

MICHAEL L. BROSCH

Summary of Qualifications

EMPLOYER: Utilitech, Inc.
Regulatory and Management Consultants
POSITION: President
ADDRESS: 740 NW Blue Parkway, Suite 204
Lee's Summit, Missouri 64086

PRIOR EXPERIENCE:
1978-1982 Missouri Public Service Commission, Senior Accountant
1982-1983 Troupe, Kehoe, Whiteaker & Kent CPA's, Regulatory Consultant
1983-1985 Lubow, McKay, Stevens and Lewis, Project Manager
1985-Present Utilitech, Principal and President

DEGREES:
University of Missouri – Kansas City
Bachelor – Business Administration (Accounting 1978) “with distinction”

OTHER QUALIFICATIONS:

Certified Public Accountant – Certification in Kansas and Missouri

| | |
|------------|---|
| Member | American Institute of Certified Public Accountants Missouri Society of Certified Public Accountants Kansas Society of Certified Public Accountants Beta Alpha Psi, professional accounting scholastic fraternity |
| Seminars | Iowa State Regulatory Conference 1981, 1985 Regulated Industries Symposium 1979, 1980 Michigan State Regulatory Conference 1981 United States Telephone Association Round Table 1984 NARUC/NASUCA Annual Meeting 1988, Speaker NARUC/NASUCA Annual Meeting 2000, Speaker |
| Instructor | INFOCAST Ratemaking Courses Arizona Staff Training Hawaii Staff Training |

PRIOR TESTIMONIES: (See listings attached)

Michael L. Brosch

Utilitech, Inc. – President
Bachelor of Business Administration (Accounting)
University of Missouri-Kansas City (1978)
Certified Public Accountant Examination (1979)

GENERAL

Mr. Brosch serves as the director of regulatory projects for the firm and is responsible for the planning, supervision and conduct of firm engagements. His academic background is in business administration and accounting and he holds CPA certificates in Kansas and Missouri.

EXPERIENCE

Mr. Brosch has supervised and conducted the preparation of rate case exhibits and testimony in support of revenue requirements of electric, gas, telephone, water, and sewer utilities in response to tariff change proposals as a consultant and while employed by the Missouri Commission Staff. Responsible for virtually all facets of revenue requirement determination cost of service allocations and tariff implementation in addition to involvement in numerous special project investigations.

Industry restructuring analysis for gas utility rate unbundling, deregulation, competitive bidding and strategic planning, with testimony on regulatory processes, asset identification and classification, revenue requirement and unbundled rate designs and class cost of service studies.

Responsible for analysis and presentation of income tax related issues within ratemaking proceedings involving interpretation of relevant IRS code provisions and regulatory restrictions.

Conducted extensive review of the economic impact upon regulated utility companies of various transactions involving affiliated companies. Reviewed the parent-subsidiary relationships of integrated utility holding companies to determine appropriate treatment of consolidated tax benefits and capital costs. Sponsored testimony on affiliated interests in numerous Bell and major independent telephone company rate proceedings.

Has substantial experience in the application of lead-lag study concepts and methodologies in determination of working capital investment to be included in rate base.

Alternative regulation analyses and consultation to clients in Arizona, California and Oklahoma, focused upon challenges introduced by cost-based regulation, incentive effects available through alternative regulation and balancing of risks, opportunities and benefits among stakeholders.

Mr. Brosch managed the detailed regulatory review of utility mergers and acquisitions, diversification studies and holding company formation issues in energy and telecommunications transactions in multiple states. Sponsored testimony regarding merger synergies, merger accounting and tax implications, regulatory planning and price path strategies. Traditional horizontal utility mergers as well as leveraged buyouts of utility properties by private equity investors were addressed in several states.

Analyzed the regulation of telephone company publishing affiliates, including the propriety of continued imputation of directory publishing profits and the valuation of publishing affiliates, including the identification and quantification of intangible assets and benefits of affiliation with the regulated business in Arizona, Indiana, Washington and Utah.

WORK HISTORY

- 1985 - Present **Principal** - Utilitech, Inc. (Previously Dittmer, Brosch and Associates, Inc.)
- 1983 - 1985: **Project manager** - Lubow McKay Stevens and Lewis.
Responsible for supervision and conduct of utility regulatory projects on behalf of industry and regulatory agency clients.
- 1982 - 1983: **Regulatory consultant** - Troupe Kehoe Whiteaker and Kent.
Responsible for management of rate case activities involving analysis of utility operations and results, preparation of expert testimony and exhibits, and issue development including research and legal briefs. Also involved in numerous special projects including financial analysis and utility systems planning. Taught firm's professional education course on "utility income taxation - ratemaking and accounting considerations" in 1982.
- 1978 - 1982: **Senior Regulatory Accountant** - Missouri Public Service Commission.
Supervised and conducted rate case investigations of utilities subject to PSC jurisdiction in response to applications for tariff changes. Responsibilities included development of staff policy on ratemaking issues, planning and evaluating work of outside consultants, and the production of comprehensive testimony and exhibits in support of rate case positions taken.

OTHER QUALIFICATIONS

Bachelor of Business Administration - Accounting, 1978
University of Missouri - Kansas City "with distinction"

Member American Institute of Certified Public Accountants
Missouri Society of Certified Public Accountants
Beta Alpha Psi, professional accounting scholastic fraternity
Kansas Society of Certified Public Accountants

Attended Iowa State Regulatory Conference 1981, 1985
Regulated Industries Symposium 1979, 1980
Michigan State Regulatory Conference 1981
United States Telephone Association Round Table 1984
NARUC/NASUCA Annual Meeting 1988, Speaker
NARUC/NASUCA Annual Meeting 2000, Speaker

Instructor INFOCAST Ratemaking Courses
Arizona Staff Training
Hawaii Staff Training

Michael L. Brosch
Summary of Previously Filed Testimony
1981 through 2003

| <u>Utility</u> | <u>Jurisdiction</u> | <u>Agency</u> | <u>Docket/Case Number</u> | <u>Represented</u> | <u>Year</u> | <u>Addressed</u> |
|---|---------------------|---------------|-------------------------------|----------------------|-------------|--|
| Kansas City Power and Light Co. | Missouri | PSC | ER-81-42 | Staff | 1981 | Rate Base, Operating Income |
| Southwestern Bell Telephone | Missouri | PSC | TR-81-208 | Staff | 1981 | Rate Base, Operating Income, Affiliated Interest |
| Northern Indiana Public Service | Indiana | PSC | 36689 | Consumers Counsel | 1982 | Rate Base, Operating Income |
| Northern Indiana Public Service | Indiana | URC | 37023 | Consumers Counsel | 1983 | Rate Base, Operating Income, Cost Allocations |
| Mountain Bell Telephone | Arizona | ACC | 9981-E1051-81-406 | Staff | 1982 | Affiliated Interest |
| Sun City Water | Arizona | ACC | U-1656-81-332 | Staff | 1982 | Rate Base, Operating Income |
| Sun City Sewer | Arizona | ACC | U-1656-81-331 | Staff | 1982 | Rate Base, Operating Income |
| El Paso Water | Kansas | City Counsel | Unknown | Company | 1982 | Rate Base, Operating Income, Rate of Return |
| Ohio Power Company | Ohio | PUCO | 83-98-EL-AIR | Consumer Counsel | 1983 | Operating Income, Rate Design, Cost Allocations |
| Dayton Power & Light Company | Ohio | PUCO | 83-777-GA-AIR | Consumer Counsel | 1983 | Rate Base |
| Walnut Hill Telephone | Arkansas | PSC | 83-010-U | Company | 1983 | Operating Income, Rate Base |
| Cleveland Electric Illum. | Ohio | PUCO | 84-188-EL-AIR | Consumer Counsel | 1984 | Rate Base, Operating Income, Cost Allocations |
| Cincinnati Gas & Electric | Ohio | PUCO | 84-13-EL-EFC | Consumer Counsel | 1984 | Fuel Clause |
| Cincinnati Gas & Electric | Ohio | PUCO | 84-13-EL-EFC (Subfile A) | Consumer Counsel | 1984 | Fuel Clause |
| General Telephone - Ohio | Ohio | PUCO | 84-1026-TP-AIR | Consumer Counsel | 1984 | Rate Base |
| Cincinnati Bell Telephone | Ohio | PUCO | 84-1272-TP-AIR | Consumer Counsel | 1985 | Rate Base |
| Ohio Bell Telephone | Ohio | PUCO | 84-1535-TP-AIR | Consumer Counsel | 1985 | Rate Base |
| United Telephone - Missouri | Missouri | PSC | TR-85-179 | Staff | 1985 | Rate Base, Operating Income |
| Wisconsin Gas | Wisconsin | PSC | 05-UI-18 | Staff | 1985 | Diversification-Restructuring |
| United Telephone - Indiana | Indiana | URC | 37927 | Consumer Counsel | 1986 | Rate Base, Affiliated Interest |
| Indianapolis Power & Light | Indiana | URC | 37837 | Consumer Counsel | 1986 | Rate Base |
| Northern Indiana Public Service | Indiana | URC | 37972 | Consumer Counsel | 1986 | Plant Cancellation Costs |
| Northern Indiana Public Service | Indiana | URC | 38045 | Consumer Counsel | 1986 | Rate Base, Operating Income, Cost Allocations, Capital Costs |
| Arizona Public Service | Arizona | ACC | U-1435-85-367 | Staff | 1987 | Rate Base, Operating Income, Cost Allocations |
| Kansas City, KS Board of Public Utilities | Kansas | BPU | 87-1 | Municipal Utility | 1987 | Operating Income, Capital Costs |
| Detroit Edison | Michigan | PSC | U-8683 | Industrial Customers | 1987 | Income Taxes |

