10/1/2002	2.720	2.300	2.690	6,569,200
9/30/2002	2.360	2.100	2.280	8,612,500
9/27/2002	2.550	2.250	2.260	5,527,900
9/26/2002	2.590	2.390	2.450	7,627,400
9/25/2002	2.750	2.460	2.520	11,194,800
9/24/2002	2.820	2.560	2.610	9,865,400
9/23/2002	2.950	2.400	2.790	7,469,700
9/20/2002	2.970	2.670	2.850	10,928,500
9/19/2002	2.940	2.460	2.850	19,564,500

9/18/2002	3.130	2.820	2.970	14,813,500
9/17/2002	3.420	3.040	3.150	11,356,700
9/16/2002	3.600	3.270	3.310	6,826,900
9/13/2002	3.770	3.310	3.490	13,943,600
9/12/2002	3.630	3.240	3.600	21,317,000
9/11/2002	3.250	3.060	3.180	5,247,000
9/10/2002	3.310	2.960	3.040	16,556,500
9/9/2002	3.250	2.870	3.170	13,853,500
9/6/2002	3.210	2.900	3.000	14,341,600
9/5/2002	3.560	3.130	3.200	28,906,800
9/4/2002	3.770	3.280	3.600	25,357,100
9/3/2002	3.310	3.100	3.260	14,526,400
8/30/2002	3.400	3.020	3.280	10,293,400
8/29/2002	3.300	2.950	3.180	12,683,200
8/28/2002	3.260	2.760	3.010	22,568,700
8/27/2002	2.770	2.650	2.770	8,654,800
8/26/2002	2.720	2.430	2.670	11,376,500
8/23/2002	2.790	2.650	2.690	9,345,100
8/22/2002	3.050	2.770	2.910	15,353,100
8/21/2002	3.010	2.600	2.940	32,051,000
8/20/2002	2.950	2.650	2.950	60,456,700
8/19/2002	2.290	1.960	2.240	19,293,300
8/16/2002	1.980	1.540	1.930	24,477,500
8/15/2002	1.630	1.350	1.530	16,122,900
8/14/2002	1.550	1.120	1.500	20,505,500
8/13/2002	1.170	1.100	1.110	10,416,800
8/12/2002	1.250	1.110	1.120	15,634,400
8/9/2002	1.290	1.130	1.240	15,600,700
8/8/2002	1.390	1.080	1.200	25,302,900
8/7/2002	1.400	1.070	1.200	43,506,900

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8/6/2002	1.920	1.250	1.350	18,760,100
8/5/2002	1.790	1.580	1.690	16,291,700
8/2/2002	1.600	1.420	1.580	18,488,300
8/1/2002	1.600	1.320	1.500	38,184,800
7/31/2002	1.600	1.200	1.280	34,253,400
7/30/2002	1.420	1.250	1.290	27,587,900
7/29/2002	1.770	1.110	1.490	46,513,800
7/26/2002	1.740	1.480	1.500	13,592,200
7/25/2002	1.750	1.560	1.610	10,280,400
7/24/2002	1.900	1.400	1.700	23,566,900
7/23/2002	2.390	1.700	1.750	18,893,300
7/22/2002	2.730	2.250	2.310	19,273,000
7/19/2002	2.700	2.280	2.490	26,681,800
7/18/2002	3.000	2.290	2.740	26,429,700
7/17/2002	2.400	2.180	2.390	13,064,000
7/16/2002	2.190	1.900	2.150	24,633,400
7/15/2002	2.110	1.850	2.000	15,558,200
7/12/2002	2.060	1.800	1.930	15,997,300
7/11/2002	2.090	1.550	1.870	29,885,500
7/10/2002	2.010	1.520	1.770	63,059,200
7/9/2002	2.750	2.140	2.600	20,264,600
7/8/2002	2.120	1.900	2.100	13,510,000
7/5/2002	1.900	1.520	1.820	8,835,000
7/3/2002	1.900	1.490	1.700	30,997,800
7/2/2002	2.300	1.920	1.930	27,836,500
7/1/2002	2.940	2.100	2.300	20,382,800
6/28/2002	3.120	2.420	2.800	28,012,800
6/27/2002	2.810	1.830	2.760	41,227,300
6/26/2002	3.000	1.200	1.790	86,027,400
6/25/2002	4.670	4.150	4.190	6,501,300

6/24/2002	4.650	4.300	4.420	10,461,400
6/21/2002	4.740	4.500	4.590	5,909,300
6/20/2002	4.980	4.710	4.720	8,477,400
6/19/2002	5.120	4.950	4.980	7,904,100
6/18/2002	5.290	5.030	5.140	15,863,300
6/17/2002	5.120	4.790	5.000	22,732,200
6/14/2002	4.210	4.000	4.150	9,808,800
6/13/2002	4.330	4.140	4.270	6,254,600
6/12/2002	4.710	4.000	4.290	8,308,800
6/11/2002	4.850	4.550	4.550	9,290,700
6/10/2002	5.000	4.740	4.770	5,996,300
6/7/2002	4.960	4.800	4.940	3,493,900
6/6/2002	5.130	4.900	5.000	4,398,000
6/5/2002	5.170	5.020	5.060	3,729,000
6/4/2002	5.160	4.990	5.080	4,985,600
6/3/2002	5.250	5.040	5.100	6,778,300
5/31/2002	5.260	5.150	5.160	6,447,000
5/30/2002	5.260	4.850	5.200	7,793,200
5/29/2002	5.380	5.060	5.060	4,192,300
5/28/2002	5.300	5.030	5.200	3,809,800
5/24/2002	5.300	5.000	5.110	5,771,300
5/23/2002	5.100	4.600	5.100	14,024,500
5/22/2002	5.160	4.960	5.030	6,696,500
5/21/2002	5.420	4.880	5.030	9,528,700
5/20/2002	5.400	5.170	5.290	4,945,400
5/17/2002	5.480	5.020	5.170	6,759,200
5/16/2002	5.680	5.390	5.530	4,334,400
5/15/2002	5.550	5.270	5.390	6,138,100
5/14/2002	5.600	5.100	5.500	9,507,000
5/13/2002	5.210	4.910	5.030	6,835,400

