befall all long distance carriers except those paying a fee to U S WEST, are precisely the kinds of irreparable injuries that led to the MFJ and the ongoing in-region, interLATA restriction of section 271.

43. **Delay of Effective Local Entry**. Finally, the U S WEST/Qwest Alliance will delay the effective local entry of AT&T and other carriers who want to compete with U S WEST's local service, pursuant to §§ 251-53 of the Communications Act. In particular, because the requirements of these provisions are codified in the "competitive checklist" that must be satisfied before U S WEST can receive long distance authority under § 271, § 271's provisions should afford U S WEST and other BOCs with powerful incentives to implement the requirements and open their local markets to competition.

44. However, the U S WEST/Qwest Alliance allows U S WEST to profit from long distance services in other ways and thus diminishes or eliminates any incentive to open the local monopolies. Indeed, in announcing the Alliance, U S WEST's President stated that it was entered into, at least in part, because compliance with the checklist is "cumbersome." In all events, the effect of the Alliance would be to delay the effective entry of AT&T and others and to force them to incur litigation and other costs to force U S WEST to comply with the new requirements of §§ 251-53. Here, too, the resulting harm to AT&T, other carriers, and the public interest cannot be readily calculated and is irreparable.

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I declare under penalty of perjury that the foregoing is true and correct. Executed on May 13, 1998.

John A. McMaster

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The Wall Street Journal

Thursday, May 7, 1998

Economy

U S West Strikes Marketing Alliance With Qwest in Bold Move Skirting Rules

By John J. Keller and Stephanie N. Mehta
Staff Reporters of The Wall Street Journal

U S West Communications Group Inc., boldly side-stepping restrictions on a Bell's entry into the long-distance phone business, agreed to market the services of frisky upstart Qwest Communications International Inc. in its 14-state territory.

The unusual marketing alliance wouldn't actually pay the Bell a cut of the revenue received by Qwest for long-distance calls. Instead, it would pay U S West an undisclosed fee for each customer it lures to the Qwest service, and the Denver Bell has extracted an agreement from Qwest to give the Bell's customers low-priced long-distance service.

The pact takes advantage of a little-noticed clause in the landmark Telecommunications Act signed two years ago, which aimed to open all phone markets to competition. While the legislation bars a Bell from owning and operating a long-distance business in its territory until it opens its local- phone market to rivals, it doesn't specifically prohibit a Bell from selling the services of an unaffiliated carrier, such as Qwest in this case.

"This is about serving the customer and bringing them closer to one-stop shopping, which they are demanding," said Solomon Trujillo, president of U S West Communications Group, the phone-service unit of U S West Inc. He added that having to meet a "cumbersome" checklist for opening up the Bell's local network to rivals has only delayed his efforts to give customers one-stop services on a single monthly billing statement. "A lot of us Bells are frustrated by this," he said.

For Qwest, which is building a super-high-capacity fiber-optic network, the deal opens up a vast marketing opportunity to lure millions of consumers and small-business customers to its service. "This is a major validation of the Qwest network and marketing plan," said Joseph P. Nacchio, president of Qwest, also based in Denver. He estimated that the U S West marketing partnership will generate as much as $200 million in annual revenue in the first year, while it will "cut our customer acquisition costs by 50%, our customer churn by 75%, and give us access to 14 million customers in the U S West territory."

In return, U S West gets the per-customer fee. It also gets low long-distance prices for its clients: Qwest will charge U S West customers a flat fee of 10 cents a minute, anytime, on all long-distance calls, and no monthly flat fee.

But the deal is sure to draw fire from several quarters. The long-distance industry is loath to allow any Bell entry into its business until the Bell meets the conditions for opening up its network to rivals. The U S West-Qwest agreement, while it doesn't pay the Bell calling revenue, could be seen as a Trojan horse, giving U S West a fast marketing start against long-distance companies that would challenge the Bell's own long-distance service down the road. U S West said it briefed officials of the Federal Communications Commission and the Justice Department yesterday.

"These guys major in finding loopholes," said a spokeswoman for AT&T Corp., the nation's biggest long-distance company, "and we find it inconceivable that after two years [following the passage of the telecom act] they would find a major one now. We fail to see how this would stimulate competition in U S West's local market, and anyway, how many customers can be served on a network that isn't yet built?"

LCI International Inc., which Qwest agreed recently to buy for $4.4 billion in stock, might also find its would-be owner's Bell deal startling. LCI, McLean, Va., has been one of the staunchest opponents to early Bell entry into the long-distance market. But Qwest by late yesterday hadn't briefed the long-distance carrier's management and directors on its marketing plan with U S West, Mr. Nacchio acknowledged. Still, he said, LCI would come around to seeing things Qwest's way. "The traditional long-distance carriers want to tie up the Bells until they get favorable terms on using their local networks," Mr. Nacchio said. "Newer carriers, such as Qwest, are looking at things in other ways."

U S West is showing equally surprising moxie, given its relatively low profile in the Bells' arduous long-distance fight. For example, it was the last Bell to file an application for long-distance entry in one of its states.

But the other Bells have had little success with that strategy. While regulators in some states, such as Michigan, approved the local carriers' filing, no Bell has satisfied the Justice Department and the FCC, which must grant final approval. Bell Atlantic Corp. recently won the endorsement of state regulators and Justice's antitrust chief for a plan to offer long distance in New York. But the carrier must first meet several conditions for opening its network to competitors, a process that could take several months.