Michael L. Brosch
Summary of Previously Filed Testimony
1981 through 2003

| | | | | | | |
|-------------------------------------|------------|------|-----------------------------|----------------------|------|--|
| Consumers Power | Michigan | PSC | U-8681 | Industrial Customers | 1987 | Income Taxes |
| Consumers Power | Michigan | PSC | U-8680 | Industrial Customers | 1987 | Income Taxes |
| Northern Indiana Public Service | Indiana | URC | 38365 | Consumer Counsel | 1987 | Rate Design |
| Indiana Gas | Indiana | URC | 38080 | Consumer Counsel | 1987 | Rate Base |
| Northern Indiana Public Service | Indiana | URC | 38380 | Consumers Counsel | 1988 | Rate Base, Operating Income, Rate Design, Capital Costs |
| Terre Haute Gas | Indiana | URC | 38515 | Consumers Counsel | 1988 | Rate Base, Operating Income, Capital Costs |
| United Telephone -Kansas | Kansas | KCC | 162,044-U | Consumers Counsel | 1989 | Rate Base, Capital Costs, Affiliated Interest |
| US West Communications | Arizona | ACC | E-1051-88-146 | Staff | 1989 | Rate Base, Operating Income, Affiliate Interest |
| All Kansas Electrics | Kansas | KCC | 140,718-U | Consumers Counsel | 1989 | Generic Fuel Adjustment Hearing |
| Southwest Gas | Arizona | ACC | E-1551-89-102 E-1551-89-103 | Staff | 1989 | Rate Base, Operating Income, Affiliated Interest |
| American Telephone and Telegraph | Kansas | KCC | 167,493-U | Consumers Counsel | 1990 | Price/Flexible Regulation, Competition, Revenue Requirements |
| Indiana Michigan Power | Indiana | URC | 38728 | Consumer Counsel | 1989 | Rate Base, Operating Income, Rate Design |
| People Gas, Light and Coke Company | Illinois | ICC | 90-0007 | Public Counsel | 1990 | Rate Base, Operating Income |
| United Telephone Company | Florida | PSC | 891239-TL | Public Counsel | 1990 | Affiliated Interest |
| Southwestern Bell Telephone Company | Oklahoma | OCC | PUD-000662 | Attorney General | 1990 | Rate Base, Operating Income (Testimony not admitted) |
| Arizona Public Service Company | Arizona | ACC | U-1345-90-007 | Staff | 1991 | Rate Base, Operating Income |
| Indiana Bell Telephone Company | Indiana | URC | 39017 | Consumer Counsel | 1991 | Test Year, Discovery, Schedule |
| Southwestern Bell Telephone Company | Oklahoma | OCC | 39321 | Attorney General | 1991 | Remand Issues |
| UtiliCorp United/ Centel | Kansas | KCC | 175,476-U | Consumer Counsel | 1991 | Merger/Acquisition |
| Southwestern Bell Telephone Company | Oklahoma | OCC | PUD-000662 | Attorney General | 1991 | Rate Base, Operating Income |
| United Telephone - Florida | Florida | PSC | 910980-TL | Public Counsel | 1992 | Affiliated Interest |
| Hawaii Electric Light Company | Hawaii | PUC | 6999 | Consumer Advocate | 1992 | Rate Base, Operating Income, Budgets/Forecasts |
| Maui Electric Company | Hawaii | PUC | 7000 | Consumer Advocate | 1992 | Rate Base, Operating Income, Budgets/Forecasts |
| Southern Bell Telephone Company | Florida | PSC | 920260-TL | Public Counsel | 1992 | Affiliated Interest |
| US West Communications | Washington | WUTC | U-89-3245-P | Attorney General | 1992 | Alternative Regulation |
| UtiliCorp United/ MPS | Missouri | PSC | ER-93-37 | Staff | 1993 | Affiliated Interest |
| Oklahoma Natural Gas Company | Oklahoma | OCC | PUD-1151, 1144, 1190 | Attorney General | 1993 | Rate Base, Operating Income, Take or Pay, Rate Design |

Michael L. Brosch
Summary of Previously Filed Testimony
1981 through 2003

| | | | | | | |
|---|------------|------|--------------------|-----------------------------|------|--|
| Public Service Company of Oklahoma | Oklahoma | OCC | PUD-1342 | Staff | 1993 | Rate Base, Operating Income, Affiliated Interest |
| Illinois Bell Telephone | Illinois | ICC | 92-0448 92-0239 | Citizens Board | 1993 | Rate Base, Operating Income, Alt. Regulation, Forecasts, Affiliated Interest |
| Hawaii Electric Company | Hawaii | PUC | 7700 | Consumer Advocate | 1993 | Rate Base, Operating Income |
| US West Communications | Arizona | ACC | E-1051-93-183 | Staff | 1994 | Rate Base, Operating Income |
| PSI Energy, Inc. | Indiana | URC | 39584 | Consumer Counselor | 1994 | Rate Base, Operating Income, Alt. Regulation, Forecasts, Affiliated Interest |
| Arkla, a Division of NORAM Energy | Oklahoma | OCC | PUD-940000354 | Attorney General | 1994 | Cost Allocations, Rate Design |
| PSI Energy, Inc. | Indiana | URC | 39584-S2 | Consumer Counselor | 1994 | Merger Costs and Cost Savings, Non-Traditional Ratemaking |
| Transok, Inc. | Oklahoma | OCC | PUD-1342 | Staff | 1994 | Rate Base, Operating Income, Affiliated Interest, Allocations |
| Oklahoma Natural Gas Company | Oklahoma | OCC | PUD-940000477 | Attorney General | 1995 | Rate Base, Operating Income, Cost of Service, Rate Design |
| US West Communications | Washington | WUTC | UT-950200 | Attorney General/ TRACER | 1995 | Operating Income, Affiliate Interest, Service Quality |
| PSI Energy, Inc. | Indiana | URC | 40003 | Consumer Counselor | 1995 | Rate Base, Operating Income |
| Oklahoma Natural Gas Company | Oklahoma | OCC | PUD-880000598 | Attorney General | 1995 | Stand-by Tariff |
| GTE Hawaiian Telephone Co., Inc. | Hawaii | PUC | PUC 94-0298 | Consumer Advocate | 1996 | Rate Base, Operating Income, Affiliate Interest, Cost Allocations |
| Mid-American Energy Company | Iowa | ICC | APP-96-1 | Consumer Advocate | 1996 | Non-Traditional Ratemaking |
| Oklahoma Gas and Electric Company | Oklahoma | OCC | PUD-960000116 | Attorney General | 1996 | Rate Base, Operating Income, Rate Design, Non-Traditional Ratemaking |
| Southwest Gas Corporation | Arizona | ACC | U-1551-96-596 | Staff | 1997 | Operating Income, Affiliated Interest, Gas Supply |
| Utilicorp United - Missouri Public Service Division | Missouri | PSC | EO-97-144 | Staff | 1997 | Operating Income |
| US West Communications | Utah | PSC | 97-049-08 | Consumer Advocate | 1997 | Rate Base, Operating Income, Affiliate Interest, Cost Allocations |
| US West Communications | Washington | WUTC | UT-970766 | Attorney General | 1997 | Rate Base, Operating Income |
| Missouri Gas Energy | Missouri | PSC | GR 98-140 | Public Counsel | 1998 | Affiliated Interest |
| ONEOK | Oklahoma | OCC | PUD980000177 | Attorney General | 1998 | Gas Restructuring, rate Design, Unbundling |
| Nevada Power/Sierra Pacific Power Merger | Nevada | PSC | 98-7023 | Consumer Advocate | 1998 | Merger Savings, Rate Plan and Accounting |
| PacifiCorp / Utah Power | Utah | PSC | 97-035-1 | Consumer Advocate | 1998 | Affiliated Interest |