5/10/2002	5.610	4.950	5.040	14,339,800
5/9/2002	6.060	5.780	5.900	9,312,900
5/8/2002	6.250	5.500	6.170	18,032,100
5/7/2002	5.390	4.870	5.160	27,306,800
5/6/2002	5.190	4.780	4.860	8,124,400
5/3/2002	5.210	5.010	5.050	9,005,000
5/2/2002	5.400	4.960	5.090	13,409,600
5/1/2002	5.450	4.940	5.290	18,168,100
4/30/2002	5.400	4.350	5.030	34,168,500
4/29/2002	5.750	4.800	4.960	25,640,900
4/26/2002	6.100	5.720	5.750	7,878,600
4/25/2002	6.270	6.050	6.110	4,930,500
4/24/2002	6.410	6.150	6.170	5,886,100
4/23/2002	6.730	6.270	6.400	9,239,500
4/22/2002	6.550	5.990	6.400	18,585,300
4/19/2002	7.060	6.450	6.600	24,051,500
4/18/2002	8.190	7.530	7.570	12,917,600
4/17/2002	8.200	7.530	7.900	15,483,300
4/16/2002	7.750	6.900	7.470	19,338,900
4/15/2002	7.140	6.670	6.680	4,261,600
4/12/2002	6.980	6.310	6.900	8,933,500
4/11/2002	6.410	5.930	6.350	9,281,400
4/10/2002	7.000	6.170	6.260	18,919,700
4/9/2002	7.350	7.000	7.010	6,175,500
4/8/2002	7.590	7.180	7.210	8,183,300
4/5/2002	7.450	7.250	7.340	9,057,500
4/4/2002	7.550	7.070	7.260	10,286,000
4/3/2002	7.910	7.530	7.550	6,972,400
4/2/2002	7.960	7.600	7.630	13,010,700
4/1/2002	8.200	7.970	8.000	9,392,200

3/28/2002	8.480	7.920	8.220	7,539,000
3/27/2002	8.240	7.960	7.980	10,173,300
3/26/2002	8.460	8.090	8.090	8,289,700
3/25/2002	8.710	8.210	8.210	4,772,100
3/22/2002	8.620	8.310	8.500	7,859,800
3/21/2002	8.970	8.500	8.690	9,828,400
3/20/2002	9.140	8.790	8.900	8,960,900
3/19/2002	9.280	8.900	8.940	7,792,900
3/18/2002	9.660	8.800	9.010	11,563,900
3/15/2002	8.900	8.300	8.680	8,911,100
3/14/2002	8.700	8.190	8.250	13,140,900
3/13/2002	8.960	8.480	8.700	13,419,700
3/12/2002	9.250	8.760	8.950	16,887,900
3/11/2002	9.640	8.800	9.460	14,890,800
3/8/2002	10.200	9.550	9.710	10,366,400
3/7/2002	9.940	9.400	9.820	19,450,100
3/6/2002	10.290	8.520	10.080	15,489,400
3/5/2002	9.150	8.200	8.850	16,201,500
3/4/2002	9.410	8.780	9.150	13,187,300
3/1/2002	9.500	8.500	8.990	9,299,100
2/28/2002	8.710	8.300	8.700	7,421,500
2/27/2002	8.700	8.210	8.300	9,644,900
2/26/2002	8.560	8.140	8.250	17,076,000
2/25/2002	8.540	7.950	8.300	8,160,300
2/22/2002	8.530	7.800	8.270	14,380,300
2/21/2002	8.580	7.250	8.430	26,032,500
2/20/2002	7.790	6.910	7.640	18,117,600
2/19/2002	7.850	7.070	7.270	16,670,400
2/15/2002	7.560	6.540	7.560	58,069,000
2/14/2002	8.050	7.270	7.490	59,351,100

