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As filed with the Securities and Exchange Commission on May 3, 2004

Registration No. 333-

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## Form S-4

REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

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### Qwest Corporation

(Exact name of the registrant as specified in its charter)

**4811**

(Primary Standard Industrial  
Classification Code Number)

**Colorado**

(State or other jurisdiction of  
incorporation or organization)

**87-0273800**

(I.R.S. Employer  
Identification Number)

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

(Address, including zip code, and telephone number, including area code, of the registrant's principal executive offices)

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**Stephen E. Brilz  
Vice President—Law  
Qwest Communications International Inc.  
1801 California Street  
Denver, Colorado 80202  
(303) 992-1400**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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**With a copy to:  
Richard M. Russo  
Gibson, Dunn & Crutcher LLP  
1801 California Street, Suite 4100  
Denver, Colorado 80202  
(303) 298-5700**

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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after this registration statement becomes effective.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ☐

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. ☐

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price per Note (1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
8 <sup>7</sup> / 8 % notes due 2012	\$1,500,000,000	100%	\$1,500,000,000	\$190,050(2)

- (1) Exclusive of accrued interest, if any, and estimated solely for the purpose of calculating the registration fee in accordance with Rule 457 (f) promulgated under the Securities Act of 1933, as amended.
- (2) Pursuant to Rules 429(b) and 457(p) under the Securities Act of 1933, as amended, \$138,000 previously paid in connection with unsold securities from Qwest Corporation's prior registration statement on Form S-4 (file no. 333-98119), initially filed on August 14, 2002, is being carried forward.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**PROSPECTUS**

**\$1,500,000,000**

**Qwest Corporation**

**Exchange Offer for All Outstanding**

**8 <sup>7</sup> / 8 % Notes due 2012  
(CUSIP Nos. 74913G AB1 and U749OR AA7)  
for new**

**8 <sup>7</sup> / 8 % Notes due 2012  
which have been registered under the Securities Act of 1933**

*This exchange offer will expire at 5:00 p.m., New York City time,  
on , 2004, unless extended.*

**The Exchange Notes:**

- The terms of the registered 8 <sup>7</sup> / 8 % notes to be issued in the exchange offer are substantially identical to the terms of the outstanding 8 <sup>7</sup> / 8 % notes, except that the transfer restrictions, registration rights and additional interest provisions relating to the outstanding notes will not apply to the exchange notes.
- We are offering the exchange notes pursuant to a registration rights agreement that we entered into in connection with the issuance of the outstanding notes.

**Material Terms of the Exchange Offer:**

- The exchange offer expires at 5:00 p.m., New York City time, on , 2004, unless extended.
- Upon expiration of the exchange offer, all outstanding notes that are validly tendered and not withdrawn will be exchanged for an equal principal amount of exchange notes.
- You may withdraw tendered outstanding notes at any time prior to the expiration of the exchange offer.
- The exchange offer is not subject to any minimum tender condition, but is subject to customary conditions.
- The exchange of the exchange notes for outstanding notes will not be a taxable exchange for U.S. Federal income tax purposes.
- There is no existing public market for the outstanding notes or the exchange notes. We do not intend to list the exchange notes on any securities exchange or quotation system.

**See "Risk Factors" beginning on page 11.**

*Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or the accuracy of this prospectus. Any representation to the contrary is a criminal offense.*

Prospectus dated , 2004

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**We have not authorized anyone to give any information or make any representation about us that is different from or in addition to that contained in this prospectus. Therefore, if anyone does give you information of this sort, you should not rely on it as authorized by us. If you are in a jurisdiction where offers to sell, or solicitations of offers to purchase, the securities offered by this document are unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this document does not extend to you. You should assume that the information contained in this prospectus is accurate only as of the date on the front of this prospectus, regardless of the date of delivery of this prospectus or the sale of the securities made hereunder.**

## WHERE YOU CAN FIND MORE INFORMATION

QC and QCII are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and file annual, quarterly and special reports and other information with the SEC. The public may read and copy any reports or other information that QC or QCII files with the SEC at the SEC's public reference room, Room 1024 at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. QC and QCII's SEC filings are also available to the public at the SEC's web site at <http://www.sec.gov>.

We will provide without charge to each person to whom a copy of this prospectus has been delivered, who makes a written or oral request, a copy of the filings of QC and any and all of the documents referred to herein, including the registration rights agreement and indenture for the notes, which are summarized in this prospectus, by writing or calling us at the following address or telephone number.

Corporate Secretary  
Qwest Corporation  
1801 California Street  
Denver, Colorado 80202  
(303) 992-1400

**In order to ensure timely delivery, you must request the information no later than five business days before the expiration of the exchange offer.**

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## IMPORTANT NOTICE

*We recently filed our Annual Report on Form 10-K for the year ended December 31, 2003 (the "2003 Form 10-K") with the Securities and Exchange Commission (the "SEC"). We filed our Annual Report on Form 10-K for the year ended December 31, 2002 (the "2002 Form 10-K") and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2003, June 30, 2003 and September 30, 2003 (the "2003 Quarterly Reports") with the SEC in the first quarter of 2004. The 2002 Form 10-K contains, among other things, the restatement of our consolidated financial statements for the years ended December 31, 2000 and 2001, which resulted in, among other things, an aggregate reduction in revenue for QCII of approximately \$2.5 billion. Although we attempted to address in the 2003 Form 10-K, 2002 Form 10-K and in the 2003 Quarterly Reports the comments made by the Staff of the SEC's Division of Corporation Finance with respect to QCII's Annual Report on Form 10-K for the year ended December 31, 2001 and QCII's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, neither we nor QCII have filed our Quarterly Reports on Form 10-Q for the quarters ended June 30, 2002 and September 30, 2002, and have not received any comments from the Staff of the SEC's Division of Corporation Finance as to the recent SEC filings of QCII or the 2003 Form 10-K, 2002 Form 10-K or the 2003 Quarterly Reports. Pending receipt of such comments, no assurance can be given that the information contained herein will not be subject to change. If any such information or additional disclosures were available to you, it could be material to a decision as to whether or not to participate in the exchange.*

*We issued the outstanding notes in a private transaction in March 2002. The registration rights agreement we entered into with the initial purchasers of the outstanding notes in connection with their issuance provides that, under certain circumstances, holders of outstanding notes have rights to increased interest in addition to the stated interest rate of the outstanding notes ("Additional Interest") and to require us to file certain registration statements. We were previously unable to file any of these registration statements due to delays associated with the restatement of our financial statements for 2001 and 2000. However, we have now filed a registration statement on Form S-4 to register the issuance of the exchange notes in exchange for the outstanding notes. Upon the exchange of your outstanding notes for exchange notes, you will waive any right you may have to receive any Additional Interest accruing after the exchange of your outstanding notes for exchange notes or to have a shelf registration statement filed with respect to the notes. See "The Exchange Offer—Filing of Registration Statements."*

## PROSPECTUS SUMMARY

*This prospectus summary contains basic information about us and this exchange offer, but does not contain all the information that is important to you. For a more complete understanding of this exchange offer, we encourage you to read this entire prospectus and the documents we refer you to. You should carefully consider the information set forth under "Risk Factors." In addition, certain statements are forward-looking statements which involve risks and uncertainties. See "Forward-Looking Statements."*

*As used in this prospectus, unless the context otherwise requires or indicates:*

- *"notes" refers to the outstanding notes and the exchange notes offered in the exchange offer, collectively;*
- *"QC" refers to Qwest Corporation, a Colorado corporation, which is the issuer of the notes;*
- *"QSC" refers to Qwest Services Corporation, a Colorado corporation, which is the direct parent of QC;*
- *"QCII" refers to Qwest Communications International Inc., a Delaware corporation, which is the direct parent of QSC, and indirect parent of QC;*
- *"QCF" refers to Qwest Capital Funding, Inc., a Colorado corporation, which is a wholly owned finance subsidiary of QCII; and*
- *"QCC" refers to Qwest Communications Corporation, a Delaware corporation, which is another wholly owned subsidiary of QSC.*

*When we refer to "Qwest," "we," "us" and "our" in this prospectus, we are referring to QC and its consolidated subsidiaries, unless the context indicates otherwise.*

### The Company

We provide local telecommunications and related services, IntraLATA long-distance services and wireless, data and video services within our local service area, which consists of the 14-state region of Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming.

We market and sell our products and services to consumer and business customers. In general, our business customers fall into the following categories:

- small businesses;
- national and global businesses;
- governmental entities; and
- public and private educational institutions.

We also provide our products and services to other telecommunications providers on a wholesale basis. We seek to distinguish ourselves from our competitors through our recent and continuing customer service initiatives.

### Recent Developments

**Legal Reserves.** As we have previously disclosed, QCII has engaged in preliminary discussions for purposes of resolving certain of the investigations and securities matters to which QCII is subject. These matters are described in detail in "Business—Legal Proceedings". 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 QCII ultimately incurs could be substantially more than the reserve QCII has provided. At this time, QCII believes that it is probable that all but \$100 million of the recorded reserve will be recoverable out of a portion of insurance proceeds, but the use and allocation of these proceeds has yet to be resolved between QCII and individual insureds. See "Business—Legal Proceedings—Legal Proceedings Involving QCII".

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 on 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.

*Redemption of QC Notes.* On March 15, 2004, we notified the trustee of various series of our notes and debentures of our intention to redeem all \$100 million outstanding principal amount of our 5.65% Notes due November 1, 2004 and all \$40.8 million outstanding principal amount of our 39 Year 5.5% Debentures due June 1, 2005. The redemption date for each of these series of notes was May 1, 2004, at which time all related interest ceased to accrue.

*Capital contribution and transfer of ownership of Qwest Wireless.* On April 30, 2004, our direct parent, QSC, made a capital contribution of \$2.1 billion to us. We in turn made a capital contribution of this same amount to Qwest Wireless, which used these proceeds to substantially pay off its borrowings. On May 1, 2004, we then transferred ownership of Qwest Wireless to an affiliate. Due to this transfer, we no longer have significant wireless operations. As a result, for all subsequent periods, we will account for the results of Qwest Wireless for prior periods as discontinued operations. Further we will no longer reflect the borrowings of Qwest Wireless on our balance sheet.

*Dividends.* In the first quarter of 2004, we declared a dividend of \$1.360 billion relating to net income from prior periods that was not declared or paid as dividends in those periods. To date, \$523 million of this dividend has been paid. Also, since December 31, 2003, we have declared and paid \$477 million in regular dividends based on the earnings of our wireline operations.

### **Corporate Information**

We were incorporated under the laws of the State of Colorado in 1911. We are wholly owned by QSC, which is wholly owned by QCII. Pursuant to a merger between QCII and U S WEST, Inc. (our pre-merger parent) on June 30, 2000 (the "Merger"), QCII acquired all the operations of U S WEST and its subsidiaries and we became an indirect wholly owned subsidiary of QCII.

Our offices are located at 1801 California Street, Denver, Colorado 80202, and our telephone number is (303) 992-1400.

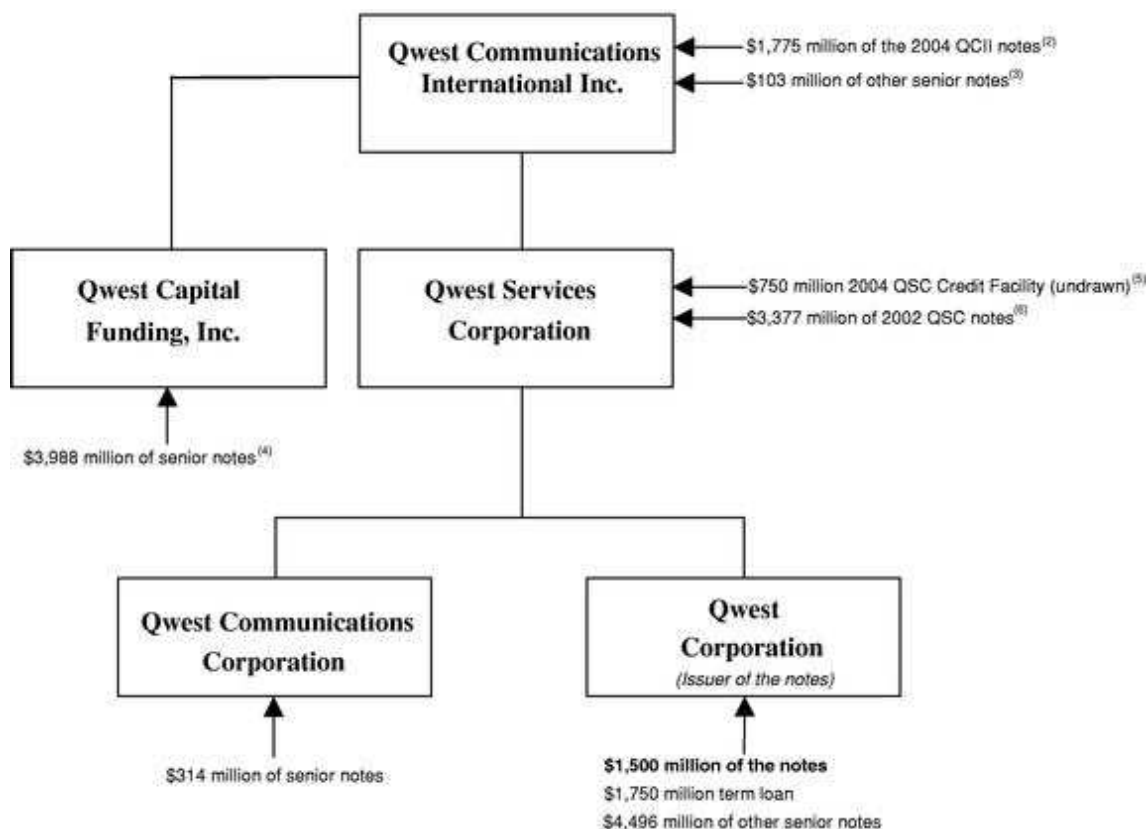
## Our Corporate Structure

The following illustrates the corporate structure and debt capitalization of QCII and its consolidated subsidiaries as of December 31, 2003, as adjusted for the following:

- the issuance by QCII on February 5, 2004 of \$1,775,000,000 aggregate principal amount of its senior notes, which consisted of \$750 million in floating rate notes due 2009, \$525 million 7 <sup>1</sup>/<sub>4</sub> % notes due 2011, and \$500 million 7 <sup>1</sup>/<sub>2</sub> % notes due 2014 (the "2004 QCII notes"), all of which are guaranteed by QCF and QSC and which were issued with a total discount of \$12 million and total issuance costs of \$32 million;
- the repayment on February 5, 2004 of all amounts outstanding under QSC's existing credit facility and the establishment of a new three-year, \$750 million revolving credit facility (the "2004 QSC Credit Facility"), which is undrawn;
- the consummation of the cash tender offer by QCF on February 26, 2004 for up to \$963 million in aggregate principal amount of its 5.875% notes due August 2004, of which approximately \$921 million in aggregate principal amount was tendered and accepted for a total of \$940 million of cash;
- the exchange, subsequent to December 31, 2003 and through March 31, 2004, through privately negotiated transactions, of \$43.0 million face amount of debt issued by QCF, for equity of QCII with an aggregate value of \$37.0 million; and
- the redemption on May 1, 2004, by QC of \$140.8 million in aggregate principal amount of its 5.65% Notes due November 1, 2004 and its 39 Year 5.5% Debentures due June 1, 2005 (the "2004 QC Redemptions").

This chart is provided for illustrative purposes only and does not represent all legal entities of QCII and its consolidated subsidiaries or all obligations of such entities. For more information on our outstanding indebtedness, see "Description of Other Indebtedness."

### Adjusted Consolidated Debt: \$17.4 Billion <sup>(1)</sup>





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- (1) Adjusted consolidated debt is total long-term borrowings of QCII and its consolidated subsidiaries, adjusted as set forth above, and inclusive of net discounts and premiums totaling \$14 million, capital lease obligations totaling \$98 million and \$30 million of notes payable to a related party.
  - (2) The 2004 QCII notes are senior unsecured obligations of QCII. These notes are guaranteed on a senior subordinated secured basis by QSC and a senior unsecured basis by QCF. The QSC guarantee is secured by a junior lien on certain assets of QSC, including the stock of QC and all debt owed to QSC (the "QSC Collateral").
  - (3) QCII's senior notes due 2008 (the "2008 QCII notes"), with \$70 million in aggregate principal amount outstanding, are secured by a lien on the stock of QSC and QCF (the "QCII Collateral") and are guaranteed on a senior unsecured basis by QCF and on a senior secured basis by QSC. The QSC guarantee is secured by a lien on the QSC Collateral.
  - (4) The QCF senior notes are guaranteed by QCII on a senior unsecured basis.
  - (5) The 2004 QSC Credit Facility is secured by a first priority lien on the QSC Collateral and guaranteed by QCII.
  - (6) The 2002 QSC notes are secured by a junior lien on the QSC Collateral, and are guaranteed by QCII and QCF. The guarantee by QCII is secured by a lien on the QCII Collateral.

## Summary of the Exchange Offer

*The following is a summary of the principal terms of the exchange offer. A more detailed description is contained in the section "The Exchange Offer." The term "outstanding notes" refers to our outstanding 8 <sup>7</sup>/<sub>8</sub> % notes due 2012 which were issued on March 12, 2002. The term "exchange notes" refers to our 8 <sup>7</sup>/<sub>8</sub> % notes due 2012 offered by this prospectus, which have been registered under the Securities Act. The term "indenture" refers to the indenture that governs both the outstanding notes and the exchange notes.*

The Exchange Offer	<p>We are offering to exchange \$1,000 principal amount of our exchange notes, which have been registered under the Securities Act of 1933, as amended, for each \$1,000 principal amount of the outstanding notes. As of the date of this prospectus, \$1,500,000,000 aggregate principal amount of notes are outstanding. We issued the outstanding notes in a private transaction for resale pursuant to Rule 144A of the Securities Act. The terms of the exchange notes are substantially identical to the terms of the outstanding notes, except that the transfer restrictions, registration rights and Additional Interest provisions relating to the outstanding notes will not apply to the exchange notes.</p> <p>In order to exchange your outstanding notes for exchange notes, you must properly tender them before the expiration of the exchange offer.</p>
Expiration Date	<p>The exchange offer will expire at 5:00 p.m., New York City time, on _____, 2004, unless the exchange offer is extended, in which case, the expiration date will be the latest date and time to which the exchange offer is extended. See "The Exchange Offer—Terms of the Exchange Offer; Expiration Date."</p>
Conditions to the Exchange Offer	<p>The exchange offer is subject to customary conditions, see "Exchange Offer—Conditions to the Exchange Offer," some of which we may waive in our sole discretion. The exchange offer is not conditioned upon any minimum principal amount of outstanding notes being tendered.</p>
Procedures for Tendering Outstanding Notes	<p>You may tender your outstanding notes through book-entry transfer in accordance with The Depository Trust Company's Automated Tender Offer Program, known as ATOP. If you wish to accept the exchange offer, you must:</p> <ul style="list-style-type: none"><li>• complete, sign and date the accompanying letter of transmittal, or a facsimile of the letter of transmittal, in accordance with the instructions contained in the letter of transmittal, and mail or otherwise deliver the letter of transmittal, together with your outstanding notes, to the exchange agent at the address set forth under "The Exchange Offer—The Exchange Agent;" or</li></ul>
	<ul style="list-style-type: none"><li>• arrange for The Depository Trust Company to transmit to the exchange agent certain required information, including an agent's message forming part of a book-entry transfer in which you agree to be bound by the terms of the letter of transmittal, and transfer the outstanding notes being tendered into the exchange agent's account at The Depository Trust Company.</li></ul>
	<p>You may tender your outstanding notes for exchange notes in whole or in part in integral multiples of \$1,000.</p> <p>See "The Exchange Offer—How to Tender Outstanding Notes for Exchange."</p>
Guaranteed Delivery Procedures	<p>If you wish to tender your outstanding notes and time will not permit your required documents to reach the exchange agent by the expiration date, or the procedures for book-entry transfer cannot be completed by the expiration date, you may tender your outstanding notes according to the guaranteed delivery procedures described in "The Exchange Offer—Guaranteed Delivery Procedures."</p>
Special Procedures for Beneficial Owners	<p>If you beneficially own outstanding notes registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your outstanding notes in the exchange offer, you should contact the registered holder promptly and instruct it to tender on your behalf. See "The Exchange Offer—How to</p>

Tender Outstanding Notes for Exchange."

Withdrawal of Tenders

You may withdraw your tender of outstanding notes at any time on or prior to 5:00 p.m., New York City time, on the expiration date by delivering a written notice of withdrawal to the exchange agent in conformity with the procedures discussed under "The Exchange Offer—Withdrawal Rights."

Acceptance of Outstanding Notes and Delivery of Exchange Notes

Upon consummation of the exchange offer, we will accept any and all outstanding notes that are properly tendered in the exchange offer and not withdrawn prior to 5:00 p.m., New York City time, on the expiration date. The exchange notes issued pursuant to the exchange offer will be delivered promptly after acceptance of the tendered outstanding notes. See "The Exchange Offer—Terms of the Exchange Offer; Expiration Date."

## Registration Rights Agreement

The registration rights agreement that we entered into with initial purchasers of the outstanding notes in connection with their issuance provided that, under certain circumstances, holders of outstanding notes have rights to Additional Interest and to require us to file certain registration statements. We were previously unable to file any of these registration statements due to delays associated with the restatement of our financial statements for 2001 and 2000. Upon the exchange of your outstanding notes for exchange notes, you will waive any right you may have to accrue Additional Interest after the exchange of your outstanding notes for exchange notes or to have a shelf registration statement filed with respect to the notes. See "The Exchange Offer—Filing of Registration Statements."

## Resales of Exchange Notes

We believe that the exchange notes issued in the exchange offer may be offered for resale, resold or otherwise transferred by you without compliance with the registration and prospectus delivery requirements of the Securities Act, provided that:

- you are not an "affiliate" of ours;
- the exchange notes you receive pursuant to the exchange offer are being acquired in the ordinary course of your business;
- you have no arrangement or understanding with any person to participate in the distribution of the exchange notes issued to you in the exchange offer;
- if you are not a broker-dealer, you are not engaged in, and do not intend to engage in, a distribution of the exchange notes issued in the exchange offer; and
- if you are a broker-dealer, you will receive the exchange notes for your own account, the outstanding notes were acquired by you as a result of market-making or other trading activities, and you will deliver a prospectus when you resell or transfer any exchange notes issued in the exchange offer. See "Plan of Distribution" for a description of the prospectus delivery obligations of broker-dealers in the exchange offer.

If you do not meet these requirements, your resale of the exchange notes must comply with the registration and prospectus delivery requirements of the Securities Act.

Our belief is based on interpretations by the staff of the SEC, as set forth in no-action letters issued to third parties. The staff of the SEC has not considered this exchange offer in the context of a no-action letter, and we cannot assure you that the staff of the SEC would make a similar determination with respect to this exchange offer.

If our belief is not accurate and you transfer an exchange note without delivering a prospectus meeting the requirements of the federal securities laws or without an exemption from these laws, you may incur liability under the federal securities laws. We do not and will not assume, or indemnify you against, this liability.

See "The Exchange Offer—Consequences of Exchanging Outstanding Notes."

## Consequences of Failure to Exchange Your Outstanding Notes

If you do not exchange your outstanding notes in the exchange offer, your outstanding notes will continue to be subject to the restrictions on transfer provided in the outstanding notes and in the indenture. In general, the outstanding notes may not be offered or sold unless registered or sold in a transaction exempt from registration under the Securities Act and applicable state securities laws. Accordingly, the trading market for your untendered outstanding notes could be adversely affected.

See "The Exchange Offer—Consequences of Failure to Exchange Outstanding Notes."

## Exchange Agent

The exchange agent for the exchange offer is J.P. Morgan Trust Company, National Association. For additional information, see "The Exchange Offer—Exchange Agent"

and the accompanying letter of transmittal.

#### Certain Federal Income Tax Consequences

The exchange of your outstanding notes for exchange notes will not be a taxable exchange for United States federal income tax purposes. **You should consult your own tax advisor as to the tax consequences to you of the exchange offer, as well as tax consequences of the ownership and disposition of the exchange notes.** For additional information, see "Certain United States Federal Income Tax Considerations."

## Summary of the Terms of the Exchange Notes

*The terms of the exchange notes are substantially the same as the outstanding notes, except that the transfer restrictions, registration rights and Additional Interest provisions relating to the outstanding notes will not apply to the exchange notes. The following is a summary of the principal terms of the exchange notes. A more detailed description is contained in the section "Description of the Exchange Notes."*

Issuer	Qwest Corporation.
Securities Offered	\$1,500,000,000 aggregate principal amount of 8 <sup>7</sup> / 8 % Notes due March 15, 2012.
Maturity Date	March 15, 2012.
Interest Payment Dates	March 15 and September 15.
Interest Rate	8 <sup>7</sup> / 8 % per year, payable semi-annually in arrears.
Ranking of Notes	The notes are unsubordinated, unsecured obligations of QC, ranking equally with all of its existing and future unsubordinated, unsecured indebtedness. Neither our direct parent corporation, QSC, nor our ultimate parent corporation, QCII, guaranteed the payment of principal, premium, if any, or interest on the notes.
Redemption	We may, at our option, redeem the notes in whole at any time or in part from time to time, at redemption prices determined as described under "Description of the Exchange Notes—Optional Redemption".
Certain Covenants	The notes are governed by an indenture, dated as of October 15, 1999, as supplemented by the officers' certificate establishing the terms of the notes, between us and J.P. Morgan Trust Company, National Association (as successor in interest to Bank One Trust Company, N.A.), as trustee. The indenture contains limitations on the incurrence of liens on our assets and on certain mergers or consolidations and transfers of assets. These covenants are subject to exceptions. See "Description of Exchange Notes—Certain Covenants."
Form and Denomination	<p>The exchange notes will be initially issued only in the form of global notes. Except as otherwise provided under the indenture, holders of the exchange notes will not be entitled to receive physical delivery of definitive exchange notes or to have exchange notes issued and registered in their names and will not be considered the owners of the exchange notes under the indenture governing the notes.</p> <p>Interests in the global notes will be issued in minimum denominations of \$1,000 and integral multiples of \$1,000.</p>
Risk Factors	See "Risk Factors" for a discussion of certain risks you should carefully consider.

## Summary Historical Consolidated Financial and Other Data

The following summary financial data should be read in conjunction with, and are qualified by reference to, the consolidated financial statements and notes thereto in the financial statements contained in this prospectus and "Management's Discussion and Analysis of Financial Condition and Results of Operation." The summary financial data for the years ended December 31, 2003, 2002, and 2001 are derived from, and are qualified by reference to, our audited consolidated financial statements included in this prospectus. The summary financial data for the years ended December 31, 2000 and 1999 are derived from, and are qualified by reference to, our audited consolidated financial statements not included in this prospectus, but included in prior SEC filings.

	Year ended December 31,				
	2003	2002	2001	2000	1999
	(in millions)				
<b>Consolidated Statement of Operations Data:</b>					
Operating revenue	\$ 11,261	\$ 11,916	\$ 12,537	\$ 12,084	\$ 11,464
Operating expenses	9,217	9,952	9,755	9,872	8,504
Operating income	2,044	1,964	2,782	2,212	2,960
Income before income taxes and cumulative effect of change in accounting principle	1,347	1,294	2,245	1,646	2,520
Net income	\$ 1,050	\$ 805	\$ 1,407	\$ 902	\$ 1,562

As of December 31, 2003

(in millions)

### Consolidated Balance Sheet Data:

Cash and cash equivalents	\$ 921
Total assets	21,752
Total stockholder's equity(1)	3,077
Total Debt(2)	9,873

Year Ended December 31,

2003	2002	2001
(in millions)		

### Other Financial Data:

Cash provided by operating activities	\$ 4,612	\$ 4,253	\$ 3,662
Cash used for investing activities	(1,695)	(1,818)	(4,448)
Cash provided by (used for) financing activities	(2,228)	(2,353)	824
Capital expenditures	1,663	1,823	4,505

Year ended December 31,

2003	2002	2001	2000	1999
(in millions)				

Ratio of earnings to fixed charges(3)	2.67	2.63	4.12	3.51	6.26
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- (1) We have issued one share of common stock to QSC, our parent.
- (2) Total Debt is total long-term borrowings of Qwest, inclusive of discounts and premiums and current portion, including capital lease obligations and debt payable to affiliates.
- (3) "Earnings" is computed by adding income before income taxes, discontinued operations and cumulative effect of changes in accounting principles and fixed charges. "Fixed charges" consist of interest on indebtedness and an interest factor on rentals.

## **RISK FACTORS**

*The exchange notes involve substantial risks similar to those associated with the outstanding notes. To understand these risks you should consider carefully the risk factors set forth below, together with all of the other information included in this prospectus.*

### **Risks Relating to the Exchange**

*We cannot assure you that an active trading market for the exchange notes will exist if you desire to sell the exchange notes.*

There is no existing public market for the outstanding notes or the exchange notes. We do not intend to apply for listing of the exchange notes on a securities exchange or quotation system. The liquidity of any trading market in the notes, and the market prices quoted for the notes, may be adversely affected by changes in the overall market for these types of securities, and by changes in our financial performance or prospects or in the prospects for companies in our industry generally. As a result, we cannot assure you that you will be able to sell the notes or that, if you can sell your notes, you will be able to sell them at an acceptable price.

*You may have difficulty selling any outstanding notes that you do not exchange.*

If you do not exchange your outstanding notes for exchange notes in the exchange offer, you will continue to hold outstanding notes subject to restrictions on their transfer. Those transfer restrictions are described in the indenture governing the outstanding notes and in the legend contained on the outstanding notes, and arose because we originally issued the outstanding notes under an exemption from the registration requirements of the Securities Act.

In general, you may offer or sell your outstanding notes only if they are registered under the Securities Act and applicable state securities laws, or if they are offered and sold under an exemption from those requirements. If a substantial amount of the outstanding notes is exchanged for a like-amount of the exchange notes issued in the exchange offer, the liquidity of your outstanding notes could be adversely affected. See "The Exchange Offer—Consequences of Failure to Exchange Outstanding Notes" for a discussion of additional consequences of failing to exchange your outstanding notes.

### **Risks Relating to the Notes**

*QCII's high debt levels, the restrictive terms of its debt instruments and the substantial litigation pending against it pose risks to our viability and may make us more vulnerable to adverse economic and competitive conditions, as well as other adverse developments.*

Our ultimate parent, QCII, is highly leveraged on a consolidated basis. As of December 31, 2003, our consolidated debt was \$7.8 billion, excluding affiliate borrowings, which is included in QCII's total consolidated debt of \$17.5 billion as of such date. A considerable amount of our and QCII's debt obligations come due over the next few years. While we currently believe we, together with QCII, will have the financial resources to meet our obligations when they come due, we cannot anticipate what our or QCII's future condition will be. We may have unexpected costs and liabilities and we may have limited access to financing.

In addition to our periodic need to obtain financing in order to meet our debt obligations as they come due, we may also need to obtain additional financing or investigate other methods to generate cash (such as further cost reductions or the sale of non-strategic assets) if cash provided by our and QCII's operations does not improve, if revenue and cash provided by operations continue to decline, if economic conditions do not improve or if we or QCII become subject to significant judgments and/or settlements as further discussed in "Business—Legal Proceedings" and in "Management's Discussion



and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources." Also, we may be impacted by factors relating to or affecting QCII's liquidity and capital resources due to perception in the market, impacts on credit ratings, or provisions in our and QCII's financing agreements that may restrict our flexibility under certain conditions. If QCII fails to repay in excess of \$100 million of its indebtedness when due, or fails to comply with the financial maintenance covenants contained in the 2004 QSC Credit Facility, if and when drawn, the applicable creditors or their representatives could declare the entire amount owed under the 2004 QSC Credit Facility immediately due and payable. Any such event could adversely affect our ability to conduct business or access the capital markets and could adversely impact our credit ratings.

Additionally, the degree to which we, together with QCII, are leveraged may have important limiting consequences on us, including the following:

- our ability to obtain additional financing in the future for working capital, capital expenditures or general corporate purposes may be impaired;
- our leverage may place us at a competitive disadvantage as compared with our less leveraged competitors, including some who have significantly reduced their debt through a bankruptcy proceeding;
- our leverage may make us more vulnerable to the current or future downturns in general economic conditions or in any of our businesses;
- our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate may be limited; and
- QCII's high debt levels could adversely impact our credit ratings.

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

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

***The cash needs of our affiliated companies consume a significant amount of the cash we generate.***

Our current practice is to distribute to QSC cash dividends in an amount equal to our income before extraordinary items from wireline entities, generally during the quarter subsequent to that in which the income is earned. We expect to continue this practice for the foreseeable future.

***The debt agreements of QCII, QSC and QC will allow each to incur significantly more debt, which, if incurred, could exacerbate the other risks described herein.***

The terms of QCII's, QSC's and our debt instruments permit both QCII and us to incur additional indebtedness. Such debt may be necessary to comply with regulatory obligations to maintain QCII's, QSC's or our assets, to satisfy regulatory service obligations, to adequately respond to competition or for financial reasons alone. Incremental borrowings or borrowings at maturities that impose additional financial risks to our various efforts to improve our financial condition and results of operations could exacerbate the other risks described herein.

***The notes will not contain restrictive covenants, and there is limited protection in the event of a change of control.***

The Indenture governing the notes does not contain restrictive covenants that would protect you from several kinds of transactions that may adversely affect you. In particular, the indenture does not contain covenants that will limit our or QCII's ability to pay dividends or make distributions on or redeem capital stock, reorganize our business and operations, give the holders of the notes the right to require us to repurchase the notes in the event of a decline in our or QCII's credit rating or the credit rating of our or QCII's debt securities or limit our ability to incur additional indebtedness or guarantee our affiliates' indebtedness and, therefore, protect you in the event of a highly leveraged transaction or other similar transaction.

### **Risks Affecting Our Business**

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

We compete in a rapidly evolving and highly competitive market, and we expect competition to intensify. We have faced greater competition in our core local business from cable companies, wireless providers (including ourselves), facilities-based providers using their own networks as well as those leasing parts of our network (unbundled network elements) and resellers. Regulatory developments have generally increased competitive pressures on our business, such as the recent decision allowing for number portability from wireline to wireless phones.

Due to these and other factors, we believe competitive telecommunications providers are no longer hindered by historical barriers to entry. As a result, we are seeking to distinguish ourselves from our competitors through a number of customer service initiatives. These initiatives include expanded product bundling, simplified billing, improved customer support and other ongoing measures. However, these initiatives are new and untested. We may not have sufficient resources to distinguish our service levels from those of our competitors, and we may not be successful in integrating our product offerings, especially products for which we act as a reseller, such as Sprint's wireless services. Even if we are successful, these initiatives may not be sufficient to offset our continuing loss of access lines.

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

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

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

## Risks Relating to Our Legal and Regulatory Matters

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

On April 3, 2002, the SEC issued an order of investigation that made formal an informal investigation of QCII initiated on March 8, 2002. QCII is continuing 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 2002 Form 10-K. 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 QCII. QCII believes the U.S. Attorney's Office is investigating various matters that include the subjects of the investigation by the SEC.

While QCII is continuing 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. While QCII's most recent discussions and further analysis have led it to conclude that a reserve should be provided for this matter and its securities actions (see "Business—Legal Proceedings" in this prospectus for a description of these actions), 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 materially 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, 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 June 30, 2002 of QCII and U S WEST (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 generally accepted accounting principles in the United States ("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 would include allegations concerning the January 24, 2001 earnings release.

Also, the General Services Administration, or the GSA, is conducting a review of all contracts with QCII for purposes of determining present responsibility. On September 12, 2003, we were informed that the Inspector General of the GSA had referred to the GSA Suspension/Debarment Official the question of whether QCII (including us and its other subsidiaries) should be considered for debarment.

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.

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

***Further review by the SEC could result in additional adjustments to our and QCII's annual and quarterly reports.***

QCII has engaged in discussions with the staff of the SEC's Division of Corporation Finance regarding its periodic filings. They have reviewed and commented upon QCII's 2001 Form 10-K and its March 2002 Form 10-Q. As appropriate, QCII has attempted to address the Staff's comments in its current filings and has provided responses to those other comments that it could address. It is also possible that these comments may lead to further investigations from the SEC's Division of Enforcement. QCII may receive additional comments from the staff of the Division of Corporation Finance and may be required to make further adjustments or additional disclosures.

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

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

Several lawsuits have been filed against QCII, as well as certain of QCII's past and present officers and directors. These lawsuits include putative class action lawsuits in which the plaintiffs allege numerous violations of securities laws. In one of these actions, lead counsel for the plaintiffs has indicated that plaintiffs will seek damages in the tens of billions of dollars. For a description of these legal actions, see "Business—Legal Proceedings."

The consolidated securities action, the consolidated ERISA action, the CalSTRS, New Jersey, SURSI, SPA, SHC and TRSL actions described in "Business—Legal Proceedings" present material and significant risk to QCII. Some of the allegations in these lawsuits include many of the same subjects that the SEC and U.S. Attorney's Office are investigating. The size, scope and nature of the recent restatements of our 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 or QCII's financial results or financial condition that may ultimately result from these matters. As QCII has previously disclosed, QCII 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 QCII ultimately incurs could be substantially more than the reserve QCII has provided.

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.

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

***Increased scrutiny of financial disclosure, particularly in the telecommunications industry in which we operate, could reduce investor confidence and affect our business opportunities.***

As a result of our accounting issues and the increased scrutiny of financial disclosure, investor confidence in us has suffered and could suffer further. Congress, the SEC, other government authorities and the media are intensely scrutinizing a number of financial reporting issues and practices. In addition, as discussed earlier, the SEC and the U.S. Attorney's Office are currently conducting investigations including, without limitation, inquiries into several specifically identified accounting practices and transactions and related disclosures and QCII's earnings release for the fourth quarter and full year 2000.

A criminal trial of former QCII executives occurred in the first and second quarters of 2004. Additional civil and criminal trials could take place in the future. Evidence that is introduced at such trials may result in further scrutiny by governmental authorities and others.

The existence of this heightened scrutiny and these pending investigations could adversely affect investor confidence and cause the trading price for our securities to decline.

Also, our 2002 Form 10-K was filed in January 2004 and contains our restated consolidated financial statements for the years ended December 31, 2001 and 2000. These restatements involved, among other matters, revenue recognition issues related to termination fees, installation fees and wireless revenue. We cannot assure you that the information in our 2002 Form 10-K, 2003 Form 10-K or in this prospectus will not be subject to change upon receipt of any comments from the SEC relevant to these filings, and any such changes could be material. In addition, we cannot assure you that we will not have to further restate earnings for prior periods as a result of any formal actions or the SEC's review of our filings. Any such restatement could further impact our ability to access the capital markets.

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

Our operations are subject to extensive federal regulation, including the Communications Act of 1934, as amended, and Federal Communications Commission (the "FCC") regulations thereunder. We are also subject to the applicable laws and regulations of various states, including regulation by Public Utility Commissions ("PUCs") and other state agencies. Federal laws and FCC regulations generally apply to interstate telecommunications (including international telecommunications that originate or terminate in the United States), while state regulatory authorities generally have jurisdiction over telecommunications that originate and terminate within the same state. Generally, we must obtain and maintain certificates of authority from regulatory bodies in most states where we offer intrastate services and must obtain prior regulatory approval of rates, terms and conditions for our intrastate services in most of these jurisdictions. Our businesses are subject to numerous, and often quite detailed, requirements under federal, state and local laws, rules and regulations. Accordingly, we cannot ensure that we are always in compliance with all of these requirements at any single point in time.

Regulation of the telecommunications industry is changing rapidly, and the regulatory environment varies substantially from state to state. All of our operations are also subject to a variety of

environmental, safety, health and other governmental regulations. There can be no assurance that future regulatory, judicial or legislative activities will not have a material adverse effect on our operations, or that domestic regulators or third parties will not raise material issues with regard to our compliance or noncompliance with applicable regulations.

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

### **Other Risks Relating to QCII**

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

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

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

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

## FORWARD-LOOKING STATEMENTS

This prospectus contains "forward-looking statements," about our financial condition, results of operations and business. These statements include, among others:

- statements concerning the benefits that we expect will result from our business activities and certain transactions we have completed, such as increased revenue, decreased expenses and avoided expenses and expenditures; and
- statements of our expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts.

You can find many of these statements by looking for words such as "believes," "expects," "anticipates," "estimates," or similar expressions used in this prospectus.

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

## **USE OF PROCEEDS**

We will not receive any cash proceeds from the issuance of the exchange notes.

We received approximately \$1.44 billion from the issuance of the outstanding notes. We used the net proceeds from the offering for general corporate purposes, including repayment of \$608 million under a prior syndicated credit facility, short-term obligations and currently maturing long-term borrowings.



## CAPITALIZATION

The following table sets forth our consolidated cash and cash equivalents and capitalization as of December 31, 2003.

The information in this table should be read in conjunction with "Selected Historical Consolidated Financial and Other Data" and our consolidated financial statements and related notes included in this prospectus. This table does not reflect the effect on our capitalization of transactions occurring after December 31, 2003, including the 2004 QC Redemptions or the transfer of ownership of our wireless operations to an affiliate on May 1, 2004. See "Prospectus Summary—Recent Developments" for more information on these and other matters.

	As of December 31, 2003
	(in millions)
Cash and cash equivalents	\$ 921
Debt and capital leases	
Notes with various rates ranging from 5.50% to 9.125%, and maturities from 2004 to 2043	7,887
Unamortized discount	(157)
Capital leases and other	25
Debt payable to affiliates	2,118
<b>Total debt and capital leases</b>	<b>9,873</b>
Total stockholder's equity(1)	3,077
<b>Total capitalization</b>	<b>\$ 12,950</b>

(1) We have issued one share of common stock to QSC, our parent corporation.

## SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OTHER DATA

The following selected consolidated financial data should be read in conjunction with, and is qualified by reference to, the consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this prospectus. The selected consolidated financial data as of December 31, 2003 and 2002 and for each of the years in the three year period ended December 31, 2003 are derived from, and are qualified by reference to, our audited consolidated financial statements included in this prospectus. The selected consolidated financial data as of December 31, 2001 and 2000 and for the year ended December 31, 2000 is derived from and are qualified by reference to our audited consolidated financial statements not included in this prospectus, but included in prior SEC filings. The results presented below as of and for the year ended December 31, 1999 were previously audited by independent auditors who have ceased operations.

	Year Ended December 31,				
	2003	2002	2001	2000	1999
	(Dollars in millions)				
Operating revenue	\$ 11,261	\$ 11,916	\$ 12,537	\$ 12,084	\$ 11,464
Operating expenses	9,217	9,952	9,755	9,872	8,504
Operating income	2,044	1,964	2,782	2,212	2,960
Income before income taxes and cumulative effect of change in accounting principle	1,347	1,294	2,245	1,646	2,520
Net income(1)	\$ 1,050	\$ 805	\$ 1,407	\$ 902	\$ 1,562
Balance sheet data:					
Total assets	\$ 21,752	\$ 22,525	\$ 24,386	\$ 22,562	\$ 19,978
Total debt(2)	9,873	9,159	9,584	8,738	7,092
Debt to total capital ratio(3)	76%	67%	68%	66%	60%
Other data:					
Cash provided by operating activities	\$ 4,612	\$ 4,253	\$ 3,662	\$ 4,019	\$ 4,240
Cash used for investing activities	(1,695)	(1,818)	(4,448)	(4,560)	(3,802)
Cash (used for) provided by financing activities	(2,228)	(2,353)	824	592	(445)
Capital expenditures	1,663	1,823	4,505	4,600	3,754

(1) Amounts that follow in this footnote are on an after-tax basis.

**2003.** 2003 net income includes a charge of \$140 million for impairment of assets (primarily cell sites, switches, related tools and equipment inventory and certain information technology systems supporting the wireless network), a charge of \$35 million for restructuring activities and a \$219 million credit for cumulative effect of a change in accounting principle.

**2002.** 2002 net income includes a charge of \$505 million for asset impairments and a net charge of \$12 million for Merger-related, restructuring and other (credits).

**2001.** 2001 net income includes charges aggregating \$203 million for restructuring and Merger-related, restructuring and other charges, a charge of \$136 million for a depreciation adjustment on access lines returned to service, a charge of \$30 million for asset impairments, and a gain of \$31 million on the sale of rural exchanges.

**2000.** 2000 net income includes a charge of \$498 million for Merger-related costs and a charge of \$205 million for asset impairments.

(2) Amounts include borrowings from third parties and from affiliates and exclude future purchase commitments, operating leases, letters of credit and guarantees. At December 31, 2003, the amount of those future purchase commitments, operating leases and letters of credit was approximately \$1.565 billion.

(3) The debt to total capital ratio is a measure of the amount of debt in our capitalization. The ratio is calculated by dividing total debt by total capital. Total debt is as reflected in the table above. Total capital is the sum of total debt and total stockholder's equity. We have issued one share to QSC, our sole stockholder.

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

*You should read the following discussion together with our consolidated financial statements, including the related notes, and other financial information included in this prospectus. Certain statements set forth below under this caption constitute "forward-looking statements". See "Risk Factors" and "Forward-Looking Statements" in this prospectus for additional factors relating to such statements as well as for a discussion of certain risk factors applicable to our business, financial condition and results of operations.*

### ***Business Overview and Presentation***

We provide local telecommunications and related services, IntraLATA long-distance services and wireless, data and video services within our local service area, which consists of the 14-state region of Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming.

The results for the years 2003, 2002 and 2001 are presented below. The analysis is organized in a way that provides the information required, while highlighting the information that we believe will be instructive for understanding the relevant trends going forward. In addition to the discussion of the historical information that reviews the current reporting presentation of our consolidated financial statements, an overview of the operational results is provided below.

Our operations are integrated into and are part of the segments of the QCII consolidated group. The chief operating decision maker, or CODM, for us is the same as that for the consolidated group. The CODM makes resource allocation decisions and assessments of financial performance for the consolidated group based on wireline, wireless and other segmentation. For more information about QCII's reporting segments, see QCII's annual report on Form 10-K for the year ended December 31, 2003. Our business contributes to the segments reported by QCII, but the QCII CODM reviews our financial information only in connection with this filing. See further discussion in Note 13—Contributions to QCII Segments to our consolidated financial statements in this prospectus. Our wireless services were provided by our wholly owned subsidiary Qwest Wireless LLC. On May 1, 2004, we transferred ownership of Qwest Wireless to an affiliate and no longer have significant wireless operations. See Note 16—Subsequent Events to our consolidated financial statements in this prospectus. For future reports we will account for the results of Qwest Wireless for prior periods as discontinued operations.

### ***Restatement of 2001 and 2000 Consolidated Financial Statements***

Our 2002 Form 10-K was filed in January 2004 and contains our restated consolidated financial statements for the years ended December 31, 2001 and 2000. QCII filed its annual report for 2002, or the QCII 2002 10-K, in October 2003. In these filings, we and QCII attempted to address comments received from the SEC on QCII's previous filings. To date, we have not received comments from the SEC regarding our restatement, our 2002 Form 10-K or 2003 Form 10-K, QCII's 2003 Form 10-K or 2002 Form 10-K or the adequacy of our responses to its previous comments.

