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DEALS & DEAL MAKERS

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

By SHAWN YOUNG

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

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

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

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

The debt swap, which was available only to institutional investors, had the potential to cut Qwest's debt by between \$1.5 billion and \$2.6 billion, depending on how many bondholders chose to participate and which bonds they held. Although the exchange was at the range's low end, the swap moves \$735 million in debt that was due to mature in 2004, 2005 and 2006 back to 2007. Mr. Governali said. Investors were particularly concerned about Qwest's ability to handle those payments. The swap will increase Qwest's interest expense, which was \$1.44 billion in 2001, by about \$68 million a year.

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

phone-directory business for \$7 billion.

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

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

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

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

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

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

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

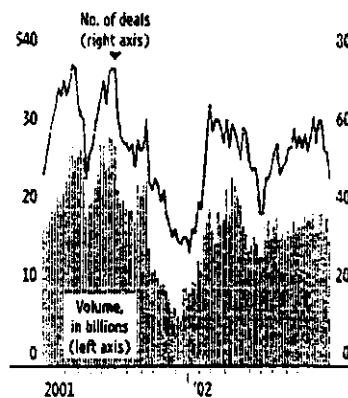
—Yochi J. Drutner contributed to this article.

Syndicated-Loan Market

Syndicated loans are corporate loans that "syndicate," of banks and/or institutional investment grade or unrated loans priced L. 100 plus 1.50 percentage points (150 grade or unrated loans priced at or above

Forward Calendar

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



Notes: Final figure on forward calendar (left) is as of Dec. 20, 2002.

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

The Week's Biggest Movers

Biggest gainers and losers among widely-traded issues in the week ended Friday. Listed are the top five bids. All loans listed are B-term.

ISSUE	LOAN RATIO	COUPON	MATURITY	YIELD	CHG.
Level 3 Comm.	Call/N.R.	1-425	Jan. 15 '08	74.75	+0.2
Fredericsson	N.R./N.R.	1-212.5	April 01 '06	67.50	+0.1
Amec, Call, N.Y.	83/CCC	1-300	March 21 '06	68.71	+0.1
Primoris Cable Wdgs.	N.P./N.R.	1-300	Sept. 30 '10	79.55	+0.1
American Comm'l Lines	83/B	1-350	June 30 '06	62.50	+0.1
Haves, Lammert Int'l	N.R./N.R.	1-500	Dec. 31 '05	79.92	+0.1
Edco Corp	Call/N.R.	1-525	March 12 '05	67.92	+0.1
Global Crossing	N.R./N.R.	1-300	July 06 '06	63.09	+0.5
Commercial Capital	51/B	1-275	Nov 31 '07	75.25	+0.1
United Rentals	343/BB	1-300	Jan. 31 '07	78.25	+0.1
Youghl Aircraft	N.R./N.R.	1-325	Aug. 23 '07	64.50	+0.1
Land O'Lakes	81/BB	1-250	Oct. 11 '08	60.50	+0.1
MCI Corp	Call/CCC	1-400	June 02 '07	76.50	+0.1

Unchanged	██████████	
Advancers	308	Tc
Decliners	153	A

Note: These are the averages of indicative bid price percentage of the par or face value. Coupon or rate London Interbank Offered Rate. All ratings are for the issue. These prices do not represent actual values provided by dealers.