The Bells also have sought long-distance entry through the courts. U S West and SBC Communications Inc. teamed up on a lawsuit that alleged that the telecom act contained a "bill of attainder" that illegally singled out the Bells. A federal judge in Texas agreed, striking down part of the act as unconstitutional.

The Qwest agreement also underscores U S West's emerging strategy of teaming with other carriers instead of succumbing to a possible takeover. The company recently said it would work with alternative carrier Intermedia Communications Inc., Tampa, Fla., to deliver telecommunications services to business customers outside its 14-state region.

---- INDEX REFERENCES ----

COMPANY (TICKER): LCI INTERNATIONAL INC.; Qwest Communications International Inc.; U S West Communications Group; Anschutz Co. (LCI QWST USW X.ANZ)

NEWS SUBJECT: High-Yield Issuers; Hot Stories; Product Distribution; Acquisitions, Mergers & Takeovers; World Equity Index; Wall Street Journal (HIY HOT PDS TNM WEI WSJ)

MARKET SECTOR: Industrial; Utilities (IDU UTI)

INDUSTRY: Long Distance Telephone Providers; Regional Telephone Systems; Telecommunications, All; Telephone Systems (LDS RTL TEL TLS)

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REGION: Colorado; North America; United States; Southern U.S.; Western U.S.; Virginia (CO NME US USS USW VA)

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The Washington Post

Friday, May 8, 1998

Financial

US West Deal Called Test of '96 Law

Mike Mills
Washington Post Staff Writer

Another of the regional Bell telephone companies has come up with a creative way to sidestep tough federal hurdles barring them from the long-distance business: US West Inc. of Colorado said yesterday it would promote **Qwest** Communications Inc. long-distance service to its local customers, while taking a fee for each customer who chooses **Qwest.**

US West customers in 14 states would be told of the convenience of combining US West's local phone service and **Qwest's** long-distance service: a single bill and single customer service contact for local and long-distance service, and a 24-hour **Qwest** rate of 10 cents a minute.

But is their deal an innocent marketing partnership, or a violation of the law?

"They're essentially saying 'Stop us if you can' " to the Federal Communications Commission, said Scott Cleland, a telecommunications analyst for the Legg Mason Precursor Group in the District. "It puts the FCC in a very difficult position."

The Bells have been barred from the long-distance business since they were created in 1984. A major telecommunications law in 1996 set up a carrot-and-stick approach to letting them into the $80 billion-a-year market: A Bell could offer long-distance service within a state if federal regulators were satisfied that the Bell had fulfilled the requirements of a complicated "checklist" of steps to open its own local telephone market to competition. But after more than two years, no Bell company has been able to win approval to begin long-distance service.

US West and **Qwest,** an upstart Denver-based carrier run by former AT&T executive Joseph Nacchio, maintain that what they're doing is legal. So-called team marketing arrangements are allowed between Bells and "unaffiliated" carriers, according to their reading of the 1996 law.

"The long-distance [service] will be offered by **Qwest.** All the revenue is **Qwest's**," said Nacchio. "All US West is providing is a sales distribution channel."

But the 1996 law also bars any Bell from "providing" long-distance service without authorization. The legal test, analysts say, may turn on how that word is defined. "It's very clear," contends MCI Communications Corp. counsel Jonathan Sallet. "Whether you're selling your own services, or those of another company, you're providing."

US West chief executive Solomon Trujillo said his company met with FCC officials on Wednesday and they found the plan "very interesting."

But FCC chief of staff John Nakahata said no meetings have taken place. "They haven't been in to brief us yet," he said. "It's certainly an interesting development. But we need to know more before we draw any conclusions."

This isn't the first time a frustrated Bell company has sought a way around the 1996 law. SBC Communications Inc., US West and Bell Atlantic Corp. filed suit opposing the law and on New Year's Eve, a federal judge in Texas agreed with them that the law violates the Bells' constitutional rights, singling them out for punishment by keeping them from the long-distance business. The decision was stayed pending appeal.

Ameritech Corp. also is seeking to set up marketing agreements that will let it offer long-distance phone service to customers in its region.

---- INDEX REFERENCES ----

COMPANY (TICKER): Legg Mason Inc.; MCI Communications Corp.; SBC Communications Inc.; Bell Atlantic Corp. (LM MCIC SBC BEL)

KEY WORDS: BUSINESS

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USWEST Public Policy

Customers Communities U S WEST

U S WEST'S Buyer's Advantage Program Satisfies All Applicable Federal Legal Requirements

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Executive Summary

U S WEST's Buyer's Advantage Program has been designed specifically to offer customers new choices and benefits while complying with all applicable legal requirements under both telecommunications and antitrust laws.

- Under the program, U S WEST will market long distance service provided by Qwest Communications, Inc. as an optional addition to U S WEST's local, intraLATA, and calling card services, and perform billing and customer complaint functions for Qwest. U S WEST will not provide long distance service. Qwest will compensate U S WEST largely on a per-customer basis for its marketing successes. In reviewing a similar arrangement in the alarm monitoring context, the FCC concluded that a BOC may perform such marketing and billing functions for an alarm monitoring business without being deemed to "provide" alarm monitoring services. More generally, the FCC has concluded that nothing in the Act prohibits a BOC from "teaming" with an unaffiliated long distance provider to jointly market local and long distance service. U S WEST's program thus is fully consistent with FCC rulings in this area.

