

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of)	
)	
the Merger of the)	Docket No. UT-991358
Parent Corporations of)	
Qwest Communications Corporation,)	
LCI International Telecom Corp.,)	
USLD Communications, Inc.,)	
Phoenix Network, Inc. and)	
U S WEST Communications, Inc.)	

REBUTTAL TESTIMONY OF MARK T. EVANS

ON BEHALF OF

QWEST COMMUNICATIONS CORPORATION,

LCI INTERNATIONAL TELECOM CORP.,

USLD COMMUNICATIONS, INC., and

PHOENIX NETWORK, INC.

[Non-Confidential Version]

FEBRUARY 22, 2000

INTRODUCTION AND QUALIFICATIONS

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION WITH QWEST COMMUNICATIONS INTERNATIONAL INC.

A. My name is Mark T. Evans. My business address is Qwest Communications International Inc., 700 Qwest Tower, 555 Seventeenth Street, Denver, Colorado 80202. My title is Vice President, Corporate Finance for Qwest Communications International Inc. (“Qwest Inc.”).

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. I am a graduate of The American University where I received a Bachelor of Science degree in Political Science in 1984. I also received a Masters in Business Administration from Cornell University in 1989 with a concentration in finance and accounting. Prior to joining Qwest Inc., I held various positions in finance and marketing at MCI WorldCom. During my 10-year tenure at MCI WorldCom, I worked in business analysis, planning, reporting, and database marketing. In addition, I spent three years as an auditor with the U.S. General Accounting Office.

1 **Q. WHAT ARE YOUR DUTIES IN YOUR CURRENT JOB?**

2 **A.** I manage a group of professionals responsible for corporate finance and business analysis
3 projects, which include the review and approval of business cases, generation of cost and
4 efficiency analyses, and some recurring reporting tasks. In addition, I have responsibility
5 for corporate planning, product planning and analysis, and capital management.

6

7 **Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY.**

8 **A.** The purpose of my statement is to provide information to the Washington Utilities and
9 Transportation Commission (“Commission”) about the Qwest-U S WEST merger, and to
10 respond to certain statements made in the testimony filed by Glenn Blackmon, Kathleen
11 Folsom, David Griffith, Suzanne Stillwell, and Maurice Twitchell for the Staff of the
12 Washington Utilities and Transportation Commission (“WUTC Staff”), Michael Brosch
13 for the Public Counsel Section of the Attorney General of Washington (“Public
14 Counsel”), Charles Ward for AT&T Communications of the Pacific Northwest, Inc.
15 (“AT&T”), Stacey Stewart, Dr. Bridger M. Mitchell, and Sarah J. Goodfriend for
16 McLeodUSA Telecommunications Services, Inc. (“McLeod”), Terry Moya for Covad
17 Communications Company (“Covad”), Joe Gentry for Rhythms Links, Inc. (“Rhythms”),
18 and Rex Knowles for NEXTLINK Washington, Inc. (“Nextlink”).

1 **FINANCIAL INFORMATION**

2

3 **PLEASE DESCRIBE SOME OF THE FINANCIAL AND OPERATING**
4 **CHARACTERISTICS OF THE MERGED COMPANY.**

5 Once the merger is complete, we expect the combined company to have pro forma revenues of
6 approximately \$18.5 billion and pro forma EBITDA of approximately \$7.4 billion in
7 2000. Qwest and U S WEST have also previously submitted to the Commission the
8 unaudited consolidated financials of Qwest Inc. and U S WEST, Inc. for the period
9 ending June 30, 1999, on a pro forma preliminary basis.^{1/} The relevant statistical data for
10 the merged company are as follows:

11

12	Total Assets	\$49 billion
13	Operating Revenues	\$17 billion
14	Net Income	\$725 million
15	Employees	64,000
16		

^{1/} See Qwest Communications International Inc. Form S-4 filed with the Securities and Exchange Commission on September 17, 1999 at II-9 through II-15. (available at <http://www.qwest.com/ir/invnews.html>).