### ***Business Trends***

Our results continue to be impacted by two primary factors influencing the telecommunications industry. First, technology substitution and competition are expected to continue to cause access line losses. We expect industry-wide competitive factors to continue to impact our results and we have developed new strategies for offering complementary services such as satellite television. Second, our results continue to be impacted by regulatory responses to the competitive landscape for both our local and long-distance services.

## Revenue Trends

Historically, at least 85% of our revenue comes from our wireline services, including voice services and data and Internet services. However, on May 1, 2004, we transferred ownership of Qwest Wireless to an affiliate. As a result, going forward substantially all of our revenue will come from our wireline services.

In general, we have experienced a decline in local voice-related revenue as a result of a decrease in access lines and our competitors' accelerated use of unbundled network element platforms, or UNE-P, and unbundled local loops, to deliver voice services. Access lines are expected to continue decreasing primarily because of technology substitution, including wireless and cable substitution for wireline telephony, and cable modem substitution for dial-up Internet access lines. Unbundled network element ("UNE") rules which require us to sell access to our wireline network to our competitors, at wholesale rates, will continue to impact our results. The use of UNEs, including UNE-P, is expected to cause incremental losses of retail access lines and apply downward pressure on our revenue. Increasingly, however, we expect digital subscriber lines ("DSL") revenue within our local service region to offset some of these revenue declines. Broadband services have been expanded to allow more of our customers to convert from dial-up Internet connections to our DSL services. We have bundled QCII's long-distance offering with complementary local service offerings. The recent action by the Washington DC Circuit Court vacating the Federal Communications Commission ("FCC") UNE-P rules, in conjunction with our efforts to negotiate new contracts with competitive local exchange carriers ("CLECs") and data access service providers may help mitigate this downward pressure on wireline margins.

We have also begun to experience and expect increased competitive pressure from telecommunications providers either emerging from bankruptcy protection or reorganizing their capital structure to more effectively compete against us. As a result of technology substitution and low-cost competitors benefiting from low UNE rates or bankruptcy reorganization, we have been and may continue to be forced to respond with less profitable product offerings and pricing plans in an effort to retain and attract customers.

## Expense Trends

Our expenses continue to be impacted by shifting demand due to increased competition and the expansion of our product offerings. Expenses associated with our new product offerings tend to be more variable in nature. While existing products tend to rely upon our embedded cost structure, the mix of products we expect to sell, combined with regulatory and market pricing stresses may pressure operating margins.

In order to improve operational efficiencies, and in response to the decline in revenue, we have implemented restructuring plans in which we reduced the number of employees and consolidated and subleased idle real estate properties. While we have realized savings due to reductions in salaries and wages resulting from our restructuring efforts, and lower sales commission expense as a result of lower revenues and a revision to our sales compensation plan, we continue to experience offsetting increases in costs related to our pension and post-retirement benefit plans, and to health insurance costs.

We will continue to evaluate our staffing levels and cost structure and expect to take a charge during the second quarter ending June 30, 2004. However, since specifics are still not finalized and no formal plan has been adopted, no restructuring accrual related to this evaluation has been made and no range of possible amounts is determinable at this time.

### Overview

We generate revenue from the provision of voice services, data and Internet services, wireless services, other services and services to our affiliates. Certain prior year revenue amounts have been reclassified to conform to the current year presentation. Depending on the product or service purchased, a customer may pay an up-front fee, a monthly fee, a usage charge or a combination of these. The following is a description of the sources of our revenue:

- *Voice Services.* Voice services revenue includes local voice services, IntraLATA long-distance voice services and access services. Local voice services revenue includes revenue from basic local exchange services, switching services, custom calling features, enhanced voice services, operator services, public telephone services, collocation services and customer premises equipment, or CPE. Local voice services revenue also includes revenue from the provision of, on a wholesale basis, network transport, billing services and access to our local network. IntraLATA long-distance voice services revenue includes revenue from IntraLATA long-distance services within our local service area. Access services revenue includes fees charged to other long-distance providers to connect to our network.
- *Data and Internet services.* Data and Internet services revenue includes data services (such as traditional private lines, wholesale private lines, frame relay, indefeasible rights of use, asynchronous transfer mode, ATM, and related CPE) and Internet services (such as DSL, Internet dial access and related CPE).
- *Wireless services.* In the third quarter of 2003, Qwest Wireless entered into a service agreement with a subsidiary of Sprint that allowed us to resell Sprint wireless services, including access to Sprint's nationwide PCS wireless network. All of our wireless services including those available through the Sprint service agreement were provided through our wholly owned subsidiary, Qwest Wireless. After the May 1, 2004 transfer of ownership of Qwest Wireless to an affiliate we will no longer have significant wireless operations.
- *Other services.* Other services revenue is predominately derived from the sublease of some of our unused real estate assets, such as space in our office buildings, warehouses and other properties.
- *Affiliate services.* Affiliate revenue is derived from telecommunications services provided to our affiliated entities. We generally provide the same products and services to our affiliated entities as we do in the marketplace. These services include both retail and wholesale products and services.

The following table summarizes our results of operations:

	Year ended December 31,			Increase/Decrease		Percentage Change	
	2003	2002	2001	2003 v 2002	2002 v 2001	2003 v 2002	2002 v 2001
(Dollars in millions)							
Operating revenue	\$ 11,261	\$ 11,916	\$ 12,537	\$ (655)	\$ (621)	(5)%	(5)%
Operating expenses:							
Cost of sales (exclusive of depreciation and amortization detailed below)	2,872	2,696	3,065	176	(369)	7%	(12)%
Selling, general and administrative	3,252	3,451	3,216	(199)	235	(6)%	7%
Depreciation	2,453	2,655	2,902	(202)	(247)	(8)%	(9)%
Intangible assets amortization	353	302	191	51	111	17%	58%
Asset impairment charges	230	829	49	(599)	780	(72)%	nm
Restructuring and other charges—net	57	49	212	8	(163)	16%	(77)%
Merger-related (credits) charges—net	—	(30)	120	30	(150)	nm	nm
Operating income	2,044	1,964	2,782	80	(818)	4%	(29)%
Other expense:							
Interest expense—net	726	699	613	27	86	4%	14%
Gain on sale of rural exchanges and other fixed assets	—	—	(51)	—	51	nm	nm
Other income—net	(29)	(29)	(25)	—	(4)	—	(16)%
Total other expense—net	697	670	537	27	133	4%	25%
Income before income taxes and cumulative effect of change in accounting principle	1,347	1,294	2,245	53	(951)	4%	(42)%
Income tax expense	(516)	(489)	(838)	(27)	349	(6)%	42%
Income before cumulative effect of change in accounting principle	831	805	1,407	26	(602)	3%	(43)%
Cumulative effect of change in accounting principle, net of tax	219	—	—	219	—	nm	—
Net income	\$ 1,050	\$ 805	\$ 1,407	\$ 245	\$ (602)	30%	(43)%

nm—not meaningful

## Operating Revenue

The following table compares operating revenue for 2003, 2002 and 2001:

	Year ended December 31,			Increase/Decrease		Percentage Change	
	2003	2002	2001	2003 v 2002	2002 v 2001	2003 v 2002	2002 v 2001
(Dollars in millions)							
Voice services	\$ 7,884	\$ 8,602	\$ 9,294	\$ (718)	\$ (692)	(8)%	(7)%
Data and Internet services	2,125	2,189	2,168	(64)	21	(3)%	1%
Wireless services	594	694	688	(100)	6	(14)%	1%
Other services	19	20	19	(1)	1	5%	5%
Affiliate services	639	411	368	228	43	55%	12%
Total operating revenue	\$ 11,261	\$ 11,916	\$ 12,537	\$ (655)	\$ (621)	(5)%	(5)%

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

### ***Voice Services***

Voice services revenue decreased \$718 million, or 8%, in 2003 and decreased \$692 million, or 7%, in 2002.

The voice services revenue decrease in both years was primarily the result of access line losses, pricing declines and a reduction in access services revenue. Additional reasons include feature losses and lower long-distance volumes. We have experienced competition from technology substitution and CLECs and other telecommunications providers reselling our services by using UNE-Ps.

Local voice services revenue and other voice services revenue declined \$589 million for 2003 and \$390 million in 2002. The declines were primarily associated with the losses of access lines, as we have experienced competition from both technology substitution and other telecommunications providers reselling our services by using UNE-Ps. Access lines declined by approximately 797,000, or 5%, in 2003 and by 781,000, or 4%, in 2002. During 2003, UNE-P lines, which are sold at lower wholesale rates, increased by 543,000, or 52%, partially offset by the consumer and business retail access line declines of 1,340,000 (which included 145,000 lines lost due to the impact of the MCI bankruptcy), or 8%. In 2002, we experienced consumer and business retail access line declines of 901,000, or 5%, while UNE-Ps increased by 120,000, or 13%. Local voice revenue also decreased in both years due to reductions in demand for services such as collocation, public telephone services and directory assistance.

In addition to the revenue decreases described above, long-distance voice services revenue declined \$52 million in 2003 and \$95 million in 2002. These decreases were primarily due to declines in IntraLATA long-distance services driven by the soft telecommunications market and competitive pricing. Throughout 2003 and 2002, we evaluated specific long-distance products. Based upon this evaluation, we de-emphasized and stopped promoting certain products, including IntraLATA long-distance.

We also experienced a revenue decline of \$77 million in access services revenue for 2003 and \$207 million in 2002. This was primarily due to the access line losses described above and pricing declines. Pricing declines were driven by state regulatory actions and the CALLS order. The CALLS order capped prices for certain services, including reductions in usage rates for access services. Additionally, in 2003 we recorded a reserve of \$34 million against revenue for anticipated customer credits resulting from regulatory rulings that redefined tariffs on local calls.

### ***Data and Internet Services***

Data and Internet services revenue had a small decrease of \$64 million, or 3%, in 2003 and remained relatively flat during 2002. The 2003 decline is primarily due to the loss of revenue from the bankruptcies of large customers, primarily in 2002, such as Touch America, Inc., MCI and Genuity. Pursuant to the amendment of our agreement with Microsoft in July 2003, we became responsible for providing broadband services to end-user customers, while we previously provided related services to Microsoft on a wholesale basis. As a result, we are recognizing revenue at higher retail rates rather than the lower wholesale rates we charged Microsoft. We have also increased our DSL subscriber base by 25%.

In 2002, data and Internet services revenue increased \$21 million, or 1%. Internet dial access revenue increased primarily from sales to large ISPs and businesses for use in their internal telecommunications networks, while DSL and dedicated internet access grew in response to increased demand for access to the Internet. These increases were partially offset by declines in data services such as wholesale private line and ISDN, precipitated in part by the weakened economy.

## Wireless Services

Wireless services revenue decreased \$100 million, or 14%, in 2003 and remained relatively flat in 2002. The decrease in wireless revenue in 2003 was due to our strategic decision to de-emphasize marketing of wireless services on a stand-alone basis coupled with tightened credit policies and intense industry competition. Although the wireless industry grew in total in 2002, our wireless revenue was relatively flat in 2002, due in part to our limited ability to offer a competitive wireless product. Our wireless offerings, which were expanded to allow the bundling of wireless and local voice services, will be further enhanced in 2004 through our aforementioned arrangement with Sprint.

## Affiliate Services

Affiliate services revenue consists of telecommunications services provided to affiliated enterprises. Affiliate services revenue increased \$228 million, or 55%, in 2003 and increased \$43 million, or 12%, in 2002. In 2003, the increases in affiliate services revenue were primarily caused by a migration of telecommunications services from third-party providers onto our network and by QCII's entrance into InterLATA long-distance business with FCC's authorization of its Section 271 filings. A new affiliate, Qwest Long Distance Corporation, or QLDC, was established to provide long-distance services to in-region customers. These services and related revenue increases were related primarily to increases in private line services, and increases in marketing, sales and billing and collection services provided to QLDC.

In 2002, the increases in affiliate services revenue were caused by a migration of telecommunications traffic from third-party providers onto our network.

## Operating Expenses

The following table shows a breakdown of operating expenses:

	Year ended December 31,			Increase/Decrease		Percentage Change	
	2003	2002	2001	2003 v 2002	2002 v 2001	2003 v 2002	2002 v 2001
(Dollars in millions)							
Operating expenses:							
Cost of sales	\$ 2,872	\$ 2,696	\$ 3,065	\$ 176	\$ (369)	7%	(12)%
Selling, general and administrative	3,252	3,451	3,216	(199)	235	(6)%	7%
Depreciation	2,453	2,655	2,902	(202)	(247)	(8)%	(9)%
Intangible assets amortization	353	302	191	51	111	17%	58%
Asset impairment charges	230	829	49	(599)	780	(72)%	nm
Restructuring and other charges—net	57	49	212	8	(163)	16%	(77)%
Merger-related (credits) charges—net	—	(30)	120	30	(150)	nm	(125)%
Total operating expenses	\$ 9,217	\$ 9,952	\$ 9,755	\$ (735)	\$ 197	(7)%	2%

nm—not meaningful



## Cost of Sales

The following table details cost of sales by major component:

	Year ended December 31,			Increase/Decrease		Percentage Change	
	2003	2002	2001	2003 v 2002	2002 v 2001	2003 v 2002	2002 v 2001
(Dollars in millions)							
Employee and service-related costs	\$ 1,709	\$ 1,611	\$ 1,698	\$ 98	\$ (87)	6%	(5)%
Network costs	327	331	496	(4)	(165)	(1)%	(33)%
Non-employee related costs	394	374	534	20	(160)	5%	(30)%
Affiliate costs	442	380	337	62	43	16%	13%
<b>Total cost of sales</b>	<b>\$ 2,872</b>	<b>\$ 2,696</b>	<b>\$ 3,065</b>	<b>\$ 176</b>	<b>\$ (369)</b>	<b>7%</b>	<b>(12)%</b>

Cost of sales includes salaries and wages, benefits, network costs, materials and supplies, contracted engineering services and computer systems support. Network costs include third-party expenses to repair and maintain the network and supplies to provide services to customers.

Cost of sales, as a percentage of revenue, was 26% for 2003, 23% for 2002 and 24% for 2001. Total cost of sales increased \$176 million, or 7%, in 2003 and decreased \$369 million, or 12%, in 2002. The increases in cost of sales as a percentage of revenue in 2003 were caused in part by the deterioration in product margins as retail access line losses are partially offset by lower margin UNE-Ps sold to our competitors at regulated rates. Also during 2003, our expenses increased due to higher employee and service-related costs, investment in DSL line conditioning expense, higher retiree healthcare costs and regulatory fees. During 2002, our expenses declined primarily due to lower staffing requirements and lower sales volumes. More discussion of these changes is provided below.

Employee and service-related costs, such as salaries and wages, benefits, commissions and third-party customer service costs increased \$98 million, or 6%, in 2003 and decreased \$87 million, or 5%, in 2002. While we have realized savings due to reduction in salaries and wages and professional fees resulting from our restructuring efforts, we continue to experience offsetting increases in costs related to our pension and post-retirement benefit plans, as described more fully below. The net pension expense allocated to cost of sales was \$127 million in 2003 and the net pension credit allocated to cost of sales was \$34 million and \$190 million, for 2002 and 2001, respectively. Additionally, in 2003 we experienced increased incentive compensation and increased information technology costs as resources were partially shifted to system maintenance activities from development activities, which are generally capitalized. Partially offsetting the increases were lower staffing costs and other employee costs resulting from prior restructuring efficiencies, the reductions described above and lower professional fees due to decreased use of third-party vendors. The decrease in 2002 was related to lower headcount requirements associated with prior restructuring efficiencies and moving work previously performed by third-party contractors to employees, partially offset by a lower pension credit and higher healthcare costs in 2002. Also in 2002, we significantly reduced our employee incentive compensation.

Our network costs, which include third-party expenses to repair and maintain our network and supplies to provide services to customers, were essentially unchanged in 2003 and decreased \$165 million, or 33%, in 2002. In 2003, we experienced reduced contracted engineering costs and lower costs associated with fewer wireless handset sales. Additionally, the July 2003 amendment of our agreement with Microsoft required that we become responsible for all costs associated with providing broadband services to end-user customers. As a result, the revenue and costs associated with this expanded service offering increased. During 2002, we reduced our reliance on third-party contractors to provide network maintenance services by shifting this work to our employees. We also experienced lower costs associated with wireless handset sales as a result of lower unit prices and decreases in the

number of new wireless subscribers. We have estimated the cost to transition all of our wireless customers to Sprint's network is estimated to be \$55 million, of which \$10 million had been incurred as of December 31, 2003. Some of these costs may be capitalized.

Non-employee related costs, such as real estate costs and reciprocal compensation payments (fees for terminating our customers' local calls onto other networks), increased \$20 million, or 5%, in 2003 and decreased \$160 million, or 30%, in 2002. The increase in 2003 is primarily due to increases in regulatory fees. Reciprocal compensation costs, declined in 2003 and 2002 due to the decline in local voice services, and also as a result of regulatory action, which limited the amount of charges. The decrease in 2002 is also attributable to lower postage and shipping costs associated with improved management expense controls and lower cost of sales for data and Internet CPE associated with lower CPE sales.

Affiliate costs, such as services for corporate administration, information technology, advertising and technical support increased \$62 million, or 16%, in 2003 and increased \$43 million, or 13%, in 2002. The increases in 2003 were due to higher costs for technical support and sales and affiliate employee and related charges that are allocated to us. We replaced old equipment with new equipment and entered into maintenance contracts with an affiliate in the technology area. The affiliate increased its technical support personnel by 85 and accordingly, the software support and other technical assistance costs that are allocated to us increased. The increase in 2002 is primarily due to increases of purchased technical support resources and buying long-distance services from an affiliate rather than a third party.

### ***Selling, General and Administrative (SG&A) Expense***

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

	Year ended December 31,			Increase/Decrease		Percentage Change	
	2003	2002	2001	2003 v 2002	2002 v 2001	2003 v 2001	2002 v 2001
(Dollars in millions)							
Employee and service-related costs	\$ 840	\$ 884	\$ 1,178	\$ (44)	\$ (294)	(5)%	(25)%
Bad debt	175	331	278	(156)	53	(47)%	19%
Property and other taxes	412	428	386	(16)	42	(4)%	11%
Non-employee-related costs	435	518	356	(83)	162	(16)%	46%
Affiliate costs	1,390	1,290	1,018	100	272	8%	27%
Total SG&A	\$ 3,252	\$ 3,451	\$ 3,216	\$ (199)	\$ 235	(6)%	7%

SG&A expenses include salaries and wages that are not directly attributable to products or services, employee benefits, sales commissions, bad debt charges, taxes other than income taxes, rent for administrative space, advertising, professional service fees and computer systems support.

SG&A, as a percent of revenue, was 29% for 2003, 29% for 2002 and 26% for 2001. The variances driving the percentage changes are described below. Total SG&A decreased \$199 million, or 6%, in 2003 and increased \$235 million, or 7%, in 2002. The 2003 decrease primarily results from decreases in professional fees, bad debt expense and other factors described in more detail below.

Employee and service-related costs, such as salaries and wages, benefits, sales commissions, overtime and professional fees (such as telemarketing and customer service costs) decreased \$44 million, or 5%, in 2003 and decreased \$294 million, or 25%, in 2002. The decrease in 2003 was due to reduced salaries and wages resulting from staffing reductions implemented in 2003 and 2002, reduced professional fees to third-party vendors as we re-incorporated certain previously outsourced customer service functions in our operations and reduced sales commissions due to lower revenue and

a revision to our sales compensation plan. These cost reductions were partially offset by increases in incentive compensation and our pension and post-retirement benefit plan expenses. The net pension expense allocated to SG&A was \$62 million in 2003, and the net pension credit allocated to SG&A was \$19 million and \$77 million for 2002 and 2001, respectively. The decrease in 2002 was due to reduced salaries and wages resulting from staffing reductions implemented in 2002 and 2001, reduced professional fees, reduced incentive compensation and reduced sales commissions. Partially offsetting these decreases were expenses associated with the establishing reserves for outstanding litigation and increases in our pension and post-retirement benefit plan expenses.

Bad debt expense decreased \$156 million, or 47%, in 2003 and increased \$53 million, or 19%, in 2002. Bad debt expense decreased as a percentage of revenue to 1.6% in 2003 from 2.8% in 2002. The decrease in our 2003 expense as compared to 2002 was primarily caused by large provisions associated with uncollectible receivables from MCI, Touch America and others that we recorded in 2002 and improved collection practices and tighter credit policies in 2003. The 2002 increase was due primarily to bankruptcies of wholesale customers and weak economic conditions offset by improved collections practices and tighter credit policies.

Property and other taxes, such as taxes on owned or leased assets and real estate, and transactional items such as certain sales, use and excise taxes, decreased \$16 million, or 4%, in 2003 and increased \$42 million, or 11%, in 2002. The decrease in 2003 resulted from reduced property and other taxes, which resulted from lower asset valuations related to our impairments. The increase in 2002 is attributable to capital expansion for the traditional telephone network that took place during 2001 and 2000.

Non-employee related costs, such as marketing and advertising, rent for administrative space and software expenses, decreased \$83 million, or 16%, in 2003 and increased \$162 million, or 46%, in 2002. The decrease in 2003 was driven by lower marketing and advertising spending which decreased due to increased management of these costs by an affiliate, and a decrease from prior year reserves for outstanding litigation. In 2002, non-employee expense increases were driven by a shift in information technology resources to maintenance activities from development activities that were eligible for capitalization, and establishing reserves for outstanding litigation.

Affiliate expenses, such as services for corporate administration, information technology, advertising and technical support, increased \$100 million, or 8%, in 2003 and \$272 million, or 27%, in 2002. The 2003 increases were due to higher administrative costs described in more detail as follows: increases in the allocations to us of marketing, advertising and public relations resulting from our *Spirit of Service*<sup>TM</sup> campaign; allocated legal expenses grew as the legal department in one of our affiliates had a net increase in personnel; and billing and allocation rates from the affiliate entities were increased. Partially offsetting the increases in 2003 were decreases in software support costs and decreases in self-insurance due to lower premiums and claims. The 2002 increase was primarily due to an increase in marketing, advertising, and administrative costs from affiliates. Previously, a portion of these services were provided by our employees; however, as noted above and explained more fully below, these employees were transferred to an affiliate and the costs are charged back to us.

Prior to a company realignment that occurred in March 2001, our employees performed services that are now performed by QSC employees. Employees that were transferred to QSC provided services such as technical support, marketing, sales, product management and risk management. In addition, the level of service QSC employees were providing to us for our corporate finance, accounting, human resources, executive management and public policy services increased. As a result, during 2002 our affiliates increased the proportionate share of administrative costs billed to us.

In addition to the increases due to realignment, allocation of marketing costs from QSC to us increased in 2002 due to a proportionate increase in revenue from the sale of our products relative to the revenue generated from the sale of our affiliates' products.

## Pension and Post-Retirement Benefits

Our results include an allocation by QCII of pension credits and post-retirement benefit expenses, which we refer to on a combined basis as a net pension expense or credit. We recorded a net pension expense of \$189 million in 2003, a net pension credit of \$53 million in 2002 and a net pension credit of \$267 million in 2001. The net pension expense or credit is a function of the amount of pension and post-retirement benefits earned, interest on projected benefit obligations, amortization of costs and credits from prior benefit changes and the expected return on the assets held in the various plans. The net pension expense or credit is allocated primarily to cost of sales and the remaining balance to SG&A.

The change to a net expense for 2003 from a net credit in prior years is primarily due to a reduction in the expected return on plan assets, a reduction in recognized actuarial gains and an increase in interest costs. These changes are due to lower expected returns on plans assets, lower discount rates and increased medical costs for plan participants.

We expect that our 2004 net pension expense will be higher than 2003 due to a reduction in the expected rate of return on plan assets, the effect of amortizing losses incurred in the volatile equity market of 2000 through 2002, a lower discount rate and rising healthcare rates.

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003, or the Medicare Act, became law in the United States. The Medicare Act introduces a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the Medicare benefit. In accordance with Financial Accounting Standards Board, or FASB, Staff Position No. 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003", we elected to defer recognition of the effects of the Medicare Act in any measures of the benefit obligation or cost. Specific authoritative guidance on the accounting for the federal subsidy is pending and that guidance, when issued, could require us to change previously reported information. Currently, we do not believe we will need to amend our plan to benefit from the Medicare Act.

For additional information on our pension and post-retirement plans see Note 9—Employee Benefits to our consolidated financial statements in this prospectus. Also, for a discussion of the accounting treatment and assumptions regarding pension and post-retirement benefits, see the discussion of Critical Accounting Policies below.

## Depreciation

Depreciation expense decreased \$202 million, or 8%, in 2003 and decreased \$247 million, or 9%, in 2002. The decrease in 2003 was the result of the asset impairment charges we recorded as of June 30, 2002 and September 30, 2003 and the resulting decreases in the depreciable basis of our fixed assets, certain assets becoming fully depreciated in 2002 and the completion of certain capitalized lease agreements in 2002. The decrease in 2002 was primarily the result of higher depreciation in 2001 due to a one-time "catch-up" adjustment of \$222 million related to the termination of plans to sell access lines. During 2002, we also recorded an impairment charge, as discussed below. The impact of the June 30, 2002 impairment reduced our annual depreciation expense by approximately \$125 million, beginning July 1, 2002. The impact of the September 30, 2003 impairment further reduced our annual depreciation expense by approximately \$30 million, beginning October 1, 2003.

## Intangible Assets Amortization

Amortization expense increased \$51 million, or 17%, in 2003 and increased \$111 million, or 58%, in 2002. The increase in both 2003 and 2002 is attributable to increases in capitalized software costs

due in part to improvements in our customer support information technology systems as well as other product development and DSL deployment.

### Asset Impairment Charges

During 2003, 2002 and 2001, we recorded asset impairment charges of \$230 million, \$829 million and \$49 million, respectively, detailed as follows:

	Year ended December 31,		
	2003	2002	2001
	(Dollars in millions)		
Property, plant and equipment and internal use software projects	\$ 230	\$ 825	\$ —
Capitalized software	—	4	49
<b>Total asset impairment charges</b>	<b>\$ 230</b>	<b>\$ 829</b>	<b>\$ 49</b>

Pursuant to the agreement with Sprint that allows us to resell Sprint wireless services, our wireless customers who are currently being serviced through our proprietary wireless network will be transitioned onto Sprint's network. Due to the anticipated decrease in usage of our own wireless network following the transition of our customers onto Sprint's network, in the third quarter of 2003 we performed an evaluation of the recoverability of the carrying value of our long-lived wireless network assets.

In accordance with Statement of Financial Accounting Standard, or SFAS No. 144 "Accounting for Impairment or Disposal of Long-lived Assets", we compared gross undiscounted cash flow projections to the carrying value of the wireless network assets and determined that the carrying value of those assets was not expected to be recovered through future projected cash flows. We then estimated the fair value using recent selling prices for comparable assets and determined that our cell sites, switches, related tools and equipment inventory and certain information technology systems that support the wireless network were determined to be impaired by an aggregate amount of \$230 million.

The fair value of the impaired assets becomes the new basis for accounting purposes. Approximately \$25 million in accumulated depreciation was eliminated in connection with the accounting for the impairments. The impact of the impairments is expected to reduce our annual depreciation and amortization expense by approximately \$40 million, beginning October 1, 2003.

Effective June 30, 2002, a general deterioration of the telecommunications market, downward revisions to our expected future results of operations and other factors indicated that our investments in long-lived assets may have been impaired at that date. We performed an evaluation of the recoverability of the carrying value of our long-lived assets using gross undiscounted cash flow projections. For impairment analysis purposes, we grouped our property, plant and equipment, capitalized software and customer lists and then projected cash flows by our traditional telephone network and our wireless network. Based on the gross undiscounted cash flow projections, we determined that the value of our traditional telephone network was not impaired. However, we determined that the value of our wireless network, which provides PCS in select markets in our local service area, was impaired at June 30, 2002. For the wireless network, we then estimated the fair value based on replacement cost. Based on our analysis, the estimated fair value of the wireless assets was less than our carrying amounts and we recorded an impairment charge of \$825 million as of June 30, 2002. Replacement cost was determined by using current cost adjusted for physical deterioration, functional obsolescence and economic obsolescence.

Approximately \$410 million in accumulated depreciation was eliminated in connection with the accounting for the impairments. The impact of the impairments reduced our annual depreciation and amortization expense by approximately \$135 million, beginning July 1, 2002.

We also recorded asset impairment charges of \$4 million and \$49 million in 2002 and 2001, respectively, related to internal software projects that we terminated.

### **Restructuring and Merger-related Charges**

During the year ended December 31, 2003, as part of an ongoing effort of evaluating costs of operations, QCII reviewed our employee levels in certain areas of our business. As a result, we established a reserve and recorded a charge to our 2003 consolidated statement of operations for \$71 million to cover the related costs of this plan. The 2003 activities include charges of \$65 million for severance benefits and other charges pursuant to established severance policies. As part of this plan, QCII identified approximately 1,600 employees from various functional areas to be terminated. Through December 31, 2003, approximately 1,100 of the planned reductions had been completed. The remaining 500 reductions will occur over the next year. Severance payments generally extend for two to 12 months. In addition, we established a reserve of \$6 million for real estate obligations, which primarily include estimated future net payments on abandoned operating leases. As a result of these restructuring activities, we expect to realize annual cost savings of approximately \$105 million. Also during 2003, we reversed \$14 million of the 2001 and 2002 restructuring plan reserves as those plans were complete, and the actual cumulative costs associated with those plans were less than had been anticipated.

In response to shortfalls in employee reductions as part of the 2001 restructuring plan (as discussed below), during 2002 QCII identified employee reductions in several functional areas. As a result, we established a reserve and recorded to our 2002 consolidated statement of operations \$109 million for these restructuring activities. This reserve was comprised of \$79 million for severance costs and \$30 million for real estate exit costs. The 2002 restructuring plan included the anticipated termination of 2,400 employees. During 2002 we recorded an additional charge of \$75 million relative to the 2001 restructuring plan, which was associated with higher than originally anticipated real estate exit costs. In addition, during 2002 we reversed \$135 million of severance and real estate exit related accruals relative to the 2001 restructuring plan, as actual terminations and real estate exit costs were lower than had been planned. The 2001 plan reversal was comprised of \$113 million of severance and \$22 million of real estate exit costs. Also, during the year ended December 31, 2002, in relation to the Merger, we reversed \$30 million of reserves that were originally recorded in 2000. The reversals resulted from favorable developments relative to matters underlying the related contractual settlements.

During the fourth quarter of 2001, a plan was approved by QCII to reduce our employee levels and consolidate or abandon certain real estate locations and projects. As a result, we established a reserve and recorded a charge to our 2001 consolidated statement of operations of \$212 million for these restructuring activities. This reserve was comprised of \$188 million for severance costs and \$24 million for real estate exit costs. The 2001 restructuring plan included the anticipated termination of 4,800 employees. In relation to the Merger as earlier described, during 2001, we charged to our consolidated statement of operations \$114 million for additional contractual settlements, legal contingencies and other related costs, and \$6 million for additional severance charges, net of Merger reversals. The additional provisions and reversals of Merger-related costs were due to additional Merger-related activities and modification to the previously accrued Merger-related activities.

## Total Other Expense—Net

Other expense—net includes interest expense, net of capitalized interest, gain on sales of rural exchanges and other fixed assets, and other income—net.

	Year ended December 31,			Absolute Change		Percentage Change	
	2003	2002	2001	2003 v 2002	2002 v 2001	2003 v 2002	2002 v 2001
(Dollars in millions)							
Interest expense—net	\$ 726	\$ 699	\$ 613	\$ 27	\$ 86	4%	14%
Gain on sale of rural exchanges and other fixed assets	—	—	(51)	—	51	nm	nm
Other income—net	(29)	(29)	(25)	—	(4)	—	(16)%
Total other expense—net	\$ 697	\$ 670	\$ 537	\$ 27	\$ 133	4%	25%

nm—not meaningful

*Interest expense—net.* Interest expense—net was \$726 million for 2003, compared to \$699 million for 2002. The increase in interest expense was primarily due to an increase in aggregate debt of \$714 million during 2003. This increase in total debt was primarily due to a \$1.75 billion term loan entered into in June 2003, the proceeds of which were used to retire approximately \$1.1 billion in debt. In addition, affiliate borrowings increased \$230 million during 2003. Interest expense was \$699 million for 2002, compared to \$613 million for 2001. The increase in interest expense was primarily attributable to the issuance of new indebtedness in 2002. In March 2002, we issued \$1.5 billion of 10-year bonds at an 8.875% interest rate.

## Income Tax Provision

The effective income tax rate increased to 38.3% in 2003 from 37.8% in 2002 because 2002 contained beneficial state audit and accrual adjustments. The 2002 effective tax rate of 37.8% also increased as compared to the 2001 rate of 37.3% because of prior year Federal audit adjustments reflected in 2001.

## Liquidity and Capital Resources

We are a wholly owned subsidiary of QSC, which is wholly owned by QCII. As such, factors relating to or affecting QCII's liquidity and capital resources could have material impacts on us, including changes in the market's perception of us and impacts on our credit ratings.

As of December 31, 2003 and March 31, 2004, QCII and its consolidated subsidiaries had total borrowings of \$17.5 billion. Some of the borrowings issued by QCII and QSC are secured by liens on our stock. As a result, ownership of our stock could transfer if either QCII or QSC were to default on its debt obligations.

QCII has cash management arrangements between certain of its subsidiaries that include lines of credit, inter-company obligations, capital contributions and dividends. As part of these cash management arrangements, affiliates provide lines of credit to certain other affiliates. Amounts outstanding under these lines of credit and inter-company obligations vary from time to time and are classified as short-term borrowings.

## Near-Term View

Our working capital deficit, or the amount by which our current liabilities exceed our current assets, was \$4.2 billion and \$3.0 billion as of March 31, 2004 and December 31, 2003, respectively. Our working capital deficit increased \$1.2 billion when comparing March 31, 2004 to December 31, 2003. The increase was primarily due to our declaration of dividends in the amount of \$1.360 billion relating to net income from prior periods that were not declared or paid as dividends in those periods.

Since March 31, 2004, the following events have occurred impacting our working capital:

- On March 15, 2004, QC notified the trustee of various series of its notes and debentures of its intention to redeem all \$100 million outstanding principal amount of its 5.65% Notes due November 1, 2004 and all \$40.8 million outstanding principal amount of its 39 Year 5.5% Debentures due June 1, 2005. The redemption date for each of these series of notes was May 1, 2004, at which time we funded the trustee with the \$140.80 million redemption amount and all related interest ceased to accrue.
- On April 30, 2004, our direct parent, QSC, made a capital contribution of \$2.1 billion to us. We in turn made a capital contribution of this same amount to Qwest Wireless, which used these proceeds to substantially pay off its borrowings. On May 1, 2004, we then transferred ownership of Qwest Wireless to an affiliate.
- On May 3, 2004, we paid a dividend of \$500 million to our direct parent, QSC, \$223 million of which is related to a \$1.360 billion dividend that was declared in the first quarter of 2004 and \$277 million of which is related to regular dividends declared subsequent to the first quarter of 2004.

The current working capital deficit as of March 31, 2004 is primarily due to short-term borrowings from affiliates, dividends that we declare to QSC and the current portion of long-term debt. Borrowings from affiliates by our wholly owned subsidiary, Qwest Wireless, amounted to \$2.147 billion as of March 31, 2004. Due to the repayment of these borrowings and the transfer of Qwest Wireless to an affiliate, going forward we will not be impacted by borrowings of Qwest Wireless.

As discussed below, we continue to produce significant cash from operating activities. We believe that our financial resources together with our cash flows from operations will be sufficient to meet our cash needs for the remainder of 2004. However, if we or QCII become subject to significant judgments and/or settlements as further discussed in "Business—Legal Proceedings" in this prospectus, we may need to obtain additional financing or explore other methods to generate cash. Therefore, in the event of an adverse outcome in one or more of these matters, 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.

## Long-Term View

We have historically operated with a working capital deficit as a result of the issues discussed above and due to our dividend paying policy. We expect this to continue. As discussed below, we continue to generate substantial cash from operations. We believe that cash flows from operations, our current cash position and continued access to capital markets will allow us to meet our business requirements, including debt service, dividends and capital expenditures, for the foreseeable future.

In addition to our periodic need to obtain financing in order to meet our debt obligations as they come due, we may also need to obtain additional financing or investigate other methods to generate cash (such as further cost reductions or the sale of non-strategic assets) if cash provided by our and QCII's operations does not improve, if revenue and cash provided by operations continue to decline, if economic conditions do not improve or if we or QCII become subject to significant judgments and/or



settlements as further discussed in "Business—Legal Proceedings". Therefore, 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.

## Payment Obligations and Contingencies

### Payment obligations

The following table summarizes our future contractual cash obligations, as of December 31, 2003:

	Payments Due by Period						
	2004	2005	2006	2007	2008	Thereafter	Total
	(Dollars in millions)						
Future Contractual Obligations(1)(2)							
Long-term debt	\$ 2,985	\$ 457	\$ 0	\$ 1,410	\$ 322	\$ 4,831	\$ 10,005
Interest on debt(3)	726	515	487	440	394	5,101	7,663
Capital lease and other obligations	16	7	2	1	1	9	36
Operating leases	152	147	110	100	85	488	1,082
Purchase commitment obligations	151	99	99	61	60	10	480
Total future contractual cash obligations	\$ 4,030	\$ 1,225	\$ 698	\$ 2,012	\$ 862	\$ 10,439	\$ 19,266

- (1) This table does not include our net pension and other post-employment benefit obligations, as we cannot presently determine when such payments will be made.
- (2) This table does not include accounts payable of \$954 million, dividends payable to QSC of \$200 million, accrued expenses and other current liabilities of \$958 billion, income taxes payable to QSC of \$154 million, deferred income taxes of \$2.5 billion and other long-term liabilities of \$288 million, all of which are recorded on our December 31, 2003 consolidated balance sheet. This table does not include our open purchase orders as of December 31, 2003, as they are primarily cancelable without penalty and therefore do not represent a contractual obligation.
- (3) Interest expense in future years may differ due to refinancing of debt. Interest on our floating rate debt was calculated for all years using the rates effective as of December 31, 2003.

### Purchase Commitment Obligations

We have future purchase commitments with CLECs, IXC's and third-party vendors that require us to make payments to purchase network services, capacity and telecommunications equipment. These commitments require us to maintain minimum monthly and/or annual billings, in certain cases based on usage.

### Letters of Credit and Guarantees

At December 31, 2003, we had letters of credit of approximately \$3 million and no guarantees outstanding.

### Contingencies

We and QCII are defendants in a number of legal actions, and QCII is the subject of a number of investigations by federal and state agencies. While we and QCII intend to defend against these actions vigorously, the ultimate outcomes of these cases are very uncertain, and we can give no assurance as to the impacts on our financial results or financial condition as a result of these matters. For a description

of these legal matters and the potential impact on our liquidity, please see "Business—Legal Proceedings" and the "—Near-Term View" and the "—Long-Term View" above.

## **Historical View**

### ***Operating Activities***

We generated cash from operating activities of \$4.612 billion, \$4.253 billion and \$3.662 billion in 2003, 2002 and 2001, respectively.

The \$359 million increase in cash provided by operating activities in 2003 as compared to 2002 was primarily the result of favorable changes in certain operating asset and liability accounts of \$1.054 billion, partially offset by a decrease in income from operations of \$695 million after adjusting for non-cash items including depreciation, amortization, cumulative effect of changes in accounting principles and asset impairments. This decrease in adjusted income from operations is a direct result of the continuing decline in operating revenues. The 5% annualized decrease in revenue over the last three years is attributed to increasing competition, product substitution and general downturn in the economy and telecommunications industry evidenced by access line losses and pricing declines. We expect continued downward pressure on revenues and profit margins regardless of improvements in the economy or telecommunications sector. These factors may negatively impact cash provided by operations. The increase in cash provided by operations over the last three years has been primarily driven by favorable changes in certain operating assets and liability accounts. We do not expect this trend to continue.

The \$591 million increase in cash provided by operating activities in 2002 as compared to 2001 was primarily the result of favorable changes in certain operating asset and liability accounts of \$1.283 billion, partially offset by a decrease in income from operations of \$692 million after adjusting for non-cash items including depreciation, amortization and asset impairments. This decrease in adjusted income from operations is also a direct result of the continuing decline in operating revenues evidenced by access line losses and pricing declines.

We continue to produce significant operating cash flows regardless of the decline in operating revenue. We expect that the cash flow from operations along with continued access to capital markets will be sufficient to cover our operating expenses, general corporate overhead, capital expenditures and debt service.

### ***Investing Activities***

Cash used for investing activities was \$1.695 billion, \$1.818 billion and \$4.448 billion in 2003, 2002 and 2001, respectively. Cash used in investing activities in 2003 decreased \$123 million compared to 2002 primarily as a result of a \$160 million reduction in capital expenditures in 2003. Cash used in investing activities during 2002 decreased \$2.630 billion compared to 2001 primarily as a result of a \$2.682 billion reduction in capital expenditures in 2002. This decrease in capital expenditures during 2002 was the result of our decision to reduce our expansion efforts as a result of the general economic downturn and the completion of many of our major capital projects in 2001.

Capital expenditures were \$1.663 billion, \$1.823 billion and \$4.505 billion in 2003, 2002 and 2001, respectively. We expect that our 2004 capital expenditures will approximate 2003 levels.

### ***Financing Activities***

Cash (used in) provided by financing activities was (\$2.228) billion in 2003, (\$2.353) billion in 2002 and \$824 million in 2001. At December 31, 2003 we were in compliance with all provisions or covenants of our borrowings. For additional information regarding the covenants of our existing debt instruments, see Note 6—Borrowings to our consolidated financial statements in this prospectus.

## 2003 Financing Activities

On June 9, 2003, we entered into a senior term loan with two tranches for a total of \$1.75 billion principal amount of indebtedness. The term loan consists of a \$1.25 billion floating rate tranche, due in 2007, and a \$500 million fixed rate tranche, due in 2010. The term loan is unsecured and ranks equally with all of our current indebtedness. The floating rate tranche cannot be prepaid for two years and thereafter is subject to prepayment premiums through 2006. There are no mandatory prepayment requirements. The covenant and default terms are substantially the same as those associated with our other long-term debt. The net proceeds were used to refinance debt due in 2003 and fund or refinance our investment in telecommunications assets.

The floating rate tranche bears interest at London Interbank Offered Rates, or LIBOR, plus 4.75% (with a minimum interest rate of 6.50%) and the fixed rate tranche bears interest at 6.95% per annum. The interest rate on the floating rate tranche was 6.50% at December 31, 2003. The lenders funded the entire principal amount of the loan subject to the original issue discount for the floating rate tranche of 1.00% and for the fixed rate tranche of 1.652%.

Affiliate borrowings of our wholly owned subsidiary, Qwest Wireless, in the form of short-term unsecured lines of credit, were \$2.118 billion and \$1.888 billion at December 31, 2003 and 2002, respectively. These affiliate borrowings fluctuate based on operating needs of Qwest Wireless and mature on January 15, 2005.

We paid dividends during the year ended December 31, 2003 of \$2.880 billion to QSC.

## 2002 Financing Activities

Until February 2002, we maintained commercial paper programs to finance our short-term operating cash needs. QCII and we had a \$4.0 billion syndicated credit facility, or the Credit Facility, of which \$1.0 billion was designated to us. As a result of reduced demand for our commercial paper programs, we borrowed \$1.0 billion under the Credit Facility in the first quarter of 2002. During the first quarter of 2002, we paid down approximately \$1.0 billion of our current borrowings including substantially all of our outstanding commercial paper.

In March 2002, we issued \$1.5 billion in bonds with a 10-year maturity and an 8.875% stated interest rate. At December 31, 2003, the interest rate was 9.125%. Once we have registered the notes with the SEC, the interest rate will return to 8.875%, the originally stated rate. The proceeds from the sale of the bonds were used to pay approximately \$1.0 billion outstanding under the Credit Facility, other short-term obligations and currently maturing long-term borrowings. QCII and QSC amended the Credit Facility in August of 2002. Following the amendment, we are no longer a party to the Credit Facility.

We paid dividends during the year ended December 31, 2002 of \$1.915 billion to QSC.

## Credit ratings

QC's credit ratings were lowered by Moody's Investor Services, or Moody's, Standard and Poor's, or S&P, and Fitch Ratings, or Fitch, on multiple occasions during 2002. The table below summarizes the ratings for the years ended December 31, 2003 and 2002. The December 31, 2003 ratings are still in effect and represent ratings of long-term debt.

	December 31,	
	2003	2002
Moody's	Ba3	Ba3
S&P	B-	B-
Fitch	B	B

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

With respect to S&P, any rating below BBB indicates that the security is speculative in nature. A B- rating indicates that the issuer currently has the capacity to meet its financial commitment on the obligation, but adverse business, financial or economic conditions will likely impair the issuers' capacity or willingness to meet its financial commitment on the obligation.

With respect to Fitch, any rating below BBB is considered speculative in nature. A B rating is considered highly speculative, meaning that significant credit risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.

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

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

### **Critical Accounting Policies and Estimates**

We have identified the policies and estimates below as critical to our business operations and the understanding of our results of operations. For a detailed discussion on the application of these and other significant accounting policies, see Note 2—Summary of Significant Accounting Policies to the consolidated financial statements in this prospectus. These policies and estimates are considered "critical" because they have the potential to have a material impact on our financial statements and because they require significant judgments and estimates. Note that our preparation of the financial statements contained in this prospectus requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of our consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

### **Estimates and Other Reserves**

Our consolidated financial statements are prepared in accordance with GAAP. These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions made when accounting for items and matters such as long-term contracts, customer retention patterns, allowance for bad debts, depreciation, amortization, asset valuations, internal labor capitalization rates, recoverability of assets, impairment assessments, employee benefits, taxes, reserves and other provisions and contingencies are reasonable, based on information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements, as well as the reported amounts of revenue and expenses during the periods presented. We also assess potential losses in relation to pending litigation. If a loss is considered probable and the amount can be reasonably estimated, we recognize an expense for the estimated loss. See "Business—Legal Proceedings" in this prospectus. To the extent there are material differences between these estimates and actual results, our consolidated financial statements are affected.

## **Restructuring**

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

## **Revenue Recognition and Related Reserves**

Revenue from services is recognized when the services are provided. Up-front fees received, primarily activation fees and installation charges, as well as the associated customer acquisition costs, are deferred and recognized over the expected customer relationship period, generally one to ten years. Payments received in advance are deferred until the service is provided. Customer arrangements that include both equipment and services are evaluated to determine whether the elements are separable based on objective evidence. If the elements are separable and separate earnings processes exist, total consideration is allocated to each element based on the relative fair values of the separate elements and the revenue associated with each element is recognized as earned. If separate earnings processes do not exist, total consideration is deferred and recognized ratably over the longer of the contractual period or the expected customer relationship period. We believe that the accounting estimates related to customer relationship periods and to the assessment of whether a separate earnings process are "critical accounting estimates" because: (1) it requires management to make assumptions about how long we will retain customers; (2) the assessment of whether a separate earnings process exists can be subjective; (3) the impact of changes in actual retention periods versus these estimates on the revenue amounts reported in our consolidated statements of operations could be material; and (4) the assessment of whether a separate earnings process exists may result in revenues being reported in different periods than significant portions of the related costs. As the telecommunications market experiences greater competition and customers shift from traditional land based telephony services to mobile services, our estimated customer relationship periods will likely decrease and when customers terminate their relationship with us, we may recognize revenue that had previously been deferred under the expectation that services would be provided to that customer over a longer period.