- U S WEST has structured Buyer's Advantage to comply with all applicable equal access obligations. U S WEST will continue to inform customers of their freedom of choice of long distance providers as required under FCC rules and policies. The FCC has recognized that, where the Act permits a BOC to market long distance service, the BOC may meet its equal access obligations in conjunction with such marketing by taking steps to ensure that customers are aware of their right to choose any long distance provider. U S WEST understands this responsibility and will do so. In addition, any other long distance provider is welcome to participate in the program on the same terms on which Qwest is participating, or with lower long distance rates.

- Buyer's Advantage is procompetitive and benefits consumers. The program assists Qwest, an emerging long distance provider, in introducing greater competition into the long distance market, while providing U S WEST's customers with the one-stop shopping they indisputably seek. Other local carriers are free to create similar one-stop shopping programs with Qwest or any other IXC. Qwest is free to market its service outside of the Buyer's Advantage program, and any other IXC may join the program, which is in any event of limited duration. Buyer's Advantage should in no way affect any other company's ability to compete, and its effect on the market should be entirely positive.

Background

U S WEST Communications, Inc. ("USWC") has entered into a teaming arrangement with Qwest Communications, a long distance carrier, to afford customers in USWC's 14-state region the convenience of one-stop shopping for their local and long distance service needs. Under the U S WEST Buyer's Advantage program, customers will be able to order local exchange and intraLATA toll services as well as calling and prepaid cards from USWC, and will have the option of ordering interLATA service provided by Qwest.

The arrangement does not constitute a joint venture, partnership, or business organization. This is simply a marketing arrangement under which USWC will market the services of both companies. Buyer's Advantage will be promoted through "outbound" and "inbound" marketing calls. In marketing Qwest's long distance offering, USWC representatives will identify Qwest as the long distance carrier and will quote to customers the applicable rates for Qwest's interLATA service. USWC also will perform follow-up marketing and customer contacts with respect to Qwest's service, including handling general customer inquiries and complaints via a toll-free number. Qwest will participate in the marketing campaign by training USWC marketing personnel, providing the marketing literature to be distributed by USWC concerning Qwest's service, and processing ordering information with respect to its long distance service. Qwest will have the contractual relationship with the customer for all Qwest services. Qwest will compensate USWC for its marketing successes largely on a per-customer basis at levels commensurate with USWC's costs and Qwest's avoided costs.

The USWC services included in Buyer's Advantage will be offered at generally available rates, and Qwest's domestic interLATA service will be offered at a flat rate of $.10 per minute. Customers will be free to buy any or all services under the program -- one or more USWC services, or any USWC service together with Qwest long distance. Qwest has specified the prices it will charge for its service and standards it will meet for provision of service and customer support. If Qwest offers a lower rate in the future to customers within the USWC 14-state region, it has agreed to offer the same lower rate to customers that subsequently subscribe to its service through Buyer's Advantage. There are no restrictions on USWC's or Qwest's ability to market its services outside of the Buyer's Advantage program. Any long distance carrier may participate in Buyer's Advantage under the same terms and conditions set forth in the contract with Qwest or with long distance rates lower than those established by Qwest.

In structuring Buyer's Advantage, USWC and Qwest were mindful of the need to comply with all legal requirements under federal and state telecommunications and antitrust laws. The companies have ensured that the arrangement fully satisfies those requirements. Competitors nevertheless may bring legal challenges to prevent Buyer's Advantage from succeeding; but USWC is confident that the program will be found to comply with the law.

1. **Buyer's Advantage Is a Joint Marketing Arrangement; USWC Will Not Provide Long Distance Service through the Program.**

Buyer's Advantage is an arrangement between USWC and Qwest related solely to the marketing of services. All long distance service offered under the program will be provided by Qwest and not by USWC. USWC's marketing of Qwest's long distance will not violate the prohibition against a Bell operating company's ("BOC") *provision* of long distance service under the Telecommunications Act of 1996 ("Act"). Section 271 of the Act allows a BOC to "*provide* interLATA services originating in any of its in-region states" only after FCC approval based on prescribed standards. 47 U.S.C. § 271(b) (emphasis added). It does not address, much less prohibit, *marketing* of long distance service by a BOC. A carrier "provides" a service when it supplies or furnishes the service, by operating the necessary facilities or buying access to another carrier's network, not when it merely markets another's service. And performing billing and collection services for Qwest will not make USWC the provider of Qwest's service; USWC handles billing and collection and provides limited customer inquiry services for a number of long distance carriers without running afoul of section 271.

Section 272 (g) of the Act confirms that a BOC is free to market another carrier's long distance service. That section prohibits a BOC from jointly marketing an *affiliate's* long distance service "within any of its in-region States until such [BOC] is authorized to provide interLATA services in such State under section 271 (d)." 47 U.S.C. § 272(g)(2). There would be no reason for that specific prohibition of marketing an affiliate's long distance service if section 271 prohibited a BOC from all marketing of long distance services. Section 272(g)(2) thus recognizes that USWC is free to market the long distance service of a nonaffiliate, such as Qwest.

The FCC in fact has concluded that the BOCs may enter into marketing arrangements with unaffiliated long distance providers. In the *Non-Accounting Safeguards* proceeding, the BOCs maintained that the Act allows them to team with unaffiliated long distance carriers notwithstanding section 272's limitation on the marketing of an *affiliate's* long distance service. The FCC in its decision agreed that the language of section 272(g) restricts *only* the BOCs' ability to market or sell interLATA services provided by an affiliate, and it never suggested that section 271 restricted any arrangement between a BOC and a nonaffiliate. 11 FCC Rd. 21905 ¶ 293.