1 **Q. PLEASE PROVIDE SOME OF THE FINANCIAL AND OPERATING**
2 **CHARACTERISTICS OF QWEST INC.**

3 Qwest Inc. is a publicly traded company listed on the New York Stock Exchange. It is the
4 fourth-largest interexchange carrier in the United States. The relevant statistical data as
5 of December 31, 1999 for Qwest Inc. are as follows:

6

7	Total Assets	\$11.06 billion
8	Operating Revenues	\$3.92 billion
9	Net Income	\$458.5 million
10	Employees	10,000

11

12 **Q. ARE THERE OBJECTIVE STANDARDS THAT COMPANIES MUST**
13 **MAINTAIN TO BECOME ELIGIBLE TO BE LISTED ON THE NEW YORK**
14 **STOCK EXCHANGE?**

15 A. Yes. To be listed on the New York Stock Exchange (“NYSE”), a company must meet
16 certain stringent qualifications pertaining to market value of public shares, net tangible
17 assets, and revenue. *See* NYSE web site at www.nyse.com/listed/listed.html. Qwest's
18 recent inclusion on the NYSE is evidence of its financial viability.

19 **Q. EXPLAIN WHY QWEST HAS EXPERIENCED POSITIVE EARNINGS FROM**
20 **OPERATIONS IN ONLY ONE OF THE LAST FIVE COMPLETED YEARS?**

21 A. There are several reasons. Qwest is a relatively young company that has spent the last
22 four years building one of the most advanced fiber optic networks in the country -- the
23 Qwest Macro Capacity Fiber Network, a fiber optic network that employs a SONET ring

1 architecture covering in excess of 25,500 miles in North America, connecting more than
2 150 cities in the United States alone. As other start-up companies in the
3 telecommunications sector have experienced, a construction effort of this scale and scope
4 requires significant financial resources (more than \$2 billion to date).

5
6 That said, Qwest has experienced dramatic growth in both revenue and EBITDA (a
7 measure of operating margin from continuing operations before interest, taxes,
8 depreciation/amortization) during the last few years. Revenue is projected to increase
9 from \$3.1 billion in 1998 to approximately \$5 billion in the year 2000, a 27 percent
10 compounded annual growth rate. EBITDA is projected to increase over the same period
11 from \$393 million to approximately \$1 billion, a 60 percent compounded annual growth
12 rate. Clearly, Qwest has and will continue to capitalize on its investments to date,
13 growing revenue and earnings to shareholders.

14
15 **Q. MCLEOD WITNESS BRIDGER MITCHELL SUGGESTS THAT QWEST IS**
16 **PURSUING THE MERGER WITH U S WEST IN ORDER TO USE THOSE**
17 **MONIES PREVIOUSLY PAID ANNUALLY TO SHAREHOLDERS TO FUND**
18 **ITS NETWORK, IMPLYING THAT QWEST HAS NO OTHER SOURCES OF**
19 **FUNDING. 2/ IS THIS ACCURATE?**

2/ Mitchell at 14.

1 **A.** No. As an initial matter, Qwest is not having difficulty obtaining funds from the financial
2 markets. Qwest, like most large companies, borrows money to fund its projects and
3 product development. Qwest has recently issued \$750 million in financing. In addition, it
4 has at least a \$1 billion line of credit that remains untapped. These methods have easily
5 satisfied Qwest's financing requirements. There is no indication that these sources of
6 funds, or other available and as yet unutilized sources, will become unavailable in the
7 foreseeable future. In fact, the opposite should be true, as Qwest continues to grow its
8 business.

9

10 In addition, Mr. Mitchell's allegation completely misstates the purpose of the merger.
11 Qwest and U S WEST believe that the merger will create a stronger competitor and will
12 provide significant value for their shareholders. It is not a tool to raise cash: Mergers are
13 an extremely inefficient method of raising funds.

14

15 Interestingly, in Iowa and Colorado, Dr. Mitchell's testimony stated that Qwest was
16 pursuing the merger because Qwest was having difficulty obtaining funds from the
17 financial markets. Dr. Mitchell appears to have backed off that position. He is right to
18 do so, because, as noted above, Qwest is not having any difficulty raising capital to
19 finance its operations.

20

21 **Q. WHAT SYNERGIES HAVE THE COMPANIES PROJECTED AS A RESULT OF**

1 **THE MERGER?**

2 A. The companies have projected that the post-merger Qwest Inc. will realize gross revenue
3 synergies of more than \$12 billion and net synergies of approximately \$10.5 billion to
4 \$11.0 billion as a result of the merger.

5

6 **Q. WHAT ASSUMPTIONS ARE THESE SYNERGY PROJECTIONS BASED**
7 **UPON?**

8 A. The projections and synergy estimates are based on numerous assumptions relating to the
9 businesses of Qwest Inc. and U S WEST, Inc., industry performance, general business
10 and economic conditions, development of new technologies, regulatory requirements, and
11 other matters that are inherently subject to significant uncertainties and contingencies
12 beyond the control of Qwest Inc. and U S WEST, Inc. These assumptions involve
13 judgments with respect to, among other things, future economic and competitive
14 conditions, developments in technology and regulatory developments. The projections
15 and synergy estimates, while presented with numerical specificity, are inherently
16 imprecise, and there can be no assurance that they will prove to be reliable. In fact, actual
17 results may vary materially from those shown in the projections or synergy estimates.

