

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION**

In the Matter of the Application of
QWEST CORPORATION

Regarding the Sale and Transfer of Qwest Dex
to Dex Holdings, LLC, a non-affiliate

Docket No. UT-021120

DIRECT TESTIMONY

OF

GEORGE A. BURNETT

QWEST CORPORATION

JANUARY 17, 2003

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1

I. INTRODUCTION

2 **Q. STATE YOUR NAME AND BUSINESS ADDRESS.**

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

5 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
6 **WORK EXPERIENCE.**

7 A. Please see Exhibit GAB-2, attached hereto, which details my education and
8 experience.

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

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

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

9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

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

12 **II. SUMMARY**

13 **Q. PLEASE PROVIDE A BRIEF SUMMARY OF YOUR TESTIMONY.**

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

18 In addition to publishing primary directories on behalf of QC, Dex also publishes
19 regional, community and specialty directories, and continues to expand its

1 Internet-based directory service. In fact, Dex's operations now go far beyond the
2 publication of directories related to QC's directory obligations, and the Publishing
3 Agreement between these two affiliates. Since its predecessor, U S WEST Direct,
4 was created in 1984, Dex has substantially expanded and changed its products and
5 offerings, and over 30 percent of the company's revenue now derives from those
6 sources.

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

17 III. BACKGROUND

18 Q. WHAT IS DEX'S RELATIONSHIP TO QC?

19 A. At divestiture of AT&T, U S WEST, Inc. consolidated its directory operations
20 into a newly created subsidiary, U S WEST Direct, which became U S WEST

1 Dex, and ultimately Qwest Dex. All the tangible and intangible assets,
2 intellectual property, human resources and operational know-how for directory
3 operations were transferred to the new entity. Dex publishes directories on behalf
4 of QC. While this Commission regulates QC as a local exchange carrier, it does
5 not regulate Dex, as a publisher, or the rates that Dex charges for advertising.

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

8 A. QC currently meets its directory-related obligations in Washington through a
9 Publishing Agreement with Dex, under which Dex is designated as the “official
10 publisher”¹ for QC and acquires its listings to publish White Pages for a per-
11 subscriber fee under a separate Directory List License Agreement. The
12 Publishing Agreement requires Dex to annually publish primary directories of
13 white page listings covering QC’s exchanges, including premium listings in the
14 white pages. Primary directories also include listings of customers of
15 Competitive Local Exchange Carriers (“CLEC”) and Independent Local
16 Exchange Carriers (“Independent LEC”), which information Dex either obtains
17 through its Directory List License Agreement with QC, or, in some cases, directly
18 from the CLEC or Independent LEC. The Publishing Agreement also requires
19 Dex to deliver directories to all the subscribers of QC and of other included

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

1 CLECs and Independent LECs. Pursuant to the Publishing and Directory List
2 License Agreements, Dex is authorized to use the Subscriber List Information
3 (SLI) to publish other specialty and secondary directories, including
4 neighborhood directories, regional directories and On-The-Go (car) directories,
5 both in print and electronically or on-line.

6 Dex also acquires Subscriber Use Information (“SUI”) under the Publishing
7 Agreement with QC. After loading that information into its databases, Dex re-
8 formats it to support its list marketing business, as can any other publisher that
9 acquires SUI. The Publishing Agreement fully protects subscribers’ privacy
10 rights under federal and state law.

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

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

1 **Q. WHAT ARE PRIMARY DIRECTORIES?**

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

9 **IV. DEX OPERATIONS**

10 **Q. DESCRIBE THE BUSINESS OPERATIONS OF DEX.**

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

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

19 A. Driven by the desire to continue to expand and improve its business, since 1984
20 Dex has made substantial changes and enhancements to the directories it

1 publishes and has widely expanded its product offerings. These include the
2 development of a unique and copyrighted font for its directories, colored maps,
3 community information and audio-text, colored advertising, and advertising in
4 White Pages and on directory covers. See Exhibit GAB-3 for a list of
5 enhancements and product introductions since 1984.

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

13 Even the primary directories that Dex publishes have changed significantly. In
14 1984, 100 percent of listings were for U S WEST's customers, as U S WEST was,
15 at that time, a regulated monopoly. Today, roughly 75 percent of the listings in
16 Dex primary directories are QC customer listings; more than 25 percent of the
17 primary directory listings are for customers of alternative providers. In the same
18 vein, today roughly 75 percent of Dex primary directories are delivered to QC
19 customers, as opposed to 100 percent in 1984. During the same period,
20 advertising revenues from non-QC retail customers and telephone service

1 providers other than QC have grown from 0.1 percent to nearly 30 percent of total
2 advertising revenues.