2/13/2002	8.920	8.470	8.590	27,375,900
2/12/2002	9.260	9.110	9.210	28,318,000
2/11/2002	9.550	8.870	9.360	25,152,300
2/8/2002	9.690	8.770	9.600	13,215,300
2/7/2002	9.600	8.750	8.750	16,432,500
2/6/2002	9.180	8.850	9.020	22,655,400
2/5/2002	9.640	8.610	9.240	22,266,400
2/4/2002	10.010	8.510	8.960	26,914,300
2/1/2002	10.460	9.850	10.000	24,717,800
1/31/2002	11.550	10.290	10.500	17,068,300
1/30/2002	11.730	10.400	10.750	29,282,800
1/29/2002	12.010	11.410	11.760	15,138,600
1/28/2002	13.000	11.870	12.350	6,494,300
1/25/2002	13.050	12.310	12.590	7,271,000
1/24/2002	13.040	12.750	13.000	4,185,100
1/23/2002	12.850	12.290	12.850	6,417,700
1/22/2002	13.130	12.640	12.650	4,833,100
1/18/2002	12.880	12.540	12.880	4,780,800
1/17/2002	13.250	12.750	12.810	9,870,500
1/16/2002	13.590	13.110	13.150	3,856,000
1/15/2002	13.690	13.350	13.550	3,519,200
1/14/2002	13.810	13.230	13.340	6,420,800
1/11/2002	14.140	13.640	13.670	9,575,300
1/10/2002	14.350	13.450	13.760	9,692,900
1/9/2002	14.880	14.130	14.380	10,526,500
1/8/2002	14.700	14.360	14.560	5,995,600
1/7/2002	14.950	14.350	14.460	7,894,800
1/4/2002	15.190	14.660	14.930	8,572,300
1/3/2002	14.850	14.050	14.600	9,181,200
1/2/2002	14.250	13.590	14.020	6,250,300

12/31/2001	14.500	13.900	14.130	5,078,800
12/28/2001	14.270	13.400	14.240	8,812,200
12/27/2001	13.700	13.300	13.700	7,224,900
12/26/2001	13.540	13.190	13.300	5,684,600
12/24/2001	13.640	13.190	13.190	4,436,900
12/21/2001	15.000	13.020	13.400	14,922,300
12/20/2001	13.760	13.100	13.600	12,174,400
12/19/2001	13.600	12.800	13.350	7,864,400
12/18/2001	13.740	13.130	13.270	14,305,300
12/17/2001	13.770	12.220	13.440	21,961,500
12/14/2001	12.470	11.500	12.330	18,913,800
12/13/2001	12.270	11.500	11.800	29,824,500
12/12/2001	12.320	11.950	12.100	10,661,800
12/11/2001	12.620	11.640	12.380	13,497,700
12/10/2001	12.020	11.640	11.950	11,014,000
12/7/2001	11.990	11.520	11.770	13,702,000
12/6/2001	12.220	11.910	11.920	14,861,000
12/5/2001	12.080	11.500	11.900	12,815,700
12/4/2001	11.950	11.600	11.660	9,667,100
12/3/2001	12.070	11.770	11.880	7,331,800
11/30/2001	12.190	11.800	11.900	12,648,900
11/29/2001	12.480	12.150	12.200	8,612,800
11/28/2001	12.910	12.250	12.350	11,703,900
11/27/2001	13.400	12.700	12.770	7,607,800
11/26/2001	13.300	12.800	13.190	8,594,700
11/23/2001	12.760	12.140	12.650	2,520,900
11/21/2001	12.650	12.340	12.450	5,862,100
11/20/2001	13.260	12.600	12.840	6,589,400
11/19/2001	13.500	12.850	13.200	9,071,700
11/16/2001	13.700	12.900	13.200	6,688,900

11/15/2001	13.750	12.710	13.700	13,832,400
11/14/2001	12.720	12.260	12.650	12,609,600
11/13/2001	12.180	11.560	12.060	11,906,300
11/12/2001	11.650	11.270	11.540	6,901,400
11/9/2001	12.010	11.480	11.850	8,242,500
11/8/2001	12.220	11.710	11.940	9,908,200
11/7/2001	11.740	11.080	11.510	21,666,800
11/6/2001	12.400	11.510	11.790	12,880,300
11/5/2001	12.540	11.990	12.500	13,803,400
11/2/2001	12.500	11.490	11.970	19,447,700
11/1/2001	12.600	11.550	12.000	24,559,400
10/31/2001	14.900	12.500	12.950	38,800,300
10/30/2001	16.750	15.950	16.000	5,446,900
10/29/2001	17.410	16.650	16.900	4,045,200
10/26/2001	17.940	17.400	17.750	4,144,200
10/25/2001	17.650	16.400	17.510	5,776,100
10/24/2001	16.850	16.280	16.810	6,667,000
10/23/2001	16.690	16.130	16.340	8,507,800
10/22/2001	16.450	15.950	16.110	5,957,900
10/19/2001	16.710	15.950	16.170	11,719,100
10/18/2001	16.730	16.260	16.700	7,778,900
10/17/2001	17.930	16.480	16.600	10,812,000
10/16/2001	18.900	17.500	17.830	9,576,700
10/15/2001	18.980	18.570	18.900	3,362,100
10/12/2001	19.090	18.450	18.800	6,320,600
10/11/2001	19.950	18.350	18.600	8,468,100
10/10/2001	18.610	18.100	18.480	8,629,800
10/9/2001	18.650	17.050	18.260	11,446,000
10/8/2001	17.450	16.550	17.430	7,837,900
10/5/2001	17.000	16.220	16.960	6,850,800