GAAP requires us to record reserves against our receivable balances based on estimates of future collections and to not record revenue for services provided or equipment sold if collectibility of the revenue is not reasonably assured. We believe that the accounting estimates related to the establishment of reserves for uncollectible amounts in the results of operations is a "critical accounting estimate" because: (1) it requires management to make assumptions about future collections, billing adjustments and unauthorized usage; and (2) the impact of changes in actual performance versus these estimates on the accounts receivable balance reported on our consolidated balance sheets and the results reported in our consolidated statements of operations could be material. In selecting these assumptions, we use historical trending of write-offs, industry norms, regulatory decisions and recognition of current market indicators about general economic conditions that might impact the collectibility of accounts.

## **Software Capitalization**

Internally used software, whether purchased or developed, is capitalized and amortized using the straight-line method over an estimated useful life of 18 months to five years. In accordance with

American Institute of Certified Public Accountants Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use", we capitalize certain costs associated with internally developed software such as payroll costs of employees devoting time to the projects and external direct costs for materials and services. Costs associated with internally developed software to be used internally are expensed until the point at which the project has reached the development stage. Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred. The capitalization of software requires judgment in determining when a project has reached the development stage and the period over which we expect to benefit from the use of that software. Further, the recovery of software projects is periodically reviewed and may result in significant write-offs.

### **Pension and Post-Retirement Benefits**

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

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

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

The expected rate of return on plan assets is the long-term rate of return QCII expects to earn on trust assets. QCII establishes the expected rate of return by reviewing the investment composition of plan assets and the long-term risk and return forecast for each asset category. The forecasts for each asset class are generated using historical information as well as an analysis of current and expected market conditions. The expected risk and return characteristics for each asset class are reviewed annually and revised, as necessary, to reflect changes in the financial markets.

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

Changes in any of the assumptions QCII made in computing the pension and post-retirement benefit costs could have a material impact on various components that are the basis for their allocation to us. Factors to be considered include the strength or weakness of the investment markets, changes in the composition of the employee base, fluctuations in interest rates, significant employee hirings or downsizings and medical cost trends. Changes in any of these factors could impact our cost of sales and

SG&A in our consolidated statements of operations as well as the value of the asset or liability on our consolidated balance sheets. If QCII's assumed expected rate of return of 9.0% for 2003 was 100 basis points lower, the impact would have been to increase our net pension expense by \$100 million. In response to current and expected market conditions, effective January 1, 2004, QCII lowered its assumed expected long-term rate on plan assets to 8.5%. If QCII's assumed discount rate of 6.75% for 2003 was 100 basis points lower, the impact would have been to increase our allocated net pension expense by \$51 million in 2003.

### **Impairment of Long-Lived Assets**

Pursuant to the 2003 services agreement with Sprint that allows us to resell Sprint wireless services, our wireless customers who are currently being serviced through our proprietary wireless network will be transitioned onto Sprint's network. Due to the anticipated decrease in usage of our own wireless network following the transition of our customers onto Sprint's network, in the third quarter of 2003 we performed an evaluation of the recoverability of the carrying value of our long-lived wireless network assets.

We compared gross undiscounted cash flow projections to the carrying value of the long-lived wireless network assets and determined that certain asset groups were not expected to be recovered through future projected cash flows. For those asset groups that were not recoverable, we then estimated the fair value using estimates of market prices for similar assets. Cell sites, switches, related tools and equipment inventory and certain information technology systems that support the wireless network were determined to be impaired by \$230 million.

Estimating the fair value of the asset groups involved significant judgment and a variety of assumptions. Comparable market data was obtained by reviewing recent sales of similar asset types. However, the market for cell sites and switches is not highly developed or liquid. As such, our estimates of the fair value of such assets are highly subjective and the amounts we might receive from an orderly liquidation of such assets could differ by \$25 million or more from our estimates of the fair value of these assets used to record the impairment.

Effective June 30, 2002, the general deterioration of the telecommunications market, the downward revisions to our expected future results of operations and other factors indicated that our investments in long-lived assets may have been impaired at that date. We performed an evaluation of the recoverability of the carrying value of our long-lived assets using gross undiscounted cash flow projections. For impairment analysis purposes, we group our property, plant and equipment and projected cash flows by our traditional telephone network and our wireless network. Based on the assessment of recoverability, we concluded that our traditional telephone network was not impaired. However, we determined that our wireless network was impaired at June 30, 2002. For our wireless network, we then estimated the fair value based on replacement cost. Based on our analysis, the estimated fair value of the wireless assets was less than our carrying amounts and we recorded an impairment charge of \$825 million as of June 30, 2002. Replacement cost was determined by using current cost adjusted for physical deterioration, functional obsolescence and economic obsolescence. In respect to the wireless assets, a hypothetical 10% increase or decrease in the current cost factors would have changed the impairment charge by \$17.1 million. Also relative to the wireless assets, a hypothetical 100 basis point change in the discount factors related to physical deterioration, functional obsolescence and economic obsolescence would have changed the impairment charge by \$10.4 million.

### **Recently Adopted Accounting Pronouncements and Cumulative Effect of Adoption**

FASB Interpretation, or FIN, No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", was issued in November 2002. The interpretation provides guidance on the guarantor's accounting and disclosure of guarantees,

including indirect guarantees of indebtedness of others. We have adopted the disclosure requirements of the interpretation as of December 31, 2002. The accounting guidelines are applicable to certain guarantees, excluding affiliate guarantees, issued or modified after December 31, 2002, and require that we record a liability for the fair value of such guarantees on our consolidated balance sheet. The adoption of this interpretation did not have a material effect on our consolidated financial statements.

On January 1, 2003, we adopted SFAS No. 143, "Accounting for Asset Retirement Obligations", or SFAS No. 143, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs, generally referred to as asset retirement obligations. SFAS No. 143 requires entities to record the fair value of a legal liability for an asset retirement obligation. If a reasonable estimate of fair value can be made, the fair value of the liability shall be recognized in the period it is incurred, or if not, in the period a reasonable estimate of fair value can be made. This cost is initially capitalized and then amortized over the estimated remaining useful life of the asset. We have determined that we have legal asset retirement obligations associated with the removal of a limited group of long-lived assets and recorded a cumulative effect of a change in accounting principle charge upon adoption of SFAS No. 143 of \$7 million (an asset retirement obligation of \$12 million net of an incremental adjustment to the historical cost of the underlying assets of \$5 million) in 2003.

Prior to the adoption of SFAS No. 143, we included in our group depreciation rates estimated net removal costs (removal costs less salvage). These costs have historically been reflected in the calculation of depreciation expense and therefore recognized in accumulated depreciation. When the assets were actually retired and removal costs were expended, the net removal costs were recorded as a reduction to accumulated depreciation. While SFAS No. 143 requires the recognition of a liability for asset retirement obligations that are legally binding, it precludes the recognition of a liability for asset retirement obligations that are not legally binding. Therefore, upon adoption of SFAS No. 143, we reversed the net removal costs within accumulated depreciation for those fixed assets where the removal costs exceeded the estimated salvage value and we did not have a legal removal obligation. This resulted in income from the cumulative effect of a change in accounting principle of \$365 million before taxes upon adoption of SFAS No. 143 in 2003. The net income impact of the adoption is \$219 million (\$365 million less the \$7 million charge disclosed above, net of income taxes of \$139 million). Beginning January 1, 2003, the net costs of removal related to these assets are being charged to our consolidated statement of operations in the period in which the costs are incurred.

We adopted the provisions of FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("FIN 46R") for the three months ended March 31, 2004. FIN 46R requires an evaluation of three criteria to determine if consolidation of a thinly capitalized entity is required. These criteria are: 1) whether the entity is a variable interest entity; 2) whether the company holds a variable interest in the entity; and 3) whether the company is the primary beneficiary of the entity. If all three of these criteria are met, consolidation is required. The adoption of FIN No. 46R did not have a material impact on the company.

## **Risk Management**

We are exposed to market risks arising from changes in interest rates. We have excluded our fixed-rate affiliate borrowings from the following discussion as they are not subject to market risk. The objective of our interest rate risk management program is to manage the level and volatility of our interest expense. We may employ derivative financial instruments to manage our interest rate risk exposure. We may also employ financial derivatives to hedge foreign currency exposures associated with particular debt.

As of March 31, 2004 and at December 31, 2003, approximately \$1.25 billion of floating rate debt was exposed to changes in interest rates. As of March 31, 2004 and December 31, 2003, we had



approximately \$890 million, of long-term fixed rate debt obligations maturing in the following 12 months. Any new debt obtained to refinance this debt would be exposed to changes in interest rates. A hypothetical 10% change in the interest rates on this debt would not have had a material effect on our earnings. We had \$5.7 billion and \$5.8 billion of long-term fixed rate debt at March 31, 2004 and December 31, 2003, respectively. A 100 basis point increase in the interest rates on this debt would result in a decrease in the fair value of these instruments of \$400 million at March 31, 2004 and December 31, 2003. A 100 basis point decrease in the interest rates would result in an increase in the fair value of these instruments of \$500 million at March 31, 2004 and December 31, 2003.

As of March 31, 2004, we had \$1.16 billion of cash invested in money market and other short-term investments. Most cash investments are invested at floating rates. As interest rates change, so will the interest income derived from these accounts.

## BUSINESS

### Operations

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

### Wireline Services

We offer a wide variety of wireline products and services in a variety of categories that help people and businesses communicate. Our wireline products and services are offered through our traditional telecommunications network. Our traditional telecommunications network is defined as all equipment used in processing telecommunications transactions within our local service area and forms a portion of the public switched telephone network, or PSTN. The PSTN refers to the worldwide voice telephone network that is accessible to every person with a telephone and a dial tone. Our traditional telephone network is made up of both copper cables and fiber optic broadband cables and serves approximately 16.2 million access lines. Access lines are telephone lines reaching from a central office to customers' premises.

#### *Wireline Products and Services*

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

*Local voice services—consumer, business and wholesale.* Through our traditional telephone network, we originate and terminate local voice services within local exchange service territories as defined by the state Public Utility Commissions, or PUCs. Our consumer and business local voice services include:

- basic local exchange services provided through access lines connected to our portion of the PSTN;
- switching services for customers' internal communications through facilities that we own;
- various custom calling features such as Caller ID, Call Waiting, Call Return and 3-Way Calling;
- enhanced voice services, such as voice mail;
- operator services, including directory assistance;
- public telephone service; and
- voice customer premises equipment, or CPE.

On a wholesale basis, we provide network transport, collocation services (i.e., hosting of another provider's telecommunication equipment in our facilities), billing services and access to our local network within our local service area to competitive local exchange carriers, or CLECs, and wireless carriers. These services allow CLECs to provide telecommunications services using our local network. CLECs are communications companies certified by a state PUC or similar agency that provide local exchange service within a local access transport area, or LATA, including LATAs within our local service area. At times, we sell unbundled network elements, or UNEs, that allow our wholesale customers to build their own networks and interconnect with our network.

*IntraLATA long-distance voice services—consumer, business and wholesale.* We provide IntraLATA long-distance service to our customers within our local service area. IntraLATA long-distance service

refers to services that cross local exchange area boundaries but originate and terminate within the same geographic LATA. These services include calls that terminate outside a caller's local calling area but within their LATA and wide area telecommunications service or "800" services for customers with highly concentrated demand.

*Access services—wholesale.* We provide access services primarily to interexchange carriers, or IXC's, for the use of our local network to connect their customers to their data and Internet protocol, or IP, networks. IXC's provide long-distance services to end-users by handling calls that are made from a phone exchange in one LATA to an exchange in another LATA or between exchanges within a LATA. Competitive communications companies often operate as both CLECs and IXC's.

*Data and Internet services—consumer, business and wholesale.* We offer a broad range of products and professional services to enable our customers to transport voice, data and video telecommunications at speeds ranging from 14.4 kilobits per second to 2.5 gigabits per second. Our customers use these products and services in a variety of ways. Our business customers use them to facilitate internal and external data transmissions, such as transferring files from one location to another. Our consumer customers use them to access email and the Internet under a variety of connection speeds and pricing packages. We provide our data and Internet services in our local service area.

Our consumer and business data and Internet services are described below:

- Digital subscriber line, or DSL, which permits existing consumer and business customer telephone lines to operate at higher speeds necessary for video and high-speed data communications to the Internet or private networks. Substantially all of our DSL customers are currently located within our local service area;
- Asynchronous transfer mode, or ATM, which is a broadband, network transport service that provides a fast, efficient way to move large quantities of information over our highly reliable, scalable and secure fiber optic broadband network;
- Frame relay, which is a switching technology that allows data to travel in individual packets of variable length. The key advantage to this approach is that a frame relay network can accommodate data packets of various sizes associated with virtually any data protocol;
- Private lines, which are direct circuits or channels specifically dedicated to the use of an end-user organization for the purpose of directly connecting two or more sites. Private lines offer a secure solution for frequent communication of large amounts of data between sites; and
- Integrated services digital network, or ISDN, is a comprehensive digital network architecture allowing users to transmit voice, data, video and images—separately or simultaneously—over standard telephone lines or fiber optics.

On a wholesale basis, we provide collocation services, or hosting of other providers' telecommunications equipment in our facilities. We also provide wholesale private line services primarily to IXC's to allow them use of our local network to connect their customers to their networks.

### ***Distribution Channels***

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

## **Wireless Services**

We operate wireless services primarily through our wholly owned subsidiary, Qwest Wireless LLC. In August 2003, we entered into a service agreement with a subsidiary of Sprint Corporation that allows us to resell Sprint wireless services, including access to Sprint's nationwide personal communication service, or PCS, wireless network, to consumer and business customers, primarily within our local service area. We began offering these Sprint services under our brand name in March 2004. Under the service agreement, we retain control of all sales and marketing, customer service, billing and collection, pricing, promotion and product offerings relating to the Sprint services that we resell. The service agreement provides that Sprint will be our exclusive wireless provider and has an initial term of five years (with automatic renewal for successive one-year terms until either party provides notice of non-renewal). Through Qwest Wireless, we also continue to operate a PCS wireless network that serves select markets within our local service area, including Denver, Seattle, Phoenix, Minneapolis, Portland, Salt Lake City and other smaller markets. Our wireless customers who are currently being serviced through our proprietary wireless network will be transitioned onto Sprint's network over time.

We market our wireless products and services through our website, partnership relationships and our sales/call centers. We offer consumer and business customers a broad range of wireless plans, as well as a variety of custom and enhanced features, such as Call Waiting, Caller ID, 3-Way Calling, Voice Messaging, Enhanced Voice Calling and Two-Way Text Messaging. We also offer integrated service, which enables customers to use the same telephone number and voicemail box for their wireless phone as for their home or business phone. We intend to transfer ownership of Qwest Wireless to an affiliate in the near future. After this transfer, we will no longer have significant wireless operations. This transfer will take place as soon as we have received all necessary regulatory approvals, perhaps as early as the second quarter of 2004.

## **Other Services**

We provide other services that primarily involve the sublease of some of our unused real estate assets, such as space in our office buildings, warehouses and other properties. The majority of these properties are located in our local service area. We also provide affiliate services, which consist of telecommunication services provided to affiliated enterprises.

## **Customer Service Initiatives**

With increased levels of competition in the telecommunications industry resulting from statutory and regulatory developments and technology advancements, we believe competitive providers are no longer hindered by historical barriers to entry. As a result, we are seeking to distinguish ourselves from our competitors through a number of customer service initiatives supporting our Qwest Spirit of Service™ brand commitment. These initiatives include expanded product bundling, simplified billing, improved customer support and other ongoing measures. For example, we have entered into a strategic relationship with a provider of wireless services to improve our product offerings, we are restructuring our pricing packages and we are investing in improved billing and customer communication systems.

## **Importance, Duration and Effect of Patents, Trade names and Copyrights**

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

## Competition

### *Wireline Services*

*Local voice services.* In providing local voice services to our consumer and business customers within our local service area, we compete with CLECs, including some owned by national carriers, smaller regional providers, competitive access providers, independent telephone companies, Internet telephony providers, wireless providers and cable companies. Technology substitution, such as wireless substitution for wireline, cable telephony substitution for wireline and cable modem substitution for dial-up modem lines and DSL, has been a significant cause for a decrease in our total access lines in 2003. Competition is based primarily on pricing, packaging of services and features, quality of service and increasingly on meeting customer care needs such as simplified billing and timely response to service calls.

The obligation to make number portability available from wireline to wireless service, which was recently mandated by the FCC, is another competitive factor that may increase access line losses. Also, revenue for local voice services may be affected adversely should providers of Internet protocol telephony (sometimes referred to as voice over Internet protocol, or VoIP) services attract a sizable base of customers who use VoIP to bypass traditional local exchange carriers. A related concern is the risk that access charge fees we receive from either IXC's or CLECs will be reduced if phone-to-phone VoIP calls remain unregulated and are not subject to intercarrier compensation obligations that apply to traditional telephony.

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

Our competitors, mainly CLECs and CLEC/IXC combinations, have accelerated their use of unbundled network element-platforms, or UNE-P. This service, which we are required to provide at wholesale rates as a matter of current federal and state laws and regulations, allows our competitors to purchase all of the elements they may need to provide competitive local services to our customers. Bell Operating Companies, or BOCs such as Qwest, are required to make their network elements available to competitors, which allows CLECs and CLEC/IXC combinations an alternative to building their own telecommunications facilities. Consequently, we believe these competitors are able to provide local service at a cost advantage, allowing them to gain market share. Meanwhile, the obligation to provide UNEs reduces our revenue and margin. We believe the offering of UNEs will continue to cause downward pressure on our margins and result in incremental retail access line losses.

*IntraLATA long-distance voice services.* National carriers, CLECs and other resellers, such as AT&T Corporation, Sprint, and MCI, Inc. (formerly known as WorldCom, Inc.) compete with us in providing IntraLATA long-distance services in our local service area. Wireless providers also market both IntraLATA and InterLATA long-distance services as a substitute to traditional wireline service.

Competition in the long-distance consumer market is based primarily on price, customer service, quality and reliability. We are the market share leader in providing IntraLATA long-distance service within our local service area, but face increasing competition from national carriers, which have substantial financial and technical resources. Competition in the business market is based on similar factors, as well as the ability to offer a ubiquitous solution nationwide.

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

*Access services.* Within our local service area, we compete primarily with smaller regional providers, including CLECs, competitive access providers and independent telephone companies. We compete on network quality, customer service, product features, the speed with which we can provide a customer with requested services and price. Although our status as an ILEC helps make us the leader in providing these services within our local service area, increased competition has resulted in a reduction in access minutes of use billed to IXCs and wireless carriers. Also, we earn certain revenues when we originate or terminate calls that are carried by IXCs and wireless carriers that generate carrier access charges for the use of our network. To the extent that VoIP networks or VoIP service providers seek to bypass the traditional methods and obligations to pay this form of intercarrier compensation, or the related "reciprocal compensation" which we earn for use of our network in terminating local calls, these providers could enjoy a competitive advantage versus traditional carriers who must factor the costs of carrier access charges and reciprocal compensation into their charges.

*Data and Internet services.* Business customers are the primary market for these network-related services, although we are increasing our DSL offerings to both consumer and business customers in several markets in our local service area. In providing these services, we compete with national long-distance carriers (such as AT&T, Sprint and MCI), cable operators, BOCs, CLECs and large integrators, International Business Machines Corporation and Electronic Data Systems Corporation. Large integrators are also competing in a new manner, providing customers with managed network services, which takes inter-site traffic off our network. Customers are particularly concerned with network reach, but are also sensitive to quality, reliability, customer service and price. We also compete with cable operators who offer high-speed broadband facilities over cable modem, a technology directly competitive with the DSL services we employ. Cable operators who sell data or Internet services via broadband enjoy a regulatory advantage in that they are not presently subject, at least in the jurisdictions in which we operate, to regulation as "telecommunications" providers, which imposes many costs and obligations, such as the obligation to make UNE-P available to competitors or to provide competitive access and interconnect rights.

### ***Wireless Services***

The market for wireless services within our local service area remains highly competitive. We compete with AT&T Wireless Services, Inc., Verizon Communications Inc., T-Mobile International, Cingular Wireless, LLC, Sprint and Nextel Communications, among others. Although we expect our competitive position to improve through offering Sprint's nationwide wireless service under our brand name to customers in our local service area, we continue to face heavy competition from national, and some regional, wireless carriers. Competition may increase as additional spectrum is made available within our local service area, both to new competitors and to current wireless providers who may acquire additional spectrum in order to increase their coverage areas and service quality. Competition in the wireless market is based primarily on price, coverage area, services, features, handsets, technical quality and customer service. Our future competitive position will depend on our ability to successfully integrate Sprint services into our branded service offerings and our ability to offer new features and services in packages that meet our customers' needs.

### **Regulation**

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

maintain certificates of authority from regulatory bodies in most states where we offer regulated services and must obtain prior regulatory approval of rates, terms and conditions for our intrastate services, where required.

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

### ***Interconnection***

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

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

On August 21, 2003, the FCC issued the triennial review order in response to the court's decision. The triennial review order addressed the regulatory status of a number of UNEs and the obligations of ILECs with respect to them. Among the more significant determinations made by the FCC in the triennial review order were: (i) CLECs are not impaired without access to unbundled switching when serving medium-to-large business and government customers using DS-1 switching capacity and above, but state PUCs are allowed to initiate and conclude proceedings within 90 days of October 2, 2003, to rebut this presumption of no impairment and petition the FCC for a waiver; the Colorado, Minnesota and Oregon PUCs initiated such proceedings but did not petition the FCC for a waiver of the no impairment finding; (ii) CLECs are impaired without access to switching, and, concomitantly, the UNE-P, to serve mass market customers, as well as most high capacity loops and dedicated transport services (the transmission facilities between an ILEC's central offices); proceedings before state PUCs to rebut these presumptions of impairment may be initiated and concluded within nine months of October 2, 2003; (iii) state PUCs must initiate and conclude within nine months of October 2, 2003, proceedings to approve a "batch hot cut migration process" (a process by which a CLEC's customers served by the UNE-P would be moved to the CLEC's own switch in the event switching is eliminated from UNE-P) to be implemented by ILECs to address the costs and timeliness of the hot cut process; (iv) ILECs are no longer required to provide other carriers with access to the high frequency portion of a loop that is used by CLECs to provide competing DSL services (referred to as line sharing); however, current line sharing customers are "grandfathered," and the requirement to allow line sharing will be phased out over a three-year period; (v) ILECs are not required to provide CLECs with access to "next generation" networks and facilities used to provide broadband services; and (vi) the FCC modified the

prohibition against CLECs using enhanced, extended links, or combinations of unbundled loops, multiplexing and dedicated transport (referred to as EELs) to provide both local and long-distance services; the FCC established requirements designed to prevent the substitution of EELs for special access services needed by a carrier for the provision of its long-distance services.

We joined with other ILECs in requesting that the D.C. Circuit Court of Appeals invalidate the rules that accompanied and were described in the triennial review order. We argued that the FCC did not comply with the May, 2002, ruling by the D.C. Circuit because it failed to properly apply the "necessary and impair" standard and that the FCC impermissibly, and without adequate guidance, delegated to state PUCs its responsibilities under the Telecommunications Act. Other parties challenged various aspects of the triennial review order. On March 2, 2004, consistent with the ILECs' arguments, a three-judge panel of the D.C. Circuit issued a decision vacating and remanding back to the FCC significant portions of the triennial review order. By its terms, the court's mandate was stayed for 60 days. On April 9, 2004, the FCC filed an unopposed motion with the court to stay its mandate for an additional 45 days until June 15, 2004, to allow parties to negotiate commercially acceptable arrangements for the availability of unbundled network elements. On April 13, 2004, the D.C. Circuit granted the FCC's motion. QCII is currently engaged in such negotiations with a number of CLECs.

In addition to proceedings before the D.C. Circuit relating to the triennial review order, QCII has also participated in proceedings in all of our in-region states, except Wyoming, Montana, Idaho and South Dakota, that were authorized by the FCC's triennial review order. In these proceedings, QCII was attempting to demonstrate both the adequacy of our batch hot cut migration process as well as that CLECs would not be impaired in their attempts to compete in the mass market if switching were removed as a UNE. However, in light of the D.C. Circuit decision, all of QCII's in-region states except Minnesota have temporarily suspended their triennial review proceedings.

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

### *Access Pricing*

The FCC has initiated a number of proceedings that could affect the rates and charges for access services that we sell or purchase. These proceedings and related implementation of resulting FCC decisions have not yet been completed. Because there are a number of such proceedings that are inter-related, and because new technologies (such as VoIP) are emerging that pose further complications, it may take some time for the rulemaking to be completed. It is possible that the FCC will recommend a major restructuring of the current system of intercarrier compensation for use of local networks, and this would affect our rights to claim payment for carrier access charges. There has been a national trend towards reducing the amounts charged for "reciprocal compensation" for use of our network to terminate local, IntraLATA and other intra-state calls, in preference for a "bill and keep" approach, but this is subject to varying decisions and interests by the state agencies that govern these intrastate rates. From time to time, the state PUCs that regulate intrastate access charges conduct proceedings that may affect the rates and charges for those services.

On May 31, 2000, the FCC adopted the access reform and universal service plan developed by the Coalition for Affordable Local and Long-Distance Service, or CALLS. The adoption of the CALLS proposal resolved a number of outstanding issues before the FCC. The CALLS plan has a five-year life and provides for the following: (i) elimination of the residential pre-subscribed IXC charge; (ii) increases in subscriber line charges; (iii) reductions in switched access usage rates; (iv) the removal



of certain implicit universal service support from access charges and direct recovery from end-users; and (v) commitments from participating IXC's to pass through access charge reductions to end-users. We have opted into the five-year CALLS plan.

### ***Advanced Telecommunications Services***

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

### ***Intercarrier Compensation***

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

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

On May 3, 2002, the D.C. Circuit Court of Appeals remanded the matter to the FCC to implement a rate methodology that is consistent with the court's ruling. The rules promulgated by the FCC remain in effect while the agency contemplates further action. Modifications in the FCC's rules or prescribed rates could increase our expenses.

### ***Wireless Local Number Portability***

On November 10, 2003, the FCC issued an order and further notice of proposed rulemaking on local number portability, or LNP, mandating that wireline carriers must port telephone numbers to wireless carriers. The LNP order provided guidance to both the wireline and wireless industries on matters related to "intermodal" LNP, or the ability of customers to switch from a wireline carrier to a wireless carrier or from a wireless to a wireline carrier without changing telephone numbers.

In the LNP order, the FCC prescribed that porting from a wireline carrier to a wireless carrier is required where the requesting wireless carrier's coverage area overlaps the geographic location in which the wireline number is provisioned, including cases where the wireless carrier does not have a point of interconnection or numbering resources in the rate center to which the phone number is assigned. The FCC also sought comment on and will issue further rules regarding the facilitation of wireless to wireline porting in cases where the rate center associated with the wireless number is different from the

rate center in which the wireline carrier seeks to serve the customer. The LNP order was preceded by an FCC order, dated October 7, 2003, that dealt with issues related to implementation of wireless-to-wireless LNP.

The FCC's rules, particularly those related to wireline-to-wireless LNP, may result in an acceleration of our access-line losses.

### ***Voice Over Internet Protocol***

On December 1, 2003, the FCC conducted a public forum hearing to gather information concerning advancements, innovations, and regulatory issues related to VoIP services. Chairman Powell of the FCC has announced an intention to make VoIP a higher priority on the FCC's agenda in the next year. Furthermore, on March 10, 2004, the FCC issued its Notice of Proposed Rulemaking, or NPR, instituting a formal rulemaking proceeding addressing many issues related to VoIP. This rulemaking raises issues that overlap, to a degree, with the rulemaking concerning ILEC Broadband Telecommunications Services and the Intercarrier Compensation proceeding. There are a number of issues that have been presented to the FCC that concern VoIP and that could affect our business. One is whether VoIP, and/or other forms of VoIP, should be subject to ordinary intercarrier compensation requirements and other federal or state requirements such as those that impose a fee to support "universal service" and support the extension of telecommunications and Internet facilities to rural areas and to public schools and facilities in inner cities. Another issue is whether VoIP providers should have any exemption or immunity from either federal or state regulation and if so, what should be the parameters of this exemption or immunity. We are following these developments closely, as our network is capable of VoIP transport and similarly can be used to carry combinations of voice and other forms of data in an IP-addressed packet format. VoIP offerings are likely to grow as the technology matures and the regulatory situation is clarified and such growth in VoIP could contribute to further declines in our sales of local exchange access lines.

### **Operations, Installation and Maintenance**

On March 17, 2004, the FCC released an order eliminating the prohibition on shared network operations, installation and maintenance (OI&M) between Bell Operating Companies (BOCs) and their long distance affiliates. The FCC put the prohibition in place in 1996 as part of its regulatory requirements implementing the 1996 Telecommunications Act. In its recent order the FCC concludes the OI&M prohibition is no longer appropriate because the costs outweigh the benefits and accounting safeguards and other restrictions are adequate to protect against competitive harm. Qwest is aggressively evaluating how to best take advantage of the elimination of the OI&M prohibition in a manner which increases efficiency, reduces costs and improves customer service.

### **Employees**

As of December 31, 2003, we employed approximately 32,000 employees. We continue to reduce employees in accordance with the plans that QCII approved in the third quarter of 2003. There is additional information regarding this restructuring in Note 7—Restructuring and Merger-related Charges to our consolidated financial statements in this prospectus.

Approximately 27,000 of our employees are represented by collective bargaining agreements with the CWA and the IBEW. In August 2003, we entered into new two-year collective bargaining agreements with the CWA and the IBEW. Each of these agreements was ratified by union members and expires on August 13, 2005. Among other things, these agreements provide for guaranteed wage levels and continuing employment-related benefits.

## Properties

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

	December 31,	
	2003	2002
Land and buildings	7%	7%
Communications equipment	43%	44%
Other network equipment	44%	43%
General-purpose computers and other	6%	6%
Construction in progress	0%	0%
	100%	100%

Land and buildings consist of land, land improvements, central office and certain administrative office buildings. Communications equipment primarily consists of switches, routers and transmission electronics. Other network equipment primarily includes conduit and cable. General-purpose computers and other consists principally of computers, office equipment, vehicles and other general support equipment. We own substantially all of our telecommunications equipment required for our business. Total gross investment in property, plant and equipment was approximately \$42.7 billion and \$42.4 billion at December 31, 2003 and 2002, respectively, before deducting accumulated depreciation.

We own and lease sales offices in major metropolitan locations. Our network management centers are located primarily in buildings that we own at various locations in geographic areas that we serve. Substantially all of the installations of central office equipment for our local service business are located in buildings and on land that we own.

## Legal Proceedings

### *Legal Proceedings Involving QC*

#### *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 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 of 1933, as amended, or 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, or the Minnesota Commission, alleging that we, in contravention of federal and state law, failed to file interconnection agreements with the Minnesota Commission relating to certain of our wholesale customers, and thereby allegedly discriminated against

other CLECs. On November 1, 2002, the Minnesota Commission issued a written order adopting in full a proposal by an administrative law judge that we committed 26 individual violations of federal law by failing to file, as required under section 252 of the Telecommunications Act, 26 distinct provisions found in 12 separate agreements with individual CLECs for regulated services in Minnesota. The order also found that we agreed to provide and did provide to McLeodUSA and Eschelon Telecom, Inc. discounts on regulated wholesale services of up to 10% that were not made available to other CLECs, thereby unlawfully discriminating against them. The order found we also violated state law, that the harm caused by our conduct extended to both customers and competitors, and that the damages to CLECs would amount to several million dollars for Minnesota alone.

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

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

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

Arizona, Colorado, New Mexico, Washington, Iowa and South Dakota have also initiated formal proceedings regarding our alleged failure to file required agreements in those states. 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 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 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., or Illuminet, a traffic aggregator, and several of its customers have filed complaints with regulatory agencies in Idaho, Nebraska, Iowa, North Dakota and New Mexico, alleging that they are entitled to refunds due to our purported improper implementation of tariffs governing certain signaling services we provide in those states. The commissions in Idaho and Nebraska have ruled in favor of Illuminet and awarded it \$1.5 million and \$4.8 million, respectively. We sought reconsideration in both states, which was denied, and subsequently we perfected appeals in both states. The proceedings in the other states and in states where Illuminet has not yet filed complaints could result in agency decisions requiring additional refunds. 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 auditor to perform an attestation review of our compliance with our divestiture of in-region InterLATA services and our ongoing compliance with Section 271 of the Telecommunications Act. In 2001, the FCC began an investigation of 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 QCII 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 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 Form 10-K for the year ended December 31, 2002, or the QCII 2002 Form 10-K. 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 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., or Genuity, 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, or the Fourth Consolidated Complaint, which defendants moved to dismiss. On January 13, 2004, the United States District Court for the District of Colorado granted the defendants' motions to dismiss in part and denied them in part. In that order, the court allowed plaintiffs to file a proposed amended complaint seeking to remedy the pleading defects addressed in the court's dismissal order and ordered that discovery, which previously had been stayed during the pendency of the motions to dismiss, proceed regarding the surviving claims. On February 6, 2004, plaintiffs filed a Fifth Consolidated Amended Class Action Complaint, or the Fifth Consolidated Complaint. The Fifth Consolidated Complaint attempts to expand the putative class period previously alleged in the Fourth Consolidated Complaint, seeks to restore the claims dismissed by the court, including claims against certain individual defendants who were dismissed as defendants by the court's dismissal order, and to add additional individual defendants who have not been named as defendants in plaintiffs' previous complaints. The Fifth Consolidated Complaint also advances allegations related to a number of matters and transactions that were not pleaded in the earlier complaints. The Fifth Consolidated Complaint is purportedly brought on behalf of purchasers of publicly traded securities of 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, or the Exchange Act, that certain of the individual defendants are liable as control persons under section 20(a) of the Exchange Act, and that certain of the individual defendants sold some of their shares of 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, or the 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, or the QCII Board. The Fifth Consolidated Complaint seeks unspecified compensatory damages and other relief. However, counsel for plaintiffs has indicated that the purported class will seek damages in the tens of billions of dollars. On March 8, 2004, 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, or the Plan, from March 7, 1999 until the present. By court order, five of these putative class actions have been consolidated and the claims made by the plaintiff in the sixth case were subsequently included in the Second Amended and Consolidated Complaint, or the Second Consolidated Complaint, 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, or 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), or New Jersey, filed a lawsuit similar to the CalSTRS action in New Jersey Superior Court, Mercer County. On October 17, 2003, New Jersey filed an amended complaint alleging, among other things, that 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, or SURSI, filed a lawsuit similar to the CalSTRS and New Jersey lawsuits in the Circuit Court of Cook County, Illinois. SURSI filed suit against 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, or 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 rescissory 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, or 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, or 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 violated state and federal securities laws and breached their fiduciary duty in connection with an investment by the plaintiff in securities of KPNQwest. QCII is a defendant in this lawsuit along with Qwest B.V., Joseph Nacchio and John McMaster, the former President and Chief Executive Officer of KPNQwest. The plaintiff trust claims to have lost \$10 million in its investment in KPNQwest. On January 27, 2004, the Arizona Superior Court granted QCII's motion to dismiss the state and federal securities law claims. On March 19, 2004, plaintiffs filed a second amended complaint asserting violations of the securities laws and other claims.

On October 4, 2002, a putative class action was filed in the federal district court for the Southern District of New York against Willem Ackermans, the former Executive Vice President and Chief Financial Officer of KPNQwest, in which QCII was a major shareholder. The complaint alleges, on behalf of certain purchasers of KPNQwest securities, that Ackermans engaged in a fraudulent scheme and deceptive course of business in order to inflate KPNQwest revenue and securities. Ackermans was the only defendant named in the original complaint. On January 9, 2004, plaintiffs filed an amended complaint adding as defendants QCII, certain of QCII's former executives who were also on the supervisory board of KPNQwest, and others.

#### **Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Prior to May 29, 2002, QCII had not engaged independent auditors for 2002. Based on the recommendation of the Audit Committee of the Board of Directors of QCII, on May 29, 2002 the Board of Directors of QCII decided, effective immediately, not to re-engage Arthur Andersen LLP ("Andersen") as our independent auditor.

Effective May 29, 2002, QCII's Board of Directors engaged KPMG LLP ("KPMG") to serve as QCII's and our independent auditor.

Andersen's reports on our consolidated financial statements for the years ended December 31, 2001 and 2000 did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. During the years ended December 31,

2001 and 2000 and through May 29, 2002, there were (1) no disagreements with Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to Andersen's satisfaction, would have caused it to make reference to the subject matter in connection with its report on our consolidated financial statements and (2) no reportable events, as listed in Item 304(a)(1)(v) of Regulation S-K.

During the years ended December 31, 2001 and 2000 and prior to May 29, 2002, we did not consult KPMG with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements or any other matters or reportable events listed in Items 304(a)(2)(i) and (ii) of Regulation S-K.

Following our decision not to re-engage Andersen and the engagement of KPMG, we decided to revise certain of our previous accounting practices and policies. Prior to making these revisions, we sought Andersen's input and cooperation and notified Andersen of our determinations prior to their public announcement. During August 2002, QCII received a letter from Andersen, indicating its disagreement with QCII's proposed restatement as to certain issues not relevant to our financial statements. Although QCII continued to seek Andersen's input following Andersen's letter as it made further determinations about the restatement of other issues, QCII has not responded to the August correspondence from Andersen. Following QCII's notification to Andersen of certain restatement issues it contemplated discussing with the staff of the SEC during February 2003, QCII received a second letter from Andersen indicating it had not received a response to its positions and expressing Andersen disagreement with the other restatement issues that QCII had identified. Andersen has not withdrawn its previously issued opinion related to our financial statements for the three years ended December 31, 2001.

## MANAGEMENT

### *Directors and Executive Officers*

Below you can find information, including biographical information, about our current directors and executive officers:

Name	Age(1)	Position
Richard C. Notebaert	56	Director, Chairman and Chief Executive Officer
Oren G. Shaffer	61	Director, Vice Chairman and Chief Financial Officer
Paula Kruger	54	Executive Vice President, Consumer Markets Group
John W. Richardson	59	Controller and Senior Vice President

(1) As of April 15, 2004.

*Richard C. Notebaert* has been a director and our Chairman and Chief Executive Officer since June 2002. Mr. Notebaert also holds these positions with QCII and QSC. From August 2000 to June 2002, Mr. Notebaert was President and Chief Executive Officer of Tellabs, a communications equipment provider. Prior to that, Mr. Notebaert was Chairman and Chief Executive Officer of Ameritech Corporation from April 1994 to December 1999, and, in his 30-year career with that organization, had numerous other appointments including President of Ameritech Mobile Communications (1986), President of Indiana Bell (1989), President of Ameritech Services (1992), and President and Chief Operating Officer (1993) of Ameritech Corporation. Ameritech Corporation is a telecommunications provider that was acquired by SBC Communications Inc. in 1999. Mr. Notebaert currently serves as a director of Aon Corporation, Cardinal Health, Inc., and the Denver Center for the Performing Arts. Mr. Notebaert received a bachelor of arts degree in 1969 and an M.B.A. in 1983, both from the University of Wisconsin.

*Oren G. Shaffer* has been a director and our Vice Chairman and Chief Financial Officer since July 2002. Mr. Shaffer also holds these positions with QSC and is Vice Chairman and Chief Financial Officer of QCII. Prior to joining Qwest, Mr. Shaffer was President and Chief Operating Officer of Sorrento Networks, a maker of optical products, beginning in 2000. From 1994 to 2000, he was Chief Financial Officer of Ameritech Corporation, a telecommunications provider that was acquired by SBC Communications Inc. in 1999. He has also served as President of Virgo Cap Inc., an investment firm, and from 1968 to 1992 in various positions (including Executive Vice President, Chief Financial Officer and director) at Goodyear Tire & Rubber Co. Mr. Shaffer serves on the board of directors of The Thai Capital Fund, Inc., The Singapore Fund, Inc. and The Japan Equity Fund, Inc. He holds a bachelor of science degree in business administration from the University of California at Berkeley and an M.S. degree in management from the Massachusetts Institute of Technology.

*Paula Kruger* has served as our Executive Vice President, Consumer Markets, since September 2003. Ms. Kruger also holds this position with QCII and QSC. From December 2001 to September 2003, Ms. Kruger served as President of the Customer Relationship Management service line at Electronic Data Systems Corporation, a technology company. From September 1999 to January 2002, Ms. Kruger was a search consultant for Taylor Winfield and for Heidrick & Struggles, both executive search firms. From March 1997 to September 1999, Ms. Kruger served as Executive Vice President of Operations at Excel Communications, Inc., a provider of integrated media communications. Ms. Kruger earned a bachelor of arts degree in economics from C.W. Post—Long Island University and an M.B.A. from C.W. Post—Roth Graduate School of Business.

*John W. Richardson* has served as our Controller and Senior Vice President since April 2003 and was designated our chief accounting officer in April 2004. Mr. Richardson also holds these positions with QCII and QSC. From 1967 to October 2002, Mr. Richardson held various financial positions at the Goodyear Tire & Rubber Company, the world's largest tire manufacturer, including most recently

Vice President of Finance for the North American tire business unit. Mr. Richardson received his B.B.A. degree from Ohio University.

***Director and Officer Compensation.***

Each of the officers and directors listed above is currently an officer of QSC or an affiliate of QSC, other than QC, and receives compensation from QSC or the affiliate. We do not pay any cash or non-cash compensation to our officers and directors and no such compensation is currently proposed to be paid to any of the officers and directors listed above.



## THE EXCHANGE OFFER

### Purpose of the Exchange Offer

The exchange offer is being made pursuant to the registration rights agreement we entered into with the initial purchasers of the outstanding notes on March 12, 2002. The summary of the registration rights agreement contained herein does not purport to be complete and is qualified in its entirety by reference to the registration rights agreement. A copy of the registration rights agreement is filed as an exhibit to the registration statement of which this prospectus is a part.

### Terms of the Exchange Offer; Expiration Date

This prospectus and the accompanying letter of transmittal together constitute the exchange offer. Subject to the terms and conditions in this prospectus and the letter of transmittal, we will accept for exchange outstanding notes which are validly tendered on or before the expiration date and are not validly withdrawn as permitted below. The expiration date for the exchange offer is 5:00 p.m., New York City time, on \_\_\_\_\_, 2004, or such later date and time to which we, in our sole discretion, extend the exchange offer.

We expressly reserve the right, in our sole discretion:

- to extend the expiration date;
- if any of the conditions set forth below under "—Conditions to the Exchange Offer" has not been satisfied, to terminate the exchange offer and not accept any outstanding notes for exchange; and
- to amend the exchange offer in any manner.

We will give oral or written notice of any extension, delay, non-acceptance, termination or amendment as promptly as practicable by a public announcement, and in the case of an extension, no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date.

During an extension, all outstanding notes previously tendered will remain subject to the exchange offer and may be accepted for exchange by us, upon expiration of the exchange offer, unless validly withdrawn.

Each broker-dealer that receives exchange notes for its own account in exchange for outstanding notes, where such outstanding notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge in the letter of transmittal that it will deliver a prospectus in connection with any resale of such exchange notes. See "Plan of Distribution."

### How to Tender Outstanding Notes for Exchange

Only a record holder of outstanding notes may tender in the exchange offer. When the holder of outstanding notes tenders and we accept outstanding notes for exchange, a binding agreement between us and the tendering holder is created, subject to the terms and conditions in this prospectus and the accompanying letter of transmittal. Except as set forth below, a holder of outstanding notes who desires to tender outstanding notes for exchange must, on or prior to the expiration date:

- transmit a properly completed and duly executed letter of transmittal, the outstanding notes being tendered and all other documents required by such letter of transmittal, to J.P. Morgan Trust Company, National Association, the exchange agent, at the address set forth below under the heading "—The Exchange Agent"; or

- if outstanding notes are tendered pursuant to the book-entry procedures set forth below, an agent's message must be transmitted by The Depository Trust Company, or DTC, to the exchange agent at the address set forth below under the heading "—The Exchange Agent," and the exchange agent must receive, prior to the expiration date, a confirmation of the book-entry transfer of the outstanding notes being tendered into the exchange agent's account at DTC, along with the agent's message; or
- if time will not permit the required documentation to reach the exchange agent before the expiration date, or the procedures for book-entry transfer cannot be completed by the expiration date, the holder may effect a tender by complying with the guaranteed delivery procedures described below.

The term "agent's message" means a message which:

- is transmitted by DTC;
- is received by the exchange agent and forms a part of a book-entry transfer;
- states that DTC has received an express acknowledgement that the tendering holder has received and agrees to be bound by, and makes each of the representations and warranties contained in, the letter of transmittal; and
- states that we may enforce the letter of transmittal against such holder.

**The method of delivery of the outstanding notes, the letter of transmittal or agent's message and all other required documents to the exchange agent is at the election and sole risk of the holder. If such delivery is by mail, we recommend registered mail, properly insured, with return receipt requested. In all cases, you should allow sufficient time to assure timely delivery. No letters of transmittal or outstanding notes should be sent directly to us.**

Signatures on a letter of transmittal must be guaranteed unless the outstanding notes surrendered for exchange are tendered:

- by a holder of outstanding notes who has not completed the box entitled "Special Issuance Instructions" or "Special Delivery Instructions" on the letter of transmittal; or
- for the account of a recognized member in good standing of a Medallion Signature Guarantee Program recognized by the exchange agent, such as a firm which is a member of a registered national securities exchange, a member of the National Association of Securities Dealers, Inc., a commercial bank or trust company having an office or correspondent in the United States or certain other eligible institutions, each of the foregoing being referred to herein as an "eligible institution."

If signatures on a letter of transmittal or notice of withdrawal are required to be guaranteed, the guarantor must be an eligible institution. If outstanding notes are registered in the name of a person other than the person who signed the letter of transmittal, the outstanding notes tendered for exchange must be endorsed by, or accompanied by a written instrument or instruments of transfer or exchange, in satisfactory form as determined by us in our sole discretion, duly executed by the registered holder with the registered holder's signature guaranteed by an eligible institution.

We will determine in our sole discretion all questions as to the validity, form, eligibility (including time of receipt) and acceptance of outstanding notes tendered for exchange and all other required documents. We reserve the absolute right to:

- reject any and all tenders of any outstanding note not validly tendered;
- refuse to accept any outstanding note if, in our judgment or the judgment of our counsel, acceptance of the outstanding note may be deemed unlawful;

- waive any defects or irregularities or conditions of the exchange offer, either before or after the expiration date; and
- determine the eligibility of any holder who seeks to tender outstanding notes in the exchange offer.

Our determinations, either before or after the expiration date, under and of the terms and conditions of the exchange offer, including the letter of transmittal and the instructions to it, or as to any questions with respect to the tender of any outstanding notes, will be final and binding on all parties. Holders must cure any defects and irregularities in connection with tenders of outstanding notes for exchange within such reasonable period of time as we will determine, unless we waive such defects or irregularities. Neither we, the exchange agent nor any other person will be under any duty to give notification of any defect or irregularity with respect to any tender of outstanding notes for exchange, nor will any of us incur any liability for failure to give such notification.

If you beneficially own outstanding notes registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your outstanding notes in the exchange offer, you should contact the registered holder promptly and instruct it to tender on your behalf.