Michael L. Brosch
Summary of Previously Filed Testimony
1981 through 2003

| | | | | | | |
|---|------------|------|---------------------------------|------------------------------|------|---|
| MidAmerican Energy / CalEnergy Merger | Iowa | PUB | SPU-98-8 | Consumer Advocate | 1998 | Merger Savings, Rate Plan and Accounting |
| American Electric Power / Central and South West Merger | Oklahoma | OCC | 980000444 | Attorney General | 1998 | Merger Savings, Rate Plan and Accounting |
| ONEOK Gas Transportation | Oklahoma | OCC | 970000088 | Attorney General | 1998 | Cost of Service, Rate Design, Special Contract |
| U S West Communications | Washington | WUTC | UT-98048 | Attorney General | 1999 | Directory Imputation and Business Valuation |
| U S West / Qwest Merger | Iowa | PUB | SPU 99-27 | Consumer Advocate | 1999 | Merger Impacts, Service Quality and Accounting |
| U S West / Qwest Merger | Washington | WUTC | UT-991358 | Attorney General | 2000 | Merger Impacts, Service Quality and Accounting |
| U S West / Qwest Merger | Utah | PSC | 99-049-41 | Consumer Advocate | 2000 | Merger Impacts, Service Quality and Accounting |
| PacifiCorp / Utah Power | Utah | PSC | 99-035-10 | Consumer Advocate | 2000 | Affiliated Interest |
| Oklahoma Natural Gas, ONEOK Gas Transportation | Oklahoma | OCC | 980000683, 980000570, 990000166 | Attorney General | 2000 | Operating Income, Rate Base, Cost of Service, Rate Design, Special Contract |
| U S West Communications | New Mexico | PRC | 3008 | Staff | 2000 | Operating Income, Directory Imputation |
| U S West Communications | Arizona | ACC | T-0105B-99-0105 | Staff | 2000 | Operating Income, Rate Base, Directory Imputation |
| Northern Indiana Public Service Company | Indiana | IURC | 41746 | Consumer Counsel | 2001 | Operating Income, Rate Base, Affiliate Transactions |
| Nevada Power Company | Nevada | PUCN | 01-10001 | Attorney General-BCP | 2001 | Operating Income, Rate Base, Merger Costs, Affiliates |
| Sierra Pacific Power Company | Nevada | PUCN | 01-11030 | Attorney General-BCP | 2002 | Operating Income, Rate Base, Merger Costs, Affiliates |
| The Gas Company, Division of Citizens Communications | Hawaii | PUC | 00-0309 | Consumer Advocate | 2001 | Operating Income, Rate Base, Cost of Service, Rate Design |
| SBC Pacific Bell | California | PUC | I.01-09-002 R.01-09-001 | Office of Ratepayer Advocate | 2002 | Depreciation, Income Taxes and Affiliates |
| Midwest Energy, Inc. | Kansas | KCC | 02-MDWG-922-RTS | Agriculture Customers | 2002 | Rate Design, Cost of Capital |
| Qwest Communications - Dex Sale | Utah | PSC | 02-049-76 | Consumer Advocate | 2003 | Directory Publishing |
| Qwest Communications - Dex Sale | Washington | WUTC | UT-021120 | Attorney General | 2003 | Directory Publishing |
| Qwest Communications - Dex Sale | Arizona | ACC | T-0105B-02-0666 | Staff | 2003 | Directory Publishing |
| PSI Energy, Inc. | Indiana | IURC | 42359 | Consumer Counsel | 2003 | Operating Income, Rate Trackers, Cost of Service, Rate Design |

Arizona
T-01051B-03-0454
UTI 01-012S1

INTERVENOR: Utilitech, Inc.

REQUEST NO: 012S1

According to the testimony of Mr. Philip Grate at page 131, the Company has not adjusted its actual 2003 incurred costs for image advertising. Please provide a summary of all advertising costs by campaign/message, by cost type (previously EXTC), by responsibility center (RC) and by FCC Account for the test year and provide representative copies of advertising script/copy indicative of the content of advertisements within each campaign or category, indicating those which would be considered non-product specific or "image" advertising.

RESPONSE:

Qwest is in the process of gathering this information and will provide it as soon as it is available.

Respondent: Michael Hudson, Qwest Manager

SUPPLEMENTAL RESPONSE DATED 06/25/04:

See Attachments A and A-2 which contain all 2003 printed corporate advertisements.

See Attachment B containing all 2003 TV corporate advertisements.

See Confidential Attachment C for Arizona corporate advertising costs account 6722.2 by RC and EXTC.

The corporate advertising costs are not tracked by campaign/message.

Respondent: Janet Ortega

"EN EL CENTRO DE QWEST, USTED NOS HABLA Y NOSOTROS LE RESPONDEMOS EN SU IDIOMA."

—Deanna, Representante de Ventas de Qwest



ESE ES EL CENTRO DE QWEST, UN LUGAR DONDE LE HABLAMOS EN ESPAÑOL.

Allí nos puede llamar al 1 800-564-1121 y preguntarnos por planes telefónicos, ofertas, mantenimiento, instalaciones, facturas y en todo lo que le podamos ayudar.

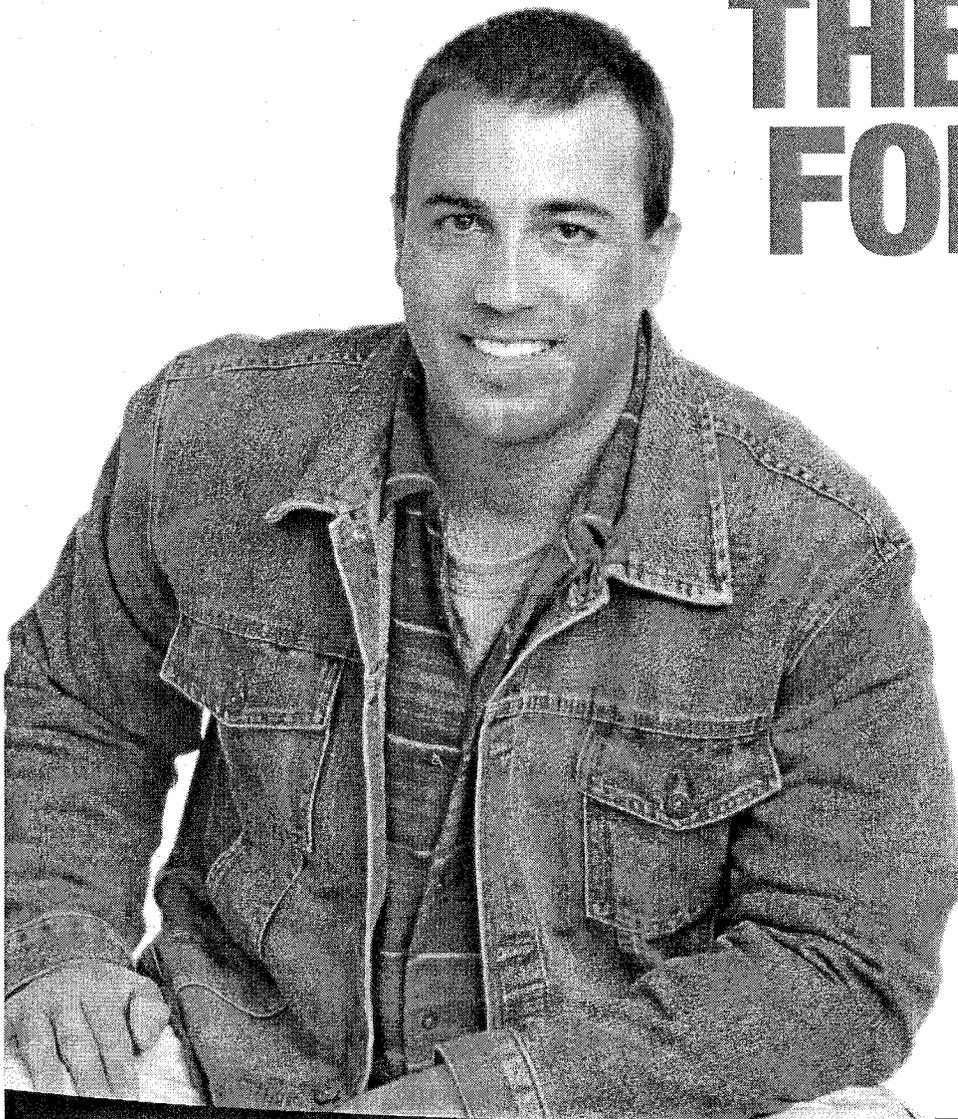
Si está interesado en ser parte de uno de los equipos bilingües de Qwest, visítenos en nuestro sitio de Internet: www.qwest.com/careers



EL CENTRO DE QWEST, DONDE LE BRINDAMOS ATENCIÓN EN SU IDIOMA.™

"DAY. NIGHT. WEEKDAYS. WEEKENDS. NOW IT'S ALL THE SAME FOR YOU."