10/4/2001	17.030	16.100	16.550	10,500,200
10/3/2001	17.280	15.000	17.200	22,150,700
10/2/2001	16.150	15.260	15.600	21,357,400
10/1/2001	16.850	16.160	16.500	10,044,500
9/28/2001	17.350	16.120	16.700	24,327,600
9/27/2001	19.350	16.490	16.500	29,160,600
9/26/2001	20.060	18.900	19.400	8,959,200
9/25/2001	20.150	19.450	19.860	6,367,900
9/24/2001	21.000	19.700	20.030	7,032,300
9/21/2001	19.230	17.000	19.000	10,621,700
9/20/2001	20.340	18.600	19.560	7,234,900
9/19/2001	20.240	19.250	20.150	9,486,900
9/18/2001	20.090	18.780	19.650	9,273,000
9/17/2001	20.500	18.500	18.570	10,515,400
9/10/2001	20.000	16.280	19.900	23,926,700
9/7/2001	19.300	17.890	18.140	31,493,600
9/6/2001	19.600	19.000	19.260	16,096,200
9/5/2001	20.600	19.100	20.250	10,842,000
9/4/2001	21.870	20.650	20.850	4,865,500
8/31/2001	21.680	20.700	21.500	7,165,700
8/30/2001	21.100	20.400	20.650	6,748,000
8/29/2001	21.250	20.810	20.920	7,755,200
8/28/2001	21.630	20.750	20.980	7,671,600
8/27/2001	22.110	21.500	21.700	9,393,400
8/24/2001	22.270	20.620	22.270	14,439,900
8/23/2001	21.900	20.010	20.470	24,109,800
8/22/2001	23.150	21.540	22.100	15,020,000
8/21/2001	24.000	23.140	23.220	4,895,300
8/20/2001	24.200	23.430	24.100	6,110,300
8/17/2001	25.000	23.170	23.350	9,384,700

8/16/2001	25.300	24.350	25.200	6,282,300
8/15/2001	26.080	25.230	25.240	7,672,500
8/14/2001	26.050	24.800	26.000	12,908,400
8/13/2001	24.740	24.300	24.660	5,466,900
8/10/2001	24.800	23.850	24.770	5,757,300
8/9/2001	24.350	23.640	24.290	8,876,200
8/8/2001	25.000	23.500	24.200	12,348,300
8/7/2001	24.490	23.570	24.000	12,083,700
8/6/2001	24.940	23.800	24.290	11,597,000
8/3/2001	24.470	22.800	24.400	14,680,000
8/2/2001	25.500	22.870	23.100	25,647,500
8/1/2001	26.200	24.800	25.210	13,648,600
7/31/2001	27.000	25.800	26.000	11,799,400
7/30/2001	27.740	26.830	27.200	5,094,000
7/27/2001	28.220	27.130	27.900	4,614,400
7/26/2001	28.130	27.380	28.010	6,043,900
7/25/2001	27.590	27.000	27.400	6,794,600
7/24/2001	27.880	26.580	27.050	7,273,200
7/23/2001	29.500	28.110	28.550	5,138,900
7/20/2001	30.220	28.250	30.000	10,541,500
7/19/2001	28.700	28.000	28.230	6,654,100
7/18/2001	28.600	27.420	27.810	8,879,000
7/17/2001	29.010	27.750	28.960	6,187,700
7/16/2001	29.950	28.850	29.220	3,495,600
7/13/2001	29.960	29.120	29.520	2,680,100
7/12/2001	30.000	29.000	29.950	4,414,800
7/11/2001	29.980	28.800	29.140	5,392,200
7/10/2001	30.730	29.350	29.840	4,748,000
7/9/2001	30.170	29.000	29.990	3,373,000
7/6/2001	30.110	29.000	29.400	3,523,800

7/5/2001	31.100	30.000	30.100	3,129,400
7/3/2001	30.990	30.650	30.810	1,746,600
7/2/2001	31.450	30.900	31.150	4,997,500
6/29/2001	31.950	29.900	31.870	8,834,400
6/28/2001	30.830	29.750	29.970	5,504,800
6/27/2001	30.610	29.490	30.070	4,168,000
6/26/2001	30.470	29.530	30.030	3,457,200
6/25/2001	30.590	29.800	30.040	4,128,400
6/22/2001	30.810	30.130	30.500	6,920,600
6/21/2001	31.690	30.150	30.500	14,262,500
6/20/2001	30.300	28.390	30.020	26,166,400
6/19/2001	32.400	30.950	31.270	16,393,700
6/18/2001	32.500	29.600	29.820	11,798,300
6/15/2001	33.870	32.600	33.000	6,130,600
6/14/2001	34.470	33.960	34.100	3,227,500
6/13/2001	34.560	34.040	34.400	2,497,400
6/12/2001	35.050	33.220	34.360	5,004,400
6/11/2001	34.650	33.450	34.250	4,171,300
6/8/2001	34.700	33.760	34.260	5,267,900
6/7/2001	36.850	34.890	35.000	5,966,400
6/6/2001	36.630	35.860	36.210	3,040,000
6/5/2001	36.500	35.600	36.230	4,701,600
6/4/2001	37.150	35.860	36.150	3,481,500
6/1/2001	37.110	35.640	36.910	4,377,500
5/31/2001	37.400	36.080	36.740	3,856,100
5/30/2001	37.150	36.090	36.290	3,272,900
5/29/2001	38.290	36.950	37.290	3,492,300
5/25/2001	38.080	37.080	37.750	3,877,900
5/24/2001	38.100	36.900	37.070	4,466,200
5/23/2001	38.750	37.450	37.600	5,043,800