WE MAKE NO RECOMMENDATION TO THE HOLDERS OF THE OUTSTANDING NOTES AS TO WHETHER TO TENDER OR REFRAIN FROM TENDERING ALL OR ANY PORTION OF THEIR OUTSTANDING NOTES IN THE EXCHANGE OFFER. IN ADDITION, WE HAVE NOT AUTHORIZED ANYONE TO MAKE ANY SUCH RECOMMENDATION. HOLDERS OF THE OUTSTANDING NOTES MUST MAKE THEIR OWN DECISION AS TO WHETHER TO TENDER PURSUANT TO THE EXCHANGE OFFER, AND, IF SO, THE AGGREGATE AMOUNT OF OUTSTANDING NOTES TO TENDER, AFTER READING THIS PROSPECTUS AND THE LETTER OF TRANSMITTAL AND CONSULTING WITH THEIR ADVISERS, IF ANY, BASED ON THEIR FINANCIAL POSITIONS AND REQUIREMENTS.

### **Book-Entry Transfers**

Any financial institution that is a participant in DTC's system must make book-entry delivery of outstanding notes by causing DTC to transfer the outstanding notes into the exchange agent's account at DTC in accordance with DTC's Automated Tender Offer Program, known as ATOP. Such participant should transmit its acceptance to DTC on or prior to the expiration date or comply with the guaranteed delivery procedures described below. DTC will verify such acceptance, execute a book-entry transfer of the tendered outstanding notes into the exchange agent's account at DTC and then send to the exchange agent confirmation of such book-entry transfer. The confirmation of such book-entry transfer will include an agent's message. The letter of transmittal or facsimile thereof or an agent's message, with any required signature guarantees and any other required documents, must be transmitted to and received by the exchange agent at the address set forth below under "—The Exchange Agent" on or prior to the expiration date of the exchange offer; or the holder must comply with the guaranteed delivery procedures described below.

### **Guaranteed Delivery Procedures**

If a holder of outstanding notes desires to tender such notes and the holder's notes are not immediately available, or time will not permit such holder's outstanding notes or other required documents to reach the exchange agent before the expiration date, or the procedure for book-entry transfer cannot be completed on a timely basis, a tender may be effected if:

- the holder tenders the outstanding notes through an eligible institution;
- on or prior to the expiration date, the exchange agent receives from such eligible institution a validly completed and executed notice of guaranteed delivery, substantially in the form accompanying this prospectus, by facsimile transmission, mail or hand delivery, setting forth

the name and address of the holder of the outstanding notes being tendered and the amount of the outstanding notes being tendered. The notice of guaranteed delivery will state that the tender is being made and guarantee that within three New York Stock Exchange trading days after the date of execution of the notice of guaranteed delivery, the certificates for all physically tendered outstanding notes, in proper form for transfer, or a book-entry confirmation, as the case may be, together with a validly completed and executed letter of transmittal with any required signature guarantees or an agent's message and any other documents required by the letter of transmittal will be transmitted to the exchange agent; and

- the exchange agent receives the certificates for all physically tendered outstanding notes, in proper form for transfer, or a book-entry confirmation, as the case may be, together with a validly completed and executed letter of transmittal with any required signature guarantees or an agent's message and any other documents required by the letter of transmittal, within three New York Stock Exchange trading days after the date of execution of the notice of guaranteed delivery.

The notice of guaranteed delivery must be received prior to 5:00 p.m., New York City time, on the expiration date.

### **Withdrawal Rights**

You may withdraw tenders of your outstanding notes at any time prior to 5:00 p.m., New York City time, on the expiration date.

For a withdrawal to be effective, a written notice of withdrawal, by facsimile (with receipt confirmed by telephone) or by mail, must be received by the exchange agent, at the address set forth below under "—The Exchange Agent," on or prior to the expiration date. Any such notice of withdrawal must:

- specify the name of the person having tendered the outstanding notes to be withdrawn;
- identify the outstanding notes to be withdrawn, including the principal amount of such outstanding notes;
- where outstanding notes have been tendered pursuant to the procedure for book-entry transfer described above, specify the name and number of the account at DTC to be credited with the withdrawn outstanding notes and otherwise comply with the procedures of DTC; and
- bear the signature of the holder in the same manner as the original signature on the letter of transmittal by which such outstanding notes were tendered, with such signature guaranteed by an eligible institution, unless such holder is an eligible institution.

We will determine all questions as to the validity, form and eligibility (including time of receipt) of such notices and our determination will be final and binding on all parties. Any tendered outstanding notes validly withdrawn will be deemed not to have been validly tendered for exchange for purposes of the exchange offer. Properly withdrawn notes may be re-tendered by following one of the procedures described under "—How to Tender Outstanding Notes for Exchange" above at anytime on or prior to 5:00 p.m., New York City time, on the expiration date.

### **Acceptance of Outstanding Notes for Exchange; Delivery of Exchange Notes**

All of the conditions to the exchange offer must be satisfied or waived prior to the expiration of the exchange offer. On the expiration date we will accept for exchange all outstanding notes validly tendered and not validly withdrawn as of such date. We will promptly issue exchange notes for all validly tendered outstanding notes. For purposes of the exchange offer, we will be deemed to have accepted validly tendered outstanding notes for exchange when, as and if we have given oral or written

notice to the exchange agent, with written confirmation of any oral notice to be given promptly thereafter. See "—Conditions to the Exchange Offer" for a discussion of the conditions that must be satisfied before we accept any outstanding notes for exchange.

For each outstanding note accepted for exchange, the holder will receive an exchange note registered under the Securities Act having a principal amount equal to, and in the denomination of, that of the surrendered outstanding note. Accordingly, registered holders of exchange notes that are outstanding on the relevant record date for the first interest payment date following the consummation of the exchange offer will receive interest accruing from the most recent date through which interest has been paid on the outstanding notes. Outstanding notes that we accept for exchange will cease to accrue interest from and after the date of consummation of the exchange offer.

If we do not accept any tendered outstanding notes, or if a holder submits outstanding notes for a greater principal amount than the holder desires to exchange, we will return such unaccepted or non-exchanged outstanding notes without cost to the tendering holder. In the case of outstanding notes tendered by book-entry transfer into the exchange agent's account at DTC, such non-exchanged outstanding notes will be credited to an account maintained with DTC. We will return the outstanding notes or have them credited to DTC promptly after the withdrawal, rejection of tender or termination of the exchange offer, as applicable.

### **Conditions to the Exchange Offer**

The exchange offer is not conditioned upon the tender of any minimum principal amount of outstanding notes. Notwithstanding any other provision of the exchange offer, or any extension of the exchange offer, we will not be required to accept for exchange, or to issue exchange notes in exchange for, any outstanding notes and may terminate or amend the exchange offer, by oral or written notice to the exchange agent or by a timely press release, if at any time before the expiration of the exchange offer, any of the following conditions exist:

- any action or proceeding is instituted or threatened in any court or by or before any governmental agency challenging the exchange offer or which we believe might be expected to prohibit or materially impair our ability to proceed with the exchange offer;
- any stop order is threatened or in effect with respect to either (1) the registration statement of which this prospectus is a part or (2) the qualification of the indenture under the Trust Indenture Act of 1939, as amended;
- any law, rule or regulation is enacted, adopted, proposed or interpreted which we believe might be expected to prohibit or impair our ability to proceed with the exchange offer or to materially impair the ability of holders generally to receive freely tradable exchange notes in the exchange offer. See "—Consequences of Failure to Exchange Outstanding Notes";
- any change or a development involving a prospective change in our business, properties, assets, liabilities, financial condition, operations, results of operations taken as a whole, that is or may be adverse to us;
- any declaration of war, armed hostilities or other similar international calamity directly or indirectly involving the United States, or the worsening of any such condition that existed at the time that we commence the exchange offer; or
- we become aware of facts that, in our reasonable judgment, have or may have adverse significance with respect to the value of the outstanding notes or the exchange notes to be issued in the exchange offer.

## Accounting Treatment

For accounting purposes, we will not recognize gain or loss upon the exchange of the exchange notes for outstanding notes. We will amortize expenses incurred in connection with the issuance of the exchange notes over the term of the exchange notes.

## Fees and Expenses

We will not make any payment to brokers, dealers, or others soliciting acceptance of the exchange offer except for reimbursement of mailing expenses. We will pay the cash expenses to be incurred in connection with the exchange offer, including:

- SEC registration fees;
- fees and expenses of the exchange agent and trustee;
- our accounting and legal fees;
- printing fees; and
- related fees and expenses.

## Transfer Taxes

Holders who tender their outstanding notes for exchange will not be obligated to pay any transfer taxes in connection with the exchange. If, however, exchange notes issued in the exchange offer are to be delivered to, or are to be issued in the name of, any person other than the holder of the outstanding notes tendered, or if a transfer tax is imposed for any reason other than the exchange of outstanding notes in connection with the exchange offer, then the holder must pay these transfer taxes, whether imposed on the registered holder or on any other person. If satisfactory evidence of payment of or exemption from, these taxes is not submitted with the letter of transmittal, the amount of these transfer taxes will be billed directly to the tendering holder.

## The Exchange Agent

We have appointed J.P. Morgan Trust Company, National Association, as our exchange agent for the exchange offer. All executed letters of transmittal should be directed to the exchange agent at one of its addresses set forth below. Questions and requests for assistance, requests for additional copies of this prospectus or of the letter of transmittal and requests for notices of guaranteed delivery should also be directed to the exchange agent at one of its addresses below:

*Deliver to:*

### **J.P. Morgan Trust Company, National Association**

*By hand delivery at:*

Institutional Trust Services  
GIS Unit Trust Window  
4 New York Plaza  
1st Floor  
New York, NY 10004

*By mail or overnight courier at:*

Institutional Trust Services  
Attn: Frank Ivins  
2001 Bryan Street  
9th Floor  
Dallas, TX 75201

or

*By Facsimile Transmission  
(for eligible institutions only):*

(214) 468-6494

*Confirm by Telephone:*

(800) 275-2048

**Delivery of the letter of transmittal to an address other than as set forth above or transmission of such letter of transmittal via facsimile other than as set forth above will not constitute a valid delivery.**



## Consequences of Failure to Exchange Outstanding Notes

Outstanding notes that are not tendered or are tendered but not accepted will, following the consummation of the exchange offer, continue to be subject to the provisions in the indenture and the legend contained on the outstanding notes regarding the transfer restrictions of the outstanding notes. In general, outstanding notes, unless registered under the Securities Act, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws.

Holders of the exchange notes and any outstanding notes which remain outstanding after consummation of the exchange offer will vote together as a single series for purposes of determining whether holders of the requisite percentage of the series have taken certain actions or exercised certain rights under the indenture.

## Consequences of Exchanging Outstanding Notes

We have not requested, and do not intend to request, an interpretation by the staff of the SEC as to whether the exchange notes issued in the exchange offer may be offered for sale, resold or otherwise transferred by any holder without compliance with the registration and prospectus delivery provisions of the Securities Act. However, based on interpretations of the staff of the SEC, as set forth in a series of no-action letters issued to third parties, we believe that the exchange notes may be offered for resale, resold or otherwise transferred by holders of those exchange notes without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that:

- the holder is not an "affiliate" of ours within the meaning of Rule 405 promulgated under the Securities Act;
- the exchange notes issued in the exchange offer are acquired in the ordinary course of the holder's business;
- the holder has no arrangement or understanding with any person to participate in the distribution of the exchange notes issued in the exchange offer;
- if the holder is not a broker-dealer, the holder is not engaged in, and does not intend to engage in, a distribution of the exchange notes; and
- if such a holder is a broker-dealer, such broker-dealer will receive the exchange notes for its own account in exchange for outstanding notes and that:
  - such outstanding notes were acquired by such broker-dealer as a result of market-making or other trading activities; and
  - it will deliver a prospectus meeting the requirements of the Securities Act in connection with the resale of exchange notes issued in the exchange offer. (In no-action letters issued to third parties, the SEC has taken the position that broker-dealers may fulfill their prospectus delivery requirements with respect to exchange notes (other than a resale of an unsold allotment from the original sale of outstanding notes) by delivery of the prospectus relating to the exchange offer). See "Plan of Distribution" for a discussion of the exchange and resale obligations of broker-dealers in connection with the exchange offer.

Each holder participating in the exchange offer will be required to furnish us with a written representation in the letter of transmittal that they meet each of these conditions and agree to these terms.

However, because the SEC has not considered the exchange offer for our outstanding notes in the context of a no-action letter, we cannot guarantee that the staff of the SEC would make similar determinations with respect to this exchange offer. If our belief is not accurate and you transfer an



exchange note without delivering a prospectus meeting the requirements of the federal securities laws or without an exemption from these laws, you may incur liability under the federal securities laws. We do not and will not assume, or indemnify you against, this liability.

Any holder that is an affiliate of ours or that tenders outstanding notes in the exchange offer for the purpose of participating in a distribution:

- may not rely on the applicable interpretation of the SEC staff's position contained in Exxon Capital Holdings Corp., SEC No-Action Letter (April 13, 1989), Morgan, Stanley & Co., Inc., SEC No-Action Letter (June 5, 1991) and Shearman & Sterling, SEC No-Action Letter (July 2, 1993); and
- must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a secondary resale transaction.

The exchange notes issued in the exchange offer may not be offered or sold in any state unless they have been registered or qualified for sale in such state or an exemption from registration or qualification is available and complied with by the holders selling the exchange notes. We currently do not intend to register or qualify the sale of the exchange notes in any state where we would not otherwise be required to qualify.

### **Filing of Registration Statements**

Under the registration rights agreement, we agreed to use our reasonable best efforts to cause an exchange offer registration statement to be filed, and declared effective, and to consummate the exchange offer within certain specified periods. If, among other things, we did not consummate the exchange offer during such period, the registration rights agreement requires us to file a shelf registration statement providing for the resale of the outstanding notes. Because we have elected to make an offer to exchange the outstanding notes for exchange notes, holders who exchange outstanding notes for exchange notes will waive any rights they may have to require the filing of any resale shelf registration statement covering the notes and to accrue Additional Interest from and after the closing date of the exchange offer. The registration rights agreement provides that if there is a registration default, which generally means that we do not meet the applicable deadline described above or in the event a shelf registration statement was required to be filed and was declared effective, it ceases to be usable, we are required to pay Additional Interest to the holders of the outstanding notes at the rate of 0.25% per annum above the stated interest rate of the outstanding notes. Additional Interest is payable in cash semiannually in arrears on the same interest payment days as the outstanding notes. Because we did not consummate the exchange offer within the required period Additional Interest is accruing on the outstanding notes.

## DESCRIPTION OF OTHER INDEBTEDNESS

The following is a brief summary of important terms of our material indebtedness, other than the notes subject to the exchange offer.

### Other Notes

As of December 31, 2003, we had outstanding approximately \$4.6 billion aggregate principal amount of notes with various rates ranging from 5.50% to 8.875%, and maturities from 2004 to 2043. All of the notes are unsecured obligations. The indentures governing our other notes contain covenants including:

- a limitation on certain liens on our assets; and
- a restriction on mergers or sales of all or substantially all of our assets, which requires that the transferee or successor assume the obligations in respect of our notes.

These indentures do not contain any cross-default provisions.

On March 15, 2004, we notified the trustee of certain of the notes of our intent to redeem all \$100 million outstanding principal amount of our 5.65% Notes due November 1, 2004 and all \$40.8 million outstanding principal amount of our 39 Year 5.5% Debentures due June 1, 2005. The redemption date for these redemptions was May 1, 2004, at which time all related interest ceased to accrue.

### Senior Term Loan

On June 9, 2003, we completed a \$1.75 billion senior term loan with two tranches: a \$1.25 billion floating rate tranche that matures in 2007, and a \$500 million fixed rate tranche that matures in 2010. The covenant and default terms are substantially the same as those associated with our other long-term debt. The floating rate tranche bears interest at LIBOR plus 4.75% (with a minimum interest rate of 6.50%) and the fixed rate tranche bears interest at 6.95% per annum.

### Other Debt Related Matters

At December 31, 2003, QCII and its consolidated subsidiaries had total borrowings of \$17.5 billion. Some of these borrowings issued by QCII and QSC are secured by liens on our stock. As a result, ownership of our stock could transfer if either QCII or QSC were to default on their debt obligations. At December 31, 2003, QCII and QSC were in compliance with all provisions and covenants of their borrowings.

## DESCRIPTION OF THE EXCHANGE NOTES

### General

The exchange notes, designated as the 8 <sup>7</sup> / 8 % Notes due March 15, 2012, will be issued under an Indenture, dated as of October 15, 1999, as supplemented by an officers' certificate of QC establishing the terms of the notes (the "Indenture"), between QC (formerly known as U S WEST Communications, Inc.), as issuer, and J.P. Morgan Trust Company, National Association (as successor in interest to Bank One Trust Company, N.A.), as trustee (the "Trustee").

The terms of the exchange notes and the outstanding notes are substantially identical, except that the exchange notes:

- will have been registered under the Securities Act;
- will not contain transfer restrictions and registration rights that relate to the outstanding notes; and
- will not contain provisions relating to the payment of Additional Interest to be paid to the holders of the outstanding notes.

As used below in this "Description of the Exchange Notes" section, "QC" means Qwest Corporation, a Colorado corporation, and its successors, but not any of its subsidiaries. Capitalized terms that are used but not otherwise defined herein have the meanings assigned to them in the Indenture, and those definitions are incorporated herein by reference.

Holders of the outstanding notes who do not exchange their notes for exchange notes will vote together with holders of the exchange notes for all relevant purposes under the Indenture. In that regard, the Indenture requires that certain actions by the holders of a series of notes (including acceleration following an event of default) must be taken, and certain rights must be exercised, by specified minimum percentages of the aggregate principal amount of notes outstanding of each series. Accordingly, all references to specified minimum percentages in this section will be deemed to mean, at any time after the exchange offer is consummated, the requisite percentage in aggregate principal amount of the outstanding notes and the exchange notes, voting together as a separate series of notes under the Indenture.

The terms of the notes include those set forth in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act. You may obtain copies of the Indenture from QC at its address set forth under the heading "Where You Can Find More Information."

The following summaries of certain provisions of the Indenture do not purport to be complete and are subject to and are qualified in their entirety by reference to all of the provisions of the Indenture, which provisions of the Indenture are incorporated by reference in this prospectus.

Neither QC's direct parent corporation, QSC, nor its ultimate parent corporation, QCII, has guaranteed the payment of principal, premium, if any, or interest on the notes or has any other obligation in connection with the notes.

The Indenture does not limit the aggregate principal amount of notes that may be issued thereunder and provides that notes may be issued thereunder from time to time in one or more series.

### Principal, Maturity and Interest

QC will issue up to \$1,500,000,000 aggregate principal amount of exchange notes in this offering. QC may "reopen" any series of debt securities (including the notes) issued under the Indenture and issue additional securities of that series without the consent of the holders of that series. The exchange notes will bear interest at the rate of 8 <sup>7</sup> / 8 % per annum from the most recent interest payment date to

which interest has been paid or duly provided for with respect to the outstanding notes. The notes will mature and the principal amount will be payable on March 15, 2012. The notes will not have the benefit of any sinking fund.

The exchange notes will be issued only in registered form, without coupons, in denominations of \$1,000 and integral multiples of \$1,000. The notes are unsecured obligations of QC and rank equally with all other unsecured and unsubordinated indebtedness of QC.

Interest on the notes will be payable semiannually in arrears on March 15 and September 15 of each year, each of which we refer to in this prospectus as an interest payment date, to the persons in whose names the notes are registered at the close of business on the date 15 days immediately preceding such interest payment date. Interest will be calculated on the basis of a 360-day year of twelve 30-day months. If any interest payment date, maturity date or redemption date is a legal holiday in New York, New York, the required payment will be made on the next succeeding day that is not a legal holiday as if it were made on the date such payment was due and no interest will accrue on the amount so payable for the period from and after such interest payment date, maturity date or redemption date, as the case may be, to such next succeeding day. "Legal holiday" means a Saturday, a Sunday or a day on which banking institutions in the City of New York are not required to be open.

## **Payment**

Payment of principal of and interest and premium, if any, on any notes represented by one or more permanent global notes in definitive, fully registered form without interest coupons will be made to Cede & Co., the nominee for DTC as the registered owner of the global notes, by wire transfer of immediately available funds as described under the heading "Book-Entry, Delivery and Form." Initially, the Trustee will act as paying agent for the notes.

Holders of certificated notes, if any, must surrender the notes to the paying agent to collect principal and interest payments at maturity. Principal, premium, if any, and interest on certificated notes will be payable at the office of the paying agent maintained for such purpose or, at the option of QC, payment of principal and interest may be made by check mailed to a holder's registered address. Notwithstanding the foregoing, a holder of notes with an aggregate principal amount of \$5 million or more may request in writing, at least three business days prior to the relevant payment date, that interest be wired to an account specified by such holder.

The principal of and interest and premium, if any, on the notes will be payable in U.S. dollars or in such other coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts. No service charge will be made for any registration of transfer or exchange of notes, but QC may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. The notes may be presented for registration of transfer or exchange at the office of the registrar for the notes or at any other office or agency maintained by QC or the registrar for such purpose. Initially, the Trustee will act as registrar for the notes.

## **Optional Redemption**

The notes will be redeemable at the option of QC, in whole at any time or in part from time to time, on at least 15 days but not more than 60 days prior written notice mailed to the registered holders thereof, at a redemption price equal to the greater of (1) 100% of the principal amount of the notes to be redeemed or (2) the sum, as determined by the Quotation Agent, as defined below, of the present values of the principal amount of the notes to be redeemed and the remaining scheduled payments of interest thereon from the redemption date to the maturity date of the notes to be redeemed (excluding interest accrued to the redemption date), which we refer to as the "Remaining Life," discounted from their respective scheduled payment dates to the redemption date on a

semiannual basis (assuming a 360-day year consisting of 30-day months) at the Treasury Rate, as defined below, plus 50 basis points, plus, in either case, accrued and unpaid interest on the principal amount being redeemed to the date of redemption.

If money sufficient to pay the redemption price of and accrued interest on all of the notes (or portions thereof) to be redeemed on the redemption date is deposited with the Trustee or paying agent on or before the redemption date and certain other conditions are satisfied, then on and after such redemption date, interest will cease to accrue on such notes (or such portion thereof) called for redemption.

"Comparable Treasury Issue" means the United States Treasury security selected by the Quotation Agent as having a maturity comparable to the Remaining Life that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity with the Remaining Life.

"Comparable Treasury Price" means, with respect to any redemption date, the average of two Reference Treasury Dealer Quotations for such redemption date.

"Quotation Agent" means the Reference Treasury Dealer appointed by QC.

"Reference Treasury Dealer" means each of Credit Suisse First Boston Corporation and Lehman Brothers Inc., and their successors; provided, however, that if any of the foregoing ceases to be a primary U.S. Government securities dealer in New York City, a "primary treasury dealer," QC will substitute therefor another primary treasury dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third business day preceding such redemption date.

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semiannual yield to maturity of the Comparable Treasury Issue, calculated on the third business day preceding such redemption date using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

QC may at any time, and from time to time, purchase the notes at any price or prices in the open market or otherwise.

## **Certain Covenants**

Other than as described below under "—Limitation on Liens," the Indenture does not contain any provisions that would limit the ability of QC to incur indebtedness or that would afford holders of notes protection in the event of a sudden and significant decline in the credit quality of QC or a takeover, recapitalization or highly leveraged or similar transaction involving QC. Accordingly, QC could in the future enter into transactions that could increase the amount of indebtedness outstanding at that time or otherwise adversely affect QC's capital structure or credit rating.

### ***Limitation on Liens***

The Indenture contains a covenant that if QC mortgages, pledges or otherwise subjects to any lien all or some of its property or assets, QC will secure the notes, any other outstanding notes and any of its other obligations which may then be outstanding and entitled to the benefit of a covenant similar in effect to such covenant, equally and proportionally with the indebtedness or obligations secured by such

mortgage, pledge or lien, for as long as any such indebtedness or obligation is so secured. This covenant does not apply to:

- the creation, extension, renewal or refunding of (a) mortgages or liens created or existing at the time property is acquired, (b) mortgages or liens created within 180 days after property is acquired, or (c) mortgages or liens securing the cost of construction or improvement of property; or
- the making of any deposit or pledge to secure public or statutory obligations or with any governmental agency at any time required by law in order to qualify QC to conduct all or some part of its business or in order to entitle QC to maintain self-insurance or to obtain the benefits of any law relating to workmen's compensation, unemployment insurance, old age pensions or other social security, or with any court, board, commission or governmental agency as security incident to the proper conduct of any proceeding before it.

The Indenture does not prevent any other entity from mortgaging, pledging or subjecting to any lien any of its property or assets, whether or not acquired from QC.

### ***Consolidation, Merger and Sale of Assets***

QC may, without the consent of the holders of the notes or any other notes outstanding under the Indenture, consolidate with, merge into or be merged into, or transfer or lease its property and assets substantially as an entirety to another entity. However, QC may only do this if: (i) the successor entity is a corporation and assumes by supplemental indenture all of QC's obligations under the notes, the Indenture and any other notes outstanding under the Indenture, and (ii) after giving effect to the transaction, no default or Event of Default has occurred and is continuing. After that time, all of QC's obligations under the notes, the Indenture and any other notes outstanding under the Indenture terminate.

### **Events of Default**

Any one of the following is an "Event of Default" with respect to the notes:

- if QC defaults in the payment of interest on the notes, and such default continues for 90 days;
- if QC defaults in the payment of the principal of the notes when the same becomes due and payable upon maturity, upon redemption or otherwise;
- if QC fails to comply with any of its other agreements in the notes, in the Indenture or in any supplemental indenture under which the notes were issued, which failure continues for 90 days after QC receives notice from the Trustee or the holders of at least 25% of the aggregate principal amount of the notes then outstanding; and
- if certain events of bankruptcy or insolvency occur with respect to QC.

If an Event of Default with respect to the notes occurs and is continuing, the Trustee or the holders of at least 25% in aggregate principal amount of all of the notes then outstanding may declare the principal of all notes to be due and payable immediately. The holders of a majority in principal amount of the notes may rescind such declaration and its consequences if the rescission would not conflict with any judgment or decree and if all existing Events of Default have been cured or waived except nonpayment of principal or interest that has become due solely as a result of such acceleration.

Holders of notes may not enforce the Indenture or the notes, except as provided in the Indenture. The Trustee may require indemnity satisfactory to it before it enforces the Indenture or the notes. Subject to certain limitations, the holders of a majority in principal amount of the notes then outstanding of each series affected may direct the time, method and place of conducting any

proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee. The Trustee may withhold from holders of notes notice of any continuing default (except a default in the payment of principal or interest) if it determines that withholding notice is in their interests.

### **Amendment and Waiver**

With the written consent of the holders of a majority in principal amount of the notes then outstanding, QC and the Trustee may amend or supplement the Indenture or modify the rights of the holders of the notes. Such majority holders may also waive compliance by QC of any provision of the Indenture, any supplemental indenture or notes, except a default in the payment of principal or interest. However, without the consent of the holder of each note affected, an amendment or waiver may not:

- reduce the amount of notes whose holders must consent to an amendment or waiver;
- change the rate or the time for payment of interest;
- change the principal or the fixed maturity;
- waive a default in the payment of principal, premium, if any, or interest;
- make the notes payable in a different currency; or
- make any change in the provisions of the Indenture concerning (a) waiver of existing defaults, (b) rights of holders of notes to receive payment or (c) amendments and waivers without the consent of the holder of each note affected.

QC and the Trustee may amend or supplement the Indenture without the consent of any holder of any of the notes:

- to cure any ambiguity, defect or inconsistency in the Indenture or the notes;
- to provide for the assumption of all of QC's obligations under the notes and the Indenture by any corporation in connection with a merger, consolidation or transfer or lease of QC's property and assets substantially as an entirety;
- to provide for uncertificated notes in addition to or instead of certificated notes;
- to make any change that does not adversely affect the rights of any holder of the notes in any material respect;
- to provide for the issuance of and establish the form and terms and conditions of any series of notes, or to establish the form of any certifications required to be furnished pursuant to the terms of the Indenture or any series of notes;
- to add to the rights of holders of any of the notes; or
- to secure any notes as provided under the heading "—Limitation on Liens."

### **Defeasance**

QC may terminate all of its obligations under the notes and the Indenture or any installment of principal, premium, if any, or interest on the notes if QC irrevocably deposits in trust with the Trustee money or U.S. government obligations sufficient to pay, when due, principal, premium, if any, and interest on the notes to maturity or redemption or such installment of principal, premium, if any, or interest, as the case may be, and if all other conditions set forth in the Indenture are met.

**Governing Law**

The Indenture and the notes are governed by, and will be construed in accordance with, the laws of the State of New York.

**Concerning the Trustee, the Paying Agent**

QC and certain of its affiliates, including QCII, maintain banking and other business relationships in the ordinary course of business with J.P. Morgan Trust Company, National Association. In addition, J.P. Morgan Trust Company, National Association and certain of its affiliates serve as trustee, authenticating agent, or paying agent with respect to certain other debt securities of QC, QCII and their affiliates.



## BOOK-ENTRY, DELIVERY AND FORM

DTC will act as securities depository for the notes. The notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One or more fully-registered note certificates will be issued in the aggregate principal amount of the notes, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act. DTC holds and provides asset servicing for issues of securities that DTC's participants ("Direct Participants") deposit with DTC. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants").

The ownership interest of each actual purchaser of the notes (each, a "Beneficial Owner") is recorded on the Direct and Indirect Participants' records. Transfers of ownership interests in the notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the notes, except as described below.

The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Notices and other communications from DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent with respect to notes unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an omnibus proxy to issuers as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts securities are credited on the record date (identified in a listing attached to the omnibus proxy).

Redemption proceeds, distributions, and dividend payments on the notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detailed information from an issuer, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of QC or DTC nor its nominee or agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is our responsibility, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the notes at any time by giving us notice that it is unwilling or unable to continue as depository for the notes, or DTC ceases to

be registered or in good standing under the Exchange Act or other applicable statute or regulation, in the event that a successor depository is not obtained within 90 days, note certificates are generally required to be printed and delivered. We may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, note certificates will be printed and delivered. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy thereof.

## CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following discussion summarizes certain U.S. federal tax consequences of an exchange of outstanding notes for exchange notes in the exchange offer and the purchase, beneficial ownership and disposition of exchange notes. For purposes of this summary, a "U.S. holder" means a beneficial owner of an outstanding note or an exchange note that is for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States or any state or political subdivision thereof;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust with respect to which a court within the United States is able to exercise primary supervision over its administration, and one or more United States persons have the authority to control all of its substantial decisions or if the trust has made a valid election to be treated as a United States person.

An individual may, subject to certain exceptions, be deemed to be a resident of the United States by reason of being present in the United States for at least 31 days in the calendar year and for an aggregate of at least 183 days during a three-year period ending in the current calendar year (counting for such purposes all the days present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year).

A "non-U.S. holder" is a beneficial owner of an outstanding note or an exchange note that is not a U.S. holder.

This summary is based on interpretations of the Internal Revenue Code of 1986, as amended (the "Code"), regulations issued thereunder, and rulings and decisions currently in effect (or in some cases proposed), all of which are subject to change. Any such change may be applied retroactively and may adversely affect the federal tax consequences described herein. This summary relates only to the outstanding notes, and the exchange notes received in exchange therefor, that are held by holders who own outstanding notes or will own exchange notes as capital assets and not as part of a "straddle" or a "conversion transaction" for U.S. federal income tax purposes or as part of some other integrated investment. This summary does not discuss all of the tax consequences that may be relevant to particular investors or to investors subject to special treatment under the U.S. federal income tax laws (such as life insurance companies, tax-exempt entities, regulated investment companies, securities dealers, pass-through entities (such as partnerships) and investors in pass-through entities, financial institutions, holders subject to the alternative minimum tax, U.S. expatriates, persons deemed to sell notes under the constructive sale provisions of the Code, and investors who actually or constructively own 10 per cent or more of the combined voting power of all classes of our stock entitled to vote). In addition, this summary does not address the tax consequences resulting if the functional currency is not the U.S. dollar. If a partnership holds outstanding notes or the exchange notes, the tax treatment of a partner will generally depend on the tax status of the partner and on the activities of the partnership. Persons considering the exchange of their outstanding notes for exchange notes and persons considering the purchase of exchange notes should consult their tax advisors concerning the application of U.S. federal tax laws to their particular situations as well as any consequences of the exchange of the outstanding notes for exchange notes and of the purchase, beneficial ownership and disposition of exchange notes arising under the laws of any state or other taxing jurisdiction.

## U.S. Federal Income Tax Consequences of the Exchange Offer to U.S. Holders and Non-U.S. Holders

The exchange of outstanding notes for exchange notes pursuant to the exchange offer will not be a taxable transaction for U.S. federal income tax purposes. U.S. holders and non-U.S. holders will not recognize any taxable gain or loss as a result of such exchange and will have the same adjusted issue price, tax basis, and holding period in the exchange notes as they had in the outstanding notes immediately before the exchange.

### U.S. Federal Income Tax Consequences to U.S. Holders

*Treatment of Interest.* Stated interest on the exchange notes will be taxable to U.S. holders as ordinary interest income as the interest accrues or is paid in accordance with the holder's regular method of accounting. QC has taken the position that the outstanding notes (and therefore the exchange notes) do not bear original issue discount because the discount on the original issuance of the outstanding notes fell within a *de minimis* exception. If the IRS were to challenge this position successfully, U.S. Holders would be required to include the original issue discount in income on an economic accrual basis regardless of such holder's regular method of accounting. Under Treasury Regulations, the discount of only a *de minimis* amount will be included in income as each payment of stated principal is made, based on the product of the total amount of such *de minimis* discount and a fraction, the numerator of which is the amount of such principal payment and the denominator of which is the stated principal amount of the note. The Treasury Regulations also permit a holder to elect to accrue *de minimis* discount into income currently based on a constant yield method.

*Market Discount.* An exchange note that is acquired for an amount that is less than its principal amount by more than a *de minimis* amount (generally 0.25% of the principal amount multiplied by the number of remaining whole years to maturity), will be treated as having "market discount" equal to such difference. Unless the U.S. holder elects to include such market discount in income as it accrues, a U.S. holder will be required to treat any principal payment on, and any gain on the sale, exchange, retirement or other disposition (including a gift) of, an exchange note as ordinary income to the extent of any accrued market discount that has not previously been included in income. In general, market discount on the exchange notes will accrue ratably over the remaining term of the exchange notes or, at the election of the U.S. holder, under a constant yield method. In addition, a U.S. holder could be required to defer the deduction of all or a portion of the interest paid on any indebtedness incurred or continued to purchase or carry an exchange note unless the U.S. holder elects to include market discount in income currently. Such an election applies to all debt instruments held by a taxpayer and may not be revoked without the consent of the IRS.

*Amortization of Bond Premium.* A U.S. holder, whose tax basis immediately after its acquisition of an exchange note exceeds the sum of all remaining payments other than qualified stated interest payable on the exchange note, will be considered to have purchased the note at a premium. "Qualified stated interest" includes stated interest, calculated as the product of a single fixed rate of interest and the outstanding principal amounts of the notes that is unconditionally payable in cash at least annually. The U.S. holder may elect to amortize such premium (as an offset to interest income), using a constant yield method, over the remaining term of the exchange note (or to an earlier call date if it results in a smaller amount of amortizable bond premium). Such election, once made, generally applies to all debt instruments held or subsequently acquired by the U.S. holder on or after the first day of the first taxable year to which such election applies and may be revoked only with the consent of the IRS. A U.S. holder that elects to amortize such premium must reduce its tax basis in the related note by the amount of the premium amortized during its holding period. If a U.S. holder does not elect to amortize the premium, the amount of such premium will be included in the U.S. holder's tax basis for purposes of computing gain or loss in connection with a taxable disposition of the exchange note.

*Sale or Other Disposition of Exchange Notes.* In general, upon the sale, retirement or other taxable disposition of an exchange note, a U.S. holder will recognize taxable gain or loss equal to the difference between (1) the amount of the cash and the fair market value of any property received on the sale, retirement or other taxable disposition (not including any amount attributable to accrued but unpaid interest or accrued market discount not previously included in income) and (2) the U.S. holder's adjusted tax basis in the exchange note. A U.S. holder's adjusted tax basis in an exchange note generally will be equal to the cost of the note to such U.S. holder, increased by the amount of any market discount previously included in income by the U.S. holder and reduced by the amount of any payments received by the U.S. holder, other than payments of qualified stated interest, and by the amount of amortizable bond premium taken into account. Subject to the discussion of market discount above, gain or loss realized on the sale, retirement or other taxable disposition of an exchange note will be capital gain or loss.

## **U.S. Federal Income Tax Consequences to Non-U.S. Holders**

For purposes of the following summary, interest and gain on the sale, exchange or other disposition of an exchange note will be considered "U.S. trade or business income" if such income or gain is:

- effectively connected with the conduct of a trade or business in the United States; or
- in the case of a treaty resident, attributable to a permanent establishment (or, in the case of an individual, to a fixed base) in the United States.

*Treatment of Interest.* A non-U.S. holder that is not subject to U.S. federal income tax as a result of any direct or indirect connection to the United States other than its ownership of an exchange note will not be subject to U.S. federal income or withholding tax in respect of interest income on the exchange note if:

- the interest is not U.S. trade or business income;
- the non-U.S. holder does not actually or constructively own 10% or more of the combined voting power of all of our stock;
- the non-U.S. holder provides an appropriate statement, generally on IRS Form W-8BEN, together with all appropriate attachments, signed under penalties of perjury, identifying the non-U.S. holder and stating, among other things, that the non-U.S. holder is not a United States person for U.S. federal income tax purposes; and
- the non-U.S. holder is not a "related controlled foreign corporation" with respect to us as defined for U.S. federal income tax purposes or a bank whose receipt of interest on the exchange notes is described in Section 881(c)(3)(A) of the Code.

If an exchange note is held through a securities clearing organization or certain other financial institutions, the organization or institution may provide a signed statement to eliminate withholding tax. However, in such case, the signed statement must be accompanied by a copy of the IRS Form W-8BEN or the substitute form provided by the beneficial owner to the organization or institution. If a financial institution or other intermediary that holds the exchange note on behalf of the non-U.S. holder has entered into a withholding agreement with the IRS, such institution or intermediary must submit an IRS Form W-81MY (or suitable successor form) and certain other required documentation. A non-U.S. holder that is treated as a partnership for U.S. federal tax purposes generally will be required to provide an IRS Form W-81MY and to attach an appropriate certification by each beneficial owner of the non-U.S. holder (including, in certain cases, such beneficial owner's beneficial owners). Prospective investors, including partnerships and their partners, should consult their tax advisors regarding these possible additional reporting requirements.

To the extent these conditions are not met, a 30% withholding tax will apply to interest income on the exchange note, unless an income tax treaty reduces or eliminates such tax or unless the interest is U.S. trade or business income with respect to such non-U.S. holder and the non-U.S. holder provides an appropriate statement to that effect. In the latter case, such non-U.S. holder generally will be subject to U.S. federal income tax with respect to all income from the exchange notes at regular rates applicable to U.S. taxpayers. Additionally, in such event, non-U.S. holders that are corporations could be subject to a branch profits tax on such income.

*Sale or Other Disposition of Exchange Notes.* In general, a non-U.S. holder will not be subject to U.S. federal income tax on any amount received (other than amounts in respect of accrued but unpaid interest) upon retirement or disposition of an exchange note unless such non-U.S. holder is an individual present in the United States for 183 days or more in the taxable year of the sale, exchange or other disposition and certain other requirements are met, or unless the gain is U.S. trade or business income. In the latter event, non-U.S. holders generally will be subject to U.S. federal income tax with respect to such gain at regular rates applicable to U.S. taxpayers. Additionally, in such event, non-U.S. holders that are corporations could be subject to a branch profits tax on such gain.

## **U.S. Information Reporting Requirements and Backup Withholding Tax**

Under certain circumstances, the Code requires "information reporting" annually to the IRS and to each holder of exchange notes, and "backup withholding" at a current rate of 28% with respect to certain payments made on or with respect to the exchange notes. Backup withholding generally does not apply with respect to certain holders of exchange notes, including corporations, tax-exempt organizations, qualified pension and profit sharing trusts and individual retirement accounts.

A U.S. holder may be subject to backup withholding unless such U.S. holder provides an IRS Form W-9, signed under penalties of perjury, identifying the U.S. holder, providing such U.S. holder's taxpayer identification number and certifying such U.S. holder is not subject to backup withholding.

A non-U.S. holder that provides an IRS Form W-8BEN, together with all appropriate attachments, signed under penalties of perjury, identifying the non-U.S. holder and stating that the non-U.S. holder is not a United States person, will not be subject to IRS reporting requirements and U.S. backup withholding. IRS Forms W-8BEN will generally be required from the beneficial owners of interests in a non-U.S. holder that is treated as a partnership for U.S. federal income tax purposes.

The payment of the proceeds on the disposition of an exchange note to or through the U.S. office of a broker generally will be subject to information reporting and backup withholding at a rate of 28% unless the non-U.S. holder either certifies its status as a non-U.S. holder under penalties of perjury on IRS Form W-8BEN (as described above) or otherwise establishes an exemption.

The payment of the proceeds on the disposition of an exchange note by a non-U.S. holder to or through a non-U.S. office of a non-U.S. broker will not be subject to backup withholding or information reporting unless the non-U.S. broker is a "U.S. related person," as defined below. The payment of proceeds on the disposition of an exchange note by a non-U.S. holder to or through a non-U.S. office of a U.S. broker or a U.S. related person generally will not be subject to backup withholding but will be subject to information reporting unless the non-U.S. holder certifies its status as a non-U.S. holder under penalties of perjury or the broker has certain documentary evidence in its files as to the non-U.S. holder's foreign status and the broker has no actual knowledge to the contrary.

For this purpose, a "U.S. related person" is:

- a "controlled foreign corporation" as specially defined for U.S. federal income tax purposes;
- a foreign person, 50% or more of whose gross income from all sources for the three-year period ending with the close of its taxable year preceding the payment (or for such part of the period

that the broker has been in existence) is derived from activities that are effectively connected with the conduct of a U.S. trade or business; or

- a foreign partnership, if at any time during its tax year one or more of its partners are United States persons who, in the aggregate, hold more than 50% of the income or capital interest of the partnership or if, at any time during its taxable year, the partnership is engaged in the conduct of a U.S. trade or business.

Backup withholding is not an additional tax and may be refunded (or credited against the holder's U.S. federal income tax liability, if any), provided that certain required information is furnished. The information reporting requirements may apply regardless of whether withholding is required. Copies of the information returns reporting such interest and withholding also may be made available to the tax authorities in the country in which a non-U.S. holder is a resident under the provisions of an applicable income tax treaty or agreement.

## PLAN OF DISTRIBUTION

Each broker-dealer that receives exchange notes for its own account in the exchange offer must acknowledge that it acquired the outstanding notes for its own account as a result of market-making or other trading activities and must agree that it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of the exchange notes. A participating broker-dealer may use this prospectus, as it may be amended or supplemented from time to time, in connection with resales of exchange notes received in exchange for outstanding notes where the outstanding notes were acquired as a result of market-making activities or other trading activities. Under the registration rights agreement, we have agreed that for a period of 240 calendar days after the expiration date, we will make this prospectus, as amended or supplemented, available to any participating broker-dealer for use in connection with any resale of exchange notes.

We will not receive any proceeds from any sale of the exchange notes by any participating broker-dealer. Exchange notes received by participating broker-dealers for their own account in the exchange offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the exchange notes or a combination of the methods of resale, at market prices prevailing at the time of resale, at prices related to the prevailing market prices or negotiated prices. Any resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such participating broker-dealer and/or the purchasers of the exchange notes. Any participating broker-dealer that resells exchange notes that were received by it for its own account in the exchange offer and any broker or dealer that participates in a distribution of the exchange notes may be deemed to be an "underwriter" within the meaning of the Securities Act and any profit on any resale of exchange notes and any commissions or concessions received by those persons may be deemed to be underwriting compensation under the Securities Act. The letter of transmittal states that by acknowledging that it will deliver and by delivering a prospectus, a participating broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

For a period of 240 calendar days after closing of the exchange offer, we will promptly send additional copies of this prospectus and any amendment or supplement to this prospectus to any participating broker-dealer that requests the documents in the letter of transmittal. We have agreed to pay all expenses incident to our performance of, or compliance with, the registration rights agreement and all expenses incident to the exchange offer, including the expenses of one counsel for the holders of the outstanding notes, but excluding commissions or concessions of any brokers or dealers, and will indemnify the holders, including any broker-dealers, and certain parties related to the holders against certain liabilities, including liabilities under the Securities Act.

We have not entered into any arrangements or understandings with any person to distribute the exchange notes to be received in the exchange offer.



## **LEGAL MATTERS**

Certain matters with respect to the validity of the exchange notes will be passed upon for us by Gibson, Dunn & Crutcher LLP.

## **EXPERTS**

The consolidated financial statements and the related consolidated financial statement schedule of Qwest Corporation and subsidiaries as of December 31, 2003 and 2002, and for each of the years in the three-year period ended December 31, 2003, have been included herein in reliance upon the reports of KPMG LLP, independent accountants, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

The audit report covering the consolidated financial statements as of December 31, 2003 and 2002, and for each of the years in the three-year period ended December 31, 2003, contains an explanatory paragraph that refers to the adoption of new accounting standards.

**QWEST CORPORATION**  
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***Consolidated Financial Statements***

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Consolidated Balance Sheets as of December 31, 2003 and 2002

Consolidated Statements of Cash Flows—Years ended December 31, 2003, 2002 and 2001

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Notes to Consolidated Financial Statements

***Financial Statement Schedule***

Independent Auditors' Report

Schedule II—Valuation and Qualifying Accounts

## Independent Auditors' Report

The Board of Directors and Stockholder  
Qwest Corporation:

We have audited the accompanying consolidated balance sheets of Qwest Corporation and subsidiaries, a wholly owned subsidiary of Qwest Communications International Inc., as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholder's equity, and cash flows for each of the years in the three-year period ended December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Qwest Corporation and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2 to the accompanying consolidated financial statements, effective January 1, 2003, the Company adopted Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* . Also, as discussed in note 2, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* , and Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* , and effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* .