—Justin, Qwest Sr. Sales Consultant



A 24-HOUR CUSTOMER SELF-HELP LINE AND NOW INTRODUCING EXTENDED HOME SERVICE HOURS FROM QWEST.[®]
7 a.m.–9 p.m. weekdays • 8 a.m.–4:30 p.m. Saturdays • 24/7 self-help lines • Speak to a live repair representative 24/7

FOR CUSTOMER SERVICE CALL 1 800-244-1111



**“YOU. YOU.
YOU. IT’S ALL
ABOUT YOU.
MYQWEST.COM.”**

—Laurence, Qwest Software Engineer

ARIZONA
Docket No.
UTi 1-12
Attachment A

Attachment MLB-3
Page 4 of 11

© 2003 Qwest Communications Int'l



NOW INTRODUCING THE NEW MYQWEST.COM. CUSTOMIZE IT TO BE YOURS.

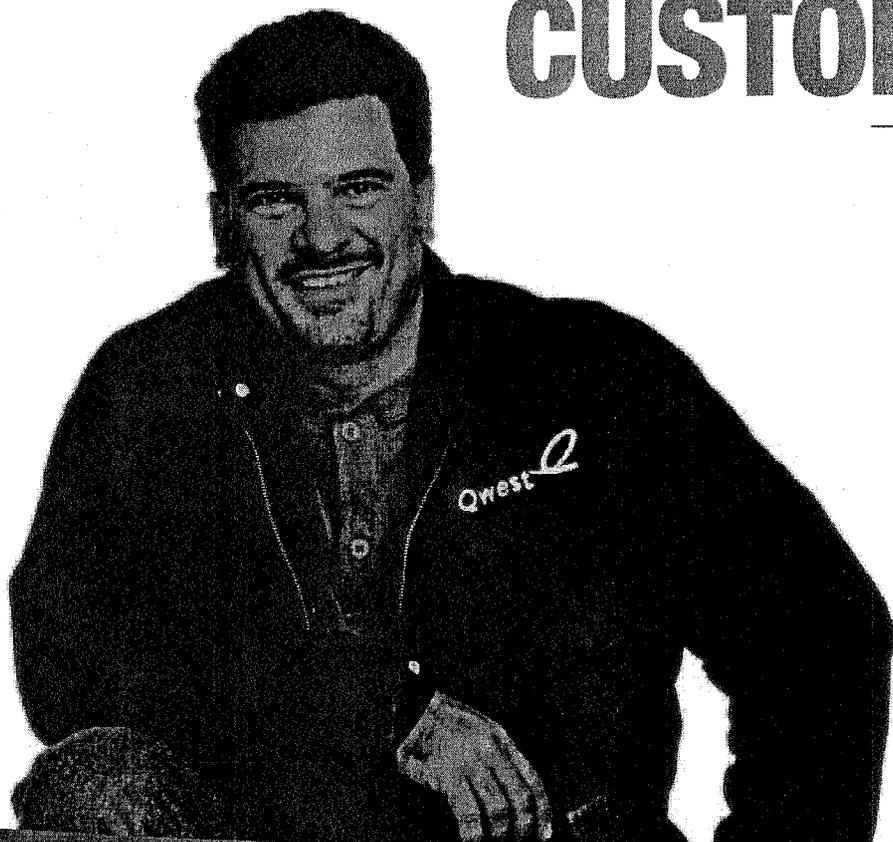
Manage your account • Check your wireless minutes • Request repairs • Pay bills • Information on products and plans

Qwest 
Spirit of Service™

MAKING IT EASIER FOR YOU TO DO BUSINESS WITH US. VISIT MYQWEST.COM TO REGISTER

"CUSTOMER SERVICE THAT REALLY SERVES CUSTOMERS."

—Jim, Qwest Network Technician



NOW, HERE'S THE ACTION BEHIND THE WORDS:

We stay open on Saturdays and later on weekdays for home service, and we have live repair representatives available 24/7

We have a newly designed Web site, MyQwest.com, which you can customize to manage your account

We will give you a reminder call before every service visit and contact you after we're done, to make sure you're satisfied

We bring you simplicity and savings on local phone, wireless and high-speed Internet service, all on one bill with just one number to call

And we have more service improvements on the way



MAKING IT EASIER FOR YOU TO DO BUSINESS WITH US. VISIT QWEST.COM

“CUSTOMER SERVICE THAT REALLY SERVES CUSTOMERS.”

—Myrtha, Qwest Sales/Service Consultant



NOW, HERE'S THE ACTION BEHIND THE WORDS:

We stay open on Saturdays and later on weekdays for home service and we have live repair representatives available 24/7

We have a newly designed Web site, MyQwest.com, which you can customize to manage your account

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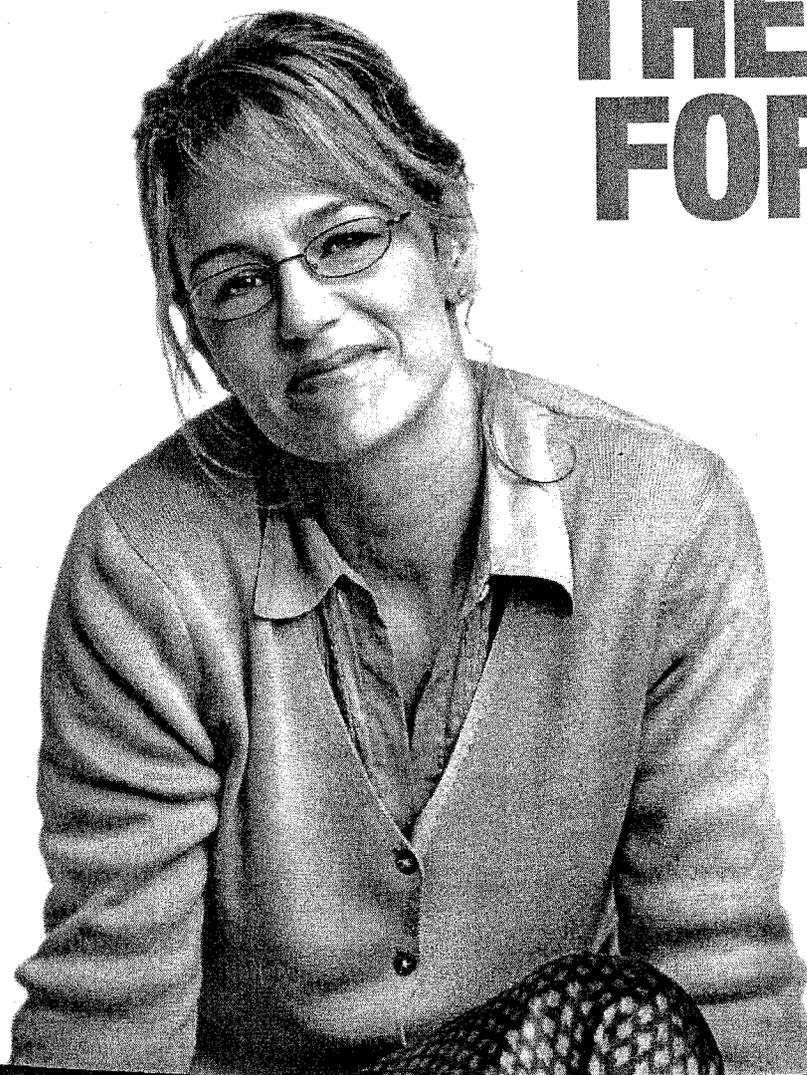
And we have more service improvements on the way



MAKING IT EASIER FOR YOU TO DO BUSINESS WITH US. VISIT QWEST.COM

“DAY. NIGHT. WEEKDAYS. WEEKENDS. NOW IT’S ALL THE SAME FOR YOU.”

—Alexandra, Qwest Sales Consultant



A 24-HOUR CUSTOMER SELF-HELP LINE AND NOW INTRODUCING EXTENDED HOME SERVICE HOURS FROM QWEST.[®]
7 a.m.–9 p.m. weekdays • 8 a.m.–4:30 p.m. Saturdays • 24/7 self-help lines • Speak to a live repair representative 24/7



MAKING IT EASIER FOR YOU TO DO BUSINESS WITH US. VISIT QWEST.COM

**“YOU. YOU.
YOU. IT’S ALL
ABOUT YOU.
MYQWEST.COM.”**

—Laurence, Qwest Software Engineer



NOW INTRODUCING THE NEW MYQWEST.COM. CUSTOMIZE IT TO BE YOURS.

Manage your account • Check your wireless minutes • Request repairs • Pay bills • Information on products and plans



MAKING IT EASIER FOR YOU TO DO BUSINESS WITH US. VISIT MYQWEST.COM TO REGISTER

"CUSTOMER SERVICE THAT REALLY SERVES CUSTOMERS."

—Myrtha, Qwest Sales/Service Consultant



NOW HERE'S THE ACTION BEHIND THE WORDS:

- We maintain a 24-hour customer self-help line
- We stay open on Saturdays and later on weekdays for home service
- We have live repair service representatives available 24/7
- We have a newly designed Web site, MyQwest.com, which you can customize to manage your account
- We bring you simplicity and savings on local phone, wireless and high-speed Internet service, all on one bill with just one number to call
- And we have more service improvements on the way



MAKING IT EASIER FOR YOU TO DO BUSINESS WITH US. VISIT QWEST.COM

© 2003 Qwest Communications International Inc.