5/22/2001	38.990	38.300	38.530	4,453,100
5/21/2001	38.750	38.050	38.670	5,140,500
5/18/2001	38.720	37.420	38.600	7,417,200
5/17/2001	37.950	36.400	37.820	9,746,300
5/16/2001	37.920	36.250	37.000	12,534,900
5/15/2001	38.200	37.440	37.650	6,812,500
5/14/2001	38.150	36.990	37.930	3,415,700
5/11/2001	37.870	36.600	37.420	2,656,100
5/10/2001	38.390	37.700	37.960	3,936,500
5/9/2001	38.100	37.100	38.000	5,222,300
5/8/2001	38.900	37.300	37.550	6,827,400
5/7/2001	38.870	37.530	38.640	5,392,300
5/4/2001	38.130	37.140	37.540	9,234,600
5/3/2001	39.500	38.230	38.450	6,002,400
5/2/2001	40.580	39.200	39.440	5,241,100
5/1/2001	41.200	40.400	40.810	5,766,100
4/30/2001	41.830	39.840	40.900	7,887,500
4/27/2001	39.900	39.120	39.800	4,482,300
4/26/2001	39.300	38.490	39.250	7,916,800
4/25/2001	39.710	37.300	38.900	7,784,100
4/24/2001	38.500	37.000	37.300	6,658,700
4/23/2001	37.400	36.160	37.120	7,079,300
4/20/2001	38.350	37.110	37.400	6,462,300
4/19/2001	37.670	36.350	36.900	7,148,500
4/18/2001	38.540	36.170	37.510	7,391,500
4/17/2001	36.370	35.200	36.240	4,369,100
4/16/2001	35.770	35.250	35.700	3,709,600
4/12/2001	36.100	34.260	35.700	6,226,400
4/11/2001	36.250	35.050	35.700	8,007,700
4/10/2001	35.890	32.650	34.800	9,762,400

4/9/2001	32.680	31.700	32.190	4,789,900
4/6/2001	32.100	31.000	31.400	4,356,900
4/5/2001	32.910	30.550	32.850	11,519,500
4/4/2001	33.300	30.000	30.110	10,913,200
4/3/2001	35.950	32.570	32.720	6,995,500
4/2/2001	35.990	35.000	35.700	4,520,500
3/30/2001	35.590	33.720	35.050	7,564,500
3/29/2001	35.950	34.000	35.160	4,817,400
3/28/2001	36.850	34.700	34.980	3,606,800
3/27/2001	37.600	35.750	37.190	4,746,900
3/26/2001	36.500	35.320	36.350	3,284,000
3/23/2001	35.650	33.850	35.250	4,969,100
3/22/2001	34.250	32.240	34.000	7,353,000
3/21/2001	36.950	33.980	34.230	8,476,600
3/20/2001	37.500	36.380	36.380	5,202,500
3/19/2001	37.420	36.650	37.000	3,867,900
3/16/2001	37.900	36.690	36.840	7,760,500
3/15/2001	38.060	36.190	37.920	5,631,900
3/14/2001	36.230	34.540	35.440	8,390,300
3/13/2001	34.870	33.000	34.780	4,429,700
3/12/2001	33.950	32.750	33.250	5,048,500
3/9/2001	34.660	33.590	33.800	3,445,700
3/8/2001	36.020	34.840	35.290	4,233,000
3/7/2001	35.200	34.430	34.520	2,923,600
3/6/2001	35.690	34.800	34.940	4,231,000
3/5/2001	34.850	33.600	34.300	4,136,500
3/2/2001	35.160	33.200	34.730	6,995,800
3/1/2001	35.920	34.370	34.860	6,789,200
2/28/2001	38.150	36.610	36.970	3,810,200
2/27/2001	38.520	37.290	37.450	4,567,000

2/26/2001	38.890	36.280	38.270	7,003,700
2/23/2001	36.130	33.880	35.900	6,059,400
2/22/2001	37.650	35.590	36.490	6,953,200
2/21/2001	37.750	36.530	37.500	4,705,600
2/20/2001	38.240	36.800	36.850	5,714,300
2/16/2001	39.260	36.580	37.100	8,749,000
2/15/2001	40.810	39.530	39.700	5,487,800
2/14/2001	41.610	38.820	39.080	6,137,400
2/13/2001	41.860	40.800	41.690	5,152,300
2/12/2001	41.400	40.010	40.900	3,922,500
2/9/2001	41.000	40.030	40.430	4,516,600
2/8/2001	41.000	40.310	41.000	4,315,400
2/7/2001	41.510	39.760	40.440	5,307,100
2/6/2001	41.890	40.800	41.180	4,864,700
2/5/2001	40.990	39.650	40.900	5,831,200
2/2/2001	41.850	39.680	39.760	6,190,700
2/1/2001	42.350	40.000	41.800	10,460,600
1/31/2001	42.980	42.000	42.120	3,928,000
1/30/2001	43.510	42.600	42.800	4,745,000
1/29/2001	43.700	42.640	43.560	5,437,100
1/26/2001	43.813	41.750	41.875	9,487,500
1/25/2001	45.750	43.000	44.375	10,856,100
1/24/2001	47.250	44.500	47.063	10,141,900
1/23/2001	44.875	43.500	44.625	6,046,700
1/22/2001	46.250	42.563	43.313	6,456,100
1/19/2001	46.875	45.813	46.500	5,900,000
1/18/2001	46.375	45.313	45.750	4,046,100
1/17/2001	47.563	44.188	45.438	9,564,800
1/16/2001	47.938	46.500	47.000	4,751,700
1/12/2001	48.188	46.438	46.625	4,688,000