In the subsequent *Alarm Monitoring* decision, the FCC was even more explicit that marketing and providing are distinct activities. The FCC ruled there that section 275's analogous mandate that the BOCs not "engage in the *provision of* " alarm monitoring does not preclude a BOC from *marketing* an alarm monitoring company's services, acting as its sales agent, or performing billing and collection functions. 12 FCC Rcd 3824 ¶¶ 36-37. If marketing alarm monitoring is distinct from providing such service, marketing long distance is likewise different from providing it.

When Congress wanted to limit the BOCs' and other carriers' ability to market particular services, it did so explicitly. In contrast with sections 271 and 275, which are silent with respect to the BOCs' marketing activities, sections 272 and 274 explicitly bar the BOCs from marketing the services of their long distance and electronic publishing affiliates. And section 271 itself restricts the ability of large interexchange carriers to market jointly their long distance services with local exchange services obtained for resale from a BOC. *See* 47 U.S.C. § 271(e)(1). Congress's silence on the BOCs' marketing with nonaffiliates in section 271 therefore should be seen as intentional and permissive.

Finally, Congress did permit the interexchange carriers to market local and long distance services jointly, *provided the local service is facilities-based or procured from a CLEC. See id.* To permit the IXCs to assemble one-stop shopping packages yet prohibit the BOCs from providing their customers with the same convenience would be entirely inconsistent with the regulatory parity Congress sought to create in section 271(e)(1), and in the Act generally.

Thus, nothing about Buyer's Advantage impinges on section 271. The program is exclusively a marketing arrangement, with Qwest explicitly providing the interLATA service component. USWC will not provide long distance service as part of the program.

2. Buyer's Advantage Complies with the Act's Equal Access Requirements.

Buyer's Advantage has been designed to comply fully with equal access principles. USWC will (1) maintain the existing process for customers to select the interLATA carrier of their choice; (2) conduct all marketing activities in accordance with the FCC's equal access rules and policies; and (3) welcome any interexchange carrier to participate in Buyer's Advantage on the same terms and conditions Qwest and USWC have adopted.

Section 251(g) of the Act preserves the AT&T Consent Decree's equal access requirements as they existed before the Act was enacted, while transferring authority to enforce those requirements from the decree court to the FCC. Congress limited the equal access requirements in section 251(g) to "exchange access, information access, and exchange services," 47 U.S.C. § 251(g), apparently signaling an intention *that equal access obligations should apply only to a BOC's provision of telecommunications services and* facilities to interexchange carriers. The FCC, however, consistent with Judge Greene's pre-Act reading of the decree, has taken the broader view that the equal access requirements also apply to the BOCs' communications with potential customers of the interexchange carriers.

USWC and Qwest accordingly have structured Buyer's Advantage under the assumption that USWC's marketing of Qwest's (or any participating long distance carrier's) service must comply with the equal access requirements, as construed by the FCC since the Act's passage. USWC will continue to advise customers of their freedom to choose their interLATA carrier as it does today; and USWC will ensure that its marketing activities comply with the equal access requirements. The FCC has specified that, pursuant to section 251 (g), a BOC must (1) inform new customers making inbound calls to order local exchange service of their right to select the interLATA carrier of their choice, (2) take the customer's order for the interLATA carrier the customer selects, and (3) provide the customer with the names and, if requested, the telephone numbers of all of the carriers offering interexchange service in its service area, in random order. 11 FCC Rcd 21905 ¶ 292. However, in reviewing BellSouth's South Carolina section 271 application, the FCC ruled that, where a BOC obtains permission to provide long distance service through an affiliate, it may affirmatively market the affiliate's long distance service to inbound callers and still satisfy its equal access obligations as long as it contemporaneously offers to read from the randomized list of other providers. That rule applies all the more where a BOC markets a *nonaffiliate's* long distance service. In marketing Qwest's long distance service under Buyer's Advantage, USWC marketing personnel will act in conformity with the *BellSouth Order*.

For inbound and outbound marketing to *existing* customers, and outbound marketing to new customers (those receiving local service from another carrier), the FCC has not specified particular equal access requirements. Nonetheless, USWC will conduct its marketing activities in accord with a conservative assessment of the equal access principles embodied in the FCC's decisions, making sure that customers are informed of their right to select their interexchange carrier of choice. USWC also will conduct its marketing in compliance with section 222 of the Act, which governs the use of customer proprietary network information.

Moreover, as noted, USWC welcomes any IXC to participate in Buyer's Advantage on the same terms to which Qwest has agreed, or with lower long distance rates than Qwest is offering.

3. Buyer's Advantage Complies with Antitrust Law.

Finally, one of the key attributes of the Buyer's Advantage program is that it is procompetitive. It offers customers one-stop shopping, which they strongly desire, and provides Qwest, a new entrant, with an effective avenue to bring additional competition to the long distance market in USWC's region. Because the Buyer's Advantage agreement with Qwest is nonexclusive, it neither prohibits other long distance carriers from joining the program or entering into other arrangements with USWC, nor forecloses other local service providers from teaming with long distance carriers, including Qwest or others that participate in Buyer's Advantage. There are no reasonable grounds for either a federal or state antitrust challenge to the program.