"CUSTOMER SERVICE THAT REALLY SERVES CUSTOMERS."

—Myrtha, Qwest Sales Consultant



NOW, HERE'S THE ACTION BEHIND THE WORDS:

We maintain a 24-hour customer self-help line

We stay open on Saturdays and later on weekdays for home service

We have live repair representatives available 24/7

We have a newly designed Web site, MyQwest.com, which you can customize to manage your account

We bring you simplicity and savings on local phone, wireless and high-speed Internet service, all on one bill with just one number to call

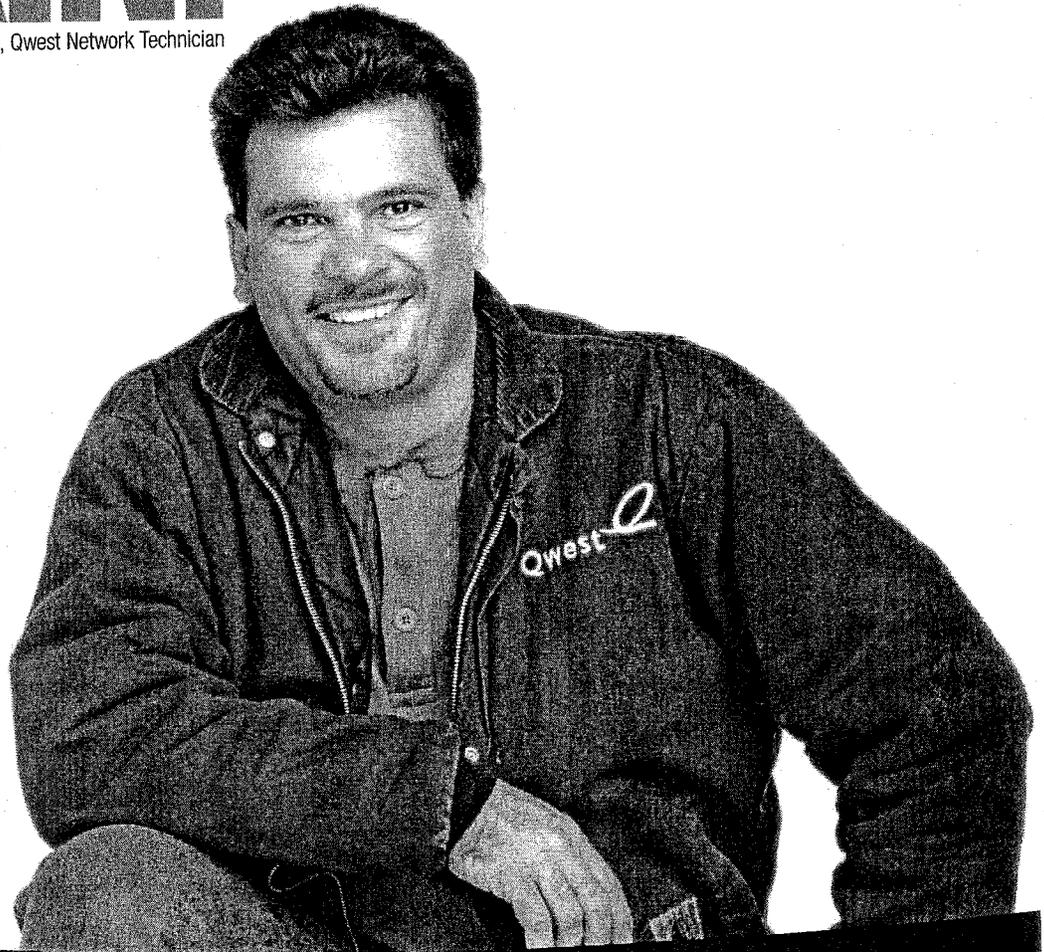
And we have more service improvements on the way



MAKING IT EASIER FOR YOU TO DO BUSINESS WITH US. VISIT QWEST.COM

“WE CALL.
WE CARE.
WE CALL
AGAIN.”

—Jim, Qwest Network Technician



NOW WE CALL BEFORE AND AFTER EVERY SERVICE VISIT.

A reminder call the night before • A courtesy call before a technician arrives at your door—at home or your small business
If your phone is out, we'll call your cell phone or a neighbor's number • A follow-up call to make sure you're satisfied

Qwest 
Spirit of Service™

MAKING IT EASIER FOR YOU TO DO BUSINESS WITH US. VISIT QWEST.COM

Arizona
T-01051B-03-0454 and T-00000D-00-0672
UTI 04-030

INTERVENOR: Utilitech, Inc.

REQUEST NO: 030

Has the Company (QC, QSC, QCII and other affiliates) conducted or otherwise obtained any studies of the effectiveness of its non-product specific advertising/marketing programs since January 1, 2003? If affirmative, please list all such studies and provide complete copies of same.

RESPONSE:

Yes. See Confidential Attachments A through G.

Respondent: Renee Karson

**“THIS DOCUMENT HAS BEEN DESIGNATED
CONFIDENTIAL BY QWEST”**

Arizona
T-01051B-03-0454 and T-00000D-00-0672
UTI 14-006

INTERVENOR: Utilitech, Inc.

REQUEST NO: 006

Were any studies of Qwest's corporate image, branding, customer perceptions or positioning in the marketplace conducted by or for the Company (or any of its affiliates) prior to the decision to commence the "Spirit of Service" campaign? If affirmative, please identify each such study and provide complete copies of reports, analyses, presentation graphics, surveys, memoranda and other documents associated with each study.

RESPONSE:

Objection. This request is not reasonably calculated to lead to the discovery of admissible evidence concerning issues related to the modification, renewal or termination of the Price Cap Plan. Therefore, this request is overly broad and unduly burdensome because it seeks information beyond the scope of this proceeding. Without waiving this objection, Qwest provides the following response:

See Confidential Attachment A for the "Summary of 2002 JD Power Local Wireline Study-August 1, 2002 Conference Call",

See Confidential Attachment B for the "Qwest Brand Evaluation Groups Report of Findings" which is from focus groups conducted in July, 2002.

Respondent: Renee Karson, Director Marketing

**“THIS DOCUMENT HAS BEEN DESIGNATED
CONFIDENTIAL BY QWEST”**

Use these links to rapidly review the document
QWEST CORPORATION FORM 10-Q TABLE OF CONTENTS

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2004

Or

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

For the transition period from _____ to _____

Commission File No. 001-03040

QWEST CORPORATION

(Exact name of registrant as specified in its charter)

Colorado
(State or other jurisdiction of
incorporation or organization)

84-0273800
(I.R.S. Employer
Identification No.)

1801 California Street, Denver, Colorado
(Address of principal executive offices)

80202
(Zip Code)

(303) 992-1400
(Registrant's telephone number, including area code)

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

THE REGISTRANT, A WHOLLY OWNED SUBSIDIARY OF QWEST COMMUNICATIONS INTERNATIONAL INC.,
MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTIONS H(1)(a) AND (b) OF FORM 10-Q AND IS
THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTIONS
H(2).

Note 5: Commitments and Contingencies

Legal Proceedings Involving Qwest

Securities Action

On June 27, 2002, a putative class action was filed in the District Court for the County of Boulder against us, QCII, The Anschutz Family Investment Co., Philip Anschutz, Joseph P. Nacchio and Robin R. Szeliga on behalf of purchasers of QCII's stock between June 28, 2000 and June 27, 2002 and owners of U S WEST stock on June 28, 2000. The complaint alleges, among other things, that QCII and the individual defendants issued false and misleading statements and engaged in improper accounting practices in order to accomplish QCII's June 30, 2000 acquisition of U S WEST, Inc. ("the Merger") to make QCII appear successful and to inflate the value of QCII's stock. The complaint asserts claims under sections 11, 12, 15 and 17 of the Securities Act. The complaint seeks unspecified monetary damages, disgorgement of illegal gains and other relief. On July 31, 2002, the defendants removed this state court action to federal district court in Colorado and subsequently moved to consolidate this action with the consolidated securities action identified below. The plaintiffs have moved to remand the lawsuit back to state court. Defendants have opposed that motion, which is pending before the court.

Regulatory Matters

On February 14, 2002, the Minnesota Department of Commerce filed a formal complaint against us with the Minnesota Public Utilities Commission ("Minnesota Commission"), alleging that we, in contravention of federal and state law, failed to file interconnection agreements with the Minnesota Commission relating to certain of our wholesale customers, and thereby allegedly discriminated against other competitive local exchange carriers ("CLECs"). On November 1, 2002, the Minnesota Commission issued a written order adopting in full a proposal by an administrative law judge that we committed 26 individual violations of federal law by failing to file, as required under section 252 of the Telecommunications Act, 26 distinct provisions found in 12 separate agreements with individual CLECs for regulated services in Minnesota. The order also found that we agreed to provide and did provide to McLeodUSA, Inc. and Eschelon Telecom, Inc. discounts on regulated wholesale services of up to 10% that were not made available to other CLECs, thereby unlawfully discriminating against them. The order found we also violated state law, that the harm caused by our conduct extended to both customers and competitors, and that the damages to CLECs would amount to several million dollars for Minnesota alone.