3 **Q. HOW HAVE DIRECTORY OPERATIONS BEEN FUNDED SINCE 1984?**

4 A. Directory operations are independent from local telephone operations and are self-
5 supporting. They require no large capital infusions from the parent corporation.
6 As Theresa Jensen explains in her testimony, at their inception, shareholders of
7 QC's predecessors funded the start-up of directory operations. In fact, in
8 Washington directory publishing operations pre-date telephone regulation.

9 **V. THE DEX SALE TRANSACTION**

10 **Q. DESCRIBE THE SALE TRANSACTION, GENERALLY.**

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

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

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

11 The Buyer is committed to maintaining and enhancing directory operations. It
12 will use the same human and business resources to deliver the same products and
13 services in Washington, so it will have the continued technical, managerial and
14 operational expertise and financial resources to succeed.

15 The former Dex operations will be divided into two regions, based on the Dexter
16 and Rodney stages of the transaction: Dex Media East will include operations
17 specific to the Dexter states, and Dex Media West will include operations specific
18 to the Rodney states. Many functions common to directory publishing operations
19 in both regions will remain consolidated and will operate from within Dex Media,
20 Inc. Even though there will be two separate companies after Rodney closes, the
21 Buyer plans to operate as an integrated entity and expand Dex's directory

1 publishing and list marketing activities while servicing the same exchange areas
2 for QC as it does today.

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

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

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

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

18 The parties executed a Professional Services Agreement to ensure a seamless
19 transition to the Buyer between the Dexter and Rodney closings. For an interim
20 period leading up the Rodney close, this agreement requires Dex Media, Inc. to

1 provide Dex with intellectual property licenses as well as certain professional
2 services (including information technology, website management, operations and
3 production, and vendor relationship management services). This agreement also
4 establishes the key covenants and obligations necessary to share resources while
5 maintaining operational integrity of the two separate companies. This agreement
6 further allows Dex to continue to operate during the interim period without
7 replicating the capabilities that were transferred to Dex Media East at the Dexter
8 close.

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

16 The Buyer also executed a Transition Services Agreement with QCI, which is
17 effective for 18 months following the close of Dexter. For defined fees, and
18 through an appropriate subsidiary, QCI will make available to Buyer real estate,
19 finance and accounting, procurement, treasury and cash management, human
20 resources, marketing and public relations, legal, corporate/executive, IT, billing
21 and other services. That and the other agreements in place will ensure that

1 customary directory operations continue without interruption or impediment and
2 that directories will be produced by these companies in QC's region as expected
3 or required.

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

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

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

15 Buyer has also executed a new Publishing Agreement with QC, which Theresa
16 Jensen also discusses in her testimony, and other associated agreements that will
17 ensure that all existing regulatory mandates are fully met in Washington.

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

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

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

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

18 A. Customers will notice no adverse changes in their directories. The buyer will
19 continue to use the "Qwest Dex" brands and trademarks for a period of five years,
20 and will continue to use the Dex brand name thereafter. The directories that
21 Buyer has published since closing the first phase of this transaction have been

1 virtually indistinguishable from those previously published by Dex for these same
2 localities. These provisions will help ensure that the transaction is transparent to
3 Dex customers.

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

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

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

19 The Publishing Agreement and related agreements ensure that QC will continue
20 to be able to meet its directory-related regulatory obligations through Dex Media

1 East and Dex Media West, particularly given the specific provisions in the
2 Publishing Agreement that provide QC the necessary recourse to ensure that these
3 obligations are met. Dex Media East and Dex Media West must consult with QC
4 on issues related to publication and scoping of directories. They also may be
5 liable for damages to QC and/or lose their status as “official” publisher for QC in
6 the event that they do not discharge their obligations per the agreement. In the
7 event of a material breach, QC, an affiliate or other selected company is entitled
8 to re-enter the directory business. Theresa Jensen discusses these provisions,
9 largely set forth in Section 6.2 of the Publishing Agreement, in greater detail in
10 her testimony.

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

14 VI. CONCLUSION

15 **Q. PLEASE STATE YOUR CONCLUSION.**

16 A. Since the AT&T divestiture in 1984, the directory business that was transferred to
17 a separate affiliate has expanded with shareholder capital in powerful new ways,
18 including: the scale and scope of primary directories and introduction of
19 secondary directories; electronic, Internet and talking directories; specialty
20 directories; list businesses; delivery and replenishment services for other

1 Independent LECs; and, other new ventures. Post close, directory services can be
2 expected to continue and evolve for a Buyer that has access to fresh sources of
3 capital and financial resources.

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