/s/ KPMG LLP

Denver, Colorado  
March 2, 2004, except for Notes 15 and 16,  
as to which the date is April 30, 2004

**QWEST CORPORATION**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in millions)		
Operating revenue	\$ 10,622	\$ 11,505	\$ 12,169
Operating revenue—affiliates	639	411	368
Total operating revenue	11,261	11,916	12,537
Operating expenses:			
Cost of sales (exclusive of depreciation and amortization)	2,430	2,316	2,728
Cost of sales—affiliates	442	380	337
Selling, general and administrative	1,862	2,161	2,198
Selling, general and administrative—affiliates	1,390	1,290	1,018
Depreciation	2,453	2,655	2,902
Intangible assets amortization	353	302	191
Asset impairment charges	230	829	49
Restructuring and other charges—net	57	49	212
Merger-related (credits) charges—net	—	(30)	120
Total operating expenses	9,217	9,952	9,755
Operating income	2,044	1,964	2,782
Other expense (income):			
Interest expense—net	572	541	466
Interest expense—net—affiliates	154	158	147
Gain on sale of rural exchanges and other fixed assets	—	—	(51)
Other income—net	(29)	(29)	(25)
Total other expense—net	697	670	537
Income before income taxes and cumulative effect of change in accounting principle	1,347	1,294	2,245
Income tax expense	(516)	(489)	(838)
Income before cumulative effect of change in accounting principle	831	805	1,407
Cumulative effect of change in accounting principle, net of taxes of \$139, \$0 and \$0, respectively	219	—	—
Net income	\$ 1,050	\$ 805	\$ 1,407

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

**QWEST CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2003	2002
	(Dollars in millions)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 921	\$ 232
Accounts receivable—net	1,243	1,494
Accounts receivable—affiliates	106	120
Deferred income taxes	183	133
Prepaid and other assets	354	323
Prepaid income taxes—QSC	—	255
Total current assets	2,807	2,557
Property, plant and equipment—net	16,456	17,311
Intangible assets—net	1,140	1,275
Other assets	1,349	1,382
Total assets	\$ 21,752	\$ 22,525
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
Current liabilities:		
Current borrowings	\$ 881	\$ 1,255
Current borrowings—affiliates	2,118	1,888
Accounts payable	541	587
Accounts payable—affiliates	413	331
Dividends payable—QSC	200	774
Accrued expenses and other current liabilities	958	952
Income taxes payable—QSC	154	—
Deferred revenue and advance billings	543	595
Total current liabilities	5,808	6,382
Long-term borrowings (net of unamortized debt discount of \$157 and \$142, respectively)	6,874	6,016
Post-retirement and other post-employment benefit obligations	2,785	2,612
Deferred income taxes	2,544	2,181
Deferred revenue	376	482
Other long-term liabilities	288	355
Total liabilities	18,675	18,028
Commitments and contingencies (Notes 15 and 16)		
Stockholder's equity:		
Common stock—one share without par value, owned by QSC	8,236	8,400
Note receivable—affiliate	(286)	(286)
Accumulated deficit	(4,873)	(3,617)
Total stockholder's equity	3,077	4,497
Total liabilities and stockholder's equity	\$ 21,752	\$ 22,525

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



**QWEST CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in millions)		
<b>OPERATING ACTIVITIES</b>			
Net income	\$ 1,050	\$ 805	\$ 1,407
Adjustments to net income:			
Depreciation and intangible assets amortization	2,806	2,957	3,093
Gain on sale of assets	—	—	(51)
Provision for bad debts	175	331	278
Deferred income taxes	175	(16)	687
Asset impairment charges	230	829	49
Cumulative effect of change in accounting principle—net	(219)	—	—
Income tax benefit distributed to QSC	(173)	(110)	—
Other non-cash items	23	(34)	(9)
Changes in operating assets and liabilities:			
Accounts receivable	76	(96)	(343)
Accounts receivable—affiliates	14	(43)	13
Prepays and other current assets	(14)	85	26
Prepaid income taxes—QSC	255	(36)	(219)
Accounts payable, accrued expenses and other current liabilities	(17)	(328)	(938)
Accounts and income taxes payable, and deferred credits—affiliates	236	62	(34)
Deferred revenue and customer deposits	(158)	(106)	5
Other non-current assets and liabilities	153	(47)	(302)
Cash provided by operating activities	4,612	4,253	3,662
<b>INVESTING ACTIVITIES</b>			
Expenditures for property, plant and equipment	(1,663)	(1,823)	(4,505)
Proceeds from sale of property and equipment	—	28	94
Other	(32)	(23)	(37)
Cash used for investing activities	(1,695)	(1,818)	(4,448)
<b>FINANCING ACTIVITIES</b>			
Repayments of current portion of long-term borrowings	(1,271)	(482)	(391)
Net (repayments of) proceeds from short-term borrowings	—	(1,013)	425
Net proceeds from (repayments of) short-term borrowings—affiliates	230	(404)	771
Proceeds from long-term borrowings	1,729	1,476	—
Dividends paid to QSC	(2,880)	(1,915)	—
Debt issuance costs	(36)	(34)	—
Other	—	19	19
Cash (used for) provided by financing activities	(2,228)	(2,353)	824
<b>CASH AND CASH EQUIVALENTS</b>			
Increase in cash	689	82	38
Beginning balance	232	150	112
Ending balance	\$ 921	\$ 232	\$ 150

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





**QWEST CORPORATION**

**CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY**

	Common Stock	Note Receivable- Affiliate (note 11)	(Accumulated Deficit)	Total
	(Dollars in millions)			
<b>Balance, December 31, 2000</b>	\$ 8,484	\$ (286)	\$ (3,617)	\$ 4,581
Net income	—	—	1,407	1,407
Dividends declared on common stock	—	—	(1,407)	(1,407)
Stock-based compensation	6	—	—	6
Other net asset transfers	(8)	—	—	(8)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance, December 31, 2001</b>	8,482	(286)	(3,617)	4,579
Net income	—	—	805	805
Dividends declared on common stock	—	—	(805)	(805)
Stock-based compensation	2	—	—	2
Tax benefit on stock compensation	16	—	—	16
Income tax benefit distributed to QSC	(110)	—	—	(110)
Other net asset transfers	10	—	—	10
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance, December 31, 2002</b>	8,400	(286)	(3,617)	4,497
Net income	—	—	1,050	1,050
Dividends declared on common stock	—	—	(2,306)	(2,306)
Stock-based compensation	1	—	—	1
Income tax benefit distributed to QSC	(173)	—	—	(173)
Other net asset transfers	8	—	—	8
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance, December 31, 2003</b>	\$ 8,236	\$ (286)	\$ (4,873)	\$ 3,077
	<hr/>	<hr/>	<hr/>	<hr/>

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

## QWEST CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### For the Years Ended December 31, 2003, 2002 and 2001

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

#### **Note 1: Business and Background**

##### *Description of business*

We are wholly owned by Qwest Services Corporation ("QSC"), which is wholly owned by QCII. We provide local telecommunications and related services, IntraLATA long-distance services and wireless, data and video services within our local service area, which consists of the 14-state region of Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming.

On June 30, 2000, QCII completed its acquisition of U S WEST, Inc. ("U S WEST") (the "Merger"). U S WEST (our pre-Merger parent) was deemed the accounting acquirer and its historical financial statements, including those of its wholly owned subsidiaries, have been carried forward as the predecessor of the combined company. The Merger has been accounted for as a reverse acquisition under the purchase method of accounting with U S WEST being deemed the accounting acquirer and QCII (prior to the Merger, "pre-Merger QCII") the acquired entity.

Our wireless services are provided by our wholly owned subsidiary Qwest Wireless LLC ("Qwest Wireless"). We intend to transfer ownership of Qwest Wireless to an affiliate in the near future. After this transfer, we will no longer have significant wireless operations. This transfer will take place as soon as we have received all necessary regulatory approvals, perhaps as early as the second quarter of 2004.

#### **Note 2: Summary of Significant Accounting Policies**

*Basis of presentation.* The accompanying consolidated financial statements include our accounts and the accounts of our subsidiaries over which we exercise control. All intercompany amounts and transactions with our consolidated subsidiaries have been eliminated.

We record intercompany charges at the amounts billed to us by our affiliates. Regulatory rules require certain expenses to be billed by affiliates at estimated fair value or fully distributed cost, as more fully described in Note 14—Related Party Transactions. Regulators periodically review our compliance with regulations. Adjustments to intercompany charges that result from these reviews are recorded in the period they become known. We purchase services, such as marketing and advertising, information technology, product and technical services as well as general support services from affiliates. We provide to our affiliates telephony, data services and wireless as well as other services.

*Use of estimates.* Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions made when accounting for items and matters such as long-term contracts, customer retention patterns, allowance for bad debts, depreciation, amortization, asset valuations, internal labor capitalization rates, recoverability of assets, impairment assessments, employee benefits, taxes, reserves and other provisions and contingencies are reasonable, based on information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements, as well as the reported amounts of revenue and expenses during the periods presented. We also assess

potential losses in relation to pending litigation and, if a loss is considered probable and the amount can be reasonably estimated, we recognize an expense for the estimated loss. Actual results could differ from these estimates. See Note 15—Commitments and Contingencies.

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

*Revenue recognition.* Revenue for services is recognized when the related services are provided. Payments received in advance are deferred until the service is provided. Up-front fees received, primarily activation fees and installation charges, as well as the associated customer acquisition costs, are deferred and recognized over the expected customer relationship periods, which range from one to 10 years. Expected customer relationship periods are estimated using historical data of actual customer retention patterns. Termination fees or other fees on existing contracts that are negotiated in conjunction with new contracts are deferred and recognized over the new contract term.

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

*Advertising costs.* Costs related to advertising are expensed as incurred. Advertising expense was \$127 million, \$211 million and \$310 million for the years ended December 31, 2003, 2002 and 2001, respectively and is included in selling, general and administrative in the accompanying consolidated statements of operations.

*Legal costs.* In our normal course of business, we incur costs to hire and retain external legal counsel to advise us on regulatory and litigation matters. We expense these costs as such services are received.

*Income taxes.* We are included in the consolidated federal income tax return of QCII. The QCII tax allocation policy treats our consolidated results as if we were a separate taxpayer. The policy requires that each subsidiary pay their tax liabilities in cash based upon each subsidiary's separate return taxable income. To the extent a subsidiary has taxable losses, no funding is received and therefore such benefit is retained by QCII. We are also included in combined state tax returns filed by QCII, and the same allocation policy applies.

The provision for income taxes consists of an amount for taxes currently payable and an amount for tax consequences deferred to future periods. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement and tax basis of assets and liabilities using enacted tax rates expected to apply to the year in which the differences are expected to affect taxable income. The effect on deferred income tax assets and liabilities of a change in tax rate is recognized in operations in the period that includes the enactment date of the rate change. Deferred tax assets are reviewed to determine if they are more likely than not to be realized and, if not, then valuation allowances are established to reduce deferred income tax assets to the amounts expected to be recovered.

We use the deferral method of accounting for investment tax credits earned prior to the repeal of such credits in 1986. We also defer certain transitional investment tax credits earned after the repeal, as well as investment tax credits earned in certain states. Investment tax credits are included in other long-term liabilities on our consolidated balance sheets. We amortize these credits over the estimated service lives of the related assets as a decrease to our income tax expense in our consolidated statements of operations.

*Cash and cash equivalents.* We utilize the cash management services of QCII. QCII manages our cash in accordance with its cash investment policy, which restricts investments to ensure preservation of principal and maintenance of liquidity. Although cash and cash equivalents balances are generally unsecured, our balances are maintained with financial institutions that QCII and we believe are creditworthy. We consider cash on hand, deposits in banks and investments purchased with original maturities of three months or less to be cash and cash equivalents. Our cash investment policy limits the concentration of investments with specific financial institutions or among certain products and includes criteria related to credit worthiness of any particular financial institution.

*Allowance for doubtful accounts.* The allowance for doubtful accounts receivable reflects our best estimate of probable losses inherent in our receivable portfolio determined on the basis of historical experience, specific allowances for known troubled accounts and other currently available evidence.

*Property, plant and equipment.* Property, plant and equipment is carried at cost and, effective January 1, 2003, with our adoption of Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"), is adjusted for legal retirement obligations. Property, plant and equipment is depreciated using the straight-line group method. Under the straight-line group method, assets dedicated to providing regulated telecommunications services (which comprise the majority of our property, plant and equipment) that have similar physical characteristics, use and expected useful lives are categorized in the year acquired on the basis of equal life groups of similar assets for purposes of depreciation and tracking. Generally, under the straight-line group method, when an asset is sold or retired; the cost is deducted from property, plant and equipment and charged to accumulated depreciation without recognition of a gain or loss. A gain or loss is recognized in our consolidated statements of operations only if a disposal is abnormal; unusual; when a sale involves land; assets associated with the sale of customer contracts; or assets constructed or acquired for sale. Leasehold improvements are amortized over the shorter of the useful lives of the assets or the lease term. Expenditures for maintenance and repairs are expensed as incurred. Interest is capitalized during the construction phase of network and other internal-use capital projects. Employee-related costs directly related to construction of internal use assets are also capitalized during the construction phase. Property, plant and equipment supplies used internally are carried at average cost, except for significant individual items for which cost is based on specific identification.

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

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

*Software capitalization.* Internally used software, whether purchased or developed, is capitalized and amortized using the straight-line method over an estimated useful life of 18 months to five years. In accordance with American Institute of Certified Public Accountants Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," we capitalize certain costs associated with internally developed software such as costs of employees devoting time to the projects and external direct costs for materials and services. Costs associated with internally developed software to be used internally are expensed until the point at which the project has reached the development stage. Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred. The capitalization of software requires judgment in determining when a project has reached the development stage and the period over which we expect to benefit from the use of that software. Capitalized software development costs are included in intangible assets in our consolidated balance sheets.

*Intangible assets.* Intangible assets, such as wireless spectrum licenses and capitalized software, are recorded at cost.

Intangible assets with finite lives are amortized on a straight-line basis over that life. Where there are no legal, regulatory, contractual or other factors that would reasonably limit the useful life of an intangible asset, we classify the intangible asset as indefinite lived and as such these intangible assets are not amortized. Prior to the adoption of SFAS No. 142 these intangible assets were amortized on a straight-line basis over their estimated useful lives.

*Impairment of indefinite-lived intangible assets.* Intangible assets with indefinite lives are reviewed for impairment annually or whenever an event occurs or circumstances change that would more likely than not reduce fair value below carrying value. These assets are carried at historical cost if their estimated fair value is greater than their carrying amounts. However, if their estimated fair value is less than the carrying amount, indefinite-lived intangible assets are reduced to their estimated fair value through an impairment charge to our consolidated statements of operations.

*Restructuring and Merger-related charges.* Periodically QCII commits to exit certain business activities, eliminate administrative and network locations, and/or reduce our number of employees. At the time a restructuring plan is approved by QCII, we record a charge to the consolidated statement of operations for our estimated costs associated with the plan. Charges associated with these exit or restructuring plans incorporate various estimates, including severance costs, sublease income and costs, disposal costs, length of time on the market for abandoned rented locations and contractual

termination costs. We also record a charge when we permanently cease use of a leased location. Estimates of charges associated with the abandoned operating leases, some of which entail long-term lease obligations, are based on existing market conditions and net amounts that we estimate we will pay in the future. In accordance with SFAS No.146, "Accounting for Costs Associated with Exit or Disposal Activities," ("SFAS No. 146"), charges associated with abandoned operating leases recorded in 2003 were measured using the present value of the estimated net amounts we will pay and charges recorded in 2002 and 2001 were measured on an undiscounted basis. We utilize real estate brokers to assist in assessing market conditions and net amounts that we expect to pay.

*Fair value of financial instruments.* Our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and borrowings. The carrying values of cash and cash equivalents, accounts receivable, accounts payable and short-term borrowings approximate their fair values because of their short-term nature. Our borrowings, excluding affiliate borrowings, had a fair value of approximately \$8.2 billion and \$6.5 billion at December 31, 2003 and 2002, respectively. The fair values of our borrowings are based on quoted market prices where available or, if not available, based on discounted future cash flows using current market interest rates.

*Stock based compensation.* Some of our employees participate in QCII's stock option plans. These plans are accounted for using the intrinsic-value method allowed under Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees," ("APB No. 25") under which no compensation expense is recognized for our options granted to employees when the exercise price of those options equals or exceeds the value of the underlying security on the measurement date. Any excess of the stock price on the measurement date over the exercise price is recorded as deferred compensation and amortized over the service period during which the stock option award vests using the accelerated method described in Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans", ("FIN No. 28"). QCII allocates to us, through a contribution, our share of the deferred compensation expense described herein based on options granted.

Had compensation cost for our employees' participation in the QCII stock-based compensation plans been determined under the fair-value method in accordance with the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation, our net income would have been changed to the pro forma amounts indicated below:

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in millions)		
Net income:			
As reported	\$ 1,050	\$ 805	\$ 1,407
Add: Stock-based employee compensation expense included in net income, net of related tax effects	1	1	4
Deduct: Total stock-based employee compensation expense determined under the fair-value-based method for all awards, net of related tax effects	(28)	(44)	(88)
Pro forma	\$ 1,023	\$ 762	\$ 1,323

The pro forma amounts reflected above may not be representative of the effects on our reported net income or loss in future years because the number of future shares to be issued under these plans is not known and the assumptions used to determine the fair value can vary significantly. Following are the weighted-average assumptions used with the Black-Scholes option-pricing model to estimate the fair value of all QCII options granted to our employees in 2003, 2002 and 2001:

	Years Ended December 31,		
	2003	2002	2001
Risk-free interest rate	2.7%	4.1%	4.1%
Expected dividend yield	0.0%	0.0%	0.2%
Expected option life (years)	4.4	4.4	4.4
Expected stock price volatility	88.0%	57.6%	41.4%
Weighted-average grant date fair value	\$ 2.37	\$ 2.25	\$ 9.40

*Stockholder's equity.* In the normal course of business we transfer assets to and from our parent, QSC. It is QCII's and our policy to record asset transfers to and from QSC based on carrying values.

### ***Recently Adopted Accounting Pronouncements and Cumulative Effects of Adoption***

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

On January 1, 2003, we adopted SFAS No. 143. This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs, generally referred to as asset retirement obligations. SFAS No. 143 requires entities to record the fair value of a legal liability for an asset retirement obligation. If a reasonable estimate of fair value can be made, the fair value of the liability will be recognized in the period it is incurred, or if not, in the period a reasonable estimate of fair value can be made. This cost is initially capitalized and then amortized over the estimated remaining useful life of the asset. We have determined that we have legal asset retirement obligations associated with the removal of a limited group of long-lived assets and recorded a cumulative effect of a change in accounting principle charge upon adoption of SFAS No. 143 of \$7 million (an asset retirement obligation of \$12 million net of an incremental adjustment to the historical cost of the underlying assets of \$5 million) in 2003.

Prior to the adoption of SFAS No. 143, we included in our group depreciation rates estimated net removal costs (removal costs less salvage). These costs have historically been reflected in the calculation of depreciation expense, and therefore, recognized in accumulated depreciation. When the assets were actually retired and removal costs were expended, the net removal costs were recorded as a reduction to accumulated depreciation. While SFAS No. 143 requires the recognition of a liability for asset retirement obligations that are legally binding, it precludes the recognition of a liability for asset retirement obligations that are not legally binding. Therefore, upon adoption of SFAS No. 143, we reversed the net removal costs within accumulated depreciation for those fixed assets where the

removal costs exceeded the estimated salvage value and we did not have a legal removal obligation. This resulted in income from the cumulative effect of a change in accounting principle of \$365 million before taxes upon adoption of SFAS No. 143. The net income impact of the adoption is \$219 million (\$365 million less the \$7 million charge disclosed above, net of income taxes of \$139 million) in 2003. Beginning January 1, 2003 the net costs of removal related to these assets are charged to our consolidated statement of operations in the period in which the costs are incurred.

We adopted the provisions of FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("FIN 46R") for the three months ended March 31, 2004. FIN 46R requires an evaluation of three criteria to determine if consolidation of a thinly capitalized entity is required. These criteria are: 1) whether the entity is a variable interest entity; 2) whether the company holds a variable interest in the entity; and 3) whether the company is the primary beneficiary of the entity. If all three of these criteria apply, consolidation is required. The adoption of FIN No. 46R did not have a material impact on the company.

### Note 3: Accounts Receivable

The following table presents details of our accounts receivable balances:

	December 31,	
	2003	2002
	(Dollars in millions)	
Trade receivables	\$ 980	\$ 1,131
Earned and unbilled receivables	207	250
Purchased and other receivables	188	253
Subtotal	1,375	1,634
Less: Allowance for bad debts	(132)	(140)
Accounts receivable—net	1,243	1,494
Accounts receivable—affiliates	106	120
Total accounts receivable—net	\$ 1,349	\$ 1,614

We are exposed to concentrations of credit risk from customers within our local service area and from other telecommunications service providers. We generally do not require collateral to secure our receivable balances. We have agreements with other telecommunications service providers whereby we agree to bill and collect on their behalf for services rendered by those providers to our customers within our local service area. We purchase accounts receivable from other telecommunications service providers on a non-recourse basis and include these amounts in our accounts receivable balance. We have not experienced any significant losses related to these purchased receivables.



## Note 4: Property, Plant and Equipment

### Property, Plant and Equipment

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

	Depreciable Lives	December 31,	
		2003	2002
		(Dollars in millions)	
Land	N/A	\$ 102	\$ 103
Buildings	38 years	2,954	2,904
Communications equipment	7-10 years	18,465	18,506
Other network equipment	8-57 years	18,662	18,211
General purpose computers and other	5-11 years	2,338	2,515
Construction in progress	N/A	142	173
Total property, plant and equipment		42,663	42,412
Less: accumulated depreciation		(26,207)	(25,101)
Property, plant and equipment—net		\$ 16,456	\$ 17,311

### Asset Impairments

A summary of asset impairments recognized is as follows:

	Years Ended December 31,		
	2003	2002	2001
(Dollars in millions)			
Property, plant and equipment and internal use software projects	\$ 230	\$ 825	\$ —
Capitalized software due to restructuring and Merger activities (Note 5—Intangible Assets)	—	4	49
Total asset impairments	\$ 230	\$ 829	\$ 49

### 2003 Activities

In August 2003, we entered into a services agreement with a subsidiary of Sprint Corporation ("Sprint") that allows us to resell Sprint wireless services, including access to Sprint's nationwide personal communications service ("PCS") wireless network, to consumer and business customers, primarily within our local service area. We began offering these Sprint services under our brand name in March 2004. Under the services agreement, we retain control of all sales and marketing, customer service, billing and collection, pricing, promotion and product offerings relating to the Sprint services that we resell. The services agreement provides that Sprint will be our exclusive wireless provider and has an initial term of five years (with automatic renewal for successive one-year terms until either party provides notice of non-renewal). Through Qwest Wireless, we continue to operate a PCS wireless network that serves select markets within our local service area, including Denver, Seattle, Phoenix, Minneapolis, Portland, Salt Lake City and other smaller markets. Our wireless customers who are currently being serviced through our proprietary wireless network will be transitioned onto Sprint's

network over time. Due to the anticipated decrease in usage of our own wireless network following the transition of our customers onto Sprint's network, in the third quarter of 2003 we performed an evaluation of the recoverability of the carrying value of our long-lived wireless network assets.

In accordance with SFAS No. 144, we compared gross undiscounted cash flow projections to the carrying value of the wireless network assets and determined that the carrying value of those assets were not expected to be recovered through future projected cash flows. We then estimated the fair value using recent selling prices for comparable assets and determined that our cell sites, switches, related tools and equipment inventory and certain capitalized software that support the wireless network were impaired by an aggregate amount of \$230 million.

In accordance with SFAS No. 144, the fair value of the impaired assets becomes the new basis for accounting purposes. As such, approximately \$25 million in accumulated depreciation was eliminated in connection with the accounting for the impairments. The impact of the impairments will reduce our annual depreciation and amortization expense by approximately \$40 million, beginning October 1, 2003.

### ***2002 Activities***

Effective June 30, 2002, a general deterioration of the telecommunications market, downward revisions to our expected future results of operations and other factors indicated that our investments in long-lived assets may have been impaired at that date. We performed an evaluation of the recoverability of the carrying value of our long-lived assets using gross undiscounted cash flow projections. For impairment analysis purposes, we grouped our property, plant and equipment, capitalized software and customer lists and then projected cash flows by our traditional telephone network and our wireless network. Based on the gross undiscounted cash flow projections, we determined that our traditional telephone network was not impaired. However, we determined that our wireless network, which provides PCS in select markets in our local service area, was impaired at June 30, 2002. For our wireless network, we then estimated the fair value using replacement cost. Based on our analysis, the estimated fair value of the wireless assets was less than our carrying amounts and we recorded an impairment charge of \$825 million as of June 30, 2002. Replacement cost was determined by using current cost adjusted for physical deterioration, functional obsolescence and economic obsolescence.

In accordance with SFAS No. 144, the fair value of the impaired assets becomes the new basis for accounting purposes. As such, approximately \$410 million in accumulated depreciation was eliminated in connection with the accounting for the wireless assets impairment. The impact of the impairments reduced our annual depreciation and amortization expense by approximately \$135 million, beginning July 1, 2002.

### ***Asset Retirement Obligations***

As discussed in Note 2—Summary of Significant Accounting Policies, we adopted SFAS No. 143 on January 1, 2003.

Our asset retirement obligations primarily relate to the costs of removing circuit equipment and wireless towers from leased properties when the leases expire. The following table reconciles the change in asset retirement obligations during the year:

	Change in Asset Retirement Obligations
	(Dollars in millions)
Liability recognized upon adoption on January 1, 2003	\$ 12
Liability incurred	—
Liability settled	—
Accretion expense	1
Balance as of December 31, 2003	\$ 13

If the provisions of SFAS No. 143 had been adopted for the prior years presented, net income would have decreased by approximately \$45 million and \$40 million for the years ended December 31, 2002 and 2001, respectively. The asset retirement obligation would have been approximately \$10 million and \$8 million at December 31, 2001 and December 31, 2000, respectively.

#### Note 5: Intangible Assets

The components of intangible assets are as follows:

		December 31,			
		2003		2002	
Amortizable Lives		Carrying Cost	Accumulated Amortization	Carrying Cost	Accumulated Amortization
(Dollars in millions)					
<b>Intangibles with indefinite lives:</b>					
Spectrum licenses		\$ 115	\$ —	\$ 113	\$ —
<b>Intangibles with finite lives:</b>					
Capitalized software and other	1.5 - 5 years	1,886	(861)	1,704	(542)
Total intangible assets		\$ 2,001	\$ (861)	\$ 1,817	\$ (542)

### ***Amortization Expense***

We recorded amortization expense of \$353 million in 2003 for intangible assets with finite lives. Based on the current amount of intangible assets subject to amortization, the estimated amortization for each of the succeeding 5 years is as follows:

	Estimated Amortization Expense
	(Dollars in millions)
2004	\$ 377
2005	305
2006	208
2007	99
2008	36
Total	\$ 1,025

### ***Adoption of SFAS No. 142***

Effective January 1, 2002, we adopted SFAS No. 142, which requires companies to cease amortizing goodwill and intangible assets which have indefinite useful lives. SFAS No. 142 also requires that goodwill and indefinite-lived intangible assets be reviewed for impairment upon adoption and annually thereafter, or more often if events or circumstances warrant.

We ceased amortizing our intangible assets with indefinite lives, primarily wireless spectrum licenses on January 1, 2002. We also reviewed the useful lives of our amortizable intangible assets, primarily capitalized software, and determined that they remained appropriate. We performed a transitional impairment test of intangible assets with indefinite lives on January 1, 2002 and determined the carrying values remained appropriate. We performed the annual impairment test for 2003 and also determined the carrying values remained appropriate.

### ***Intangible asset impairment***

In June 2002, as discussed in Note 4—Property, Plant and Equipment, we recorded an asset impairment charge to other intangible assets with finite lives. These include impairments related to capitalized computer software of \$34 million, which is included in the \$825 million wireless asset impairment charge. In September 2003, as discussed in Note 4—Property, Plant and Equipment, we recorded an asset impairment charge to Property, Plant and Equipment for \$230 million, which includes capitalized computer software of \$15 million. We recorded asset impairment charges of \$4 million and \$49 million in 2002 and 2001, respectively, related to internal software projects that we terminated, including customer database system projects.

## Note 6: Borrowings

### Current Borrowings

As of December 31, 2003 and 2002, our current borrowings consisted of:

	December 31,	
	2003	2002
	(Dollars in millions)	
Current borrowings, affiliates	\$ 2,118	\$ 1,888
Current portion of long-term borrowings	867	1,179
Current portion of capital lease obligations and other	14	76
Total current borrowings	\$ 2,999	\$ 3,143

Current borrowings—affiliates represent short-term borrowings by our wholly owned subsidiary, Qwest Wireless, on unsecured lines of credit from affiliates (the "Affiliates Lines of Credit") that are wholly owned by QCII. The Affiliates Lines of Credit mature in January 2005 and have an interest rate of 7.50% per annum. We expect that the maturities of these lines of credit will be extended by our affiliates as necessary.

Until February 2002, we maintained commercial paper programs to finance our short-term operating cash needs. QCII and we had a \$4.0 billion syndicated credit facility ("Credit Facility"), of which \$1.0 billion was designated to us. As a result of reduced demand for our commercial paper programs, we borrowed \$1.0 billion under the Credit Facility in the first quarter of 2002. During the first quarter of 2002, we also paid down approximately \$1.0 billion of our current borrowings including substantially all of our outstanding commercial paper.

In March 2002, we used approximately \$1.0 billion of the proceeds from our March 2002 bond offering, discussed below, to reduce our amount outstanding under the Credit Facility to zero. QCII and QSC amended the Credit Facility in August of 2002. Following the amendment, we are no longer a party to the Credit Facility.

### Long-term Borrowings

As of December 31, 2003 and 2002, our long-term borrowings consisted of the following:

	December 31,	
	2003	2002
	(Dollars in millions)	
Notes with various rates ranging from 5.50% to 9.125%, including LIBOR* plus 4.75%, with maturities from 2004 to 2043	\$ 7,887	\$ 7,316
Unamortized discount and other	(157)	(142)
Capital lease obligations and other	25	97
Less: current portion	(881)	(1,255)
Total long-term borrowings	\$ 6,874	\$ 6,016

\* London interbank offering rate

The indentures governing the notes in the above table contain certain covenants including, but not limited to: (i) a prohibition on certain liens on the assets of Qwest and (ii) a limitation on mergers or sales of all, or substantially all, of the assets of Qwest, which limitation requires that a successor assume the obligation with regard to these notes. These indentures do not contain any cross-default provisions. We were in compliance with all of the covenants at December 31, 2003.

On June 9, 2003, we completed a senior term loan in two tranches for a total of \$1.75 billion principal amount of indebtedness. The term loan consists of a \$1.25 billion floating rate tranche, due in 2007, and a \$500 million fixed rate tranche, due in 2010. The term loan is unsecured and ranks equally with all of our indebtedness. The floating rate tranche cannot be prepaid for two years and thereafter is subject to prepayment premiums through 2006. There are no mandatory prepayment requirements. The covenant and default terms are substantially the same as those associated with our other long-term debt. The net proceeds were used to refinance approximately \$1.1 billion of our debt due in 2003 and fund or refinance our investment in telecommunications assets.

The floating rate tranche bears interest at LIBOR plus 4.75% (with a minimum interest rate of 6.50%) and the fixed rate tranche bears interest at 6.95% per annum. The interest rate on the floating rate tranche was 6.50% at December 31, 2003. The lenders funded the entire principal amount of the loan subject to the original issue discount for the floating rate tranche of 1.00% and for the fixed rate tranche of 1.652%.

In March 2002, we issued \$1.5 billion in bonds with a 10-year maturity and an 8.875% interest rate. At December 31, 2003 the interest rate was 9.125%. Once we have registered the notes with the Securities and Exchange Commission (the "SEC"), the interest rate will return to 8.875%, the original stated rate.

Our long-term borrowings had the following interest rates and maturities at December 31, 2003:

	Maturities						
Interest Rates	2004	2005	2006	2007	2008	Thereafter	Total
(Dollars in millions)							
Above 5% to 6%	\$ 117	\$ 41	\$ —	\$ 70	\$ 320	\$ —	\$ 548
Above 6% to 7%	—	416	—	1,340	—	1,500	3,256
Above 7% to 8%	2,868	—	—	—	2	1,581	4,451
Above 8% to 9%	—	—	—	—	—	250	250
Above 9% to 10%	—	—	—	—	—	1,500	1,500
Total	\$ 2,985	\$ 457	\$ —	\$ 1,410	\$ 322	\$ 4,831	10,005
Capital leases and other							25
Unamortized discount and other							(157)
Less current borrowings							(2,999)
Total long-term debt							\$ 6,874

#### *Other debt related matters*

At December 31, 2003, QCII and its consolidated subsidiaries had total borrowings of \$17.5 billion. Some of these borrowings issued by QCII and QSC are secured by liens on our stock. As a result, ownership of our stock could transfer if either QCII or QSC were to default on their debt obligations.

At December 31, 2003, QCII was in compliance with all provisions and covenants of their borrowings. QCII obtained extensions under the QSC Credit Facility for the delivery of certain annual and quarterly financial information. The waiver extended the compliance date to provide certain annual and quarterly financial information to March 31, 2004. On February 5, 2004, the QSC Credit Facility was paid off and terminated.

### ***Interest***

The following table presents the amount of gross interest expense, capitalized interest and cash paid for interest during 2003, 2002 and 2001:

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in millions)		
Gross interest expense	\$ 739	\$ 724	\$ 659
Capitalized interest	(13)	(25)	(46)
Net interest expense	\$ 726	\$ 699	\$ 613
Cash interest paid	\$ 731	\$ 633	\$ 606

Of the cash interest paid shown above, cash interest paid to affiliates amounted to \$151 million, \$162 million and \$142 million for 2003, 2002 and 2001, respectively.

### **Note 7: Restructuring and Merger-related Charges**

The restructuring reserve balances discussed below are included in our consolidated balance sheets in the category of accrued expenses and other current liabilities for the current portion and other long-term liabilities for the long-term portion. As of December 31, 2003 and 2002, the amounts included as current liabilities are \$58 million and \$53 million, and the long-term portions are \$14 million and \$30 million, respectively.

### ***2003 Activities***

During the year ended December 31, 2003, as part of an ongoing effort of evaluating costs of operations, QCII reviewed our employee levels in certain areas of our business. In connection with this restructuring and, as a result, we established a reserve and recorded a charge to our 2003 consolidated statement of operations for \$71 million to cover the costs associated with these actions, more fully described below.

An analysis of activity associated with the 2003 restructuring plan as well as prior year restructuring and Merger plans is as follows:

		Year Ended December 31, 2003			
	January 1, 2003 Balance	Provisions	Utilization	Reversals	December 31, 2003 Balance
		(Dollars in millions)			
2003 restructuring plan	\$ —	\$ 71	\$ 20	\$ —	\$ 51
2002 restructuring plan	60	—	36	3	21
2001 restructuring plan	21	—	10	11	—
Merger-related	2	—	2	—	—
Total	\$ 83	\$ 71	\$ 68	\$ 14	\$ 72

The 2003 restructuring reserve included charges of \$65 million related to severance benefits pursuant to established severance policies and \$6 million for real estate exit obligations, which primarily include estimated future net payments on abandoned operating leases. QCII identified approximately 1,600 of our employees from various functional areas to be terminated as part of this restructuring. Through December 31, 2003, approximately 1,100 of the planned reductions had been completed. The remaining 500 reductions are expected to occur over the next year, with severance payments generally extending from two to 12 months. The real estate exit costs include the net present value of rental payments due over the remaining term of the leases, net of estimated sublease rentals and estimated costs to terminate the leases. Through December 31, 2003, we had utilized \$20 million of the 2003 restructuring reserves for severance payments.

SFAS No. 146 established standards for reporting information about restructuring activities. Effective for exit or disposal activities initiated after December 31, 2002, SFAS No. 146 requires disclosure of the total amount of costs expected to be incurred in connection with these activities for each reportable segment. We do not have separate segments although we contribute to QCII's segments. Our contribution to QCII's restructuring expense by segment includes \$66 million for wireline and \$5 million for other.

During the year ended December 31, 2003, we utilized \$30 million of the established reserves for severance payments made to employees that were terminated under the 2002 restructuring plan and \$6 million for real estate exit-related payments. QCII had identified 2,400 of our employees to be terminated as part of the 2002 plan, and as of December 31, 2003 these employee reductions were complete, with some severance payments extending into 2004. As the 2002 plan terminations were completed and actual costs were less than originally estimated, we reversed \$3 million of the 2002 plan reserves during the year ended December 31, 2003. The remaining 2002 plan reserve includes \$4 million for severance payments, which we expect to utilize in 2004 and \$17 million for real estate exit costs. The real estate exit reserves are expected to be utilized over the next several years. QCII had anticipated that 4,800 of our employees would be terminated as part of the 2001 plan. We have terminated 3,700 employees under this plan. During the year ended December 31, 2003, we utilized \$10 million of the 2001 plan reserves, primarily for real estate exit costs. As the employee severance-related activities relative to the 2001 plan were complete, the remaining combined reserve of \$11 million was reversed during the year ended December 31, 2003. Both the 2001 and 2002 plan reversals were necessary as actual costs for the plans were less than originally estimated.



During the year ended December 31, 2003, we utilized the remaining Merger-related reserve established during 2000.

## 2002 Activities

During the year ended December 31, 2002, in response to shortfalls in employee reductions as part of the 2001 restructuring plan (as discussed below) and due to continued declines in our revenue and general economic conditions, QCII identified employee reductions in various functional areas and permanently exited a number of operating and administrative locations. In connection with that restructuring, we established a restructuring reserve and recorded a charge of \$109 million to our 2002 consolidated statement of operations to cover the costs associated with these restructuring actions more fully described below.

		Year Ended December 31, 2002			
	January 1, 2002 Balance	Provisions	Utilization	Reversals	December 31, 2002 Balance
		(Dollars in millions)			
2002 restructuring plan and other	\$ —	\$ 109	\$ 49	\$ —	\$ 60
2001 restructuring plan	208	75	127	135	21
Merger-related	38	—	6	30	2
Total	\$ 246	\$ 184	\$ 182	\$ 165	\$ 83

The 2002 plan provision included \$79 million for severance costs and \$30 million for real estate exit costs. During the year ended December 31, 2002, \$42 million of the reserve was utilized for severance costs and \$7 million was utilized for real estate exit costs. Relative to the 2001 plan, during the year ended December 31, 2002, \$110 million of the reserve was utilized for severance costs and \$17 million was utilized for real estate exit costs. Also during the year ended December 31, 2002, we accrued an additional \$75 million for additional 2001 plan real estate exit costs and reversed \$135 million of 2001 plan severance and real estate exit reserves, primarily as actual 2001 plan terminations of 3,700 were lower than the 4,800 which were anticipated in the plan.

During the year ended December 31, 2002, we utilized \$6 million of Merger-related reserves established during 2000 and also reversed \$30 million of the Merger-related reserves as those employee reductions and contractual settlements were complete.

## 2001 Activities

During the year ended December 31, 2001, we established a reserve and charged to our consolidated statement of operations \$212 million for restructuring activities in conjunction with the QCII 2001 restructuring plan. This reserve was comprised of \$188 million for severance costs and \$24 million for real estate exit costs. During the year ended December 31, 2001, in relation to the Merger, we charged to our consolidated statement of operations \$114 million for additional contractual settlement, legal contingency and other related costs and \$6 million for additional severance and employee-related charges, net of reserve reversals. The additional provisions and reversals of our Merger-related costs were due to additional Merger-related activities and modifications to previously accrued Merger-related activities.

### ***Cumulative Plan Utilization***

The following table outlines our cumulative utilization of the 2003, 2002 and 2001 and restructuring and Merger-related plans, through December 31, 2003:

	December 31, 2003- Cumulative Utilization		
	Severance and Related	Real Estate Exit and Related	Total
	(Dollars in millions)		
2003 restructuring plan	\$ 20	\$ —	\$ 20
2002 restructuring plan	72	13	85
2001 restructuring plan	116	25	141
Merger-related	254	649	903
Total cumulative utilization	\$ 462	\$ 687	\$ 1,149

### **Note 8: Other Financial Information**

#### ***Accrued expenses and other current liabilities***

Accrued expenses and other current liabilities consist of the following:

	December 31,	
	2003	2002
	(Dollars in millions)	
Accrued property taxes and other operating taxes	\$ 321	\$ 357
Employee compensation	196	165
Current portion of state regulatory and legal liabilities	196	182
Accrued interest	121	140
Other	66	55
Restructuring	58	53
Total accrued expenses and other current liabilities	\$ 958	\$ 952

### **Note 9: Employee Benefits**

#### ***Pension, Post-retirement and Other Post-employment Benefits***

Our employees participate in the QCII pension, post-retirement and other post-employment benefit plans. The amounts contributed by us are not segregated or restricted to pay amounts due to our employees and may be used to provide benefits to other employees of QCII or its affiliates. The plan administrator allocates the cost of pension and post-retirement health care and life insurance benefits and required contributions to us. The allocation is based upon employee demographics of our employees compared to all the remaining participants. For further discussion of the QCII pension, post-retirement and other post-employment benefit plans please see the QCII annual report on Form 10-K for the year ended December 31, 2003 ("QCII 2003 Form 10-K").

In accordance with SFAS No. 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits", we are required to disclose the amount of our contributions to QCII relative to the QCII pension, post-retirement and other post-employment benefit plans. No pension funding was required during 2003 or 2002 and as of December 31, 2003 and 2002, the fair value of the assets in the qualified pension trust exceeded the accumulated benefit obligation of the qualified pension plan. In addition, we did not make any contributions to the post-retirement healthcare or life trusts in 2002; however, we did contribute \$8 million to the post-retirement healthcare trust in 2003. We expect to contribute approximately \$13 million to the post-retirement healthcare trust during 2004.

Our allocated pension credits for 2003, 2002 and 2001 were \$108 million, \$160 million and \$279 million, respectively. Our allocated post-retirement benefit costs for 2003, 2002 and 2001 were \$297 million, \$107 million and \$12 million, respectively. These allocated amounts represent our share of the pension credits and post-retirement benefit costs based on the actuarially determined amounts.

For 2003, the net pension expense allocated to cost of sales was \$127 million, and for 2002 and 2001 the net pension credit allocated to cost of sales was \$34 million and \$190 million, respectively. For 2003, the net pension expense allocated to Selling, General and Administrative ("SG&A") was \$62 million, and for 2002 and 2001 the net pension credit allocated to SG&A was \$19 million and \$77 million, respectively.

### ***Medicare Prescription Drug, Improvement and Modernization Act of 2003***

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("the Medicare Act") became law in the United States. The Medicare Act introduces a prescription drug benefit under Medicare as well as a Federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the Medicare benefit. In accordance with FASB Staff Position FAS No. 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," QCII elected to defer recognition of the effects of the Medicare Act in any measures of the benefit obligation or cost. Specific authoritative guidance on the accounting for the Federal subsidy is pending and that guidance, when issued, could require QCII and us to change previously reported information. Currently, QCII does not believe it will need to amend its plan to benefit from the Medicare Act. The measurement date used to determine pension and other postretirement benefit measures for the pension plan and the postretirement benefit plan is December 31.

### ***Other benefit plans***

#### ***401(k) plan***

QCII currently sponsors a defined contribution benefit plan covering substantially all management and occupational (union) employees. Under this plan, employees may contribute a percentage of their annual compensation to the plan up to certain maximums, as defined by the plan and by the Internal Revenue Service. Currently, QCII on our behalf, matches a percentage of our employee contributions in QCII common stock. We made cash contributions in connection with our employee's participation in QCII's 401(k) plan of \$5 million for 2002 and \$59 million for 2001. In addition, QCII, on our behalf, made contributions of QCII common stock valued at \$46 million in 2003 and \$44 million in 2002. QCII did not make any contributions of QCII common stock on our behalf in 2001.

## *Deferred compensation plans*

QCII sponsors several deferred compensation plans for a select group that includes certain of our current and former management and highly compensated employees, certain of which plans are open to new participants. Participants in these plans may, at their discretion, invest their deferred compensation in various investment choices, including QCII's common stock.

Our portion of QCII's deferred compensation obligation is included on our consolidated balance sheet in other long-term liabilities. Investment earnings, administrative expenses, changes in investment values and increases or decreases in the deferred compensation liability resulting from changes in the investment values are recorded in our consolidated statement of operations. Our deferred compensation liability in the QCII plan as of December 31, 2003 and 2002 was \$5 million and \$7 million, respectively. Our portion of QCII's deferred compensation plans' assets were \$1 million at December 31, 2003, and is included in other long-term assets on our consolidated balance sheets.

### **Note 10: Stock Incentive Plans**

#### *Stock Options*

Our employees participate in the QCII employee stock option plans. The QCII plans are stock-based compensation plans that permit the issuance of stock-based instruments including stock options, stock appreciation rights, restricted stock and phantom units, as well as substitute stock options and restricted stock awards.

QCII's stock option plans, in which our employees participate, are accounted for using the intrinsic-value method under which no compensation expense is recognized for options granted to employees with a exercise price that equals or exceeds the value of the underlying security on the measurement date. In certain instances, the exercise price has been established prior to the measurement date, in which event any excess of the stock price on the measurement date over the exercise price is recorded as deferred compensation and amortized over the service period during which the stock option award vests, in accordance with FIN No. 28. We recorded stock-based compensation expense of \$1 million, \$2 million and \$6 million in the years ended December 31, 2003, 2002 and 2001, respectively. For further discussion of QCII employee stock incentive plans see the QCII 2003 Form 10-K.

QCII charges us for stock-option compensation expense through a contribution to common stock for our share of the deferred compensation expense.

#### *Employee stock purchase plan*

Our employees may participate in QCII's Employee Stock Purchase Plan ("ESPP"). Under the terms of the ESPP, eligible employees may authorize payroll deductions of up to 15% of their base compensation, as defined, to purchase QCII's common stock at a price of 85% of the fair market value of the stock on the last trading day of the month in which the stock is purchased. In accordance with APB No. 25, we do not recognize compensation expense for the difference between the employees' purchase price and the fair market value of the stock.

## **Note 11: Stockholder's Equity**

### ***Common stock (no par value)***

We have one share of issued and outstanding common stock owned by QSC.

### ***Transfer of assets and other transfers with QSC***

In the normal course of business, we transfer assets to and from QSC. It is our policy to record these asset transfers as contributions or distributions, based on carrying values. QSC transferred to us \$6 million in stock compensation during 2001. We transferred net assets to QSC of \$8 million in 2001. During 2002, QSC transferred to us \$10 million of net assets, \$16 million of tax benefits on stock options and \$2 million for stock compensation. During 2003, QSC transferred to us \$8 million of net assets and \$1 million for stock compensation. During 2003 and 2002, we transferred to QSC \$173 million and \$110 million in tax benefits, respectively.

### ***Dividends***

We have historically declared and paid regular dividends to our parent, QSC, based on our consolidated net income. In August 2003, we modified our dividend practice to exclude the impact of our wireless subsidiary's net income (loss) on our consolidated earnings for purposes of determining the amount of regular dividends we declare and pay. As a result, we now declare and pay regular dividends based only on the earnings of our wireline operations.

We declared cash dividends to QSC of \$2.306 billion, \$805 million and \$1.407 billion during 2003, 2002 and 2001, respectively. The 2003 dividends declared include regular dividends of \$1.227 billion and dividends of \$1.079 billion relating to net income from prior periods that was not declared or paid as dividends in those periods. We plan to declare and make additional dividend payments in the future until all net income from wireline entities from prior periods has been declared and remitted as dividends. We estimate that the incremental amount (in addition to the \$1.079 billion declared in 2003) of such dividends will be approximately \$1.360 billion.

We paid cash dividends of \$2.880 billion and \$1.915 billion in 2003 and 2002, respectively. At December 31, 2003, we had \$200 million in dividends payable. In February 2004, we paid dividends of \$200 million. All dividends are paid to QSC, our parent.

### ***Contested liability trust***

We have established a contested liability trust, or grantor trust, related to the payment of certain contingent obligations. The assets in the trust set aside for payments of these contingencies are not legally restricted. During 2000, the trust was funded with a contribution of a note receivable of \$286 million. We recorded \$286 million as an increase to common stock, and the related \$286 million note receivable into common stock as well.