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

- grant a 10% discount off all intrastate Minnesota wholesale services to all CLECs other than Eschelon and McLeodUSA; this discount would be applicable to purchases made by these CLECs during the period beginning on November 15, 2000 and ending on May 15, 2002;
- grant all CLECs other than Eschelon and McLeodUSA monthly credits of \$13 to \$16 per unbundled network element-platform line (subject to certain offsets) purchased during the months of November 2000 through February 2001;
- pay all CLECs other than Eschelon and McLeodUSA monthly credits of \$2 per access line (subject to certain offsets) purchased during the months of July 2001 through February 2002; and
- allow CLECs to opt-in to agreements the Minnesota Commission determined should have been publicly filed.

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

Arizona, Colorado, New Mexico, Washington, Iowa and South Dakota have also initiated formal proceedings regarding our alleged failure to file required agreements in those states. New Mexico has issued an order providing its interpretation of the standard for filing these agreements, identified certain of our contracts as coming within that standard and opened a separate docket to consider further proceedings. On April 29, 2004, the New Mexico Staff filed comments recommending penalties totaling \$5.05 million. Colorado has also opened an investigation into these matters, and on February 27, 2004, the Staff of the Colorado Public Utilities Commission ("PUC") submitted its Initial Comments. The Colorado Staff's Initial Comments recommended that the PUC open a show cause proceeding based upon the Staff's view that Qwest and CLECs had willfully and intentionally violated federal and state law and Commission rules. The Staff also detailed a range of remedies available to the Commission, including but not limited to an assessment of penalties and an obligation to extend credits to CLECs. On April 15, 2004, Qwest and the Office of Consumer Counsel for Colorado entered into a settlement, subject to Commission approval, that would require Qwest to pay \$7.5 million in contributions to state telecommunications programs to resolve claims relating to potential penalties in the docket and that offers CLECs credits that could total approximately \$9 million. During an open meeting on April 21, 2004, the Arizona Corporation Commission entered final orders upon consideration of recommended orders of the administrative law judge and a settlement between Qwest and three CLECs that was filed with the Commission on April 14, 2004. The Commission ordered Qwest to issue bill credits or pay cash totaling approximately \$11.7 million to Arizona CLECs on the basis of the settlement, and also ordered Qwest to pay penalties of \$9 million to the state treasury. On June 26, 2003, we received from the Federal Communications Commission ("FCC") a letter of inquiry seeking information about related matters. We submitted our initial response to this inquiry on July 31, 2003. On March 12, 2004, the FCC issued a Notice of Apparent Liability which recommended penalties of \$9 million for alleged delays in filing 46 agreements in Arizona and Minnesota. Our response is due May 12, 2004. The proceedings and investigations in New Mexico, Colorado and Washington and at the FCC could result in the imposition of fines and other penalties against us that could be material. Iowa and South Dakota have concluded their inquiries resulting in no imposition of penalties or obligations to issue credits to CLECs in those states. Also, some telecommunications providers have filed private actions based on facts similar to those underlying these administrative proceedings. These private actions, together with any similar, future actions, could result in additional damages and awards that could be significant.

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

As a part of the approval by the FCC of the Merger, the FCC required QCII to engage an independent attestation review of our compliance with our divestiture of in-region InterLATA services and our ongoing compliance with Section 271 of the Telecommunications Act. In 2001, the FCC began an investigation of QCII's compliance with the divestiture of in-region InterLATA services and our ongoing compliance with Section 271 for the audit years 2000 and 2001. In connection with this investigation, QCII disclosed certain matters to the FCC that occurred in 2000, 2001, 2002 and 2003. These matters were resolved with the issuance of a consent decree on May 7, 2003, by which the investigation was concluded. As part of the consent decree, QCII made a voluntary payment to the U.S. Treasury in the amount of \$6.5 million, and agreed to a compliance plan for certain future activities. Separate from this investigation, QCII disclosed matters to the FCC in connection with its 2002 compliance review, including a change in traffic flow related to wholesale transport for operator services traffic and certain toll-free traffic, certain bill mis-labeling for commercial credit card bills, and certain billing errors for public telephone services originating in South Dakota and for toll free services. If the FCC institutes an investigation into the latter categories of matters, it could result in the imposition of fines and other penalties against QCII. Separately, the FCC has also instituted an investigation into whether QCII may have impermissibly engaged in the marketing of InterLATA services in Arizona prior to receiving FCC approval of QCII's application to provide such services in that state.

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

Other Matters

From time to time we receive complaints and become subject to investigations regarding "slamming" (the practice of changing long-distance carriers without the customer's consent), "cramming" (the practice of charging a consumer for goods or services that the consumer has not authorized or ordered) and other sales practices. In 2003, we resolved allegations and complaints of slamming and cramming with the Attorneys General for the states of Arizona, Colorado, Idaho, Oregon, Utah and Washington. In each of those states, we agreed to comply with certain terms governing our sales practices and to pay each of the states between \$200,000 and \$3.75 million. We may become subject to other investigations or complaints in the future and any such complaints or investigations could result in further legal action and the imposition of fines, penalties or damage awards.

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

Legal Proceedings Involving QCII

QCII is involved in several investigations, securities actions and other matters that, if resolved against QCII, could have a material adverse effect on our business and financial condition. These matters are more fully described below.

Investigations, Securities Actions and Derivative Actions

The investigations and securities actions described below present material and significant risks to QCII. The size, scope and nature of the recent restatements of our and QCII's consolidated financial statements for fiscal 2001 and 2000 affect the risks presented by these matters, and we can give no assurance as to the impacts on our and QCII's financial results or financial condition that may ultimately result from these matters. As QCII has previously disclosed, it has engaged in preliminary

discussions for purposes of resolving certain of these matters. QCII recently concluded that a reserve should be provided. Accordingly, QCII has recorded a reserve in its consolidated financial statements for the estimated minimum liability associated with certain of these matters. However, the ultimate outcomes of these matters are still uncertain and there is a significant possibility that the amount of loss it ultimately incurs could be substantially more than the reserve it has provided.

QCII believes that it is probable that all but \$100 million of the recorded reserve will be recoverable out of a portion of \$200 million of insurance proceeds, consisting of \$143 million of cash and \$57 million of irrevocable letters of credit, that were placed in a trust to cover its losses and the losses of individual insureds following its November 12, 2003 settlement of disputes with certain of its insurance carriers related to, among other things, the investigations and securities and derivative actions described below. However, the use and allocation of these proceeds has yet to be resolved between it and individual insureds.

The securities actions are in a preliminary phase and QCII continues to defend against these matters vigorously. QCII has not yet conducted discovery on damages and other relevant issues. QCII is currently unable to provide any estimate as to the timing of the resolution of any of these matters. Any settlement of or judgment in one or more of these matters in excess of QCII's recorded reserves could be significant, and QCII can give no assurance that it will have the resources available to pay any such judgment. In the event of an adverse outcome in one or more of these matters, QCII's ability to meet its debt service obligations and its financial condition could be materially and adversely affected. As a wholly owned subsidiary of QCII, our business operations and financial condition would be similarly affected.

Investigations

On April 3, 2002, the Securities and Exchange Commission ("SEC") issued an order of investigation that made formal an informal investigation of QCII initiated on March 8, 2002. QCII is continuing in its efforts to cooperate fully with the SEC in its investigation. The investigation includes, without limitation, inquiry into several specifically identified QCII accounting practices and transactions and related disclosures that are the subject of the various adjustments and restatements described in the QCII annual report in Form 10-K for the year ended December 31, 2002. The investigation also includes inquiry into disclosure and other issues related to transactions between QCII and certain of its vendors and certain investments in the securities of those vendors by individuals associated with QCII.

On July 9, 2002, QCII was informed by the U.S. Attorney's Office for the District of Colorado of a criminal investigation of its business. QCII believes the U.S. Attorney's Office is investigating various matters that include the subjects of the investigation by the SEC. QCII is continuing in its efforts to cooperate fully with the U.S. Attorney's Office in its investigation.

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

While QCII is continuing in its efforts to cooperate fully with the SEC and the U.S. Attorney's Office in each of their respective investigations, QCII cannot predict the outcome of those investigations. QCII has engaged in discussions with the SEC staff in an effort to resolve the issues raised in the SEC's investigation of it. Such discussions are preliminary and QCII cannot predict the likelihood of whether those discussions will result in a settlement and, if so, the terms of such settlement. However, settlements typically involve, among other things, the SEC making claims under the federal securities laws in a complaint filed in United States District Court that, for purposes of the settlement, the defendant neither admits nor denies. Were such a settlement to occur, QCII would expect such claims to address many of the accounting practices and transactions and related disclosures that are the subject of the various restatements QCII has made as well as additional transactions. In

addition, any settlement with the SEC may also involve, among other things, the imposition of disgorgement and a civil penalty, the amounts of which could be substantially in excess of QCII's recorded reserve, and the entry of a court order that would require, among other things, that QCII and its officers and directors comply with provisions of the federal securities laws as to which there have been allegations of prior violations.