In sum, Buyer's Advantage complies fully with applicable telecommunications and antitrust laws. Competitors may challenge it in an attempt to forestall the new competition that it represents. But they have no legal basis for denying consumers the benefits of this new marketing program, including the convenience of one-stop shopping.

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TRANSCRIPT OF QWEST PRESS CONFERENCE
Thursday, May 7, 1998

Public Relations QWEST Communication. Please go ahead, sir.

LEE: Good morning, everyone. We're pleased you were able to join us this morning. We have just made what we think is a very exciting announcement of a marketing alliance with U S WEST. Here to answer questions is Joe Nacchio, the President and CEO of QWEST, and before I turn it over to QWEST I thought I would make the following comment. This analyst call may contain forward-looking statements and management cautions that these forward-looking statements are based on current information and analysis and are subject to risks and uncertainties that could cause actual results or events to differ materially from those expressed or implied. These risks and uncertainties are discussed in the company's filings with the SEC. Joe.

JOE NACCHIO: Good. Good morning, everybody, and thanks for joining us. We wanted to have this call this morning because as we said a moment ago we announced this morning a strategic marketing alliance with U S WEST where U S WEST will sell our long distance service inside a new offer they make to their customers called U S WEST Buyers' Advantage, where they will sell local service and long distance service -- the QWEST long distance service -- in their 14 states to their approximately 14 million customers. It is a straight marketing alliance. We will pay them a fee per customer acquired. It will allow our brand to show through. Customers will know it's QWEST long distance. We obviously will provision it and carry it on our network. They will maintain the billing. We will do the rating of the calls and they will print the bill and do the remittance processing. They will handle the first tier of customer service on the offer and then if it's a long distance issue they will pass it back to us. We are delighted to be able, as we are expanding our business, to have a distribution arrangement with a company as credible and as well regarded by their customers as U S WEST, and we think this will lead to a significantly faster penetration, particularly in small business and consumer, in these 14 states for QWEST. Now, I'm sure you may have a lot of questions; so, I'm not going to go much further into that, other than to say that U S WEST has been very innovative and creative in finding the approach of providing a one-stop shopping offer to their customers. We both agree philosophically this needs to be as simple as possible. Therefore, we are offering a simplified 10 cent a minute, 7x24, meaning 7 days a week, 24 hours a day, offering to consumers. There is no mice type. There is no asterisk. You don't have to call only on Sundays. It's a very competitive offering. Again, against our cost structure it generates the kind of returns we expect to have. We certainly have a similar offer in the business market where, depending upon the nature of the customer, it runs generally between 9½ and 12 cents. This service will begin in 6 states on Monday and then it will, by the end of the month, be available in all 14 of the U S WEST states. I apologize for being late for this call. Sol Trujillo and I have been obviously very busy with the press this morning and I apologize again for being late. I think the best way to proceed would be to get to what's of interest to you; so, Lee, could we go to questions and answers now and we will address what needs to be addressed.

LEE: Noreen. If you would give us the instructions please.

NOREEN (Operator): Ladies and gentlemen. We will now begin the question and answer session. If you have a question, press the 1 followed by the 4 on your push button phone. You will hear a 3 tone prompt acknowledging your request and your questions will be pulled in the order that they are received. If your question has been answered and you wish to withdraw your call-in request, you may do so by pressing the 1 followed by the 3. If you are on a speaker phone, please pick up your handset before entering your request. One moment please for your first question.

LEE: And, as we've done in the last several calls, we would ask that we minimize the number of parts in our multi-part questions.

OPERATOR: Your first question is from Tom Freidberg. Please state your company name and proceed with your question.

TOM FREIDBERG: [**company name not audible**]. Guys, can you give us any sense of the term of the agreement? Any sort of minimums in terms of customers or revenues that may or may not be involved and any provisions for automatic renewal?

NACCHIO: First of all, the agreement is one year. Both sides have the option of renewing. We are going to walk before we run so to speak. It is one year. It's renewable. What's the other part of your question, Tom?

TOM: Any minimum revenue or customer counts?

NACCHIO: No. No minimums. It's a sales agency agreement, if you think of the structure, where we pay for customer acquired. We believe if you look at all the market research out there, particularly in this sector of the market with these types of products (meaning mature voice products so to speak) small business and consumer, all the market research has been saying that customers want one-stop shopping, simplified capabilities; so, we expect that this will be very successful. We are being conservative in our estimates on the impact on our business, but if you look at most of the market research most people believe about half the market will buy bundled; and if you look at what the anticipation is for when a Bell Operating Company is able to offer a package, you know people would expect 25-35% of the share of customers would vote that way; so, if you do the quick math, that's a lot of customers in this region, and we have been very conservative and have answered the question about the impact on QWEST that based upon our judgment and what we know now and I should caution since this has never been done before you know you really have to see what the customer acceptance is, what kind of churn rates, but our conservative estimates would argue that in calendar year 1999 this could add $100-200 million to the QWEST top line for the company, very high growth in this particular part of our business, and we feel real good about it.

TOM: And the last part of the multi-part question: What protection do you have for the customer list you might be able to generate out of this promotion? Is it their list? Does it become your list? You know, what prevents them from going after customers that may subscribe to your services if they ever get the green light?