1/11/2001	47.500	45.313	47.500	8,221,800
1/10/2001	45.750	44.063	45.688	5,305,800
1/9/2001	44.875	42.375	44.875	5,011,200
1/8/2001	44.000	41.500	42.000	4,988,200
1/5/2001	46.125	42.875	43.563	6,709,900
1/4/2001	47.000	44.625	46.000	9,744,000
1/3/2001	43.750	39.375	43.500	9,959,100
1/2/2001	40.813	39.438	39.688	5,398,800

CSI Data Source: CSI
http://www.csidata.com

Qwest Communications International Inc. Long Term Bond Ratings

DATE	MOODY'S	STANDARD & POOR'S	FITCH
7/24/01		Affirms BBB+ Outlook Stable	
9/10/01			Affirms BBB+ Outlook Stable
12/13/01	Affirms Baa1 Outlook Negative		Affirms BBB+ Outlook Negative
1/16/02	On Review For Possible Downgrade		
2/14/02	Downgrade to Baa2 Outlook Negative	Downgrage to BBB Outlook Negative	Downgrage to BBB Outlook Negative
3/5/02	Downgrade to Baa3 Outlook Negative		
3/7/02		Affirms BBB Outlook Negative	
4/19/02		Downgrade to BBB- Outlook Negative	Downgrade to BBB- Outlook Negative
5/22/02		Downgrade to BB+ Outlook Negative	
5/30/02	Downgrade to Ba2 Outlook Negative		
7/3/02	On Review For Possible Downgrade		
7/10/02	Downgrade to B2 Outlook Negative		Downgrade to B Outlook Negative
7/17/02		Downgrade to B+ Outlook Developing	
8/12/02			Downgrade to CCC+ Outlook Negative
8/27/02		Downgrade to B- Outlook Negative	
9/5/02	Downgrade to Caa1 Outlook Negative	Affirms B- Outlook Developing	
11/20/02		Downgrade to CC Outlook Developing	Affirms CCC+ Outlook Negative
12/26/02	Affirms Caa1 On review for downgrade	Reassigned B- Outlook Developing	

Qwest Corporation Long Term Bond Ratings

DATE	MOODY'S	STANDARD & POOR'S	FITCH
7/24/01		Affirms BBB+ Outlook Stable	
9/10/01			Affirms A Outlook Stable
12/13/01	Affirms A2 Outlook Negative		Affirms A Outlook Negative
1/16/02	On Review For Possible Downgrade		
2/14/02	Downgrade to A3 Outlook Negative	Downgrade to BBB Outlook Negative	Downgrade to BBB+ Outlook Negative
3/5/02	Downgrade to Baa2 Outlook Negative		
3/7/02			Affirm BBB+ Outlook Negative
4/19/02		Downgrade to BBB- Outlook Negative	Downgrade to BBB Outlook Negative
5/22/02		Downgrade to BB+ Outlook Negative	
5/30/02	Downgrade to Baa3 Outlook Negative		
7/3/02	On Review For Possible Downgrade		
7/10/02	Downgrade to Ba3 Outlook Negative		Downgrade to B Outlook Negative
7/17/02		Downgrade to B+ Outlook Developing	
8/12/02			Affirms B Outlook Negative
8/27/02		Downgrade to B- Outlook Negative	
9/5/02	Affirms Ba3 Outlook Negative	Affirms B- Outlook Developing	
11/20/02		Affirms B- Outlook Developing	Affirms B Outlook Negative
12/26/02	Affirms Ba3 On review for downgrade	Affirms B- Outlook Developing	

Arizona Corporation Commission
Qwest Corporation – PCC-4
Exhibits of Peter C. Cummings
Docket No. T-01051B-02-0666
January 28, 2003

DEALS & DEAL MAKERS

Qwest's Bond Swap Cuts Debt, But Some Holders Oppose It

By Shawn Young

Qwest Communications International Inc. said it has reduced its debt by $1.94 billion by swapping some bonds for new bonds that have a lower face value but a higher interest rate and longer maturities.

The debt reduction from the bond swap, which some bondholders claimed was coercive and a violation of securities laws, was at the low end of the deal's expected range. But the exchange still gives Qwest as much as three extra years to repay some of its more burdensome debts, easing the local and long-distance phone company's financial pinch.

Qwest, based in Denver, will cut its debt to $22.6 billion from $24.5 billion through the debt exchange. The company has been racing to reduce a debt load that investors fear could force it into bankruptcy-law protection. At the same time, Qwest has been struggling with a flagging core business, investigations into its accounting and the collapse of its stock price. Qwest has said it overstated revenue from 2000 and 2001 by about $1.9 billion, and plans to restate about $1.5 billion in earnings from that period.

In 4 p.m. New York Stock Exchange trading, Qwest shares were up 39 cents, or 7.4%, at $5.69. The stock traded as high as $64 at its peak in early 2000, but Goldman, Sachs & Co. analyst Frank Governali and some other analysts said it is still overpriced at its current level.

The debt swap, which was available only to institutional investors, had the potential to cut Qwest's debt by between $1.8 billion and $2.6 billion, depending on how many bondholders chose to participate and which bonds they held. Although the exchange was at the range's low end, the swap moves $735 million in debt that was due to mature in 2004, 2005 and 2006 back to 2007, Mr. Governali said. Investors were particularly concerned about Qwest's ability to handle those payments. The swap will increase Qwest's interest expense, which was $1.44 billion in 2001, by about $68 million a year.