## Note 12: Income Taxes

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

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in millions)		
Current tax provision:			
Federal	\$ 318	\$ 464	\$ 153
State and local	37	51	16
	<u>355</u>	<u>515</u>	<u>169</u>
Deferred tax expense (benefit):			
Federal	132	(20)	570
State and local	29	(6)	99
	<u>161</u>	<u>(26)</u>	<u>669</u>
Provision for income taxes	<u>\$ 516</u>	<u>\$ 489</u>	<u>\$ 838</u>

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

	Years Ended December 31,		
	2003	2002	2001
	(in percent)		
Federal statutory income tax rate	35.0%	35.0%	35.0%
State income taxes—net of federal effect	3.2	2.3	3.3
Other	0.1	0.5	(1.0)
	<u>38.3%</u>	<u>37.8%</u>	<u>37.3%</u>

The components of the deferred tax assets and liabilities are as follows:

	December 31,	
	2003	2002
	(Dollars in millions)	
Property, plant and equipment	\$ (2,944)	\$ (2,540)
Intangible assets	(372)	(388)
Other deferred tax liabilities	(45)	(133)
	<u>(3,361)</u>	<u>(3,061)</u>
Total deferred tax liabilities		
Post-retirement benefits—net of pension	751	737
Allowance for doubtful accounts	76	86
Unamortized investment tax credit	45	49
Restructuring reserves	30	29
Other deferred tax assets	98	112
	<u>1,000</u>	<u>1,013</u>
Total deferred tax assets		
Net deferred tax liabilities	<u>\$ (2,361)</u>	<u>\$ (2,048)</u>



We paid \$135 million, \$646 million and \$523 million to QCII, through QSC, for income taxes in 2003, 2002 and 2001, respectively.

We had unamortized investment tax credits of \$114 million and \$125 million as of December 31, 2003 and 2002, respectively, which are included in other long-term liabilities on the consolidated balance sheets. These credits are amortized over the life of the related asset. Amortization of investment tax credits of \$11 million, \$10 million and \$19 million are included in the provision for income taxes for the years ended December 31, 2003, 2002 and 2001, respectively. At the end of 2003, we had \$13 million (\$8 million, net of federal income tax) of state investment tax credit carryforwards that will expire between 2010 and 2016, if not utilized.

In accordance with SFAS No. 109, "Accounting for Income Taxes", we have performed an evaluation of our deferred tax assets. It is our opinion that it is more likely than not that the deferred tax assets will be realized and should not be reduced by a valuation allowance.

#### **Note 13: Contribution to QCII Segments**

Our operations are integrated into and are part of the segments of the QCII consolidated group. The chief operating decision maker ("CODM") for QCII makes resource allocation decisions and assessments of financial performance for the consolidated group based on wireline, wireless and other segmentation. For more information about QCII's reporting segments, see the QCII 2003 Form 10-K. Our business contributes to the segments reported by QCII, but the QCII CODM reviews our financial information only in connection with this filing. Consequently, we do not provide discrete financial information for Qwest Corporation to a CODM on a regular basis. However, for reporting purposes only, we have separated our operating activities for all periods presented into segments in a manner consistent with the consolidated segment results regularly reviewed by QCII's CODM. This segment presentation excludes affiliate revenue and expenses that are eliminated in consolidation by QCII.



SFAS No. 146 established standards for reporting information about restructuring activities. Effective for exit or disposal activities initiated after December 31, 2002, SFAS No. 146 requires disclosure of the total amount of costs expected to be incurred in connection with these activities for each reportable segment. The SFAS 146 disclosure information is included in Note 7—Restructuring and Merger-related charges.

The revenues and expenses shown below are derived from transactions with external customers:

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in millions)		
Operating revenues:			
Wireline services	\$ 10,015	\$ 10,795	\$ 11,469
Wireless services	594	694	688
Other services	13	16	12
Total contribution to QCII segment revenue	\$ 10,622	\$ 11,505	\$ 12,169
Operating expenses:			
Wireline services	\$ 2,925	\$ 3,121	\$ 3,540
Wireless services	345	503	723
Other services	1,022	853	663
Total contribution to QCII segment operating expenses	\$ 4,292	\$ 4,477	\$ 4,926
Segment income (loss):			
Wireline services	\$ 7,090	\$ 7,674	\$ 7,929
Wireless services	249	191	(35)
Other services	(1,009)	(837)	(651)
Total contribution to QCII segment income (loss)	\$ 6,330	\$ 7,028	\$ 7,243
Capital expenditures:			
Wireline services	\$ 1,375	\$ 1,410	\$ 3,608
Wireless services	13	55	310
Other services	288	383	645
Total capital expenditures	1,676	1,848	4,563
Non-cash investing activities	(13)	(25)	(58)
Total contribution to QCII segment cash capital expenditures	\$ 1,663	\$ 1,823	\$ 4,505

Revenue and expenses are based on the types of products and services described below. Network infrastructure is designed to be scalable and flexible to handle multiple products and services. As a result, QCII does not allocate network infrastructure costs to individual product results. Direct administrative costs include sales, customer support, collections and marketing. Indirect administrative costs such as finance, information technology, real estate, legal, marketing services and human resources are included in the other services operating expenses. QCII manages indirect administrative services costs centrally; consequently, these costs are not allocated to wireline or wireless services. Similarly, depreciation, amortization, interest expense, interest income and other income (expense) are not allocated to either wireline or wireless services operating expenses.

Wireline services include revenue from the provision of voice services and data and Internet services. Voice services consist of local voice services (such as basic local exchange services, switching services, custom calling features, enhanced voice services, operator services, public telephone services, collocation services and revenues from the sales of customer premises equipment ("CPE"); IntraLATA long-distance voice services (long-distance services within our local service area); and access services (which are primarily wholesale switched access services). Access services revenue is generated principally from charges to interexchange carriers ("IXCs"), for use of our local network to connect their customers to their long-distance networks. An IXC is a telecommunications company that provides long-distance services to end-users by handling calls that are made from a phone exchange in one local access transport area ("LATA"), to an exchange in another LATA or between exchanges within a LATA. Data and Internet services include data services (such as traditional private lines, wholesale private lines, integrated services digital network, frame relay, asynchronous transfer mode and related CPE) and Internet services (such as digital subscriber line, Internet dial access, professional services and related CPE). Depending on the product or service purchased, a customer may pay an up-front fee, a monthly fee, a usage charge or a combination of these fees and charges.

Our wireless services are provided through our wholly owned subsidiary, Qwest Wireless. In August 2003, Qwest Wireless entered into a services agreement with a subsidiary of Sprint that allows us to resell Sprint wireless services, including access to Sprint's nationwide PCS wireless network, to consumer and business customers, primarily within our local service area. We began offering these Sprint services under our brand name in March 2004. Through Qwest Wireless, we continue to operate a PCS wireless network that serves select markets within our local service area, including Denver, Seattle, Phoenix, Minneapolis, Portland, Salt Lake City and other smaller markets. Our wireless customers who are currently being serviced through our proprietary wireless network will be transitioned onto Sprint's network over time.

We intend to transfer ownership of Qwest Wireless to an affiliate in the near future. After this transfer, we will no longer have significant wireless operations.

Other services revenue is predominately derived from subleases of some of our unused real estate assets, such as space in our office buildings, warehouses and other properties. Our other services expenses include unallocated corporate expenses for functions such as finance, information technology, real estate, legal, marketing services and human resources.

The following table reconciles our contribution to QCII segment operating income to our net income for each of the years ended December 31, 2003, 2002 and 2001:

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in millions)		
Total contribution to QCII segment income	\$ 6,330	\$ 7,028	\$ 7,243
Add:			
Affiliate revenue	639	411	368
Cumulative effect of change in accounting principle, net of taxes	219	—	—
Deduct:			
Affiliate expense	1,832	1,670	1,355
Depreciation	2,453	2,655	2,902
Intangible asset amortization	353	302	191
Asset impairment charges	230	829	49
Restructuring and other charges	57	49	212
Merger-related (credits) charges	—	(30)	120
Total other expense—net	697	670	537
Income tax expense	516	489	838
Net income	\$ 1,050	\$ 805	\$ 1,407

We do not have any single major customer that provides more than ten percent of the total of our revenues derived from external customers.

#### **Note 14: Related Party Transactions**

We purchase services from our affiliates, such as marketing and advertising, information technology, product and technical services as well as general support services. We provide to our affiliates telephony and data services, wireless and other services.

Our affiliates provide services and also contract services from third parties on our behalf. In the latter case, the third parties bill our affiliates who in turn charge us for our respective share of these third party expenses. Our affiliates charge us for services rendered by their employees applying a fully distributed costs ("FDC") methodology. FDC rates are determined using salary rates, including factors for taxes, employee benefits and facilities and overhead costs. These salary rates are charged to us based on hours worked or charges are allocated to us based on estimates.

We charge our affiliates based on tariffed rates for telephony and data services. We bill prevailing third-party rates for wireless services and for other services we bill either FDC or market rates.

We describe in further detail below the services provided by our affiliates.

#### **Marketing, Sales and Advertising**

Marketing, sales and advertising, which support preparation for joint marketing of our services, include the development of marketing and advertising plans, sales unit forecasts, market research, sales training and compensation plans.

### ***Information Technology Services***

Information technology services primarily include the labor cost of developing, testing and implementing the system changes necessary to support order entry, provisioning and billing of services, as well as the cost of improving, maintaining and operating our shared internal communications networks.

### ***Product and Technical Services***

Product and technical services relate to forecasting demand volumes and developing plans around network utilization and optimization, developing and implementing plans for overall product development, provisioning and customer care.

### ***General Support Services***

General support services include legal, regulatory, general finance and accounting, tax, human resources and executive support.

### ***Other***

This category includes the costs of miscellaneous services such as rental of office space, procurement and communications services.

Included in our consolidated statement of operations and balance sheets are the following:

	Year Ended December 31,		
	2003	2002	2001
	(Dollars in millions)		
Revenues—affiliates	\$ 639	\$ 411	\$ 368
Cost of sales—affiliates	\$ 442	\$ 380	\$ 337
SG&A—affiliates	\$ 1,390	\$ 1,290	\$ 1,018
Interest expense—net—affiliates	\$ 154	\$ 158	\$ 147
	As of December 31,		
	2003	2002	
	(Dollars in millions)		
Accounts receivable—affiliates	\$ 106	\$ 120	
Prepaid income taxes—QSC	\$ —	\$ 255	
Current borrowings—affiliates	\$ 2,118	\$ 1,888	
Accounts payable—affiliates	\$ 413	\$ 331	
Income taxes payable—QSC	\$ 154	\$ —	

## Note 15: Commitments and Contingencies

### Commitments

#### Future Contractual Obligations

The following table summarizes our future commitments, excluding repayments of debt, as of December 31, 2003:

	Payments Due by Period						Total
	2004	2005	2006	2007	2008	Thereafter	
	(Dollars in millions)						
Capital leases and other	\$ 16	\$ 7	\$ 2	\$ 1	\$ 1	\$ 9	\$ 36
Operating leases	152	147	110	100	85	488	1,082
Purchase commitment obligations	151	99	99	61	60	10	480
Total commitments	\$ 319	\$ 253	\$ 211	\$ 162	\$ 146	\$ 507	\$ 1,598

#### Capital Leases

We lease certain office facilities and equipment under various capital lease arrangements. Assets acquired through capital leases during 2003, 2002 and 2001 were \$9 million, \$16 million and \$58 million, respectively. Assets recorded under capitalized lease agreements included in property, plant and equipment consisted of \$57 million, \$243 million and \$454 million of cost, less accumulated amortization of \$27 million, \$153 million and \$260 million at December 31, 2003, 2002 and 2001, respectively.

The future minimum payments under capital leases as of December 31, 2003 are reconciled to our balance sheet as follows:

	Capital Lease Obligations
	(Dollars in millions)
Total minimum payments	\$ 36
Less: amount representing interest	(11)
Present value of minimum payments	25
Less: current portion	(14)
Long-term portion	\$ 11

#### Operating Leases

Certain office facilities, real estate and equipment are subject to operating leases. We also have easement (or right-of-way) agreements with railroads and public transportation authorities that are accounted for as operating leases. Rent expense under these operating leases was \$247 million, \$287 million and \$318 million during 2003, 2002 and 2001, respectively, net of sublease rentals of \$6 million, \$6 million and \$5 million respectively. Minimum operating lease payments have not been reduced by minimum sublease rentals of \$49 million due in the future under non-cancelable subleases. In 2003, 2002 and 2001, contingent rentals representing the difference between the fixed and variable rental payments were not material.

## **Purchase Commitment Obligations**

We have purchase commitments with Competitive Local Exchange Carriers ("CLECs"), IXC's and third-party vendors that require us to make payments to purchase network services, capacity and telecommunications equipment. These commitments require us to maintain minimum monthly and/or annual billings, in certain cases based on usage.

## **Letters of credit**

At December 31, 2003, the amount of letters of credit outstanding was \$3 million and we did not have any outstanding guarantees.

## ***Contingencies***

For descriptions of new matters that have arisen subsequent to December 31, 2003, please see Note 16—Subsequent Events.

## **Legal Proceedings Involving Qwest Corporation**

### ***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 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 of 1933, as amended ("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, or the Minnesota Commission, alleging that we, in contravention of federal and state law, failed to file interconnection agreements with the Minnesota Commission relating to certain of our wholesale customers, and thereby allegedly discriminated against other CLECs. On November 1, 2002, the Minnesota Commission issued a written order adopting in full a proposal by an administrative law judge that we committed 26 individual violations of federal law by failing to file, as required under section 252 of the Telecommunications Act, 26 distinct provisions found in 12 separate agreements with individual CLECs for regulated services in Minnesota. The order also found that we agreed to provide and did provide to McLeodUSA and Eschelon Telecom, Inc. discounts on regulated wholesale services of up to 10% that were not made available to other CLECs, thereby unlawfully discriminating against them. The order found we also violated state law, that the harm caused by our conduct extended to both customers and competitors, and that the damages to CLECs would amount to several million dollars for Minnesota alone.

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

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

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

Arizona, Colorado, New Mexico, Washington, Iowa and South Dakota have also initiated formal proceedings regarding our alleged failure to file required agreements in those states. 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 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 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., or Illuminet, a traffic aggregator, and several of its customers have filed complaints with regulatory agencies in Idaho, Nebraska, Iowa, North Dakota and New Mexico, alleging that they are entitled to refunds due to our purported improper implementation of tariffs governing certain signaling services we provide in those states. The commissions in Idaho and Nebraska have ruled in favor of Illuminet and awarded it \$1.5 million and \$4.8 million, respectively. We sought reconsideration in both states, which was denied, and subsequently we perfected appeals in both states. The proceedings in the other states and in states where Illuminet has not yet filed complaints could result in agency decisions requiring additional refunds. 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 auditor to perform an attestation review of our compliance with our divestiture of in-region InterLATA services and our ongoing compliance with Section 271 of the Telecommunications Act. In 2001, the FCC began an investigation of 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 QCII 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 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 Form 10-K for the year ended December 31, 2002, or the QCII 2002 Form 10-K. 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 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., or Genuity, 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.

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, or the Fourth Consolidated Complaint, which defendants moved to dismiss. On January 13, 2004, the United States District Court for the District of Colorado granted the defendants' motions to dismiss in part and denied them in part. In that order, the court allowed plaintiffs to file a proposed amended complaint seeking to remedy the pleading defects addressed in the court's dismissal order and ordered that discovery, which previously had been stayed during the pendency of the motions to dismiss, proceed regarding the surviving claims. On February 6, 2004, plaintiffs filed a Fifth Consolidated Amended Class Action Complaint, or the Fifth Consolidated Complaint. The Fifth Consolidated Complaint attempts to expand the putative class period previously alleged in the Fourth Consolidated Complaint, seeks to restore the claims dismissed by the court, including claims against certain individual defendants who were dismissed as defendants by the court's dismissal order, and to add additional individual defendants who have not been named as defendants in plaintiffs' previous complaints. The Fifth Consolidated Complaint also advances allegations related to a number of matters and transactions that were not pleaded in the earlier complaints. The Fifth Consolidated Complaint is purportedly brought on behalf of purchasers of publicly traded securities of 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, or the Exchange Act, that certain of the individual defendants are liable as control persons under section 20(a) of the Exchange Act, and that certain of the individual defendants sold some of their shares of 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, or the 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, or the QCII Board. The Fifth Consolidated Complaint seeks unspecified compensatory damages and other relief. However, counsel for plaintiffs has indicated that the purported class will seek damages in the tens of billions of dollars. On March 8, 2004, 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, or the Plan, from March 7, 1999 until the present. By court order, five of these putative class actions have been consolidated and the claims made by the plaintiff in the sixth case were subsequently included in the Second Amended and Consolidated Complaint, or the Second Consolidated Complaint, 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, or 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), or New Jersey, filed a lawsuit similar to the CalSTRS action in New Jersey Superior Court, Mercer County. On October 17, 2003, New Jersey filed an amended complaint alleging, among other things, that 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, or SURSI, filed a lawsuit similar to the CalSTRS and New Jersey lawsuits in the Circuit Court of Cook County, Illinois. SURSI filed suit against 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 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 violated state and federal securities laws and breached their fiduciary duty in connection with an investment by the plaintiff in securities of KPNQwest. QCII is a defendant in this lawsuit along with Qwest B.V., Joseph Nacchio and John McMaster, the former President and Chief Executive Officer of KPNQwest. The plaintiff trust claims to have lost \$10 million in its investment in KPNQwest. On January 27, 2004, the Arizona Superior Court granted QCII's motion to dismiss the state and federal securities law claims. On March 19, 2004, plaintiffs filed a second amended complaint asserting violations of the securities laws and other claims.

## **Note 16: Subsequent Events**

### ***Debt-related Matters***

On March 15, 2004, we notified the trustee of various series of our notes and debentures of our intention to redeem all \$100 million outstanding principal amount of our 5.65% Notes due November 1, 2004 and all \$40.8 million outstanding principal amount of our 39 Year 5.5% Debentures due June 1, 2005. The redemption date for each of these series of notes was May 1, 2004, at which time we funded the trustee with the \$140.80 million redemption amount and all related interest ceased to accrue.

### ***Dividends***

In the first quarter of 2004, we declared a dividend of \$1.360 billion relating to net income from prior periods that was not declared or paid as dividends in those periods. Through April 30, 2004, \$300 million of this dividend has been paid.

### ***Legal Matters***

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 rescissory damages, pre-judgment interest, fees and costs. On April 19, 2004, defendants filed motions to dismiss which are pending before the court.

On October 4, 2002, a putative class action was filed in the federal district court for the Southern District of New York against Willem Ackermans, the former Executive Vice President and Chief Financial Officer of KPNQwest, in which QCII was a major shareholder. The complaint alleges, on behalf of certain purchasers of KPNQwest securities, that Ackermans engaged in a fraudulent scheme and deceptive course of business in order to inflate KPNQwest revenue and securities. Ackermans was the only defendant named in the original complaint. On January 9, 2004, plaintiffs filed an amended complaint adding as defendants QCII, certain of QCII's former executives who were also on the supervisory board of KPNQwest, and others.

On March 22, 2004, Shriners Hospital for Children, or 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, or 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.

#### ***Capital contribution and transfer of ownership of Qwest Wireless.***

On April 30, 2004, our direct parent, QSC, made a capital contribution of \$2.1 billion to us. We in turn made a capital contribution of this same amount to Qwest Wireless, which used these proceeds to substantially pay off its borrowings. On May 1, 2004, we then transferred ownership of Qwest Wireless to an affiliate. Due to this transfer, we no longer have significant wireless operations. As a result, for all subsequent periods, we will account for the results of Qwest Wireless for prior periods as discontinued operations. Further we will no longer reflect the borrowings of Qwest Wireless on our balance sheet.

**Note 17: Quarterly Financial Data (Unaudited)**

	Quarterly Financial Data				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	(Dollars in millions)				
<b>2003</b>					
Operating revenue	\$ 2,876	\$ 2,821	\$ 2,822	\$ 2,742	\$ 11,261
Operating income	672	570	328	474	2,044
Net income	523	248	86	193	1,050
<b>2002</b>					
Operating revenue	\$ 3,068	\$ 3,002	\$ 2,948	\$ 2,898	\$ 11,916
Operating income (loss)	740	(230)	655	799	1,964
Net income (loss)	370	(253)	303	385	805

**First Quarter 2003**

Includes \$219 million of net income due to the cumulative effect of change in accounting principle.

**Third Quarter 2003**

Includes \$140 million after-tax charge for asset impairment under FAS No. 144.

**Second Quarter 2002**

Includes an after-tax charge of \$503 million for the impairment of assets (primarily property, plant and equipment) under FAS No. 144.

## **Independent Auditors' Report**

The Board of Directors and Stockholder  
Qwest Corporation:

The audits referred to in our report dated March 2, 2004, except for notes 15 and 16, as to which the date is April 30, 2004, included the related consolidated financial statement schedule as of December 31, 2003, and for each of the years in the three-year period ended December 31, 2003, included in the registration statement. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Denver, Colorado  
March 2, 2004

**QWEST CORPORATION**

**SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS**

(dollars in millions)

	Balance at beginning of period	Charged to expense	Deductions	Balance at end of period
Allowance for doubtful accounts:				
2003	\$ 140	\$ 175	\$ 183	\$ 132
2002	155	331	346	140
2001	81	278	204	155

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**PROSPECTUS**

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**\$1,500,000,000**

**Qwest Corporation**

**Exchange Offer for All Outstanding**

**8 <sup>7</sup> / 8 % Notes due 2012**

**(CUSIP Nos. 74913G AB1 and U749OR AA7)**

**for new**

**8 <sup>7</sup> / 8 % Notes due 2012**

**which have been registered under the Securities Act of 1933**

**, 2004**

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## PART II

### **Item 20. Indemnification of Directors and Officers**

The following summaries are subject to the complete text of the statutes and organizational documents of the registrant described below and are qualified in their entirety by reference thereto. Qwest Corporation ("QC"), the issuer of the notes, is a Colorado corporation.

The Bylaws of QC provide for the indemnification of directors and officers to the extent permissible under applicable law. Section 7-109-102 of the Colorado Business Corporation Act (the "CBCA") specifies the circumstances under which a corporation may indemnify its directors, officers, employees or agents. For acts done in a person's "official capacity," the CBCA generally requires that an act be done in good faith and in a manner reasonably believed to be in the best interests of the corporation. In all other civil cases, the person must have acted in good faith and in a way that was not opposed to the corporation's best interests. In criminal actions or proceedings, the CBCA imposes an additional requirement that the actor had no reasonable cause to believe his conduct was unlawful. In any proceeding by or in the right of the corporation, or charging a person with the improper receipt of a personal benefit, no indemnification, except for court-ordered indemnification for reasonable expenses incurred, can be made. Indemnification is mandatory when any director or officer is wholly successful, on the merits or otherwise, in defending any civil or criminal proceeding. The rights granted by the Bylaws of QC will not be deemed exclusive of any other rights to which those seeking indemnification, contribution, or advancement of expenses may be entitled under any statute, articles of incorporation, agreement, contract of insurance, vote of shareholders or disinterested directors, or otherwise. The rights of indemnification and advancement of expenses provided by or granted pursuant to the Bylaws of QC will continue as to a person who has ceased to be an indemnified representative in respect of matters arising before such time and will inure to the benefit of the heirs, executors, administrators, and personal representatives of such a person.

The directors and officers of QC are covered by insurance policies insuring them against certain liabilities.

### **Item 21. Exhibits and Financial Statement Schedules**

#### *(a) Exhibits*

See the Exhibit Index attached to this Registration Statement and incorporated herein by reference.

#### *(b) Financial Statement Schedules*

Schedule II—Valuation and Qualifying Accounts

### **Item 22. Undertakings**

The undersigned registrant hereby undertakes to respond to requests for information that is incorporated by reference into the prospectus pursuant to Item 4, 10(b), 11 or 13 of this Form, within one business day of the receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.

The undersigned registrant hereby undertakes to supply by means of post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

## SIGNATURES

Pursuant to the requirements of the Securities Act, Qwest Corporation has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Denver, State of Colorado, on May 3, 2004.

### QWEST CORPORATION

By: /s/ OREN G. SHAFFER

Name: Oren G. Shaffer

Title: Vice Chairman and Chief Financial Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement has been signed below by the following persons in the capacities and on the dates indicated.

Name	Title	Date
/s/ RICHARD C. NOTEBAERT	Director, Chairman and Chief Executive Officer (Principal Executive Officer)	May 3, 2004
Richard C. Notebaert		
/s/ OREN G. SHAFFER	Director, Vice Chairman and Chief Financial Officer (Principal Financial Officer)	May 3, 2004
Oren G. Shaffer		
/s/ JOHN W. RICHARDSON	Controller and Senior Vice President (Principal Accounting Officer)	May 3, 2004
John W. Richardson		

## EXHIBIT INDEX

Exhibit No.	Description
(3.1)	Restated Articles of Incorporation of Qwest Corporation (incorporated by reference to Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 1997, File No. 1-3040).
(3.2)	Articles of Amendment to the Articles of Incorporation of Qwest Corporation (incorporated by reference to Qwest Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, File No. 1-3040).
(3.3)	Amended and Restated Bylaws of Qwest Corporation (incorporated by reference to Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 2002, File No. 1-3040).
(4.1)	Indenture, dated as of October 15, 1999, by and between Qwest Corporation and Bank One Trust Company, National Association as trustee (incorporated by reference to Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 1999, File No. 1-3040).
(4.2)	Registration Rights Agreement, dated March 12, 2002, by and among Qwest Corporation and the initial purchasers named therein (incorporated by reference to Qwest Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, File No. 1-3040).
4.3	Officer's Certificate of Qwest Corporation, dated March 12, 2002 (including form of notes).
5.1	Opinion of Gibson, Dunn & Crutcher LLP.*
(10.1)	Indenture, dated as of April 15, 1990, by and between Mountain States Telephone and Telegraph Company and The First National Bank of Chicago (incorporated by reference to Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 2002, File No. 1-3040).
(10.2)	First Supplemental Indenture, dated as of April 16, 1991, by and between U S WEST Communications, Inc. and The First National Bank of Chicago (incorporated by reference to Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 2002, File No. 1-3040).
(10.3)	Purchase Agreement, dated as of June 5, 2000, among U S West Communications, Inc. and Lehman Brothers Inc., Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Banc of America Securities LLC, and J.P. Morgan Securities Inc., as Representatives of the Initial Purchasers listed therein (incorporated by reference to Qwest Corporation's Form S-4 filed on October 11, 2000, File No. 333-47772).
(10.4)	Term Loan Agreement, dated as of June 9, 2003, by and among Qwest Corporation, the Lenders listed therein, and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, as sole book-runner, joint lead arranger and syndication agent, and Credit Suisse First Boston, acting through its Cayman Islands branch as joint lead arranger and administrative agent, and Deutsche Bank Trust Company Americas, as documentation agent and Deutsche Bank Securities, Inc. as arranger (incorporated by reference to Qwest Corporation's Current Report on Form 8-K, dated June 10, 2003, File No. 1-3040).
12.1	Statement of Computation of Ratio of Earnings to Fixed Charges.
21.1	Subsidiaries of the Registrant.
23.1	Consent of Gibson, Dunn & Crutcher LLP (included in Exhibit 5.1).*

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23.2	Consent of KPMG LLP.
25.1	Statement of Eligibility of Trustee, J.P. Morgan Trust Company, National Association (as successor in interest to Bank One Trust Company, N.A.), on Form T-1.
99.1	Form of Letter of Transmittal.
99.2	Substitute Form W-9 and Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9.
99.3	Form of Notice of Guaranteed Delivery.



99.4 Form of Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.

99.5 Form of Letter to Clients for Use by Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.

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( ) Previously filed.

\* To be filed by pre-effective amendment hereto.



**QWEST CORPORATION**  
*Officers' Certificate*

Pursuant to Sections 2.02, 2.03 and 11.04 of the Indenture, dated as of October 15, 1999 (the "Indenture"), between Qwest Corporation (the "Corporation") and Bank One Trust Company, National Association, as trustee (the "Trustee"), each of the undersigned, the President and the Vice President and Controller of the Corporation, hereby certifies, on the Corporation's behalf, as follows:

(1) The issuance of Securities of the series designated as the "8 <sup>7</sup> / 8 % Notes due March 15, 2012" in an aggregate principal amount of \$1,500,000,000 (the "Notes") have been approved and authorized in accordance with the provisions of the Indenture by resolutions adopted by the Board of Directors of the Corporation by unanimous written consent effective as of March 7, 2002; such resolutions have not been amended, modified or rescinded and remain in full force and effect; and such resolutions are the only resolutions adopted by the Corporation's Board of Directors, or any committee of such Board of Directors, relating to the Notes;

(2) The Notes are being sold by the Corporation pursuant to an Offering Memorandum, dated March 7, 2002, as supplemented by the Supplement to Confidential Offering Memorandum, dated March 11, 2002 (the "Offering Memorandum");

(3) The terms of the series of Notes shall be as follows:

- (a) The title of the Notes is "8 <sup>7</sup> / 8 % Notes due March 15, 2012".
  - (b) The Notes are to be issued in an aggregate principal amount of \$1,500,000,000.
  - (c) The principal amount of the Notes shall be payable on March 15, 2012.
  - (d) The Notes shall bear interest at a rate of 8 <sup>7</sup> / 8 % per annum, payable as set forth in the Notes attached hereto as Appendix A which is hereby incorporated in and expressly made a part of this Officers' Certificate.
  - (e) Provisions relating to form, transfer and exchange of the Notes are set forth in Appendix A. The certificates for the Notes shall be in substantially the form of Appendix A.
  - (f) The Notes will be issued and transferable only in denominations of \$1,000 or any amount in excess thereof which is an integral multiple of \$1,000. The Notes may be issued in book-entry form and, if so issued, will be represented by Global Notes (as defined in Appendix A) delivered to the Depositary (as defined in Appendix A), and recorded in the book-entry system maintained by the Depositary, all in accordance with the provisions set forth in Appendix A.
  - (g) Payments of principal, premium, if any, and interest on the Notes will be made to the Depositary, or its nominee, as the case may be, as the registered owner or holder of the Global Notes. In the event that any of the Notes are issued in certificated form in exchange for the Global Notes, as set forth in Appendix A, principal and interest thereon will be payable at the office of the Paying Agent in The City of New York designated for such purpose; provided that payment of interest, other than interest payable at maturity or upon redemption, may be made at the option of the Corporation by check mailed by the Paying Agent to the address of the person entitled thereto as shown on the debt securities register.
  - (h) The Trustee shall be the Registrar and initial transfer agent for the Notes (subject to the Corporation's right to remove the Trustee as such transfer agent and, from time to time, to designate one or more other transfer agents and to rescind from time to time any such designations).
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- (i) The Notes are redeemable at the option of the Corporation as described in the Offering Memorandum. The Notes will not be subject to any sinking fund.
- (j) The Notes shall be sold by the Corporation to Credit Suisse First Boston Corporation, Banc of America Securities LLC, Lehman Brothers Inc., ABN AMRO Incorporated, Commerzbank Capital Markets Corp. and First Union Securities, Inc., and the several Initial Purchasers named in Schedule I of the Purchase Agreement (collectively, the "Initial Purchasers") dated March 7, 2002 (the "Purchase Agreement"), among the Company and the Initial Purchasers. The Notes will be sold to the Initial Purchasers at a price equal to 96.1054% of the principal amount thereof; the Initial Purchasers will offer the Notes from time to time for sale in one or more negotiated transactions, or otherwise, at market prices prevailing at the time of sale, at prices related to such market prices or at negotiated prices.

(4) All covenants or conditions precedent provided for in the Indenture relating to the establishment of the series of Securities herein described, the terms of such series, and the authentication of the Notes have been complied with.

Each of the undersigned states that he has read and is familiar with the provisions of Article Two of the Indenture relating to the issuance of Securities thereunder; that he is generally familiar with the other provisions of the Indenture and with the affairs of the Corporation and its corporate acts and proceedings; and that in his opinion, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not the covenants and conditions referred to above have been complied with.

Debevoise & Plimpton, as counsel for the Initial Purchasers, and Holme Roberts & Owen LLP and O'Melveny & Myers LLP as counsel for the Company, may each rely upon this certificate in delivering their respective opinions pursuant to Section 6(j), 6(e) and 6(f), respectively, of the Purchase Agreement.

Capitalized terms used herein and not otherwise defined herein have the meanings specified in the Indenture.

[The remainder of this page intentionally left blank.]

IN WITNESS WHEREOF, we have hereunto signed our names and affixed the seal of the Corporation.

Dated as of March 12, 2002

By: /s/ JAMES A. SMITH

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Name: James A. Smith  
Title: President

By: /s/ BRYAN TREADWAY

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Name: Bryan Treadway  
Title: Vice President and Controller

## FORM OF RULE 144A GLOBAL NOTE

TRANSFERS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO THE DEPOSITORY TRUST COMPANY (55 WATER STREET, NEW YORK, NEW YORK) ("DTC"), NOMINEES OF DTC OR A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE, AND TRANSFERS OF PORTIONS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH HEREIN AND IN THE OFFICERS' CERTIFICATE OF THE COMPANY (AS DEFINED BELOW) DATED MARCH 12, 2002 PURSUANT TO THE INDENTURE REFERRED TO HEREIN.

UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF DTC, TO THE COMPANY (AS DEFINED BELOW) OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO OR SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO, OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF IS DEEMED TO HAVE AGREED TO BE BOUND BY THE PROVISIONS OF A REGISTRATION RIGHTS AGREEMENT AMONG THE COMPANY AND THE INITIAL PURCHASERS NAMED THEREIN, DATED AS OF MARCH 12, 2002 (THE "REGISTRATION RIGHTS AGREEMENT"). THE COMPANY WILL PROVIDE A COPY OF THE REGISTRATION RIGHTS AGREEMENT TO A HOLDER WITHOUT CHARGE UPON WRITTEN REQUEST TO THE COMPANY AT ITS PRINCIPAL PLACE OF BUSINESS.

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF AGREES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH NOTE, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") WHICH IS TWO YEARS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE COMPANY OR ANY AFFILIATE THEREOF WAS THE OWNER OF THIS NOTE (OR ANY PREDECESSOR OF THIS NOTE), ONLY (A) TO THE COMPANY, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THIS NOTE IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"), TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A) THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE TRUSTEE'S (AS DEFINED BELOW) RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D) OR (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY

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TO EACH OF THEM. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.

QWEST CORPORATION  
8 <sup>7</sup> / 8 % Notes due March 15, 2012

QWEST CORPORATION, a corporation duly organized and existing under the laws of the State of Colorado (such corporation, and its successors and assigns under the Indenture hereinafter referred to, being herein called the "Company"), for value received, hereby promises to pay to Cede & Co., or registered assigns, the principal sum of

(\$ \_\_\_\_\_) (or such lesser amount as shall be listed on the Schedule of Increases or Decreases in Global Note attached hereto) on March 15, 2012 (the "Maturity Date"), unless previously redeemed on any Redemption Date (as defined below), by wire transfer of immediately available funds of such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts and to pay interest thereon semiannually on each March 15 and September 15, commencing September 15, 2002 (each, an "Interest Payment Date"), and on the Maturity Date at the rate per annum specified in the title of this Note, from March 12, 2002 (or from the most recent Interest Payment Date to which interest has been paid or duly provided for) until payment of said principal sum has been made or duly provided for. Notwithstanding the foregoing, if the Company shall default in the payment of interest due on any Interest Payment Date, then this Note shall bear interest from the most recent Interest Payment Date to which interest has been paid or, if no interest has been paid on this Note, from March 12, 2002. The interest so payable on any Interest Payment Date, subject to certain exceptions provided in the Indenture referred to herein, will be paid to the person in whose name this Note shall be registered at the close of business on the fifteenth day immediately prior to such Interest Payment Date or Maturity Date. If any Interest Payment Date, Maturity Date or redemption date is a Legal Holiday (as defined in the Indenture) in New York, New York, the required payment shall be made on the next succeeding day that is not a Legal Holiday as if it was made on the date such payment was due and no interest will accrue on the amount so payable for the period from and after such Interest Payment Date, Maturity Date or redemption date, as the case may be, to such next succeeding day. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months.

This Note is one of the duly authorized series of Securities of the Company, designated as the Company's "8 <sup>7</sup> / 8 % Notes due March 15, 2012" (the "Notes"), initially limited to the aggregate principal amount of \$1,500,000,000, all issued or to be issued under and pursuant to an Indenture dated as of October 15, 1999, as amended, modified or supplemented from time to time (as so amended, modified or supplemented, the "Indenture"), duly executed and delivered by the Company to Bank One Trust Company, National Association, as trustee (hereinafter referred to as the "Trustee"), to which Indenture and all Indentures supplemental thereto reference is hereby made for a description of the rights, limitation of rights, obligations, duties and immunities thereunder of the Trustee, the Company and the Holders (the words "Holders" or "Holder" meaning the registered holders or registered holder of the Notes). Exchange Notes (as such term is defined in the Registration Rights Agreement referred to below) shall be deemed to be of the same series as the Notes for purposes of the Indenture.

The Holder of this Note is entitled to the benefits of the Registration Rights Agreement, dated as of March 12, 2002, among the Company and the Initial Purchasers named therein (as the same may be amended from time to time, the "Registration Rights Agreement"). In the event that (i) the Exchange Offer Registration Statement (as such term is defined in the Registration Rights Agreement) is not filed with the Securities and Exchange Commission (the "Commission") on or prior to the 150<sup>th</sup> calendar day following March 12, 2002 (the "Closing Date"), (ii) the Exchange Offer Registration



Statement has not been declared effective by the Commission on or prior to the 210<sup>th</sup> calendar day following the Closing Date, (iii) the Exchange Offer (as such term is defined in the Registration Rights Agreement) is not consummated or a Shelf Registration Statement as such term is defined in the Registration Rights Agreement) is not declared effective by the Commission on or prior to the 240<sup>th</sup> calendar day following the Closing Date or (iv) the Shelf Registration Statement has been declared effective but such Shelf Registration Statement ceases to be effective or the Prospectus (as such term is defined in the Registration Rights Agreement) ceases to be usable for resales (A) at any time prior to the expiration of the Effectiveness Period (as such term is defined in the Registration Rights Agreement) or (B) if related to corporate developments, public filings or similar events or to correct a material misstatement or omission in the Prospectus, for more than 60-days (whether or not consecutive) in any twelve-month period, then in each such case the Special Interest Premium (as such term is defined in the Registration Rights Agreement) shall accrue in respect of this Note from and including the next calendar day following each of (a) such 150-day period in the case of clause (i) above, (b) such 210-day period in the case of clause (ii) above, (c) such 240-day period in the case of clause (iii) above, and from and including such day (in the case of clause (iv)(A) above), or the 61st day after (in the case of clause (iv)(B) above), such Shelf Registration Statement ceases to be effective or the Prospectus ceases to be usable for resales, in each case at a rate equal to 0.25% per annum. Any Special Interest Premium due will be payable in cash on the next succeeding March 15 or September 15, as the case may be, to Holders on the relevant Regular Record Dates for the payment of interest. The aggregate amount of the Special Interest Premium in respect of this Note payable pursuant to the above provisions shall in no event exceed 0.25% per annum; provided, however, that if the Exchange Offer Registration Statement is not declared effective on or prior to the 240<sup>th</sup> calendar day following the Closing Date, and the Company shall request the Holder of this Note to provide the information called for by the Registration Rights Agreement for inclusion in the Shelf Registration Statement, this Note, if owned by a Holder who does not deliver such information to the Company when required pursuant to the Registration Rights Agreement, will not be entitled to any such Special Interest Premium for any day after the 240<sup>th</sup> day following the Closing Date. Upon (1) the filing of the Exchange Offer Registration Statement after the 150-day period described in clause (i) above, (2) the effectiveness of the Exchange Offer Registration Statement after the 210-day period described in clause (ii) above, (3) the consummation of the Exchange Offer or the effectiveness of a Shelf Registration Statement, as the case may be, after the 240-day period described in clause (iii) above or (4) the earlier of (x) the return to effectiveness of the Shelf Registration Statement or (y) the usability of the Prospectus for resales or (z) the expiration of the Effectiveness Period (as such term is defined in the Registration Rights Agreement) (in the case of clause (iv) above), the interest rate on this Note from the date of such filing, effectiveness, consummation or expiration of the applicable time period, as the case may be, will be reduced to the original interest rate of  $8\frac{7}{8}\%$  per annum. The Company shall promptly provide the Trustee with notice of any change in the interest rate borne by this Note.

The Notes shall be redeemable at the option of the Company in whole at any time or in part from time to time, at a redemption price equal to the greater of (i) 100% of the principal amount of this Note to be redeemed or (ii) the sum, as determined by the Quotation Agent (as defined below), of the present values of the principal amount of this Note to be redeemed and the remaining scheduled payments of interest on the principal amount of this Note to be redeemed from the redemption date to March 15, 2012 (the "Remaining Life"), discounted from their respective scheduled payment dates to the redemption date on a semiannual basis (assuming a 360-day year consisting of 30-day months) at the Treasury Rate (as defined below) plus 50 basis points, plus, in either case, accrued interest thereon to the date of redemption.

"Comparable Treasury Issue" means the United States Treasury security selected by the Quotation Agent as having a maturity comparable to the Remaining Life that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity with the Remaining Life.

"Comparable Treasury Price" means, with respect to any redemption date, the average of two Reference Treasury Dealer Quotations for such redemption date.

"Quotation Agent" means the Reference Treasury Dealer appointed by the Company.

"Reference Treasury Dealer" means each of Credit Suisse First Boston Corporation and Lehman Brothers Inc., and their successors; *provided, however*, that if any of the foregoing shall cease to be a primary U.S. Government securities dealer in New York City (a "Primary Treasury Dealer"), the Company shall substitute therefor another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third business day preceding such redemption date.

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semiannual yield to maturity of the Comparable Treasury Issue, calculated on the third business day preceding such redemption date using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

Notice of any redemption will be mailed not less than 15 nor more than 60 calendar days before the redemption date to the Holder hereof at its registered address. Unless the Company defaults in payment of the redemption price, on and after the redemption date interest will cease to accrue on the principal amount of this Note.

If money sufficient to pay the redemption price with respect to and accrued interest on the principal amount of this Note to be redeemed on the redemption date is deposited with the Trustee on or before the redemption date and certain other conditions are satisfied, then on and after such date, interest will cease to accrue on the principal amount of this Note.

Except as provided above, this Note is not redeemable by the Company prior to maturity and is not subject to any sinking fund.

In case an Event of Default shall occur and be continuing, the principal hereof may be declared, and upon such declaration shall become, due and payable in the manner, with the effect and subject to the conditions provided in the Indenture.

The Indenture contains provisions permitting the Company and the Trustee, with the written consent of the Holders of a majority in principal amount of the outstanding Securities of each series affected by a supplemental indenture (with each series voting as a class), to enter into a supplemental indenture to add any provisions to or to change or eliminate any provisions of the Indenture or of any supplemental indenture or to modify, in each case in any manner not covered by provisions in the Indenture relating to amendments and waivers without the consent of Holders, the rights of the Holders of each such series. The Holders of a majority in principal amount of the outstanding Securities of each series affected by such waiver (with each series voting as a class), by notice to the Trustee, may waive compliance by the Company with any provision of the Indenture, any supplemental indenture or the Securities of any such series, except a Default in payment of the principal of or interest on any Security. However, without the consent of each Holder affected, an amendment or waiver may not: (1) reduce the amount of Securities whose Holders must consent to an amendment or waiver; (2) change the rate of or change the time for payment of interest on any Security; (3) change the principal of or change the fixed maturity of any Security; (4) waive a Default in the payment of the principal of or interest on any Security; (5) make any Security payable in money other than that stated in the Security; or (6) make any change in the provisions of the Indenture; (i) with respect to the rights of the Holders of a majority in principal amount of any series of Securities, by notice to the Trustee, to

waive an existing Default with respect to that series and its consequences; (ii) with respect to the right of any Holder of a Security to receive payment of principal of and interest on the Security, on or after the respective due dates expressed in the Security, the right of any Holder of a coupon to receive payment of interest due as provided in such coupon, or the right to bring suit for enforcement of any such payments on or after their respective dates; and (iii) described in this sentence.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of, premium, if any, and interest on this Note at the place, at the respective times, at the rate, and in the coin or currency herein prescribed.

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

The laws of the State of New York shall govern the Indenture and this Note.

Ownership of this Note shall be proved by the register for the Notes kept by the Registrar. The Company, the Trustee and any agent of the Company may treat the person in whose name a Note is registered as the absolute owner thereof for all purposes.

Terms used herein without definition that are defined in the Indenture shall have the meanings assigned to them in the Indenture.

Unless the Certificate of Authentication hereon has been executed by the Trustee under the Indenture referred to herein by the manual signature of one of its authorized officers, or on behalf of the Trustee by the manual signature of an authorized officer of the Trustee's authenticating agent, this Note shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

**IN WITNESS WHEREOF**, the Company has caused this instrument to be duly executed, manually or by fascimile and its corporate seal or a facsimile of its corporate seal to be imprinted herein.

Date: March 12, 2002

(SEAL)

QWEST CORPORATION

By: \_\_\_\_\_

Name:  
Title:

By: \_\_\_\_\_

Name:  
Title:

CERTIFICATE OF AUTHENTICATION

This is one of the Notes of the series designated herein, issued under the Indenture described herein.

BANK ONE TRUST COMPANY, NATIONAL ASSOCIATION,  
as Trustee

By: \_\_\_\_\_

Authorized Signatory

ASSIGNMENT FORM

FOR VALUE RECEIVED, the undersigned hereby sell(s), assign(s) and transfer(s) unto

---

Please insert social security number or other identifying number of assignee:

---

Please print or type name and address (including zip code) of assignee:

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the within Note and all rights thereunder, hereby irrevocably constituting and appointing  
Corporation on the books of Qwest Corporation, with full power of substitution in the premises.

---

attorney to transfer said Note of Qwest

Dated:

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NOTICE: The signature to this assignment must correspond with the name as written upon the face of this Note in every particular without alteration or enlargement or any change whatsoever.

CERTIFICATE TO BE DELIVERED UPON  
EXCHANGE OR REGISTRATION OF TRANSFER

This certificate relates to \$ \_\_\_\_\_ principal amount of Notes held in (check applicable space) \_\_\_\_\_ book-entry or \_\_\_\_\_ definitive form by the undersigned.

The undersigned (Check one box below):

☐ has requested the Trustee by written order to deliver in exchange for its beneficial interest in the Note held by the Depository a Note or Notes in definitive, registered form of authorized denominations and an aggregate principal amount equal to its beneficial interest in such Note (or the portion thereof indicated above); or

☐ has requested the Trustee by written order to exchange or register the transfer of a Note or Notes.

In connection with any transfer of any of the Notes evidenced by this certificate occurring prior to the expiration of the period referred to in Rule 144(k) under the Securities Act, the undersigned confirms that such Notes are being transferred in accordance with its terms;

CHECK ONE BOX BELOW

☐ (1) to the Company; or

☐ (2) pursuant to an effective registration statement under the Securities Act; or

☐ (3) inside the United States to a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act) that purchases for its own account or for the account of a qualified institutional buyer to whom notice is given that such transfer is being made in reliance on Rule 144A, in each case pursuant to and in compliance with Rule 144A under the Securities Act; or

☐ (4) outside the United States in an offshore transaction within the meaning of Regulation S under the Securities Act in compliance with Rule 904 under the Securities Act; or

☐ (5) pursuant to another available exemption from registration requirements of the Securities Act.