NACCHIO: Great question, Tom. Let's take it a step at a time. The customer list is our list, and they are our customers. I don't see a demon behind every tree. I think in today's world this arrangement allows QWEST and U S WEST to bring some of the benefits that the Act was meant to bring while we are living within all the rules and regulations. I'm not concerned that if they fulfill their obligation on 271 and are allowed into long distance that we are in any jeopardy position. It is our customers. Our brand shows through and we would obviously with that change in environment, as they would, reassess where we are and, you know, anything's possible. I wouldn't preclude what would happen down line as we build closer relationships with U S WEST.

TOM: Uhhum. Thanks, Joe.

NACCHIO: OK, Tom. Next question please.

OPERATOR: Your next question is from Ann Marie Kovacs. Please state your company name and proceed with your question.

ANN MARIE: Janney, Montgomery, Scott. Good morning. Couple of questions. Does this have any implications for your relationship with LCI?

NACCHIO: No. I don't believe so. Both LCI and we are committed to provide customers, particularly consumers, with a fair, simple offer, inexpensive I think is the tag line they go by. It's very consistent with it. By the way, we should point out, and I think this may be behind part of your question, Ann Marie, we agree with LCI on the position they've taken on the 271 issues that deal with local exchange entry into long distance. Sol and I obviously know we are on different sides of that issue and that does not affect it so we believe that the interpretation that's been used by U S WEST to say that they are allowed to do this on a co-marketing basis is correct. Our independent counsel provided us that. Other long distance carriers competed for this opportunity and we're delighted that U S WEST selected us. It does not put us orthogonal in any way, shape or form, with the public policy positions of LCI which we agree with, and it enhances the value of our relationship with customers when the combined entity of LCI and QWEST come together, because as you know, LCI has a very small presence in this part of the country.

ANN MARIE: Right. How do you get around the equal access issue which is they are not supposed to discriminate in their marketing script between long distance carriers? How do they manage to favor you in spite of that rule?

NACCHIO: You know, I don't want to speak for Sol and I think that's a question you have to provide them, but they will make similar capabilities available for any other long distance carrier that wants to have a similar relationship with U S WEST; so, this is not an exclusive arrangement, I would argue. You'll have to ask Sol why he picked us. I believe he picked us because of the quality of our network, the quality of my management team, and they way we aggressively approached the opportunity. But he has stated publicly all morning that he lives under the obligation of equal access and he will fulfill that with any other carrier that would like to step up and work with U S WEST.

ANN MARIE: How could he make a choice at all?

NACCHIO: Oh, he's allowed to make a choice, and I think you again have to talk to Sol and his people about the latitude that the Act provided them in the area of co-marketing that the MFJ precluded, which is how the Bells have lived under it since 1984; so, the Act is silent on their ability to market or co-market. Let me say, to be affirmative here, there's nothing in the Act that precludes them from co-marketing. The FCC has said they have to have equal access and U S WEST intends to do that. The MFJ did preclude them from co-marketing long distance with unaffiliated entities. The Act removed that language; so, from the point of view of how can they do it, if you want to get into the real specifics I think you need to talk to Sol about that and you know marketing outbound is not generally considered an equal access issue. It's when the customer calls in and is asking for long distance service, as you're selling local alone, that you have to provide equal access, but I think they can articulate that better than I can.

ANN MARIE: And you're looking at this as an outbound marketing?

NACCHIO: They're looking at it as an outbound marketing and, Ann Marie, I should point out this does not preclude QWEST from directly marketing in this region and in anticipation of perhaps another question this is only about traditional circuit switch long distance. Our voice over IP service is not included. That's where we are directly marketing, including in the region of U S WEST.

ANN MARIE: Thanks.

NACCHIO: Sure

LEE: Next question please.

OPERATOR: Your next question is from David Levinson. Please state your company name and proceed with your question.

DAVID LEVINSON: Hey, guys. State Street Research. Two questions. One: it says, I think, you guys are going to be paying U S WEST about $30 for every customer they acquire, and I was wondering what your cost to acquire was if you didn't have this agreement; and the second question would be: do we have any other big local phone companies in the pipeline?

NACCHIO: David, first I can tell you that there are contractual terms of what we are paying and those are proprietary for competitive reasons. I'm not sure who put the $30 out there, but it's clearly from our point of view an arrangement that provides -- from a financial point of view or customer management point of view -- two very significant benefits. Our acquisition cost is substantially lower than if we do it ourselves and we believe the churn rate that long distance carriers experience and we experience will be significantly lowered by being in a bundled offering to this sector of the market. I don't want to comment on specific costs because obviously that's highly competitive information.

DAVID: OK. What about the RBOCs or other local guys in the pipeline?

NACCHIO: If we could find an arrangement with another company whether it's an RBOC or not who had the customer orientation that we've witnessed here and were treated as a peer when we work with customers and would also be easy to deal with, we would work it with anybody and, as you know, we set up similar agreements with certain energy companies already where we are marketing our long distance inside their package.

DAVID: OK. Thanks a lot.

NACCHIO: OK, David.

LEE: Next question, Noreen.

OPERATOR: Your next question is from Todd Jacobs. Please state your company name and proceed with your question.

TODD JACOBS: Thanks. Sanford Bernstein.

NACCHIO: Hello, Todd.

TODD: Good morning. What's the visibility to the customer really going to look like here? I mean, if we're dealing with outbound telemarketing and things like that, is it going to be "Hi, it's U S WEST calling and we're offering a long distance service and by the way it happens to be QWEST?"?

NACCHIO: No. Not quite that way. It's we're offering a long distance service; it's provided by QWEST, but we're offering QWEST long distance service to be precise.