"The successful results of this private exchange offer mark another significant step in our plans to improve liquidity ... and strengthen our balance sheet, which we have undertaken to benefit all of the company's constituencies," said Chief Financial Officer Oren Shaffer in a statement. "We continue to make progress on improving Qwest's financial position to ensure the long-term success of the company." The company's debt-reduction efforts so far have included a deal to sell its phone-directory business for $7 billion.

Mr. Shaffer assumed his post in July as part of a shakeup that has changed nearly all of Qwest's top officers. He previously worked for Qwest Chairman and Chief Executive Richard Notebaert, who was appointed in June, at Ameritech Corp., the Baby Bell that served the Midwest until it was bought by SBC Communications Inc. in 1999.

Qwest had offered holders of $12.9 billion in bonds issued by its Qwest Capital Funding subsidiary as much as $4 billion in new notes from its Qwest Services Corp. subsidiary and $6.6 billion in Qwest notes. The offer expired last week, and the exchange for noteholders who accepted will take place Thursday.

A group of unhappy bondholders had sued to block the exchange but dropped their complaint last week after a judge refused to issue a restraining order that would have delayed the swap.

Their complaint claimed that the offer sought to strip noteholders of more than $2.25 billion in value and was coercive because the new notes have a higher priority for repayment than the old ones, which penalizes bondholders who don't participate. The bondholders also complained that Qwest's current lack of audited financial statements made it difficult for them to assess the offer.

Brad Scheler, a partner at Fried, Frank, Harris, Shriver & Jacobson, the New York law firm representing the bondholders, said last week that the bondholders could seek damages related to the offer after it expires.

Meanwhile, the Federal Communications Commission yesterday cleared the way for Qwest to sell long-distance phone service in nine of its 14 states. The approvals by the FCC are the first for Qwest, which had withdrawn applications for Colorado, Idaho, Iowa, Nebraska, North Dakota, Montana, Utah, Washington and Wyoming in September ahead of almost-certain rejection by regulators. Qwest is the regional Bell serving 14 Western and Mountain states, and outside that region is the country's fourth-largest long-distance carrier.

The FCC had been set to reject the applications over concerns about Qwest's accounting scandal. But Qwest refiled its application after updating the affiliate's financial statements and putting new controls in place to ensure that both Qwest and the long-distance subsidiary complied with accounting principles, leading to yesterday's FCC approval.

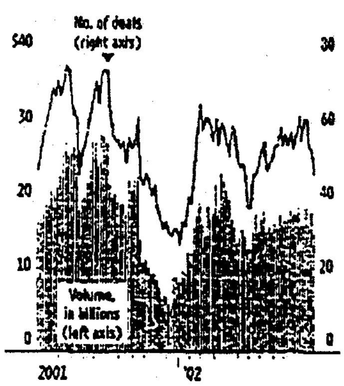
—Yochi J. Dreazen contributed to this article.

Syndicated-Loan Mar

Syndicated loans are corporate loans that "syndicate," of banks and/or institutional investment grade or unrated loans priced Libor plus 1.50 percentage points 150 grade or unrated loans priced at or above

Forward Calendar

A leading indicator of activity, showing new leveraged deals mandated or in the market.



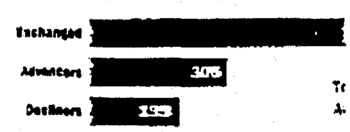
Notes: Final figure on forward calendar (left) is as of Dec. 20.

Sources: Banc of America Securities LLC, Loan Pricing Corp.

The Week's Biggest Movers

Biggest gainers and losers among widely- in the week ended Friday. Listed are the loans with at least five bids. All loans listed are 5-term.

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Level 3 Comm.	Caa1/N.R.	L+425	Jan. 15,'08	74.75	+1.
[illegible]	N.R./N.R.	L+212.5	April 01,'06	27.50	+1.
[illegible]	B3/CCC+	L+300	March 31,'08	43.31	+1.
[illegible]	N.R./N.R.	L+300	Sept. 30,'10	79.95	+1.
American Cem'l Lines	B3/B-	L+450	June 30,'06	22.50	+1.
[illegible]	N.R./N.R.	L+500	Dec. 31,'05	79.92	+1.
[illegible]	Caa2/N.R.	L+525	March 31,'05	67.92	+1.
[illegible]	N.R./N.R.	L+300	July 06,'06	13.29	-1.
[illegible]	B1/B+	L+275	Mar 31,'07	75.25	-1.
[illegible]	Ba3/BB+	L+300	Jan. 22,'07	78.50	-1.
[illegible]	N.R./N.R.	L+325	Aug. 13,'07	96.50	-1.
Land O'Lakes	B2/BB	L+250	Oct. 11,'08	90.33	-0.
[illegible]	Caa1/CCC+	L+400	June 01,'07	34.0	-1.



Note: These are the averages of indicative bid quotes percentage of the par, or face, value. Coupon, in London Interbank Offered Rate. All ratings are for st noted with an . These prices do not represent act estimated values provided by dealers.

STANDARD & POOR'S

CLOSE

Fixed Income

Print EMAIL THIS ARTICLE

Qwest Communications International Inc. Assigned New Ratings; Outlook Is Developing

Analyst:
Catherine Cosentino, New York (1) 212-438-7828

Publication date: 26-Dec-02, 16:50:58 EST
Reprinted from RatingsDirect

NEW YORK (Standard & Poor's) Dec. 26, 2002--Standard & Poor's Ratings Services said today that it reassigned its 'B-' corporate credit rating to diversified telecommunications carrier Qwest Communications International Inc. (Qwest).