Unless one of the boxes is checked, the Trustee will refuse to register any of the Notes evidenced by this certificate in the name of any person other than the registered holder thereof; provided, however, that if box (4) or (5) is checked, the Trustee may require, prior to registering any such transfer of the Notes, such legal opinions, certifications and other information as the Company and the Trustee has reasonably requested to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Date: \_\_\_\_\_

\_\_\_\_\_  
SIGNATURE OR SIGNATURE GUARANTEE:

NOTICE: Signature must be guaranteed by a participant in a recognized signature guaranty medallion program or other signature guarantor acceptable to the Trustee.

TO BE COMPLETED BY PURCHASER IF (3) ABOVE IS CHECKED.

The undersigned represents and warrants that it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act, and is aware that the sale to it is being made in reliance on Rule 144A and acknowledges that it has received such information regarding the Company as the undersigned has requested pursuant to Rule 144A or

has determined not to request such information and that it is aware that the transferor is relying upon the undersigned's foregoing representations in order to claim this exemption from registration provided by Rule 144A.

Dated:

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NOTICE: To be executed by an executive officer

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*SCHEDULE OF INCREASES OR DECREASES IN GLOBAL NOTE*

The following increases or decreases in this Global Note have been made:

Principal amount of this Global Note as of March 12, 2002	Date Exchange Made	Change in Principal Amount of this Global Note due to Exchange	Principal Amount of this Global Note Following such Exchange	Notation made by or on behalf of the Company
\$				



## FORM OF REGULATION S GLOBAL NOTE

TRANSFERS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO THE DEPOSITORY TRUST COMPANY (55 WATER STREET, NEW YORK, NEW YORK) ("DTC"), NOMINEES OF DTC OR A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE, AND TRANSFERS OF PORTIONS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH HEREIN AND IN THE OFFICERS' CERTIFICATE OF THE COMPANY (AS DEFINED BELOW) DATED MARCH 12, 2002 PURSUANT TO THE INDENTURE REFERRED TO HEREIN.

UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF DTC, TO THE COMPANY (AS DEFINED BELOW) OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO OR SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO, OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF IS DEEMED TO HAVE AGREED TO BE BOUND BY THE PROVISIONS OF A REGISTRATION RIGHTS AGREEMENT AMONG THE COMPANY AND THE INITIAL PURCHASERS NAMED THEREIN, DATED AS OF MARCH 12, 2002 (THE "REGISTRATION RIGHTS AGREEMENT"). THE COMPANY WILL PROVIDE A COPY OF THE REGISTRATION RIGHTS AGREEMENT TO A HOLDER WITHOUT CHARGE UPON WRITTEN REQUEST TO THE COMPANY AT ITS PRINCIPAL PLACE OF BUSINESS.

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF AGREES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH NOTE, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") WHICH IS TWO YEARS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE COMPANY OR ANY AFFILIATE THEREOF WAS THE OWNER OF THIS NOTE (OR ANY PREDECESSOR OF THIS NOTE), ONLY (A) TO THE COMPANY, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THIS NOTE IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"), TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A) THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE TRUSTEE'S (AS DEFINED BELOW) RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D) OR (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY

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TO EACH OF THEM. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.

THE HOLDER OF THIS NOTE BY ACCEPTANCE HEREOF ALSO AGREES, REPRESENTS AND WARRANTS THAT IF IT IS A PURCHASER IN A SALE THAT OCCURS OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S OF THE SECURITIES ACT, IT ACKNOWLEDGES THAT, UNTIL EXPIRATION OF THE "40-DAY DISTRIBUTION COMPLIANCE PERIOD" WITHIN THE MEANING OF RULE 903 OF REGULATION S, ANY OFFER OR SALE OF THIS NOTE SHALL NOT BE MADE BY IT TO A U.S. PERSON TO FOR THE ACCOUNT OR BENEFIT OF A U.S. PERSON WITHIN THE MEANING OF RULE 902(k) UNDER THE SECURITIES ACT."

QWEST CORPORATION  
8 <sup>7</sup> / 8 % Notes due March 15, 2012

QWEST CORPORATION, a corporation duly organized and existing under the laws of the State of Colorado (such corporation, and its successors and assigns under the Indenture hereinafter referred to, being herein called the "Company"), for value received, hereby promises to pay to Cede & Co., or registered assigns, the principal sum of

(\$ \_\_\_\_\_) (or such lesser amount as shall be listed on the Schedule of Increases or Decreases in Global Note attached hereto) on March 15, 2012 (the "Maturity Date"), unless previously redeemed on any Redemption Date (as defined below), by wire transfer of immediately available funds of such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts and to pay interest thereon semiannually on each March 15 and September 15, commencing September 15, 2002 (each, an "Interest Payment Date"), and on the Maturity Date at the rate per annum specified in the title of this Note, from March 12, 2002 (or from the most recent Interest Payment Date to which interest has been paid or duly provided for) until payment of said principal sum has been made or duly provided for. Notwithstanding the foregoing, if the Company shall default in the payment of interest due on any Interest Payment Date, then this Note shall bear interest from the most recent Interest Payment Date to which interest has been paid or, if no interest has been paid on this Note, from March 12, 2002. The interest so payable on any Interest Payment Date, subject to certain exceptions provided in the Indenture referred to herein, will be paid to the person in whose name this Note shall be registered at the close of business on the fifteenth day immediately prior to such Interest Payment Date or Maturity Date. If any Interest Payment Date, Maturity Date or redemption date is a Legal Holiday (as defined in the Indenture) in New York, New York, the required payment shall be made on the next succeeding day that is not a Legal Holiday as if it was made on the date such payment was due and no interest will accrue on the amount so payable for the period from and after such Interest Payment Date, Maturity Date or redemption date, as the case may be, to such next succeeding day. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months.

This Note is one of the duly authorized series of Securities of the Company, designated as the Company's "8 <sup>7</sup> / 8 % Notes due March 15, 2012" (the "Notes"), initially limited to the aggregate principal amount of \$1,500,000,000, all issued or to be issued under and pursuant to an Indenture dated as of October 15, 1999, as amended, modified or supplemented from time to time (as so amended, modified or supplemented, the "Indenture"), duly executed and delivered by the Company to Bank One Trust Company, National Association, as trustee (hereinafter referred to as the "Trustee"), to which Indenture and all Indentures supplemental thereto reference is hereby made for a description of the rights, limitation of rights, obligations, duties and immunities thereunder of the Trustee, the Company and the Holders (the words "Holders" or "Holder" meaning the registered holders or registered holder of the Notes). Exchange Notes (as such term is defined in the Registration Rights Agreement referred to below) shall be deemed to be of the same series as the Notes for purposes of the Indenture.

The Holder of this Note is entitled to the benefits of the Registration Rights Agreement, dated as of March 12, 2002, among the Company and the Initial Purchasers named therein (as the same may be amended from time to time, the "Registration Rights Agreement"). In the event that (i) the Exchange Offer Registration Statement (as such term is defined in the Registration Rights Agreement) is not filed with the Securities and Exchange Commission (the "Commission") on or prior to the 150<sup>th</sup> calendar day following March 12, 2002 (the "Closing Date"), (ii) the Exchange Offer Registration

Statement has not been declared effective by the Commission on or prior to the 210<sup>th</sup> calendar day following the Closing Date, (iii) the Exchange Offer (as such term is defined in the Registration Rights Agreement) is not consummated or a Shelf Registration Statement as such term is defined in the Registration Rights Agreement) is not declared effective by the Commission on or prior to the 240<sup>th</sup> calendar day following the Closing Date or (iv) the Shelf Registration Statement has been declared effective but such Shelf Registration Statement ceases to be effective or the Prospectus (as such term is defined in the Registration Rights Agreement) ceases to be usable for resales (A) at any time prior to the expiration of the Effectiveness Period (as such term is defined in the Registration Rights Agreement) or (B) if related to corporate developments, public filings or similar events or to correct a material misstatement or omission in the Prospectus, for more than 60-days (whether or not consecutive) in any twelve-month period, then in each such case the Special Interest Premium (as such term is defined in the Registration Rights Agreement) shall accrue in respect of this Note from and including the next calendar day following each of (a) such 150-day period in the case of clause (i) above, (b) such 210-day period in the case of clause (ii) above, (c) such 240-day period in the case of clause (iii) above, and from and including such day (in the case of clause (iv)(A) above), or the 61st day after (in the case of clause (iv)(B) above), such Shelf Registration Statement ceases to be effective or the Prospectus ceases to be usable for resales, in each case at a rate equal to 0.25% per annum. Any Special Interest Premium due will be payable in cash on the next succeeding March 15 or September 15, as the case may be, to Holders on the relevant Regular Record Dates for the payment of interest. The aggregate amount of the Special Interest Premium in respect of this Note payable pursuant to the above provisions shall in no event exceed 0.25% per annum; provided, however, that if the Exchange Offer Registration Statement is not declared effective on or prior to the 240<sup>th</sup> calendar day following the Closing Date, and the Company shall request the Holder of this Note to provide the information called for by the Registration Rights Agreement for inclusion in the Shelf Registration Statement, this Note, if owned by a Holder who does not deliver such information to the Company when required pursuant to the Registration Rights Agreement, will not be entitled to any such Special Interest Premium for any day after the 240<sup>th</sup> day following the Closing Date. Upon (1) the filing of the Exchange Offer Registration Statement after the 150-day period described in clause (i) above, (2) the effectiveness of the Exchange Offer Registration Statement after the 210-day period described in clause (ii) above, (3) the consummation of the Exchange Offer or the effectiveness of a Shelf Registration Statement, as the case may be, after the 240-day period described in clause (iii) above or (4) the earlier of (x) the return to effectiveness of the Shelf Registration Statement or (y) the usability of the Prospectus for resales or (z) the expiration of the Effectiveness Period (as such term is defined in the Registration Rights Agreement) (in the case of clause (iv) above), the interest rate on this Note from the date of such filing, effectiveness, consummation or expiration of the applicable time period, as the case may be, will be reduced to the original interest rate of 8 <sup>7</sup>/<sub>8</sub> .% per annum. The Company shall promptly provide the Trustee with notice of any change in the interest rate borne by this Note.

The Notes shall be redeemable at the option of the Company in whole at any time or in part from time to time, at a redemption price equal to the greater of (i) 100% of the principal amount of this Note to be redeemed or (ii) the sum, as determined by the Quotation Agent (as defined below), of the present values of the principal amount of this Note to be redeemed and the remaining scheduled payments of interest on the principal amount of this Note to be redeemed from the redemption date to March 15, 2012 (the "Remaining Life"), discounted from their respective scheduled payment dates to the redemption date on a semiannual basis (assuming a 360-day year consisting of 30-day months) at the Treasury Rate (as defined below) plus 50 basis points, plus, in either case, accrued interest thereon to the date of redemption.

"Comparable Treasury Issue" means the United States Treasury security selected by the Quotation Agent as having a maturity comparable to the Remaining Life that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity with the Remaining Life.

"Comparable Treasury Price" means, with respect to any redemption date, the average of two Reference Treasury Dealer Quotations for such redemption date.

"Quotation Agent" means the Reference Treasury Dealer appointed by the Company.

"Reference Treasury Dealer" means each of Credit Suisse First Boston Corporation and Lehman Brothers Inc., and their successors; *provided, however*, that if any of the foregoing shall cease to be a primary U.S. Government securities dealer in New York City (a "Primary Treasury Dealer"), the Company shall substitute therefor another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third business day preceding such redemption date.

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semiannual yield to maturity of the Comparable Treasury Issue, calculated on the third business day preceding such redemption date using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

Notice of any redemption will be mailed not less than 15 nor more than 60 calendar days before the redemption date to the Holder hereof at its registered address. Unless the Company defaults in payment of the redemption price, on and after the redemption date interest will cease to accrue on the principal amount of this Note.

If money sufficient to pay the redemption price with respect to and accrued interest on the principal amount of this Note to be redeemed on the redemption date is deposited with the Trustee on or before the redemption date and certain other conditions are satisfied, then on and after such date, interest will cease to accrue on the principal amount of this Note.

Except as provided above, this Note is not redeemable by the Company prior to maturity and is not subject to any sinking fund.

In case an Event of Default shall occur and be continuing, the principal hereof may be declared, and upon such declaration shall become, due and payable in the manner, with the effect and subject to the conditions provided in the Indenture.

The Indenture contains provisions permitting the Company and the Trustee, with the written consent of the Holders of a majority in principal amount of the outstanding Securities of each series affected by a supplemental indenture (with each series voting as a class), to enter into a supplemental indenture to add any provisions to or to change or eliminate any provisions of the Indenture or of any supplemental indenture or to modify, in each case in any manner not covered by provisions in the Indenture relating to amendments and waivers without the consent of Holders, the rights of the Holders of each such series. The Holders of a majority in principal amount of the outstanding Securities of each series affected by such waiver (with each series voting as a class), by notice to the Trustee, may waive compliance by the Company with any provision of the Indenture, any supplemental indenture or the Securities of any such series, except a Default in payment of the principal of or interest on any Security. However, without the consent of each Holder affected, an amendment or waiver may not: (1) reduce the amount of Securities whose Holders must consent to an amendment or waiver; (2) change the rate of or change the time for payment of interest on any Security; (3) change the principal of or change the fixed maturity of any Security; (4) waive a Default in the payment of the principal of or interest on any Security; (5) make any Security payable in money other than that stated in the Security; or (6) make any change in the provisions of the Indenture; (i) with respect to the rights of the Holders of a majority in principal amount of any series of Securities, by notice to the Trustee, to

waive an existing Default with respect to that series and its consequences; (ii) with respect to the right of any Holder of a Security to receive payment of principal of and interest on the Security, on or after the respective due dates expressed in the Security, the right of any Holder of a coupon to receive payment of interest due as provided in such coupon, or the right to bring suit for enforcement of any such payments on or after their respective dates; and (iii) described in this sentence.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of, premium, if any, and interest on this Note at the place, at the respective times, at the rate, and in the coin or currency herein prescribed.

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

The laws of the State of New York shall govern the Indenture and this Note.

Ownership of this Note shall be proved by the register for the Notes kept by the Registrar. The Company, the Trustee and any agent of the Company may treat the person in whose name a Note is registered as the absolute owner thereof for all purposes.

Terms used herein without definition that are defined in the Indenture shall have the meanings assigned to them in the Indenture.

Unless the Certificate of Authentication hereon has been executed by the Trustee under the Indenture referred to herein by the manual signature of one of its authorized officers, or on behalf of the Trustee by the manual signature of an authorized officer of the Trustee's authenticating agent, this Note shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

**IN WITNESS WHEREOF**, the Company has caused this instrument to be duly executed, manually or by fascimile and its corporate seal or a facsimile of its corporate seal to be imprinted herein.

Date: March 12, 2002

(SEAL)

QWEST CORPORATION

By: \_\_\_\_\_

Name:  
Title:

By: \_\_\_\_\_

Name:  
Title:

CERTIFICATE OF AUTHENTICATION

This is one of the Notes of the series designated herein, issued under the Indenture described herein.

BANK ONE TRUST COMPANY, NATIONAL ASSOCIATION,  
as Trustee

By: \_\_\_\_\_

Authorized Signatory

ASSIGNMENT FORM

FOR VALUE RECEIVED, the undersigned hereby sell(s), assign(s) and transfer(s) unto

---

Please insert social security number or other identifying number of assignee:

---

Please print or type name and address (including zip code) of assignee:

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the within Note and all rights thereunder, hereby irrevocably constituting and appointing  
Corporation on the books of Qwest Corporation, with full power of substitution in the premises.

---

attorney to transfer said Note of Qwest

Dated:

---

NOTICE: The signature to this assignment must correspond with the name as written upon the face of this Note in every particular without alteration or enlargement or any change whatsoever.



CERTIFICATE TO BE DELIVERED UPON  
EXCHANGE OR REGISTRATION OF TRANSFER

This certificate relates to \$ \_\_\_\_\_ principal amount of Notes held in (check applicable space) \_\_\_\_\_ book-entry or \_\_\_\_\_ definitive form by the undersigned.

The undersigned (Check one box below):

☐ has requested the Trustee by written order to deliver in exchange for its beneficial interest in the Note held by the Depository a Note or Notes in definitive, registered form of authorized denominations and an aggregate principal amount equal to its beneficial interest in such Note (or the portion thereof indicated above); or

☐ has requested the Trustee by written order to exchange or register the transfer of a Note or Notes.

In connection with any transfer of any of the Notes evidenced by this certificate occurring prior to the expiration of the period referred to in Rule 144(k) under the Securities Act, the undersigned confirms that such Notes are being transferred in accordance with its terms;

CHECK ONE BOX BELOW

☐ (1) to the Company; or

☐ (2) pursuant to an effective registration statement under the Securities Act; or

☐ (3) inside the United States to a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act) that purchases for its own account or for the account of a qualified institutional buyer to whom notice is given that such transfer is being made in reliance on Rule 144A, in each case pursuant to and in compliance with Rule 144A under the Securities Act; or

☐ (4) outside the United States in an offshore transaction within the meaning of Regulation S under the Securities Act in compliance with Rule 904 under the Securities Act; or

☐ (5) pursuant to another available exemption from registration requirements of the Securities Act.

Unless one of the boxes is checked, the Trustee will refuse to register any of the Notes evidenced by this certificate in the name of any person other than the registered holder thereof; provided, however, that if box (4) or (5) is checked, the Trustee may require, prior to registering any such transfer of the Notes, such legal opinions, certifications and other information as the Company and the Trustee has reasonably requested to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Date: \_\_\_\_\_

\_\_\_\_\_  
SIGNATURE OR SIGNATURE GUARANTEE:

NOTICE: Signature must be guaranteed by a participant in a recognized signature guaranty medallion program or other signature guarantor acceptable to the Trustee.

TO BE COMPLETED BY PURCHASER IF (3) ABOVE IS CHECKED.

The undersigned represents and warrants that it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act, and is aware that the sale to it is being made in reliance on Rule 144A and acknowledges that it has received such information regarding the Company as the undersigned has requested pursuant to Rule 144A or

has determined not to request such information and that it is aware that the transferor is relying upon the undersigned's foregoing representations in order to claim this exemption from registration provided by Rule 144A.

Dated: \_\_\_\_\_

\_\_\_\_\_

NOTICE: To be executed by an executive officer

\_\_\_\_\_

*SCHEDULE OF INCREASES OR DECREASES IN GLOBAL NOTE*

The following increases or decreases in this Global Note have been made:

Principal amount of this Global Note as of March 12, 2002	Date Exchange Made	Change in Principal Amount of this Global Note due to Exchange	Principal Amount of this Global Note Following such Exchange	Notation made by or on behalf of the Company
\$				

QuickLinks

[QWEST CORPORATION Officers' Certificate](#)

**QWEST CORPORATION**  
**CALCULATION OF RATIO OF EARNINGS TO FIXED CHARGES**  
**(DOLLARS IN MILLIONS)**

	Years Ended December 31,				
	2003	2002	2001	2000	1999
Income before income taxes and cumulative effect of change in accounting principle effect	\$ 1,347	\$ 1,294	\$ 2,245	\$ 1,646	\$ 2,520
Interest expense (net of amounts capitalized)	726	699	613	549	403
Interest factor on rentals	82	96	106	108	76
Earnings available for fixed charges	2,155	2,089	2,964	2,303	2,999
Interest expense	726	699	613	549	403
Interest factor on rentals	82	96	106	108	76
Fixed charges	\$ 808	\$ 795	\$ 719	\$ 657	\$ 479
Ratio of earnings to fixed charges	2.67	2.63	4.12	3.51	6.26

QWEST CORPORATION CALCULATION OF RATIO OF EARNINGS TO FIXED CHARGES (DOLLARS IN MILLIONS)

Subsidiaries of Qwest Corporation

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None

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### Independent Auditors' Consent

The Board of Directors and Stockholder  
Qwest Corporation:

We consent to use of our reports included herein and to the reference of our firm under the heading "Experts" in the prospectus.

Our report dated March 2, 2004, except for notes 15 and 16, as to which the date is April 30, 2004, with respect to the consolidated balance sheets of Qwest Corporation and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholder's equity, and cash flows for each of the years in the three-year period ended December 31, 2003 refers to the Company's adoption of Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* , Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* , Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* , and Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* .

/s/ KPMG LLP

Denver, Colorado  
April 30, 2004

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QuickLinks

[Independent Auditors' Consent](#)

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM T-1

### STATEMENT OF ELIGIBILITY UNDER THE TRUST INDENTURE ACT OF 1939 OF A CORPORATION DESIGNATED TO ACT AS TRUSTEE

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CHECK IF AN APPLICATION TO DETERMINE ELIGIBILITY OF  
A TRUSTEE PURSUANT TO SECTION 305(b)(2) \_\_\_\_\_

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## J. P. MORGAN TRUST COMPANY, NATIONAL ASSOCIATION

(Exact name of trustee as specified in its charter)

(State of incorporation  
if not a national bank)

**1999 Avenue of the Stars—Floor 26**  
**Los Angeles, CA**  
(Address of principal executive offices)

**95-4655078**  
(I.R.S. employer  
identification No.)

**90067**  
(Zip Code)

**William H. McDavid**  
**General Counsel**  
**270 Park Avenue**  
**New York, New York 10017**  
**Tel: (212) 270-2611**  
(Name, address and telephone number of agent for service)

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## Qwest Corporation

(Exact name of obligor as specified in its charter)

**Colorado**  
(State or other jurisdiction of  
incorporation or organization)

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

**87-0273800**  
(I.R.S. employer  
identification No.)

**80202**  
(Zip Code)

**Debt Securities**  
(Title of the indenture securities)

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**Item 1. General Information.**

Furnish the following information as to the trustee:

- (a) Name and address of each examining or supervising authority to which it is subject.

Comptroller of the Currency, Washington, D.C.  
Board of Governors of the Federal Reserve System, Washington, D.C.

- (b) Whether it is authorized to exercise corporate trust powers.

Yes.

**Item 2. Affiliations with Obligor.**

If the Obligor is an affiliate of the trustee, describe each such affiliation.

None.

**No responses are included for Items 3-15 of this Form T-1 because the Obligor is not in default as provided under Item 13.**

**Item 16. List of Exhibits.**

List below all exhibits filed as part of this statement of eligibility.

Exhibit 1.	Articles of Association of the Trustee as Now in Effect (see Exhibit 1 to Form T-1 filed in connection with Form 8K of the Southern California Water Company filing, dated December 7, 2001, which is incorporated by reference).
Exhibit 2.	Certificate of Authority of the Trustee to Commence Business (see Exhibit 2 to Form T-1 filed in connection with Registration Statement No. 333-41329, which is incorporated by reference).
Exhibit 3.	Authorization of the Trustee to Exercise Corporate Trust Powers (contained in Exhibit 2).
Exhibit 4.	Existing By-Laws of the Trustee (see Exhibit 4 to Form T-1 filed in connection with Form 8K of the Southern California Water Company filing, dated December 7, 2001, which is incorporated by reference).
Exhibit 5.	Not Applicable
Exhibit 6.	The consent of the Trustee required by Section 321 (b) of the Act (see Exhibit 6 to Form T-1 filed in connection with Registration Statement No. 333-41329, which is incorporated by reference).
Exhibit 7.	A copy of the latest report of condition of the Trustee, published pursuant to law or the requirements of its supervising or examining authority.
Exhibit 8.	Not Applicable
Exhibit 9.	Not Applicable

## SIGNATURE

Pursuant to the requirements of the Trust Indenture Act of 1939, the Trustee, J. P. Morgan Trust Company, National Association, has duly caused this statement of eligibility and qualification to be signed on its behalf by the undersigned, thereunto duly authorized, all in the City of Los Angeles, and State of California, on the 23rd day of April, 2004.

J. P. Morgan Trust Company, National Association

By    /s/   SHARON MCGRATH

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Sharon McGrath  
Authorized Officer

**Exhibit 7. Report of Condition of the Trustee.**

**J. P. Morgan Trust Company, National Association**  
**Statement of Condition**  
**December 31, 2003**

	(\$000)
<b>Assets</b>	
Cash and Due From Banks	\$ 22,115
Securities	141,598
Loans and Leases	106,261
Premises and Fixed Assets	13,111
Intangible Assets	403,878
Goodwill	250,539
Other Assets	50,801
<b>Total Assets</b>	<b>\$ 988,303</b>
<b>Liabilities</b>	
Deposits	\$ 119,625
Other Liabilities	112,490
<b>Total Liabilities</b>	<b>232,115</b>
<b>Equity Capital</b>	
Common Stock	600
Surplus	701,587
Retained Earnings	54,001
<b>Total Equity Capital</b>	<b>756,188</b>
<b>Total Liabilities and Equity Capital</b>	<b>\$ 988,303</b>

## QuickLinks

[Item 1. General Information.](#)  
[Item 2. Affiliations with Obligor.](#)  
[Item 16. List of Exhibits.](#)

## SIGNATURE

[Exhibit 7. Report of Condition of the Trustee.](#)

[J. P. Morgan Trust Company, National Association Statement of Condition December 31, 2003](#)

**LETTER OF TRANSMITTAL**  
**QWEST CORPORATION**

**Exchange Offer for All Outstanding**

**8 <sup>7</sup> / 8 % Notes due 2012**  
**(CUSIP Nos. 74913G AB1 and U749OR AA7)**  
**for new 8 <sup>7</sup> / 8 % Notes due 2012**  
**which have been registered under the Securities Act of 1933**

**Pursuant to the Prospectus dated \_\_\_\_\_, 2004**

**THE EXCHANGE OFFER WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON \_\_\_\_\_, 2004, UNLESS EXTENDED (SUCH TIME AND DATE, AS THE SAME MAY BE EXTENDED FROM TIME TO TIME, THE "EXPIRATION DATE"). TENDERS MAY BE WITHDRAWN AT ANY TIME PRIOR TO 5:00 P.M., NEW YORK CITY TIME ON THE EXPIRATION DATE.**

*The exchange agent is:*

**J.P. Morgan Trust Company, National Association**

*By hand delivery at:*

Institutional Trust Services  
GIS Unit Trust Window  
4 New York Plaza, 1st Floor  
New York, NY 10004

*or*

*By mail or overnight courier at:*

Institutional Trust Services  
Attn: Frank Ivins  
2001 Bryan Street  
9th Floor  
Dallas, TX 75201

*By Facsimile Transmission  
(for eligible institutions only):*

(214) 468-6494

*Confirm by Telephone:*

(800) 275-2048

**TO TENDER OUTSTANDING NOTES, THIS LETTER OF TRANSMITTAL (OR AN AGENT'S MESSAGE) MUST BE DELIVERED TO THE EXCHANGE AGENT AT ONE OF ITS ADDRESSES SET FORTH ABOVE, WITH ALL REQUIRED DOCUMENTATION, BY THE EXPIRATION DATE. DELIVERY OF THIS LETTER OF TRANSMITTAL TO AN ADDRESS OTHER THAN AS SET FORTH ABOVE OR TRANSMISSION TO A FACSIMILE NUMBER OTHER THAN THE ONE LISTED ABOVE WILL NOT CONSTITUTE VALID DELIVERY TO THE EXCHANGE AGENT.**

*The instructions set forth in this Letter of Transmittal should be read carefully before this Letter of Transmittal is completed.*

By execution of this Letter of Transmittal, the undersigned acknowledges that he or she has received the prospectus, dated \_\_\_\_\_, 2004 (the "Prospectus"), of Qwest Corporation, a Colorado corporation ("QC"), and this Letter of Transmittal, which together constitute the offer of QC (the "Exchange Offer") to exchange up to \$1,500,000,000 in aggregate principal amount of new 8 <sup>7</sup> / 8 % Notes due 2012 (the "Exchange Notes") that have been registered under the Securities Act of 1933, as amended (the "Securities Act"), for a like principal amount of outstanding 8 <sup>7</sup> / 8 % Notes due 2012 (the "Outstanding Notes"), subject to the terms and conditions set forth therein. Recipients of the Prospectus should carefully read the Prospectus, including the requirements described in the Prospectus with respect to eligibility to participate in the Exchange Offer. Capitalized terms used but not defined herein have the meaning given to them in the Prospectus.

**PLEASE READ THIS ENTIRE LETTER OF TRANSMITTAL CAREFULLY BEFORE CHECKING ANY BOX BELOW.**

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This Letter of Transmittal is to be used to tender Outstanding Notes:

- if certificates representing tendered Outstanding Notes are to be forwarded herewith;
- if a tender is made by book-entry transfer to the Exchange Agent's account at The Depository Trust Company ("DTC") through DTC's Automated Tender Offer Program ("ATOP") pursuant to the procedures set forth in "The Exchange Offer—How to Tender Outstanding Notes for Exchange" in the Prospectus, unless an Agent's Message (as defined below) is transmitted in lieu thereof; or
- if a tender is made pursuant to the guaranteed delivery procedures in the section of the Prospectus entitled "The Exchange Offer—Guaranteed Delivery Procedures."

The term "Agent's Message" means a message, electronically transmitted by DTC to the Exchange Agent, forming part of a book-entry transfer, which states that DTC has received an express acknowledgement from the tendering holder of the Outstanding Notes that such holder has received and agrees to be bound by, and makes each of the representations and warranties contained in, this Letter of Transmittal, and, further, that such holder agrees that QC may enforce this Letter of Transmittal against such holder.

Only registered holders are entitled to tender their Outstanding Notes for exchange in the Exchange Offer. In order for any holder of Outstanding Notes to tender in the Exchange Offer all or any portion of such holder's Outstanding Notes, the Exchange Agent must receive on or prior to the Expiration Date, this Letter of Transmittal, or an Agent's Message, the certificates for all physically tendered Outstanding Notes or a confirmation of the book-entry transfer of the Outstanding Notes being tendered into the Exchange Agent's account at DTC, and all documents required by this Letter of Transmittal, or a notice of guaranteed delivery.

Any participant in DTC's system and whose name appears on a security position listing as the registered owner of Outstanding Notes and who wishes to make book-entry delivery of Outstanding Notes to the Exchange Agent's account at DTC can execute the tender through ATOP for which the Exchange Offer will be eligible, by following the applicable procedures thereof. Upon such tender of Outstanding Notes:

- DTC will verify the acceptance of the tender and execute a book-entry delivery of the tendered Outstanding Notes to the Exchange Agent's account at DTC;
- DTC will send to the Exchange Agent for its acceptance an Agent's Message forming part of such book-entry transfer; and
- transmission of the Agent's Message by DTC will satisfy the terms of the Exchange Offer as to execution and delivery of a Letter of Transmittal by the participant identified in the Agent's Message.

**Delivery of documents to DTC does not constitute delivery to the Exchange Agent.**

In order to properly complete this Letter of Transmittal, a holder of Outstanding Notes must:

- complete the box entitled, "Description of Outstanding Notes Tendered";
- if appropriate, check and complete the boxes relating to book-entry transfer, guaranteed delivery, broker dealers, special issuance instructions and special delivery instructions;
- complete the box entitled "Sign Here to Tender Your Outstanding Notes in the Exchange Offer"; and
- complete the Substitute Form W-9 accompanying this Letter of Transmittal or the applicable IRS Form W-8, which may be obtained from the Exchange Agent.

If a holder of Outstanding Notes desires to tender his, her or its Outstanding Notes for exchange and, prior to the Expiration Date, (1) such holder's Outstanding Notes are not immediately available, (2) such holder cannot deliver to the Exchange Agent his, her or its Outstanding Notes, this Letter of Transmittal and all other documents required hereby, or (3) such holder cannot complete the procedures for book-entry transfer, such holder must tender the Outstanding Notes pursuant to the guaranteed delivery procedures set forth in the section of Prospectus entitled "The Exchange Offer—Guaranteed Delivery Procedures." See Instruction 2.

The Exchange Offer may be extended, terminated or amended, as provided in the Prospectus. During any such extension of the Exchange Offer, all Outstanding Notes previously tendered and not withdrawn pursuant to the Exchange Offer will remain subject to the Exchange Offer. The Exchange Offer is scheduled to expire at 5:00 p.m., New York City time, on \_\_\_\_\_, 2004, unless extended by QC.

Persons who are beneficial owners of Outstanding Notes but are not registered holders and who desire to tender Outstanding Notes should contact the registered holder of such Outstanding Notes and instruct such registered holder to tender on such beneficial owner's behalf.

**SIGNATURES MUST BE PROVIDED BELOW.  
PLEASE READ THE ACCOMPANYING INSTRUCTIONS CAREFULLY.**

The undersigned hereby tenders for exchange the Outstanding Notes described in the box entitled "Description of Outstanding Notes Tendered" below pursuant to the terms and conditions described in the Prospectus and this Letter of Transmittal.

DESCRIPTION OF OUTSTANDING NOTES TENDERED

(1) Name(s) and Address(es) of registered holder(s) (Please fill in, if blank)	(2) Outstanding Notes	(3) Principal Amount Tendered for Exchange (A)
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Total Principal Amount Tendered: \$

(A) The minimum permitted tender is \$1,000 in principal amount of Outstanding Notes. All other tenders must be integral multiples of \$1,000.

- ☐ CHECK HERE IF TENDERED OUTSTANDING NOTES ARE ENCLOSED HEREWITH.
- ☐ CHECK HERE IF TENDERED OUTSTANDING NOTES ARE BEING DELIVERED BY BOOK-ENTRY TRANSFER MADE TO THE ACCOUNT MAINTAINED BY THE EXCHANGE AGENT WITH DTC AND COMPLETE THE FOLLOWING:

Name of Tendering Institution:

DTC Account Number:

Transaction Code Number:

By crediting Outstanding Notes to the Exchange Agent's account at DTC in accordance with ATOP and by complying with applicable ATOP procedures with respect to the Exchange Offer, including transmitting an Agent's Message to the Exchange Agent in which the holder of the Outstanding Notes acknowledges and agrees to be bound by the terms of this Letter of Transmittal, the participant in ATOP confirms on behalf of itself and the beneficial owners of such Outstanding Notes all provisions of this Letter of Transmittal applicable to it and such beneficial owners as if it had completed the information required herein and executed and delivered this Letter of Transmittal to the Exchange Agent.

- ☐ CHECK HERE IF TENDERED OUTSTANDING NOTES ARE BEING DELIVERED PURSUANT TO A NOTICE OF GUARANTEED DELIVERY PREVIOUSLY SENT TO THE EXCHANGE AGENT AND COMPLETE THE FOLLOWING (FOR USE BY ELIGIBLE INSTITUTIONS ONLY):

Name(s) of Registered Holder(s):

Window Ticket Number (if any):

Date of Execution of Notice of Guaranteed Delivery:

Name of Institution that Guaranteed Delivery:

☐ **CHECK HERE IF YOU ARE A BROKER-DEALER AND COMPLETE THE FOLLOWING:**

Name:

Address:

☐ **CHECK HERE IF YOU ARE A BROKER-DEALER AND WISH TO RECEIVE 10 ADDITIONAL COPIES OF THE PROSPECTUS AND 10 COPIES OF ANY AMENDMENTS OR SUPPLEMENTS THERETO.**

Ladies and Gentlemen:

Upon the terms and subject to the conditions of the Exchange Offer, the undersigned hereby tenders to QC for exchange the Outstanding Notes indicated above. Subject to, and effective upon, acceptance for exchange of the Outstanding Notes tendered herewith, the undersigned hereby sells, assigns and transfers to QC all right, title and interest in and to all such Outstanding Notes tendered for exchange hereby. The undersigned hereby irrevocably constitutes and appoints the Exchange Agent as the true and lawful agent and attorney-in-fact of the undersigned (with full knowledge that the Exchange Agent also acts as agent of QC) with respect to such Outstanding Notes, with full power of substitution and resubstitution (such power of attorney being deemed to be an irrevocable power coupled with an interest) to:

- deliver certificates representing such Outstanding Notes, or transfer ownership of such Outstanding Notes on the account books maintained by DTC, together, in each such case, with all accompanying evidences of transfer and authenticity to QC;
- present and deliver such Outstanding Notes for transfer on the books of QC; and
- receive all benefits or otherwise exercise all rights and incidents of beneficial ownership of such Outstanding Notes, all in accordance with the terms of the Exchange Offer.

The undersigned represents and warrants that it has full power and authority to tender, exchange, assign and transfer the Outstanding Notes and to acquire the Exchange Notes issuable upon the exchange of such tendered Outstanding Notes, and that, when the Outstanding Notes are accepted for exchange, QC will acquire good and unencumbered title to the tendered Outstanding Notes, free and clear of all liens, restrictions, charges and encumbrances and not subject to any adverse claim. The undersigned also warrants that it will, upon request, execute and deliver any additional documents deemed by the Exchange Agent or QC to be necessary or desirable to complete the exchange, assignment and transfer of tendered Outstanding Notes or transfer ownership of such Outstanding Notes on the account books maintained by DTC.

In connection with the issuance of the Outstanding Notes, QC entered into a registration rights agreement that was filed as an exhibit to the Registration Statement registering the Exchange Notes of which the Prospectus is a part (the "Registration Rights Agreement"). In consideration of the receipt of the Exchange Notes, the undersigned hereby expressly and irrevocably waives, relinquishes and foregoes any rights the undersigned may have pursuant to the terms of the Registration Rights Agreement to receive interest in excess of the stated interest rate for the Outstanding Notes and to require QC to file any registration statement relating to the Outstanding Notes tendered by the undersigned or the Exchange Notes received by the undersigned in the Exchange Offer.

The undersigned also acknowledges that the Exchange Offer is being made by QC in reliance on interpretations by the staff of the Securities and Exchange Commission (the "SEC"), as set forth in no-action letters issued to third parties. QC believes that Exchange Notes may be offered for resale, resold and otherwise transferred by holders thereof (other than any such holder that is an "affiliate" of

QC within the meaning of Rule 405 under the Securities Act or that tenders Outstanding Notes for the purpose of participating in a distribution of the Exchange Notes), without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that such Exchange Notes are acquired in the ordinary course of such holders' business, and such holders have no arrangement or understanding with any person to participate in the distribution of the Exchange Notes. However, QC does not intend to request that the SEC consider, and the SEC has not considered, the Exchange Offer in the context of a no-action letter and therefore QC cannot guarantee that the staff of the SEC would make a similar determination with respect to the Exchange Offer. The undersigned acknowledges that if the interpretation of QC of the above mentioned no-action letters is incorrect such holder may be held liable for any offers, resales or transfers by the undersigned of the Exchange Notes that are in violation of the Securities Act. The undersigned further acknowledges that neither QC nor the Exchange Agent will indemnify any holder for any such liability under the Securities Act.

The undersigned represents and warrants that:

- such holder is not an "affiliate" of QC within the meaning of Rule 405 under the Securities Act;
- the Exchange Notes acquired in the Exchange Offer will be obtained in the ordinary course of such holder's business;
- such holder has no arrangement or understanding with any person to participate in the distribution of such Exchange Notes;
- if the holder is not a broker-dealer, such holder is not engaged in, and does not intend to engage in, a distribution of the Exchange Notes; and
- if such holder is a broker-dealer, the Outstanding Notes being tendered for exchange were acquired for its own account as a result of market-making activities or other trading activities (and not directly from QC), and it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of the Exchange Notes received in respect of such Outstanding Notes pursuant to the Exchange Offer, however, by so acknowledging and by delivering a prospectus in connection with the resale of the Exchange Notes, the undersigned will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

Any holder of Outstanding Notes who is an affiliate of QC or who tenders Outstanding Notes in the Exchange Offer for the purpose of participating in a distribution of the Exchange Notes:

- may not rely on the position of the staff of the SEC enunciated in its series of interpretive no-action letters with respect to exchange offers; and
- must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any secondary resale transaction.

All authority conferred or agreed to be conferred pursuant to this Letter of Transmittal and every obligation of the undersigned hereunder shall be binding upon the successors, assigns, heirs, executors, administrators, trustees in bankruptcy, and personal and legal representatives of the undersigned and shall not be affected by, and shall survive, the death or incapacity of the undersigned.

Outstanding Notes properly tendered may be withdrawn at any time prior to the Expiration Date in accordance with the terms of the Prospectus and this Letter of Transmittal.

The Exchange Offer is subject to certain conditions, some of which may be waived or modified by QC, in whole or in part, at any time and from time to time, as described in the Prospectus under the caption "The Exchange Offer—Conditions to the Exchange Offer." The undersigned recognizes that as a result of such conditions QC may not be required to accept for exchange, or to issue Exchange Notes in exchange for, any of the Outstanding Notes validly tendered hereby. All tendering holders, by

execution of this Letter of Transmittal, waive any right to receive any notice of the acceptance or rejection of their Outstanding Notes for exchange.

If the making of the Exchange Offer would not be in compliance with the laws of any jurisdiction, the Exchange Offer will not be made to the registered holders residing in such jurisdiction.

Unless otherwise indicated under "Special Issuance Instructions" below, please return any certificates representing Outstanding Notes not tendered or not accepted for exchange and certificates representing Exchange Notes issued in exchange for Outstanding Notes in the name(s) of the holder(s) appearing under "Description of Outstanding Notes Tendered." Similarly, unless otherwise indicated under "Special Delivery Instructions," please mail any certificates representing Outstanding Notes not tendered or not accepted for exchange (and accompanying documents, as appropriate) and any certificates representing Exchange Notes issued in exchange for Outstanding Notes to the address of the holder(s) appearing under "Description of Outstanding Notes Tendered." In the event that both the "Special Issuance Instructions" and the "Special Delivery Instructions" are completed, please issue the certificates representing the Exchange Notes issued in exchange for the Outstanding Notes accepted for exchange in the name(s) of, and return any Outstanding Notes not tendered or not accepted for exchange to, the person or persons so indicated. Unless otherwise indicated under "Special Issuance Instructions," in the case of a book-entry delivery of Outstanding Notes, please credit the account of the undersigned maintained at DTC appearing under the table "Description of Outstanding Notes Tendered" with any Outstanding Notes not accepted for exchange or any Exchange Notes issued in exchange for Outstanding Notes. The undersigned recognizes that QC has no obligation pursuant to the special issuance instructions, to transfer any Outstanding Notes from the name of the holder thereof if QC does not accept for exchange any of the Outstanding Notes so tendered or if such transfer would not be in compliance with any transfer restrictions applicable to such Outstanding Notes.

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**SPECIAL ISSUANCE INSTRUCTIONS**  
**(SEE INSTRUCTIONS 1, 6, 7 AND 8)**

To be completed ONLY if (i) certificates for Exchange Notes issued in exchange for Outstanding Notes, or certificates for Outstanding Notes not exchanged for Exchange Notes, or certificates for Outstanding Notes not tendered for exchange are to be issued in the name of someone other than the undersigned, or (ii) Outstanding Notes tendered by book-entry transfer which are not exchanged are to be returned by credit to an account maintained at DTC other than the account indicated above.

Issue to:

Name:

\_\_\_\_\_

(Please Print)

Address:

\_\_\_\_\_

(Including Zip Code)

\_\_\_\_\_

(Taxpayer Identification Number or  
Social Security Number)

Credit to the DTC account set forth below:

\_\_\_\_\_

(DTC Account Number)

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**SPECIAL DELIVERY INSTRUCTIONS**  
**(SEE INSTRUCTIONS 1, 6, 7 AND 8)**

To be completed ONLY if the certificates for Exchange Notes issued in exchange for Outstanding Notes, certificates for Outstanding Notes not exchanged for Exchange Notes, or certificates for Outstanding Notes not tendered for exchange are to be sent to someone other than the undersigned or to the undersigned at an address other than that shown above.

Mail to:

Name:

\_\_\_\_\_

(Please Print)

Address:

\_\_\_\_\_

(Including Zip Code)

\_\_\_\_\_

(Taxpayer Identification Number or  
Social Security Number)





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**SIGN HERE TO TENDER YOUR OUTSTANDING NOTES IN THE EXCHANGE OFFER**

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**Signature(s) of holder(s) of Outstanding Notes**

Dated: \_\_\_\_\_, 2004

Must be signed by the registered holder(s) of Outstanding Notes exactly as name(s) appear(s) on certificate(s) representing the Outstanding Notes or on a security position listing or by person(s) authorized to become the registered holder(s) by certificates and documents transmitted herewith. If signature is by an attorney-in-fact, executor, administrator, trustee, guardian, officer of a corporation or other person acting in a fiduciary or representative capacity, please provide the following information and see Instruction 6.

Capacity (Full Title): \_\_\_\_\_

Name(s): \_\_\_\_\_

(Please type or print)

Address: \_\_\_\_\_

(Include Zip Code)

Area Code and Telephone Number: \_\_\_\_\_

**GUARANTEE OF SIGNATURE(S)  
(If required—see Instructions 1 and 6)**

Authorized Signature: \_\_\_\_\_

Name: \_\_\_\_\_

(Please type or print)

Title: \_\_\_\_\_

Name of Firm: \_\_\_\_\_

Address: \_\_\_\_\_

(Include Zip Code)

Area Code and Telephone Number: \_\_\_\_\_

Dated: \_\_\_\_\_, 2004

**IMPORTANT: COMPLETE AND SIGN THE SUBSTITUTE FORM W-9  
ACCOMPANYING THIS LETTER OF TRANSMITTAL**

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## INSTRUCTIONS

### Forming Part of the Terms and Conditions of the Exchange Offer

1. *Guarantee of Signatures.* Signatures on this Letter of Transmittal need not be guaranteed if the Outstanding Notes tendered hereby are tendered:

- by the registered holder(s) of Outstanding Notes thereof, unless such holder has completed either the box entitled "Special Issuance Instructions" or the box entitled "Special Delivery Instructions" above; or
- for the account of an Eligible Institution. The term "Eligible Institution" means an institution that is a member in good standing of a Medallion Signature Guarantee Program recognized by the Exchange Agent, for example, the Securities Transfer Agent's Medallion Program, the Stock Exchange's Medallion Program or the New York Stock Exchange's Medallion Signature Program. An Eligible Institution includes firms that are members of a registered national securities exchange, members of the National Association of Securities Dealers, Inc., commercial banks or trust companies having an office in the United States or certain other eligible guarantors.

In all other cases, all signatures on this Letter of Transmittal must be guaranteed by an Eligible Institution.

2. *Delivery of this Letter of Transmittal and Certificates for Outstanding Notes or Book-Entry Confirmations; Guaranteed Delivery Procedures.* In order for a holder of Outstanding Notes to tender all or any portion of such holder's Outstanding Notes, the Exchange Agent must receive either a properly completed and duly executed Letter of Transmittal (or a manually signed facsimile thereof) or, if tendering by book-entry transfer, an agent's message with respect to such holder, the certificates for all physically tendered Outstanding Notes, or a confirmation of the book-entry transfer of the Outstanding Notes being tendered into the Exchange Agent's account at DTC, and any other required documents, prior to the Expiration Date or the tendering holder must comply with the guaranteed delivery procedures set forth below. Delivery of the documents to DTC does not constitute delivery to the Exchange Agent.

The method of delivery to the Exchange Agent of this Letter of Transmittal, Outstanding Notes and all other required documents is at the election and risk of the holder thereof. If such delivery is by mail, it is suggested that holders use properly insured registered mail, return receipt requested, and that the mailing be sufficiently in advance of the Expiration Date, to permit delivery to the Exchange Agent prior to such date. Except as otherwise provided below, the delivery will be deemed made when actually received or confirmed by the Exchange Agent. This Letter of Transmittal and Outstanding Notes tendered for exchange should be sent only to the Exchange Agent, not to QC or DTC.