TODD: So, the feel of it is you think it's going to be basically to your benefit.

NACCHIO: Absolutely, Todd. Look, we're building a presence with customers and a brand with customers that they're beginning to understand. Certainly not to the degree they understand the brand presence of U S WEST. U S WEST has been very forthright in ensuring first that they are within the rules and then secondly that they've fulfilled our obligation that this is QWEST long distance service. It has to be clearly articulated. They have been very good in working with us on their scripts. The brand will show through on the bill. The customers will be told it's QWEST long distance. If there is a customer service issue about the long distance part of the offer, it will be passed to my customer service people, so we have direct presence. I don't want to relegate this to say it's just another agency relationship because clearly it is far more than that when you're dealing with a company like U S WEST; but, in a certain regard it is not that significantly different at the mechanical level as to what we do with sale agents.

TODD: And what happens in the event that next week they announce they're going to do a similar deal with MCI?

NACCHIO: Well, we think our long distance offer is superior to MCI, AT&T, Sprint or any of the other long distance carriers when we compete alone; so, I think we will have the same advantage when we're competing as part of a bundle. Now recognize also our offering, which is the same as our offering on a stand alone basis, is 10 cents a minute, 7x24. I think if you were to go look at the average price that the big long distance carriers charge their consumers -- they may have promos out there for a nickel on Sunday, they may have promos out there if you call in the evening -- but their average revenue per minute is sitting at 16 to 17 cents. I just don't believe to get access to the customers that many of them already have they are going to price their services down by 60-70% to be part of the relationship, but I could be wrong. Maybe they do want to do that and they should call Sol and I'm sure he will do it.

TODD: OK. Thanks.

LEE: Next question.

OPERATOR: Your next question is from Amos Marone. Please state your company name and proceed with your question.

AMOS MARONE: I was just curious from the regulatory perspective, how controversial this potential marketing is in terms of potential conflict with RBOC entry into long distance, and what your perspective on how the regulatory review of this arrangement might be.

NACCHIO: First of all, let me say that both we and U S WEST believe this is allowable within all of the laws and regulations. Whether it's controversial will probably be more a function of how competitors respond and use the regulatory process to try to block competition, quite frankly, more so than the substantive issues of the Act and the rules. Now, that's not to say that there probably are well intentioned questions that we will receive and probably U S WEST will receive, because it's really their offering; but, as I listened to Sol this morning, his people did brief the FCC and the Department of Justice yesterday and while they didn't give any affirmation or rejection at that meeting they understood what was being done and that's all you can ask for them to do. I know this is an issue in this industry. As you know, any time you try to break new ground and be creative, the forces that would like to see yesterday preserved because it works to their pricing structure and their oligopoly position to try and interfere. I see today in the *Journal* that one of the big carriers actually still doesn't believe we have a network. OK? I mean, it shows you how far behind they are if they haven't figured out that QWEST has a network when we've got 8400 miles already in service and we won the backbone for INTERNET II and a $430 million deal with the U S Government a week ago that they didn't win; so, this is an interesting industry, but back to your question . . . we're prepared to (look, both of us and again I don't want to speak for Sol, you'll have to ask him) we are not out here to create problems in the sense of what the public policy is in this country. We're out here to participate in that process. We think everything that we have done here together is within the rules and regulations. The advice we have received is that this is what the Act was meant to do. In a certain regard we can bring benefits to consumers now, as the Act intended early, while the thornier issues of the Act, particularly 271, continue to be adjudicated; so, if somebody has an objection we will go through the normal process of participating and seeing how it comes out.

AMOS: Will there be any type of revenue sharing arrangements or will the U S WEST participation just be a marketing agreement?

NACCHIO: No. No. A good question. First of all, let me be clear (and Sol's been clear all morning). U S WEST is not allowed in the long distance business today and does not share in any revenues associated with this long distance piece of their package. All of the long distance revenues accrue to QWEST. All of the service provisioning for the long distance piece is done by QWEST on the QWEST network. All the tier 2 customer support, meaning if there's a question about QWEST, is done by QWEST.

AMOS: And to the extent that one of the rationales for the LCI transaction was their strength in customer relations and provisioning, etc., billing, to the extent that those responsibilities fall on QWEST is the idea to do it through some of LCI facilities once that transaction is completed?

NACCHIO: Absolutely. Absolutely, and you can perhaps start seeing some of the pieces of the puzzle coming together. For us to scale up we will need to use LCI resources and we have said that all along. Similarly, as we carry international calls from these customers to Europe and other places we now have our own capacity to London on the Trans-Atlantic basis; to Germany and Holland on an IP basis. We can terminate traffic in 400 points of presence in Europe through EUNET which is a recent acquisition; so, you know, we at QWEST are building a company kind of a building block at a time. Now, some of those building blocks, like today's arrangements, are a lot bigger than other building blocks; but, it's all a very deliberate strategy to innovate a change the paradigm, find new business models and grow through serving customers very well, and I don't think there's any debate that customers want one-stop shopping particularly on some of the more mature services like long distance voice.

AMOS: Thank you very much.

NACCHIO: Thank you.

LEE: Next question.

OPERATOR: Your next question is from Alvin All. Please state your company name and proceed with your question.

ALVIN: Hi. William Blair. Joe, I just want to know, you were mentioning U S WEST chose you. Were they being proactive? Did they start the discussion here and initiate it, and if they did, how would the marketing arrangement work if they did have another alliance? Would the U S WEST telemarketer be calling up saying "We are offering long distance service and by the ways it's either QWEST, an IXC or MCI."?