Standard & Poor's also assigned a 'CCC+' rating to three senior subordinated secured notes, representing $3.3 billion in total debt issued under a 144A offer by Qwest Services Corp. in connection with its debt exchange offer concluded with Qwest Capital Funding Inc. debt holders. These notes are guaranteed by Qwest and Qwest Capital Funding Inc. and have a junior lien on the $2 billion bank loan collateral pool. The collateral for the $2 billion bank loan includes a first lien on the stock of the local telephone operating company Qwest Corp. and a second lien on the stock and certain assets of the Qwest directories business.

Qwest and Qwest Services Corp. have agreed to enter into a registration rights agreement pursuant to which they will agree to file an exchange offer registration statement and, under some circumstances, a shelf registration statement, with the SEC with respect to the new notes. However, Qwest's ability to register these notes is hampered by the current SEC investigation, which is likely to preclude any registration from becoming effective at this time.

Furthermore, Standard & Poor's assigned a 'CCC+' rating to the untendered senior unsecured debt remaining at Qwest Capital Funding Inc., which represents about $7.7 billion of debt.

The outlook is developing.

"The 'B-' corporate credit rating is the same as prior to the debt exchange offer. As a result of the exchange, the company's consolidated debt has been reduced by a relatively modest $1.9 billion, versus the company's total pre-exchange debt balances of about $24.5 billion," said Standard & Poor's credit analyst Catherine Cosentino. "Moreover, the 'B-' rating reflects the high degree of risk that continues to surround Qwest due to the ongoing Department of Justice criminal and SEC investigations, as well as the existence of various shareholder lawsuits."

Standard & Poor's also said that near-term liquidity still remains a source of concern, particularly if closing of the $4.3 billion second phase of the company's directories sale is delayed beyond 2003. Even with the debt exchange, which resulted in a reduction of about $287 million in maturities in 2004, Qwest has consolidated maturities from 2003 through 2005 of about $6.7 billion, of which about $4.5 billion is due through 2004.

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Fixed Income in the left navigation bar, select Credit Ratings Actions.

QCORP BORROWING COSTS

Spot Date	9/30/02
Credit Spreads as of	9/30/02
Senior Debt Rating	Ba3/B-

Domestic Long-Term Debt

Term (Years)	Settlement Date	Maturity Date	Benchmark Yield[1]	Credit Spread[2]	Reoffer Yield	Underwriting Spread[3]	All-In Cost
1	09/30/02	09/30/03	1.562%	1,235.3	13.915%	0.1000%	14.0150%
2	09/30/02	09/30/04	**1.683%**	1,054.5	12.228%	0.2000%	12.3280%
3	09/30/02	09/30/05	1.975%	1,048.9	12.464%	0.2500%	12.5473%
4	09/30/02	09/30/06	2.268%	1,005.0	12.317%	0.3000%	12.3922%
5	09/30/02	09/30/07	**2.560%**	961.0	12.170%	0.3500%	12.2403%
7	09/30/02	09/30/09	2.972%	873.2	11.704%	0.4000%	11.7611%
10	09/30/02	09/30/12	**3.590%**	754.2	11.132%	0.4500%	11.1770%
20	09/30/02	09/30/22	4.129%	668.1	10.810%	0.8750%	10.8975%
25	09/30/02	09/30/27	4.399%	625.1	10.649%	0.8750%	10.7365%
30	09/30/02	09/30/32	**4.668%**	582.0	10.488%	0.8750%	10.5755%

Notes:
[1] Source is Bloomberg, with interpolation.
[2] Source is SalomonSmithBarney, with interpolation.
[3] Merrill Lynch "global" fees.

QCORP BORROWING COSTS

Spot Date	12/31/02
Credit Spreads as of	12/31/02
Senior Debt Rating	Ba3/B-

Domestic Long-Term Debt

Term (Years)	Settlement Date	Maturity Date	Benchmark Yield[1]	Credit Spread[2]	Reoffer Yield	Underwriting Spread[3]	All-In Cost
1	12/31/02	12/31/03	1.335%	915.6	10.491%	0.1000%	10.5910%
2	12/31/02	12/31/04	**1.598%**	803.9	9.637%	0.2000%	9.7370%
3	12/31/02	12/31/05	1.977%	766.6	9.643%	0.2500%	9.7263%
4	12/31/02	12/31/06	2.355%	695.4	9.309%	0.3000%	9.3840%
5	12/31/02	12/31/07	**2.734%**	624.1	8.975%	0.3500%	9.0450%
7	12/31/02	12/31/09	3.166%	599.9	9.165%	0.4000%	9.2217%
10	12/31/02	12/31/12	**3.814%**	563.5	9.449%	0.4500%	9.4940%
20	12/31/02	12/31/22	4.297%	507.9	9.375%	0.8750%	9.4625%
25	12/31/02	12/31/27	4.538%	480.0	9.338%	0.8750%	9.4255%
30	12/31/02	12/31/32	**4.779%**	452.2	9.301%	0.8750%	9.3885%

Notes:
[1] Source is Bloomberg, with interpolation.
[2] Source is SalomonSmithBarney, with interpolation.
[3] Merrill Lynch "global" fees.