If holders desire to tender Outstanding Notes for exchange pursuant to the Exchange Offer and, if prior to the Expiration Date:

- certificates representing such Outstanding Notes are not lost but are not immediately available;
- time will not permit this Letter of Transmittal, certificates representing Outstanding Notes or other required documents to reach the Exchange Agent; or
- the procedures for book-entry transfer cannot be completed;

such holder may effect a tender of Outstanding Notes for exchange in accordance with the guaranteed delivery procedures set forth in the Prospectus under the caption "The Exchange Offer—Guaranteed Delivery Procedures." Pursuant to the guaranteed delivery procedures:

- such tender must be made by or through an Eligible Institution;

- prior to the Expiration Date, the Exchange Agent must have received from such Eligible Institution, at one of the addresses of the Exchange Agent set forth above, a properly completed and duly executed Notice of Guaranteed Delivery (by facsimile, mail or hand delivery) substantially in the form provided by QC setting forth the name(s) and address(es) of the registered holder(s) of such Outstanding Notes, the certificate number(s) and the principal amount of Outstanding Notes being tendered for exchange and stating that the tender is being made thereby and guaranteeing that, within three (3) New York Stock Exchange trading days after the date of execution of the Notice of Guaranteed Delivery, a properly completed and duly executed Letter of Transmittal, or a facsimile thereof, together with certificates representing the Outstanding Notes (or confirmation of book-entry transfer of such Outstanding Notes into the Exchange Agent's account with DTC and an Agent's Message) and any other documents required by this Letter of Transmittal and the instructions hereto, will be deposited by such Eligible Institution with the Exchange Agent; and
- this Letter of Transmittal or a facsimile thereof, properly completed together with duly executed certificates for all physically delivered Outstanding Notes in proper form for transfer (or confirmation of book-entry transfer of such Outstanding Notes into the Exchange Agent's account with DTC and an Agent's Message) and all other required documents must be received by the Exchange Agent within three (3) New York Stock Exchange trading days after the date of execution of the Notice of Guaranteed Delivery.

All tendering holders, by execution of this Letter of Transmittal, waive any right to receive any notice of the acceptance or rejection of their Outstanding Notes for exchange.

3. *Inadequate Space* . If the space provided in the box entitled "Description of Outstanding Notes Tendered" above is adequate, the certificate numbers and principal amounts of Outstanding Notes tendered should be listed on a separate signed schedule affixed hereto.

4. *Withdrawal of Tenders* . A tender of Outstanding Notes may be withdrawn at any time prior to the Expiration Date by delivery of a written or facsimile (receipt confirmed by telephone) notice of withdrawal to the Exchange Agent at the address set forth on the cover of this Letter of Transmittal. To be effective, a notice of withdrawal must:

- be received by the Exchange Agent prior to the Expiration Date;
- specify the name of the person having tendered the Outstanding Notes to be withdrawn;
- identify the Outstanding Notes to be withdrawn (including the certificate number or numbers, if applicable, and principal amount of such Outstanding Notes);
- where certificates for Outstanding Notes were transmitted, specify the name in which such Outstanding Notes are registered, if different from that of the withdrawing holder, and the serial numbers of the particular certificates to be withdrawn;
- if Outstanding Notes have been tendered pursuant to the procedures for book-entry transfer, specify the name and number of the account at the book-entry transfer facility to be credited with the withdrawn Outstanding Notes and otherwise comply with the procedures of DTC;
- include a statement that such holder is withdrawing his, her or its election to have such Outstanding Notes exchanged;
- be signed by the holder in the same manner as the original signature on the Letter of Transmittal by which such Outstanding Notes were tendered, with such signature guaranteed by an Eligible Institution (unless such withdrawing holder is an Eligible Institution) or be accompanied by documents of transfer (including a signature guarantee by an Eligible Institution).

Institution) sufficient to permit the trustee under the Indenture to register the transfer of such Outstanding Notes into the name of the person withdrawing the tender; and

- specify the name in which any such Outstanding Notes are to be registered, if different from that of the person tendering the Outstanding Notes.

The Exchange Agent will return the properly withdrawn Outstanding Notes promptly following receipt of the notice of withdrawal. All questions as to the validity of notices of withdrawal, including, time of receipt, will be determined by QC in its sole discretion and such determination will be final and binding on all parties.

Any Outstanding Notes so withdrawn will be deemed not to have been validly tendered for exchange for purposes of the Exchange Offer. Any Outstanding Notes which have been tendered for exchange but which are not exchanged for any reason will be returned to the holder thereof without cost to such holder (or, in the case of Outstanding Notes tendered by book-entry transfer into the Exchange Agent's account at DTC pursuant to the book-entry transfer procedures described above, such Outstanding Notes will be credited to an account with DTC specified by the holder) promptly after withdrawal, rejection of tender or termination of the Exchange Offer. Properly withdrawn Outstanding Notes may be retendered by following one of the procedures described under the caption "The Exchange Offer—How to Tender Outstanding Notes for Exchange" in the Prospectus at any time prior to the Expiration Date.

5. *Partial Tenders (Not Applicable To Holders Of Outstanding Notes Who Tender By Book-Entry Transfer)* . Tenders of Outstanding Notes will be accepted only in integral multiples of \$1,000 principal amount. If a tender for exchange is to be made with respect to less than the entire principal amount of any Outstanding Notes, fill in the principal amount of Outstanding Notes which are tendered for exchange in column (3) of the box entitled "Description of Outstanding Notes Tendered." In the case of a partial tender for exchange, a new certificate, in fully registered form, for the remainder of the principal amount of the Outstanding Notes, will be sent to the holders of Outstanding Notes unless otherwise indicated in the boxes entitled "Special Issuance Instructions" or "Special Delivery Instructions" above, as soon as practicable after the expiration or termination of the Exchange Offer.

6. *Signatures on this Letter of Transmittal; Bond Powers and Endorsements.*

- If this Letter of Transmittal is signed by the registered holder(s) of the Outstanding Notes tendered for exchange hereby, the signature(s) must correspond exactly with the name(s) as written on the face of the certificate(s) without alteration, enlargement or any change whatsoever.
- If any of the Outstanding Notes tendered hereby are owned of record by two or more joint owners, all such owners must sign this Letter of Transmittal. If any tendered Outstanding Notes are registered in different names on several certificates, it will be necessary to complete, sign and submit as many separate copies of this Letter of Transmittal and any necessary or required documents as there are names in which certificates are held.
- If this Letter of Transmittal or any certificates or bond powers are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing, and proper evidence satisfactory to QC of its authority so to act must be submitted, unless waived by QC.
- If this Letter of Transmittal is signed by the registered holder(s) of the Outstanding Notes listed and transmitted hereby, no endorsements of certificates or separate bond powers are required, unless certificates for Outstanding Notes not tendered or not accepted for exchange are to be issued or returned in the name of a person other than the holder(s) thereof. In such event,

signatures on this Letter of Transmittal or such certificates must be guaranteed by an Eligible Institution (unless signed by an Eligible Institution).

- If this Letter of Transmittal is signed by a person other than the registered holder(s) of the Outstanding Notes, the certificates representing such Outstanding Notes must be properly endorsed for transfer by the registered holder(s) or be accompanied by a properly completed bond power from the registered holder(s), in either case signed by such registered holder(s) exactly as the name(s) of the registered holder(s) of the Outstanding Notes appear(s) on the certificates. Signatures on the endorsement or bond power must be guaranteed by an Eligible Institution (unless signed by an Eligible Institution).
- If the Outstanding Notes or the Exchange Notes issued in exchange for the Outstanding Notes are to be issued in the name of a person other than the registered holder(s), this Letter of Transmittal must be accompanied by bond powers or other documents of transfer sufficient to permit the trustee under the Indenture to register the transfer of such Outstanding Notes into the name of such person.

7. *Transfer Taxes* . Except as set forth in this Instruction 7, QC will pay or cause to be paid any transfer taxes applicable to the exchange of Outstanding Notes pursuant to the Exchange Offer. If, however, a transfer tax is imposed for any reason other than the exchange of Outstanding Notes pursuant to the Exchange Offer, then the amount of any transfer taxes (whether imposed on the registered holder(s) or any other persons) will be payable by the tendering holder. If satisfactory evidence of the payment of such taxes or exemptions therefrom is not submitted with this Letter of Transmittal, the amount of such transfer taxes will be billed directly to such tendering holder.

8. *Special Issuance and Delivery Instructions* . If the Exchange Notes are to be issued or if any Outstanding Notes not tendered or not accepted for exchange are to be issued or sent to a person other than the person(s) signing this Letter of Transmittal or to an address other than that shown above, the appropriate boxes on this Letter of Transmittal should be completed. Holders of Outstanding Notes tendering Outstanding Notes by book-entry transfer may request that Outstanding Notes not accepted for exchange be credited to such other account maintained at DTC as such holder may designate. In such event, all signatures on this Letter of Transmittal must be guaranteed by an Eligible Institution.

9. *Irregularities* . All questions as to the forms of all documents and the validity of (including time of receipt) and acceptance of the tenders and withdrawals of Outstanding Notes will be determined by QC, in its sole discretion, which determination shall be final and binding. Alternative, conditional or contingent tenders will not be considered valid. QC reserves the absolute right to reject any or all tenders of Outstanding Notes that are not in proper form or the acceptance of which would, in QC's opinion, be unlawful. QC also reserves the right to waive any defects or irregularities as to the tender of any particular Outstanding Notes. QC's interpretations of the terms and conditions of the Exchange Offer (including the instructions in this Letter of Transmittal) will be final and binding. Any defect or irregularity in connection with tenders of Outstanding Notes must be cured within such time as QC determines, unless waived by QC. Tenders of Outstanding Notes shall not be deemed to have been made until all defects or irregularities have been waived by QC or cured. None of QC, the Exchange Agent, nor any other person will be under any duty to give notice of any defects or irregularities in tenders of Outstanding Notes, or will incur any liability to holders of Outstanding Notes for failure to give such notice.

10. *Waiver of Conditions* . To the extent permitted by applicable law, QC reserves the right to waive any and all conditions to the Exchange Offer as described under "The Exchange Offer—Conditions to the Exchange Offer" in the Prospectus, and accept for exchange any Outstanding Notes tendered. To the extent that QC waives any condition to the Exchange Offer, it will waive such condition as to all Outstanding Notes.

11. *Tax Identification Number and Backup Withholding* . Federal income tax law generally requires that a holder of Outstanding Notes whose tendered Outstanding Notes are accepted for exchange or such holder's assignee (in either case, the "Payee"), provide the Exchange Agent with such Payee's correct Taxpayer Identification Number ("TIN"), which, in the case of a Payee who is an individual, is such Payee's social security number. If the Payor is not provided with the correct TIN or an adequate basis for an exemption, such Payee may be subject to a \$50 penalty imposed by the Internal Revenue Service and backup withholding at the applicable withholding rate (which is currently 28%) on all reportable payments (such as interest), that are made to the Payee with respect to the Exchange Notes. If withholding results in an overpayment of taxes, a refund may be obtained.

To prevent backup withholding, each Payee must provide the Exchange Agent such Payee's correct TIN by completing the "Substitute Form W-9" accompanying this Letter of Transmittal, certifying that the TIN provided is correct (or that such Payee is awaiting a TIN) and that:

- the Payee is exempt from backup withholding;
- the Payee has not been notified by the Internal Revenue Service that such Payee is subject to backup withholding as a result of a failure to report all interest or dividends; or
- after being so notified, the Internal Revenue Service has notified the Payee that such Payee is no longer subject to backup withholding.

If the Payee does not have a TIN, such Payee should consult the enclosed Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9 (the "W-9 Guidelines") for instructions on applying for a TIN. A Payee who has not been issued a TIN and has applied for a TIN or intends to apply for a TIN in the near future should check the "Awaiting TIN" box in Part 3 of the Substitute Form W-9, and should sign and date the Substitute Form W-9 and the Certificate of Awaiting Taxpayer Identification Number set forth therein. If such a Payee does not provide his, her or its TIN to the Exchange Agent within 60 days, backup withholding on all reportable payments will begin and continue until such Payee furnishes such Payee's TIN to the Exchange Agent.

If the Outstanding Notes are held in more than one name or are not in the name of the actual owner, consult the W-9 Guidelines for information on which TIN to report.

Exempt Payees (including, among others, all corporations and certain foreign individuals) are not subject to these backup withholding and reporting requirements. To prevent possible erroneous backup withholding, an exempt Payee must enter its correct TIN in Part 1 of the Substitute Form W-9, check the "Exempt" box in Part 4 of such form and sign and date the form. See the W-9 Guidelines for additional instructions. In order for a nonresident alien or foreign entity to qualify as exempt from these backup withholding and information reporting requirements, such person must complete and submit an appropriate Form W-8, signed under penalty of perjury attesting to such exempt status. Such form may be obtained from the Exchange Agent.

12. *Mutilated, Lost, Stolen or Destroyed Outstanding Notes* . Any holder of Outstanding Notes whose Outstanding Notes have been mutilated, lost, stolen or destroyed should contact the Exchange Agent at the address or telephone number set forth on the cover of this Letter of Transmittal for further instructions.

13. *Requests for Assistance or Additional Copies* . Requests for assistance or for additional copies of the Prospectus, this Letter of Transmittal, the Notice of Guaranteed Delivery, or the Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9 may be directed to the Exchange Agent at its address set forth on the cover of this Letter of Transmittal.

14. *Incorporation of this Letter of Transmittal* . This Letter of Transmittal shall be deemed to be incorporated in, and acknowledged and accepted by, a tender through, DTC's ATOP procedures by any

participant on behalf of itself and the beneficial owners of any Outstanding Notes so tendered by such participant.

**IMPORTANT—This Letter of Transmittal, together with certificates for tendered Outstanding Notes, with any required signature guarantees or an Agent's Message in lieu thereof, together with all other required documents or a notice of guaranteed delivery must be received by the Exchange Agent prior to the Expiration Date.**



QuickLinks

[LETTER OF TRANSMITTAL QWEST CORPORATION](#)

What Number to Give the Payer

The holder is required to give the Payer his or her TIN (e.g., Social Security Number or Employer Identification Number). If the Outstanding Notes are held in more than one name or are held not in the name of the actual owner, consult the enclosed "Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9" for additional guidance on which number to report.

PAYER'S NAME: J. P. Morgan Trust Company, National Association

SUBSTITUTE  
FORM W-9

Part 1— PLEASE PROVIDE YOUR TIN IN THE BOX TO THE RIGHT  
AND CERTIFY BY SIGNING AND DATING BELOW.

Social Security Number

or

Employer Identification Number

Department of the Treasury  
Internal Revenue Service

Part 2— Certification—Under penalties of perjury, I certify that:

(1) The number shown on this form is my correct Taxpayer Identification Number (or I am waiting for a number to be issued to me), (2) I am not subject to backup withholding because (i) I am exempt from backup withholding, (ii) I have not been notified by the Internal Revenue Service ("IRS") that I am subject to backup withholding as a result of failure to report all interest or dividends, or (iii) after being so notified, the IRS has notified me that I am no longer subject to backup withholding, and (3) I am a U.S. person (including a U.S. resident alien).

Payer's Request for Taxpayer  
Identification Number (TIN)

Certificate instructions—You must cross out item (2) in Part 2 above if you have been notified by the IRS that you are subject to backup withholding because of under-reporting interest or dividends on your tax return. However, if after being notified by the IRS that you were subject to backup withholding you receive another notification from the IRS stating that you are no longer subject to backup withholding, do not cross out item (2).

Part 3  
Awaiting TIN ☐

Part 4  
Exempt from backup withholding ☐

Signature

Name

Address:

Date (Please Print) , 2004

YOU MUST COMPLETE THE FOLLOWING CERTIFICATE IF YOU CHECKED THE BOX IN PART 3 OF SUBSTITUTE FORM W-9.

CERTIFICATE OF AWAITING TAXPAYER IDENTIFICATION NUMBER

I certify under penalty of perjury that a taxpayer identification number has not been issued to me, and either (a) I have mailed or delivered an application to receive a taxpayer identification number to the appropriate Internal Revenue Service Center or Social Security Administration Office, or (b) I intend to mail or deliver an application in the near future. I understand that if I do not provide a taxpayer identification number by the time of payment, all reportable payments made to me 60 days thereafter will be subject to backup withholding at the applicable withholding rate (which is currently 28%) until I provide such a number.

Signature Date , 2004

Name (please print)

NOTE: FAILURE TO COMPLETE AND RETURN THIS FORM MAY RESULT IN BACKUP WITHHOLDING AT THE APPLICABLE WITHHOLDING RATE (WHICH IS CURRENTLY 28%) ON ANY REPORTABLE PAYMENTS MADE TO YOU. PLEASE REVIEW THE ENCLOSED "GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION NUMBER ON SUBSTITUTE FORM W-9" FOR ADDITIONAL DETAILS.



## GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION NUMBER ON SUBSTITUTE FORM W-9

**Guidelines for Determining the Proper Identification Number to Give the Payer.**— Social security numbers have nine digits separated by two hyphens, i.e., 000-00-0000. Employer identification numbers have nine digits separated by only one hyphen, i.e., 00-0000000. The table below will help determine the number to give the Payer.

For this type of account:	Give name and SOCIAL SECURITY Number of—	For this type of account:	Give name and EMPLOYER IDENTIFICATION Number of—
1. An individual's account	The individual	6. A valid trust, estate, or pension trust	The legal entity (Do not furnish the identifying number of the personal representative or trustee unless the legal entity itself is not designated in the account title.)(4)
2. Two or more individuals (joint account)	The actual owner of the account or, if combined funds, the first individual on the account(1)	7. Corporate account or other entity electing corporate status	The corporation
3. Custodian account of a minor (Uniform Gift to Minors Act)	The minor(2)	8. Religious, charitable or educational organization account	The organization
4. a. A revocable savings trust account (in which grantor is also trustee)	The grantor trustee(1)	9. Partnership or multi-member LLC treated as a partnership	The partnership
b. Any "trust" account that is not a legal or valid trust under State law	The actual owner(1)		
5. Sole proprietorship account or single-owner LLC	The owner(3)	10. Association, club, or other tax-exempt organization	The organization
		11. A broker or registered nominee	The broker or nominee
		12. Account with the Department of Agriculture in the name of a public entity (such as a State or local government, school district, or prison) that receives agricultural program payments	The public entity

(1) List first and circle the name of the person whose number you furnish.

(2) Circle the minor's name and furnish the minor's social security number.

(3) You must show your individual name, but you may also enter your business or "doing business as" name. You may use either your Employer Identification Number or your Social Security Number.

(4) List first and circle the name of the legal trust, estate, or pension trust.

**Note:** If no name is circled when there is more than one name, the number will be considered to be that of the first name listed.

# GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION NUMBER OF SUBSTITUTE FORM W-9

Page 2

## Obtaining a Number

If you don't have a taxpayer identification number or you do not know your number, obtain Form SS-5, Application for a Social Security Number Card (for resident individuals), Form SS-4, Application for Employer Identification Number (for businesses and all other entities), or Form W-7 for International Taxpayer Identification Number (for alien individuals required to file U.S. tax returns), at the local office of the Social Security Administration or the Internal Revenue Service and apply for a number.

To complete Substitute Form W-9 if you do not have a taxpayer identification number, write "Applied For" in the space for the taxpayer identification number in Part I, sign and date the Form, and give it to the requester. Generally, you will then have 60 days to obtain a taxpayer identification number and furnish it to the requester. If the requester does not receive your taxpayer identification number within 60 days, backup withholding, if applicable, will begin and will continue until you furnish your taxpayer identification number to the requester.

## Payees Exempt from Backup Withholding

Unless otherwise noted herein, all references below to section numbers or to regulations are references to the Internal Revenue Code and the regulations promulgated thereunder.

**Payees specifically exempted from backup withholding** on ALL payments include the following:

1. A corporation.
2. A financial institution.
3. An organization exempt from tax under Section 501(a), or an individual retirement plan or a custodial account under Section 403(b)(7), if the account satisfies the requirements of Section 401(F)(2).
4. The United States or any agency or instrumentality thereof.
5. A State, the District of Columbia, a possession of the United States, or any political subdivision or instrumentality thereof.
6. A foreign government or a political subdivision thereof, or any agency or instrumentality thereof.
7. An international organization or any agency or instrumentality thereof.
8. A registered dealer in securities or commodities registered in the United States or a possession of the United States.
9. A real estate investment trust.
10. A common trust fund operated by a bank under Section 584(a).
11. An entity registered at all times during the tax year under the Investment Company Act of 1940.
12. A foreign central bank of issue.
13. A future commission merchant registered with the Commodities Futures Trading Commission.
14. A person registered under the Investment Advisors Act of 1940 who regularly acts as a broker.

**Payments of dividends and patronage dividends** not generally subject to backup withholding include the following:

- Payments to nonresident aliens subject to withholding under Section 1441.
- Payments to partnerships not engaged in a trade or business in the United States and which have at least one nonresident partner.
- Payments of patronage dividends where the amount received is not paid in money.
- Payments made by certain foreign organizations.
- Payments made to a nominee.

**Payments of interest** not generally subject to backup withholding include the following:

- Payments of interest on obligations issued by individuals. Note: You may be subject to backup withholding if (i) this interest is \$600 or more, (ii) the interest is paid in the course of the Payer's trade or business, and (iii) you have not provided your correct taxpayer identification number to the Payer.
- Payments of tax-exempt interest (including exempt-interest dividends under Section 852).
- Payments described in Section 6049(b)(5) to nonresident aliens.
- Payments on tax-free covenant bonds under Section 1451.
- Payments made by certain foreign organizations.
- Payments made to a nominee.

Exempt payees described above should file a Substitute Form W-9 to avoid possible erroneous backup withholding. **FILE THIS FORM WITH THE PAYER. FURNISH YOUR TAXPAYER IDENTIFICATION NUMBER, WRITE "EXEMPT" ON THE FACE OF THE FORM, AND RETURN IT TO THE PAYER.**

Certain payments other than interest, dividends, and patronage dividends that are not subject to information reporting are also not subject to backup withholding. For details, see the regulations under Sections 6041, 6041A(a), 6045, and 6050A.

**Privacy Act Notices**— Section 6109 requires most recipients of dividends, interest, or other payments to give taxpayer identification numbers to the Payer who must report the payments to the IRS. The IRS uses the numbers for identification purposes and to help verify the accuracy of your tax return. The Payer must be given the numbers whether or not recipients are required to file tax returns. The Payer must generally withhold tax at the applicable withholding rate (which is currently 28%) taxable interest, dividends, and certain other payments to a payee who does not furnish a taxpayer identification number to the Payer. Certain penalties may also apply.

**Penalties**

- (1) **Penalty for Failure to Furnish Taxpayer Identification Number**— If you fail to furnish your taxpayer identification number to the Payer, you are subject to a penalty of \$50 for each such failure unless your failure is due to reasonable cause and not to willful neglect.
- (2) **Civil Penalty for False Statements With Respect to Withholding**— If you make a false statement with no reasonable basis which results in no imposition of backup withholding, you are subject to a penalty of \$500.
- (3) **Criminal Penalty for Falsifying Information**— If you falsify certifications or affirmations, you are subject to criminal penalties including fines and/or imprisonment.

**FOR ADDITIONAL INFORMATION CONTACT YOUR TAX CONSULTANT OR THE INTERNAL REVENUE SERVICE.**

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## NOTICE OF GUARANTEED DELIVERY

### QWEST CORPORATION

#### Exchange Offer for All Outstanding

8 <sup>7</sup> / 8 % Notes due 2012  
(CUSIP Nos. 74913G AB1 and U7490R AA7)  
for new 8 <sup>7</sup> / 8 % Notes due 2012  
which have been registered under the Securities Act of 1933

Pursuant to the Prospectus dated \_\_\_\_\_, 2004

**THE EXCHANGE OFFER WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON \_\_\_\_\_, 2004, UNLESS EXTENDED (SUCH TIME AND DATE, AS THE SAME MAY BE EXTENDED FROM TIME TO TIME, THE "EXPIRATION DATE"). TENDERS MAY BE WITHDRAWN AT ANY TIME PRIOR TO 5:00 P.M., NEW YORK CITY TIME ON THE EXPIRATION DATE.**

*The exchange agent is:*

**J.P. Morgan Trust Company, National Association**

*By hand delivery at:*

Institutional Trust Services  
GIS Unit Trust Window  
4 New York Plaza, 1st Floor  
New York, NY 10004

*or*

*By mail or overnight courier at:*

Institutional Trust Services  
Attn: Frank Ivins  
2001 Bryan Street  
9th Floor  
Dallas, TX 75201

*By Facsimile Transmission  
(for eligible institutions only):*

(214) 468-6494

*Confirm by Telephone:*

(800) 275-2048

**TO TENDER OUTSTANDING NOTES, THIS NOTICE OF GUARANTEED DELIVERY MUST BE DELIVERED TO THE EXCHANGE AGENT AT ONE OF ITS ADDRESSES SET FORTH ABOVE BY THE EXPIRATION DATE. DELIVERY OF THIS NOTICE OF GUARANTEED DELIVERY TO AN ADDRESS OTHER THAN AS SET FORTH ABOVE OR TRANSMISSION TO A FACSIMILE NUMBER OTHER THAN THE ONE LISTED ABOVE WILL NOT CONSTITUTE VALID DELIVERY TO THE EXCHANGE AGENT.**

As set forth in the prospectus dated \_\_\_\_\_, 2004 (the "Prospectus"), of Qwest Corporation, a Colorado corporation, and in the accompanying Letter of Transmittal (the "Letter of Transmittal"), this Notice of Guaranteed Delivery, or the electronic form used by The Depository Trust Company ("DTC"), must be used to accept the offer (the "Exchange Offer") to exchange new 8 <sup>7</sup> / 8 % Notes due 2012 (the "Exchange Notes") that have been registered under the Securities Act of 1933, as amended (the "Securities Act"), for an aggregate of up to \$1,500,000,000 of outstanding 8 <sup>7</sup> / 8 % Notes due 2012 (the "Outstanding Notes"), if prior to the Expiration Date (1) the Letter of Transmittal or any other documents required thereby cannot be delivered to the Exchange Agent, (2) Outstanding Notes cannot be delivered to the Exchange Agent or (3) the procedures for book-entry transfer cannot be completed. This form must be delivered by an eligible institution (as described in the Prospectus) by mail or hand delivery or transmitted via facsimile, to the Exchange Agent at one of its addresses set forth above by the Expiration Date. Capitalized terms used but not defined herein shall have the meaning given to them in the Prospectus.

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**This Notice of Guaranteed Delivery is not to be used to guarantee signatures. If a signature on the Letter of Transmittal is required to be guaranteed by an eligible institution under the instructions thereto, such signature guarantee must appear in the applicable space provided on the Letter of Transmittal.**

Ladies and Gentlemen:

The undersigned hereby tender(s) to Qwest Corporation, upon the terms and subject to the conditions set forth in the Prospectus and the Letter of Transmittal (receipt of which are hereby acknowledged), the principal amount of Outstanding Notes specified below pursuant to the guaranteed delivery procedures set forth in the Prospectus and in Instruction 2 of the Letter of Transmittal. By so tendering, the undersigned does hereby make as of the date hereof, the representations and warranties of a tendering holder of Outstanding Notes set forth in the Letter of Transmittal.

The undersigned understands that exchange of the Outstanding Notes for Exchange Notes will be made only after valid receipt by the Exchange Agent of (1) such Outstanding Notes, or a book-entry confirmation of the transfer of such Outstanding Notes into the Exchange Agent's account at DTC and (2) a Letter of Transmittal (or a manually signed facsimile thereof), properly completed and duly executed, with any signature guarantees and any other documents required by the Letter of Transmittal, or a properly transmitted agent's message, within three New York Stock Exchange trading days after the date of execution of this Notice of Guaranteed Delivery. The term "agent's message" means a message, transmitted by DTC and received by the Exchange Agent and forming a part of a book-entry transfer, that states that DTC has received an express acknowledgement that the undersigned agrees to be bound by, and makes each of the representations and warranties contained in, the Prospectus and Letter of Transmittal and that Qwest Corporation may enforce the Letter of Transmittal against the undersigned. The undersigned agrees that the Outstanding Notes surrendered for exchange will be accepted only in \$1,000 principal amount at maturity or integral multiples thereof.

The undersigned understands that tenders of Outstanding Notes may be withdrawn if the Exchange Agent receives at one of its addresses specified on the cover of this Notice of Guaranteed Delivery, not later than 5:00 p.m., New York City time on the Expiration Date, a Notice of Withdrawal, including the name of the holder having tendered the Outstanding Notes to be withdrawn, the aggregate principal amount of Outstanding Notes the holder delivered for exchange, the certificate number(s) (if any) of the Outstanding Notes and a statement that such holder is withdrawing his or her election to have such Outstanding Notes or any specified portion thereof exchanged, in accordance with the procedures set forth in the Prospectus and the Letter of Transmittal.

All authority conferred or agreed to be conferred by this Notice of Guaranteed Delivery shall not be affected by, and shall survive, the death or incapacity of the undersigned, and every obligation of the undersigned under this Notice of Guaranteed Delivery shall be binding upon the heirs, executors, administrators, trustees in bankruptcy, personal and legal representatives, successors and assigns of the undersigned.

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**PLEASE SIGN AND COMPLETE**

Signature(s) of registered holder(s) or Authorized Signatory:

Name(s) of registered holder(s):

Address(es):

*This Notice of Guaranteed Delivery must be signed by the registered holder(s) of the Outstanding Notes exactly as their name(s) appear on certificate(s) for the Outstanding Notes or, if tendered by a DTC participant, exactly as such participant's name appears on a security position listing as the owner of the Outstanding Notes, or by person(s) authorized to become registered holder(s) by endorsements and documents transmitted with this Notice of Guaranteed Delivery.*

Date: \_\_\_\_\_, 2004

Area Code and Telephone No.:

Principal Amount of Outstanding Notes Tendered:

Certificate No.(s) of Outstanding Notes (if available):

☐ If Outstanding Notes will be delivered by book-entry transfer to the Exchange Agent's account at The Depository Trust Company, check box, and provide account number:

DTC Account No.:

**DO NOT SEND OUTSTANDING NOTES WITH THIS FORM. OUTSTANDING NOTES SHOULD BE SENT TO THE EXCHANGE AGENT TOGETHER WITH A PROPERLY COMPLETED AND DULY EXECUTED LETTER OF TRANSMITTAL.**

If the signature above is by a trustee, executor, administrator, guardian, attorney-in-fact, officer or other person acting in a fiduciary or representative capacity, such person must provide the following information:

Name(s):

Capacity:

**PLEASE PRINT NAME(S) AND ADDRESS(ES)**

**GUARANTEE ON REVERSE MUST BE COMPLETED**

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**GUARANTEE**  
**(NOT TO BE USED FOR SIGNATURE GUARANTEE)**

The undersigned, a member firm of a registered national securities exchange, or the National Association of Securities Dealers, Inc. or a participant in the Security Transfer Agents Medallion Program, the New York Stock Exchange Medallion Signature Program or the Stock Exchange Medallion Program (each, an "Eligible Institution"), hereby guarantees that the certificates for Outstanding Notes tendered hereby in proper form for transfer or confirmation of book-entry transfer of such Outstanding Notes into the Exchange Agent's account at the book-entry transfer facility, in each case together with a properly completed and duly executed Letter of Transmittal (or manually signed facsimile thereof) with any required signature guarantees, or an agent's message, and any other documents required by the Letter of Transmittal, will be received by the Exchange Agent at its address set forth above within three New York Stock Exchange trading days after the date of execution hereof.

The Eligible Institution that completes this form must communicate the guarantee to the Exchange Agent and must deliver the Letter of Transmittal and certificates representing the Outstanding Notes to the Exchange Agent, or in the case of a book-entry transfer, an agent's message and confirmation of the book-entry transfer of such Outstanding Notes into the Exchange Agent's account at DTC, within the time periods shown herein. The undersigned acknowledges that failure to do so could result in a financial loss to such Eligible Institution.

**PLEASE PRINT NAME(S) AND ADDRESS(ES)**

Name of Firm:

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Authorized Signature:

---

Name:

---

Title:

---

Date: \_\_\_\_\_, 2004

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Address:

---

(Zip Code)

Area Code and Telephone Number:

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QuickLinks

[NOTICE OF GUARANTEED DELIVERY QWEST CORPORATION](#)

**LETTER TO BROKERS, DEALERS, COMMERCIAL BANKS,  
TRUST COMPANIES AND OTHER NOMINEES**

**QWEST CORPORATION**

**Exchange Offer for All Outstanding**

**8 <sup>7</sup> / 8 % Notes due 2012  
(CUSIP Nos. 74913G AB1 and U749OR AA7)  
for new 8 <sup>7</sup> / 8 % Notes due 2012  
which have been registered under the Securities Act of 1933**

**Pursuant to the Prospectus dated \_\_\_\_\_, 2004**

**THE EXCHANGE OFFER WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON \_\_\_\_\_, 2004, UNLESS EXTENDED (SUCH TIME AND DATE, AS THE SAME MAY BE EXTENDED FROM TIME TO TIME, THE "EXPIRATION DATE"). TENDERS MAY BE WITHDRAWN AT ANY TIME PRIOR TO 5:00 P.M., NEW YORK CITY TIME ON THE EXPIRATION DATE.**

To BROKERS, DEALERS, COMMERCIAL BANKS, TRUST COMPANIES AND OTHER NOMINEES:

Qwest Corporation, a Colorado corporation ("QC"), is offering to exchange, upon the terms and subject to the conditions set forth in the prospectus dated \_\_\_\_\_, 2004 (the "Prospectus"), and the accompanying Letter of Transmittal (the "Letter of Transmittal"), new 8 <sup>7</sup> / 8 % Notes due 2012 (the "Exchange Notes") that have been registered under the Securities Act of 1933, as amended (the "Securities Act"), for an aggregate of up to \$1,500,000,000 of outstanding 8 <sup>7</sup> / 8 % Notes due 2012 (the "Outstanding Notes"), upon the terms and subject to the conditions set forth in the Prospectus and the Letter of Transmittal (the "Exchange Offer"). The Exchange Offer is being made pursuant to the registration rights agreement that QC entered into with the initial purchasers in connection with the issuance of the Outstanding Notes. As set forth in the Prospectus, the terms of the Exchange Notes are substantially identical to the Outstanding Notes, except that the transfer restrictions, registration rights and additional interest provisions relating to the Outstanding Notes will not apply to the Exchange Notes. The Prospectus and the Letter of Transmittal more fully describe the Exchange Offer. Capitalized terms used but not defined herein have the respective meanings given to them in the Prospectus.

We are requesting that you contact your clients for whom you hold Outstanding Notes regarding the Exchange Offer. For your information and for forwarding to your clients for whom you hold Outstanding Notes registered in your name or in the name of your nominee, or who hold Outstanding Notes registered in their own names, we are enclosing the following documents:

1. Prospectus dated \_\_\_\_\_, 2004;
  2. The Letter of Transmittal for your use and for the information of your clients;
  3. A Notice of Guaranteed Delivery to be used to accept the Exchange Offer if, prior to the Expiration Date, certificates for Outstanding Notes are not available, if time will not permit all required documents to reach the Exchange Agent or if the procedure for book-entry transfer cannot be completed;
  4. A form of letter which may be sent to your clients for whose account you hold Outstanding Notes registered in your name or the name of your nominee, with space provided for obtaining such clients' instructions with regard to the Exchange Offer; and
  5. Substitute Form W-9 and Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9.
-

**Your prompt action is required. The Exchange Offer will expire at 5:00 p.m., New York City time, on \_\_\_\_\_, 2004, unless extended. Outstanding Notes tendered pursuant to the Exchange Offer may be withdrawn at any time before the Expiration Date.**

To participate in the Exchange Offer, a duly executed and properly completed Letter of Transmittal (or facsimile thereof or Agent's Message in lieu thereof), with any required signature guarantees and any other required documents, must be sent to the Exchange Agent and certificates representing the Outstanding Notes must be delivered to the Exchange Agent (or book-entry transfer of the Outstanding Notes must be made into the Exchange Agent's account at DTC), all in accordance with the instructions set forth in the Letter of Transmittal and the Prospectus.

QC will, upon request, reimburse brokers, dealers, commercial banks and trust companies for reasonable and necessary costs and expenses incurred by them in forwarding the Prospectus and the related documents to the beneficial owners of Outstanding Notes held by such brokers, dealers, commercial banks and trust companies as nominee or in a fiduciary capacity. QC will pay or cause to be paid all stock transfer taxes applicable to the exchange of Outstanding Notes pursuant to the Exchange Offer, except as set forth in Instruction 7 of the Letter of Transmittal.

Any inquiries you may have with respect to the procedure for tendering Outstanding Notes pursuant to the Exchange Offer, or requests for additional copies of the enclosed materials, should be directed to J.P. Morgan Trust Company, National Association, the Exchange Agent for the Exchange Offer, at its address and telephone number set forth on the front of the Letter of Transmittal.

Very truly yours,

QWEST CORPORATION

NOTHING HEREIN OR IN THE ENCLOSED DOCUMENTS SHALL CONSTITUTE YOU OR ANY OTHER PERSON AS AN AGENT OF QC OR THE EXCHANGE AGENT, OR AUTHORIZE YOU OR ANY OTHER PERSON TO USE ANY DOCUMENT OR MAKE ANY STATEMENTS ON BEHALF OF ANY OF THEM WITH RESPECT TO THE EXCHANGE OFFER, EXCEPT FOR STATEMENTS EXPRESSLY MADE IN THE PROSPECTUS OR THE LETTER OF TRANSMITTAL.

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[LETTER TO BROKERS, DEALERS, COMMERCIAL BANKS, TRUST COMPANIES AND OTHER NOMINEES QWEST CORPORATION](#)



# QWEST CORPORATION

## Exchange Offer for All Outstanding

8 <sup>7</sup> / 8 % Notes due 2012  
(CUSIP Nos. 74913G AB1 and U7490R AA7)  
for new 8 <sup>7</sup> / 8 % Notes due 2012  
which have been registered under the Securities Act of 1933

Pursuant to the Prospectus dated \_\_\_\_\_, 2004

**THE EXCHANGE OFFER WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON \_\_\_\_\_, 2004, UNLESS EXTENDED (SUCH TIME AND DATE, AS THE SAME MAY BE EXTENDED FROM TIME TO TIME, THE "EXPIRATION DATE"). TENDERS MAY BE WITHDRAWN AT ANY TIME PRIOR TO 5:00 P.M., NEW YORK CITY TIME ON THE EXPIRATION DATE.**

To Our Clients:

Enclosed for your consideration is the Prospectus dated \_\_\_\_\_, 2004 (the "Prospectus") and the accompanying Letter of Transmittal (the "Letter of Transmittal") that together constitute the offer (the "Exchange Offer") by Qwest Corporation, a Colorado corporation ("QC"), to exchange its 8 <sup>7</sup> / 8 % Notes due 2012 (the "Exchange Notes") that have been registered under the Securities Act of 1933, as amended (the "Securities Act"), for up to an aggregate of \$1,500,000,000 of its outstanding 8 <sup>7</sup> / 8 % Notes due 2012 (the "Outstanding Notes"), upon the terms and subject to the conditions set forth in the Prospectus and the Letter of Transmittal. The Exchange Offer is being made pursuant to the registration rights agreement that QC entered into with the initial purchasers in connection with the issuance of the Outstanding Notes. As set forth in the Prospectus, the terms of the Exchange Notes are substantially identical to the Outstanding Notes, except that the transfer restrictions, registration rights and additional interest provisions relating to the Outstanding Notes will not apply to the Exchange Notes. The Prospectus and the Letter of Transmittal more fully describe the Exchange Offer. Capitalized terms used but not defined herein have the respective meanings given to them in the Prospectus.

This material is being forwarded to you as the beneficial owner of the Outstanding Notes carried by us in your account, but not registered in your name. **A tender of such Outstanding Notes can be made only by us as the registered holder for your account and pursuant to your instructions. The enclosed Letter of Transmittal is furnished to you for your information only and cannot be used to tender Outstanding Notes.**

Accordingly, we request instructions as to whether you wish us to tender on your behalf the Outstanding Notes held by us for your account, pursuant to the terms and conditions set forth in the enclosed Prospectus and Letter of Transmittal.

**The Exchange Offer will expire at 5:00 p.m., New York City time, on \_\_\_\_\_, 2004, unless extended by QC.** If you desire to exchange your Outstanding Notes in the Exchange Offer, your instructions should be forwarded to us as promptly as possible in order to permit us to tender the Outstanding Notes on your behalf prior to the Expiration Date in accordance with the provisions of the Exchange Offer. Any Outstanding Notes tendered pursuant to the Exchange Offer may be withdrawn at any time before the Expiration Date.

Your attention is directed to the following:

1. The Exchange Offer is described in and subject to the terms and conditions set forth in the Prospectus and the Letter of Transmittal.
  2. The Exchange Offer is for any and all Outstanding Notes.
-

3. Subject to the terms and conditions of the Exchange Offer, QC will accept for exchange on the Expiration Date all Outstanding Notes validly tendered and will issue Exchange Notes promptly after such acceptance.
4. Any transfer taxes incident to the transfer of Outstanding Notes from the holder to QC will be paid by QC, except as otherwise provided in Instruction 7 of the Letter of Transmittal.
5. The Exchange Offer expires at 5:00 p.m., New York City time, on \_\_\_\_\_, 2004, unless extended by QC. If you desire to tender any Outstanding Notes pursuant to the Exchange Offer, we must receive your instructions in ample time to permit us to effect a tender of the Outstanding Notes on your behalf prior to the Expiration Date.

Pursuant to the Letter of Transmittal, each holder of Outstanding Notes must represent to QC that:

- the holder is not an "affiliate," as defined under Rule 405 of the Securities Act, of QC;
- the Exchange Notes issued in the Exchange Offer are being acquired in the ordinary course of business of the holder;
- the holder has no arrangement or understanding with any person to participate in the distribution of the Exchange Notes issued in the Exchange Offer;
- if the holder is not a broker-dealer, the holder is not engaged in, and does not intend to engage in, a distribution of the Exchange Notes;
- if the holder is a broker-dealer, the holder will receive Exchange Notes for its own account in exchange for Outstanding Notes, the Outstanding Notes to be exchanged by the holder for the Exchange Notes were acquired by it as a result of market-making activities or other trading activities, and the holder will deliver a prospectus in connection with any resale of such Exchange Notes; however, by so acknowledging and by delivering a prospectus, the holder will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

Any person who is an affiliate of QC or is participating in the Exchange Offer for the purpose of distributing the Exchange Notes, must comply with the registration and prospectus delivery requirements of the Securities Act, in connection with a resale transaction of the Exchange Notes acquired by such person and such person cannot rely on the position of the staff of the Securities and Exchange Commission enunciated in its series of interpretative no-action letters with respect to exchange offers.

The enclosed "Instructions to Registered Holder from Beneficial Owner" form contains an authorization by you, as the beneficial owner of Outstanding Notes, for us to make, among other things, the foregoing representations on your behalf.

We urge you to read the enclosed Prospectus and Letter of Transmittal in conjunction with the Exchange Offer carefully before instructing us to tender your Outstanding Notes. If you wish to tender any or all of the Outstanding Notes held by us for your account, please so instruct us by completing, executing, detaching and returning to us the instruction form attached hereto.

**None of the Outstanding Notes held by us for your account will be tendered unless we receive written instructions from you to do so. Unless a specific contrary instruction is given, your signature on the attached "Instructions to Registered Holder from Beneficial Holder" shall constitute an instruction to us to tender ALL of the Outstanding Notes held by us for your account.**

# QWEST CORPORATION

## Instructions to Registered Holder from Beneficial Owner of 8 <sup>7</sup>/<sub>8</sub> % Notes due 2012 with Respect to Exchange Offer

The undersigned hereby acknowledges receipt of the prospectus dated \_\_\_\_\_, 2004 (the "Prospectus") of Qwest Corporation, a Colorado corporation ("QC"), and the accompanying Letter of Transmittal (the "Letter of Transmittal"), that together constitute QC's offer (the "Exchange Offer") to exchange its new 8 <sup>7</sup>/<sub>8</sub> % Notes due 2012 (the "Exchange Notes") that have been registered under the Securities Act of 1933, as amended (the "Securities Act"), for an aggregate of up to \$1,500,000,000 of its outstanding 8 <sup>7</sup>/<sub>8</sub> % Notes due 2012 (the "Outstanding Notes"), upon the terms and subject to the conditions set forth in the Prospectus and the Letter of Transmittal.

This will instruct you, the registered holder, as to the action to be taken by you relating to the Exchange Offer with respect to the Outstanding Notes held by you for the account of the undersigned, on the terms and subject to the conditions in the Prospectus and Letter of Transmittal.

The aggregate face amount of the Outstanding Notes held by you for the account of the undersigned is (fill in the amount):

\$ \_\_\_\_\_ of the Outstanding Notes

With respect to the Exchange Offer, the undersigned hereby instructs you (check appropriate box):

☐ To TENDER the following Outstanding Notes held by you for the account of the undersigned (insert principal amount of Outstanding Notes to be tendered, if less than all):

\$ \_\_\_\_\_ of the Outstanding Notes

☐ NOT to TENDER any Outstanding Notes held by you for the account of the undersigned.

If the undersigned is instructing you to tender the Outstanding Notes held by you for the account of the undersigned, the undersigned agrees and acknowledges that you are authorized:

- to make, on behalf of the undersigned (and the undersigned, by its signature below, hereby makes to you), the representations and warranties contained in the Letter of Transmittal that are to be made with respect to the undersigned as a beneficial owner of the Outstanding Notes, including but not limited to the representations that:
  - the undersigned is not an "affiliate," as defined under Rule 405 of the Securities Act, as amended (the "Securities Act"), of QC;
  - the undersigned is acquiring the Exchange Notes to be issued in the Exchange Offer in the ordinary course of business of the undersigned;
  - the undersigned has no arrangement or understanding with any person to participate in the distribution of the Exchange Notes issued in the Exchange Offer;
  - if the undersigned is not a broker-dealer, the undersigned is not engaged in, and does not intend to engage in, a distribution of the Exchange Notes;
  - if the undersigned is a broker-dealer, the undersigned will receive Exchange Notes for its own account in exchange for Outstanding Notes, the Outstanding Notes to be exchanged by the undersigned for the Exchange Notes were acquired by it as a result of market-making activities or other trading activities, and the undersigned will deliver a prospectus in

connection with any resale of such Exchange Notes; however, by so acknowledging and by delivering a prospectus, the undersigned will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act; and

- the undersigned acknowledges that any person who is an affiliate of QC or is participating in the Exchange Offer for the purpose of distributing the Exchange Notes must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a resale transaction of the Exchange Notes acquired by such person and such person cannot rely on the position of the staff of the Securities and Exchange Commission enunciated in its series of interpretative no-action letters with respect to exchange offers;
- to agree, on behalf of the undersigned, as set forth in the Letter of Transmittal; and
- to take such other action as necessary under the Prospectus or the Letter of Transmittal to effect the valid tender of Outstanding Notes.

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**SIGN HERE**

Name of Beneficial Owner(s):

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Signature(s):

---

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Capacity(s) (full title) <sup>(1)</sup>

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Address:

---

---

Telephone Number(s):

---

Taxpayer Identification Number or Social Security Number(s):

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Date: \_\_\_\_\_, 2004

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<sup>(1)</sup>[nc\_nb] Please provide if signature is by an attorney-in-fact, executor, administrator, trustee, guardian, officer of a corporation or other person acting in a fiduciary or representative capacity.

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