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

Also, as the General Services Administration ("GSA"), previously announced in July 2002, it is conducting a review of all contracts with QCII for purposes of determining present responsibility. On September 12, 2003, QCII was informed that the Inspector General of the GSA had referred to the GSA Suspension/Debarment Official the question of whether QCII (including us and its other subsidiaries) should be considered for debarment. QCII has been informed that the basis for the referral was the February 2003 indictment against four former QCII employees in connection with a transaction with the Arizona School Facilities Board in June 2001 and a civil complaint also filed in February 2003 by the SEC against the same former employees and others relating to the Arizona School Facilities Board transaction and a transaction with Genuity Inc. in 2000. QCII is cooperating fully with the GSA and believes that it and we will remain suppliers of the government, although QCII cannot predict the outcome of this referral.

Securities Actions and Derivative Actions

Since July 27, 2001, 13 putative class action complaints have been filed in federal district court in Colorado against QCII alleging violations of the federal securities laws. One of those cases has been dismissed. By court order, the remaining actions have been consolidated into a consolidated securities action, which we refer to herein as the "consolidated securities action."

On August 21, 2002, plaintiffs in the consolidated securities action filed their Fourth Consolidated Amended Class Action Complaint ("Fourth Consolidated Complaint"), which defendants moved to dismiss. On January 13, 2004, the United States District Court for the District of Colorado granted the defendants' motions to dismiss in part and denied them in part. In that order, the court allowed plaintiffs to file a proposed amended complaint seeking to remedy the pleading defects addressed in the court's dismissal order and ordered that discovery, which previously had been stayed during the pendency of the motions to dismiss, proceed regarding the surviving claims. On February 6, 2004, plaintiffs filed a Fifth Consolidated Amended Class Action Complaint ("Fifth Consolidated Complaint"). The Fifth Consolidated Complaint attempts to expand the putative class period previously alleged in the Fourth Consolidated Complaint, seeks to restore the claims dismissed by the court, including claims against certain individual defendants who were dismissed as defendants by the court's dismissal order, and to add additional individual defendants who have not been named as defendants in plaintiffs' previous complaints. The Fifth Consolidated Complaint also advances allegations related to a number of matters and transactions that were not pleaded in the earlier complaints. The Fifth Consolidated Complaint is purportedly brought on behalf of purchasers of publicly traded securities of QCII between May 24, 1999 and July 28, 2002, and names as defendants QCII, QCII's former Chairman and Chief Executive Officer, Joseph P. Nacchio, QCII's former Chief Financial Officers, Robin R. Szeliga and Robert S. Woodruff, other of QCII's former officers and current directors and

Arthur Andersen LLP. The Fifth Consolidated Complaint alleges, among other things, that during the putative class period, QCII and certain of the individual defendants made materially false statements regarding the results of QCII's operations in violation of section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), that certain of the individual defendants are liable as control persons under section 20(a) of the Exchange Act, and that certain of the individual defendants sold some of their shares of QCII's common stock in violation of section 20A of the Exchange Act. The Fifth Consolidated Complaint further alleges that QCII and certain other defendants violated section 11 of the Securities Act of 1933, as amended ("Securities Act") by preparing and disseminating false registration statements and prospectuses for the registration of QCII common stock to be issued to U S WEST shareholders in connection with the merger of the two companies, and for the exchange of \$3 billion of QCII's notes pursuant to a registration statement dated January 17, 2001, \$3.25 billion of QCII's notes pursuant to a registration statement dated July 12, 2001, and \$3.75 billion of QCII's notes pursuant to a registration statement dated October 30, 2001. Additionally, the Fifth Consolidated Complaint alleges that certain of the individual defendants are liable as control persons under section 15 of the Securities Act by reason of their stock ownership, management positions and/or membership or representation on QCII's Board of Directors. The Fifth Consolidated Complaint seeks unspecified compensatory damages and other relief. However, counsel for plaintiffs has indicated that the purported class will seek damages in the tens of billions of dollars. On March 8, 2004, QCII and other defendants filed motions to dismiss the Fifth Consolidated Complaint.

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

On December 10, 2002, the California State Teachers' Retirement System ("CalSTRS") filed suit against QCII, certain of QCII's former officers and certain of QCII's current directors and several other defendants, including Arthur Andersen LLP and several investment banks, in the Superior Court of the State of California in and for the County of San Francisco. CalSTRS alleged that the defendants engaged in fraudulent conduct that caused CalSTRS to lose in excess of \$150 million invested in QCII's equity and debt securities. The complaint alleges, among other things, that defendants engaged in a scheme to falsely inflate QCII's revenue and decrease its expenses so that QCII would appear more

successful than it actually was during the period in which CalSTRS purchased and sold QCII securities. The complaint purported to state causes of action against QCII for (i) violation of California Corporations Code section 25400 et seq. (securities laws); (ii) violation of California Corporations Code section 17200 et seq. (unfair competition); (iii) fraud, deceit and concealment; and (iv) breach of fiduciary duty. Among other requested relief, CalSTRS sought compensatory, special and punitive damages, restitution, pre-judgment interest and costs. QCII and the individual defendants filed a demurrer, seeking dismissal of all claims. In response, CalSTRS voluntarily dismissed the unfair competition claim but maintained the balance of the complaint. The court denied the demurrer as to the California securities law and fraud claims, but dismissed the breach of fiduciary duty claim against QCII with leave to amend. The court also dismissed the claims against Robert S. Woodruff and Robin R. Szeliga on jurisdictional grounds. On or about July 25, 2003, plaintiff filed a First Amended Complaint. The material allegations and the relief sought remain largely the same, but plaintiff no longer alleges claims against Mr. Woodruff and Ms. Szeliga following the court's dismissal of the claims against them. CalSTRS reasserted its claim against QCII for breach of fiduciary duty as a claim of aiding and abetting breach of fiduciary duty. QCII filed a second demurrer to that claim, and on November 17, 2003, the court dismissed that claim without leave to amend.

On November 27, 2002, the State of New Jersey (Treasury Department, Division of Investment) ("New Jersey") filed a lawsuit similar to the CalSTRS action in New Jersey Superior Court, Mercer County. On October 17, 2003, New Jersey filed an amended complaint alleging, among other things, that QCII, certain of QCII's former officers and certain current directors and Arthur Andersen LLP caused QCII's stock to trade at artificially inflated prices by employing improper accounting practices, and by issuing false statements about QCII's business, revenues and profits. As a result, New Jersey contends that it incurred hundreds of millions of dollars in losses. New Jersey's complaint purports to state causes of action against QCII for: (i) fraud; (ii) negligent misrepresentation; and (iii) civil conspiracy. Among other requested relief, New Jersey seeks from the defendants, jointly and severally, compensatory, consequential, incidental and punitive damages. On November 17, 2003, QCII filed a motion to dismiss. That motion is pending before the court.

On January 10, 2003, the State Universities Retirement System of Illinois ("SURSI") filed a lawsuit similar to the CalSTRS and New Jersey lawsuits in the Circuit Court of Cook County, Illinois. SURSI filed suit against QCII, certain of QCII's former officers and certain current directors and several other defendants, including Arthur Andersen LLP and several investment banks. On October 29, 2003, SURSI filed a second amended complaint which alleges, among other things, that defendants engaged in fraudulent conduct that caused it to lose in excess of \$12.5 million invested in QCII's common stock and debt and equity securities and that defendants engaged in a scheme to falsely inflate QCII's revenues and decrease its expenses by improper conduct related to transactions with the Arizona School Facilities Board, Genuity, Calpoint LLC, KMC Telecom Holdings, Inc., KPNQwest N.V., and Koninklijke KPN, N.V. The second amended complaint purports to state the following causes of action against QCII: (i) violation of the Illinois Securities Act; (ii) common law fraud; (iii) common law negligent misrepresentation; and (iv) violation of section 11 of the Securities Act. SURSI seeks, among other relief, punitive and exemplary damages, costs, equitable relief, including an injunction to freeze or prevent disposition of the defendants' assets, and disgorgement. All the individual defendants moved to dismiss the action against them for lack of personal jurisdiction. To date, neither QCII nor the individual defendants have filed a response to the second amended complaint, and the Illinois' court's schedule does not contemplate that answers or motions to dismiss be filed until after the challenges to jurisdiction have been resolved.