NACCHIO: To be perfectly honest with you, Alvin, I don't know how they'll do it. It would not be part of their U S WEST Buyers' Advantage plan. They could possibly create a second plan, I suspect. You need to ask them how they would do it. They were the ones who were proactive in doing this, to be perfectly frank, and I don't apologize for them being more creative than us in this area, and I would argue we might have been a little bit more aggressive and out hustled these people we beat, but you know that's just the way competition works.

ALVIN: I understand. So, they are the ones being proactive, so we should expect probably another alliance out here. I'm just trying to figure out the probability of you converting a piece of these 14 million customers in your competition.

NACCHIO: If I was addressing it (and again you need to ask Sol that question, he's open to other alliances), time to market is extraordinarily important here. Also, since this is the only offer that they have, this is the one they will be marketing. If you have your distribution channels filled just on an offer, you know, first mover advantage in something this compelling is very compelling; so I don't want you for a minute to think we're going to have 14 million new customers. I don't think everybody will accept a packaged offer and on an individual basis we're still up against pretty strong players in the form of AT&T, MCI and Sprint which we battle with daily on our own.

ALVIN: OK. Thanks a lot, Joe.

NACCHIO: Sure.

LEE: Do we have any more questions?

OPERATOR: Your next question is a follow up question from Tom Freidberg. Please proceed with your question.

TOM: Hey, Joe. As a former U S WEST alum, we always recognized we served 14% of the population with 44% of the territory and given that LCI isn't a big name out here, I got to believe that in order to provision this there will be some of what I consider non-fiber network that have to go along with this in order to provision the contract. Am I up the right tree with this one and if so, how much?

NACCHIO: Tom, I think you understand the economics of the business but in this case, no. We are terminating groups into their end offices already and we can move the traffic across our network to the right interLATA switch port almost at a zero cost, as you know. We have now in this interim period of time before the acquisition of LCI is consummated set up an arm's length service agreement and we will use some of the switch ports available to the LCI current network as QWEST being essentially a facilities-based reseller at buying port capacity. That is a temporal condition. We don't see a lot of incremental capital because of the issue I just described when we bring the two companies together and then we move the traffic around, you know, it'll come in through where the best feature group is into an LD switch. If we have to add switch ports that's the business we'd like to be in.

TOM: No. I just wanted to make sure that LCI or you yourselves had an adequate number of ports to actually move the traffic if it were wildly successful.

NACCHIO: We do, and, by the way, the most important thing is we demonstrated that to U WEST because at the end of the day they would have that similar concern.

TOM: All right. Thank you.

NACCHIO: Sure, Tom.

OPERATOR: Your next question is a follow up question from Todd Jacobs. Please proceed with your question.

TODD: Thanks. I guess from the U S WEST perspective this doesn't really replace 271 entry because this is going to be a more limited product offering than they could do in theory if they had their full ability to do long distance. What happens in the event and clearly they're not going to be among the first companies that gets in, but to the extent that they do get in sometime in the next, call it, 12-18 months what happens to this product offering? Seemingly there would be almost no reason for them to want to continue it, I would think, or am I missing something?

NACCHIO: Well, I think that's a question you really need to direct to Sol. I think he's been consistent all morning in saying that his strategy is to provide customers simplified capabilities, one-stop shopping. I am kind of paraphrasing it. Now, whether and when he gets 271 approval he's got an interesting fork in the road relative to this obvious arrangement with QWEST as we have and I wouldn't preclude how that could come out; but, even under the worst scenario, the scenario where he terminates at the end of a contract period, it will not be a flash cut. Where we certainly feel that our brand, particularly in this area, is growing stronger by the day and we have a powerful brand, and again assuming 271 works out satisfactorily to the industry, we could flip it the other way and enter on a resale basis initially on local and then keep the customer that way or we could play a pull through marketing strategy which I still think will work. So, again, if I were to say to you and I think it's a very important question, Todd, but I don't think any of us know how this is really going to come out and again as I said earlier I think that for whatever the interim period of time is between now and that scenario we both benefit, but most importantly customers benefit and if you tend to innovate and bring customers benefits it generally helps you in the next phase of the industry.

TODD: Last question. LCI with Anne has probably been the most outspoken opponent to any sort of RBOC entry into LD and other means of getting into LD. What's their reaction to this? What do you expect to come out of them? Are they just going to keep their mouth shut at this point or . . .

NACCHIO: No. No. No. Let's get to that. You are asking a very important question and I want to be sure no one misunderstands. QWEST, me, my people are in full agreement with what Anne Bingaman and Brian have been trying to do relative to the 271 issues, and Sol and I know we disagree on that, and that's fine. This is not about a 271 issue. This is not about U S WEST entering long distance. This is about the Act allowing them to market long distance with an unaffiliated entity under equal access capability. That's not what LCI and Anne and CompTel have been aggressively fighting, so we are not inconsistent with our other position which is their position on 271 and they are supportive of what we have just done and I think you got to get behind. You know, you can't paint everything as a 271 issue which is really what the contention is in the Act.

TODD: It just seems like this is going to be viewed as an end around 271 and that's just the kind of thing LCI would be jumping on if it weren't QWEST who was involved with it.

NACCHIO: Well now again, Todd, I think to get back to either your question or someone else's earlier, the regulators all know us and we come back to the well a lot of