On February 9, 2004, Stichting Pensioenfonds ABP ("SPA") filed suit against QCII, certain of QCII's current and former directors, officers, and employees, as well as several other defendants, including Arthur Andersen LLP, Citigroup Inc. and various affiliated corporations of Citigroup Inc., in the United States District Court for the District of Colorado. SPA alleges that the defendants engaged

in fraudulent conduct that caused SPA to lose more than \$100 million related to SPA's investments in QCII's equity securities purchased between July 5, 2000 and March 11, 2002. The complaint alleges, among other things, that defendants created a false perception of QCII's revenues and growth prospects. SPA alleges claims against QCII and certain of the individual defendants for violations of sections 18 and 10(b) of the Exchange Act and SEC Rule 10b-5, violations of the Colorado Securities Act and common law fraud, misrepresentation and conspiracy. The complaint also contends that certain of the individual defendants are liable as "control persons" because they had the power to cause QCII to engage in the unlawful conduct alleged by plaintiffs in violation of section 20(a) of the Exchange Act, and alleges other claims against defendants other than QCII. SPA seeks, among other things, compensatory and punitive damages, rescission or rescissionary damages, pre-judgment interest, fees and costs. On April 19, 2004, defendants filed motions to dismiss, which are pending before the court.

On March 22, 2004, Shriners Hospital for Children, ("SHC") filed suit against QCII, certain of its former employees, and certain unidentified persons in the District Court for the City and County of Denver. SHC alleges that the defendants engaged in fraudulent conduct by a variety of actions, including issuing false and misleading financial statements. The complaint alleges claims against QCII and the other defendants based upon Colorado state securities laws, common law fraud, and negligent misrepresentation. SHC alleges damages of \$17 million. SHC seeks compensatory and punitive damages, interests, costs and attorneys' fees. On April 16, 2004, defendants removed this case to the United States District Court for the District of Colorado, where it is now pending.

On or about March 30, 2004, Teachers' Retirement System of Louisiana, ("TRSL") filed suit against QCII in the District Court for the City and County of Denver. The allegations of the TRSL complaint are substantially the same as the suit filed against QCII by SHC, except that TRSL alleges damages of \$17 to \$23 million. On April 16, 2004, defendants removed this case to the United States District Court for the District of Colorado, where it is now pending.

On October 22, 2001, a purported derivative lawsuit was filed in the United States District Court for the District of Colorado, or the Federal Derivative Litigation. On February 6, 2004, a third amended complaint was filed in the Federal Derivative Litigation, naming as defendants certain of QCII's present and former directors and certain former officers and naming QCII as a nominal defendant. The Federal Derivative Litigation is based upon the allegations made in the consolidated securities action and alleges, among other things, that the defendants breached their fiduciary duties to QCII by engaging in self-dealing, insider trading, usurpation of corporate opportunities, failing to oversee implementation of securities laws that prohibit insider trading, failing to maintain appropriate financial controls within QCII, and causing or permitting QCII to commit alleged securities violations, thus (1) causing QCII to be sued for such violations and (2) subjecting QCII to adverse publicity, increasing its cost of raising capital and impairing earnings. On March 26, 2004, a proposed fourth amended complaint was filed in the Federal Derivative Litigation, which names additional defendants, including a former QCII officer, Citigroup Inc. and corporations affiliated with Citigroup, Inc. The proposed fourth amended complaint contains allegations in addition to those set forth in the third amended complaint, including that certain individual defendants violated securities laws as a result of the filing of false and misleading proxy statements by QCII from 2000 through 2003, and that the Citigroup defendants aided and abetted breaches of fiduciary duties owed to QCII. The Federal Derivative Litigation has been consolidated with the consolidated securities action. Plaintiff seeks, among other remedies, disgorgement of alleged insider trading profits.

On August 9, 2002, a purported derivative lawsuit was filed in the Court of Chancery of the State of Delaware. A separate alleged derivative lawsuit was filed in the Court of Chancery of the State of Delaware on or about August 28, 2002. On October 30, 2002, these two alleged derivative lawsuits, or collectively, the Delaware Derivative Litigation, were consolidated. The Second Amended Complaint in the Delaware Derivative Litigation was filed on or about January 23, 2003, naming as defendants certain of QCII's current and former officers and directors and naming QCII as a nominal defendant.

In the Second Amended Complaint the plaintiffs allege, among other things, that the individual defendants: (i) breached their fiduciary duties by allegedly engaging in illegal insider trading in QCII's stock; (ii) failed to ensure compliance with federal and state disclosure, anti-fraud and insider trading laws within QCII, resulting in exposure to it; (iii) appropriated corporate opportunities, wasted corporate assets and self-dealt in connection with investments in initial public offering securities through QCII's investment bankers; and (iv) improperly awarded severance payments to QCII's former Chief Executive Officer, Mr. Nacchio and QCII's former Chief Financial Officer, Mr. Woodruff. The plaintiffs seek recovery of incentive compensation allegedly wrongfully paid to certain defendants, all severance payments made to Messrs. Nacchio and Woodruff, disgorgement, contribution and indemnification, repayment of compensation, injunctive relief, and all costs including legal and accounting fees. On March 17, 2003, defendants moved to dismiss the Second Amended Complaint, or, in the alternative, to stay the action. As described below, a proposed settlement of the Delaware Derivative Litigation has been reached.

On each of March 6, 2002 and November 22, 2002, a purported derivative action was filed in Denver District Court, which we refer to collectively as the Colorado Derivative Litigation. On February 5, 2004, plaintiffs in one of these cases filed an amended complaint naming as defendants certain of QCII's current and former officers and directors and Anschutz Company, and naming QCII as a nominal defendant. The two purported derivative actions were consolidated on February 17, 2004. The amended complaint alleges, among other things, that various of the individual defendants breached their legal duties to QCII by engaging in various kinds of self-dealings, failing to oversee compliance with laws that prohibit insider trading and self-dealing, and causing or permitting QCII to commit alleged securities laws violations, thereby causing QCII to be sued for such violations and subjecting QCII to adverse publicity, increasing its cost of raising capital and impairing earnings.

Beginning in May 2003, the parties to the Colorado Derivative Litigation and the Delaware Derivative Litigation participated in a series of mediation sessions with former United States District Judge Layn R. Phillips. On November 14, 2003, as a result of this process, the parties agreed in principle upon a settlement of the claims asserted in the Colorado Derivative Litigation and the Delaware Derivative Litigation, subject to approval and execution of formal settlement documents, approval by the Denver District Court and dismissal with prejudice of the Colorado Derivative Litigation, the Delaware Derivative Litigation and the Federal Derivative Litigation. From November 14, 2003 until February 17, 2004, the parties engaged in complex negotiations to resolve the remaining issues concerning the potential settlement. On February 17, 2004, the parties reached a formal Stipulation of Settlement, which was filed with the Denver District Court. The stipulation of settlement provides, among other things, that if approved by the Denver District Court and upon dismissal with prejudice of the Delaware Derivative Litigation and the Federal Derivative Litigation, \$25 million of the \$200 million fund from the insurance settlement with certain of QCII's insurance carriers will be designated for the exclusive use of QCII to pay losses and QCII will implement a number of corporate governance changes. (The \$200 million has been placed in trust to cover losses QCII may incur and the losses of current and former directors and officers and others who release the carriers in connection with the settlement.) The Stipulation of Settlement also provides that the Denver District Court may enter awards of attorneys' fees and costs to derivative plaintiffs' counsel from the \$25 million in amounts not to exceed \$7.5 million and \$125,000, respectively. On February 17, 2004, the Denver District Court entered a Preliminary Approval Order and scheduled a hearing to take place on June 15, 2004, to consider final approval of the proposed settlement and derivative plaintiffs' counsels' request for an award of fees and costs.

On or about February 23, 2004, plaintiff in the Federal Derivative Litigation filed a motion in the United States District Court for the District of Colorado to enjoin further proceedings relating to the proposed settlement of the Colorado Derivative Litigation, or alternatively, to enjoin the enforcement of a provision in the Preliminary Approval Order of the Denver District Court which plaintiff claims

would prevent the Federal Derivative Litigation from being prosecuted pending a final determination of whether the settlement of the Colorado Derivative Litigation shall be approved. On March 8, 2004, the individual defendants in the Federal Derivative Litigation filed a motion to stay all proceedings in that action pending a determination by the Denver District Court whether to approve the proposed settlement of the derivative claims asserted in the Colorado Derivative Litigation.

Other Matters

In January 2001, an amended purported class action complaint was filed in Denver District Court against QCII and certain current and former officers and directors on behalf of stockholders of U S WEST. The complaint alleges that QCII had a duty to pay a quarterly dividend to U S WEST stockholders of record as of June 30, 2000. Plaintiffs further claim that the defendants attempted to avoid paying the dividend by changing the record date from June 30, 2000 to July 10, 2000, a claim QCII denies. In September 2002, QCII filed a motion for summary judgment on all claims. Plaintiffs filed a cross-motion for summary judgment on their breach of contract claims only. On July 15, 2003, the court denied both summary judgment motions. Plaintiffs' claims for breach of fiduciary duty and breach of contract remain pending. The case is now in the class certification stage, which QCII is challenging.

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

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