18

1 **Q. DID THE SYNERGIES ANALYSES TAKE INTO ACCOUNT A SPLIT OF THE**
2 **POST-MERGER COMPANY INTO WHOLESALE AND RETAIL DIVISIONS?**

3 **A.** No, it did not. Such a reorganization of the merged company's operations could have a
4 dramatic impact upon the project synergies. Qwest could lose many of the proposed
5 synergies if forced to separate the company's operations.

6

7 **Q. IS IT ACCURATE, AS PUBLIC COUNSEL WITNESS MICHAEL BROSCH HAS**
8 **STATED IN HIS TESTIMONY, TO CALL THE PROJECTED SYNERGIES**
9 **“SPECULATIVE”?** 3/

10 **A.** As noted above, projections by their very nature are uncertain. The synergy studies
11 (included in the confidential portion of Michael Brosch's testimony) used to develop the
12 total synergy amounts do not constitute the post-merger company's plans as to how
13 synergies will be achieved. Instead, following usual merger and acquisition valuation
14 practices, the projections were intended to serve as a method for Qwest and U S WEST
15 executives to evaluate the proposed merger and to determine if the merger could produce
16 synergies. The companies expect that the synergies will be derived from three primary
17 categories: revenue synergies, operating synergies and capital expenditure synergies.
18 While the amounts associated with any of those categories may actually change, the
19 companies are confident that they will be able to and will do all in their power to achieve

3/ Brosch at 18.

1 the overall goal.

2 **WHAT IS QWEST'S MARKET SHARE AND REVENUES FOR INTERLATA SERVICE**
3 **IN THE U S WEST REGION?**

4 Qwest's revenues for interLATA service in the U S WEST region are approximately
5 **[CONFIDENTIAL]** annually, based on first quarter 2000 estimated revenues annualized.

6

7 **Q. WHAT IS QWEST'S MARKET SHARE AND REVENUES FOR INTERLATA**
8 **SERVICE IN WASHINGTON?**

9 **A.** Qwest's revenues for interLATA service in Washington are approximately
10 **[CONFIDENTIAL]** annually, based on first quarter 2000 estimated revenues annualized.

11

12 **Q. INTERVENORS AND STAFF ALLEGE THAT QWEST INTENDS TO**
13 **"DIVERT" FUNDS FROM U S WEST IN-REGION STATES TO OUT-OF-**
14 **REGION STATES. ^{4/} WHAT WOULD BE THE RESULT OF SUCH A COURSE**
15 **OF ACTION?**

16 **A.** To do so would be a bad business decision. The merged company will have relationships
17 with more than 25 million customers in-region. The combined company has a unique
18 interest in U S WEST's existing Washington customers, local network, and facilities.

19 Ignoring these assets for the mere opportunity to compete from scratch in out-of-region

^{4/} Moya at 7; Ward at 63; Gentry at 2, 6, 9; Stewart at 2, 26; Mitchell at 4; Folsom at 13.

1 states would be illogical and uneconomical. Moreover, such claims are directly
2 contradicted by the record, which reflects a strong commitment by the combined
3 company to continue providing local service in-region.

4
5 The new entity plans to continue to offer this customer base quality service, innovative
6 products and value pricing. In addition, the U S WEST territory contains several of the
7 fastest growing metropolitan areas in the country. The market opportunity for
8 telecommunications services in-region is estimated at more than \$18 billion. As noted
9 above, in order to comply with section 271 requirements, Qwest is relinquishing business
10 worth [CONFIDENTIAL] in Washington and [CONFIDENTIAL] in the U S WEST
11 region (based on first quarter 2000 revenue estimates annualized). Qwest wants to
12 compete to regain these lost revenues upon satisfaction of section 271 in Washington. In
13 fact, even if Qwest could win only 20 percent of the long distance market once it is
14 offering local and long distance services that market share represents revenues of
15 [CONFIDENTIAL] in Washington and more than [CONFIDENTIAL] regionwide.
16 Therefore, it is a business necessity for the new company to focus appropriate resources
17 both in and out of region.

1 **Q. MCLEOD AND AT&T ALLEGE THAT QWEST INTENDS TO “DIVERT”**
2 **REVENUES FROM U S WEST’S REGULATED ACTIVITIES TO FUND**
3 **QWEST’S INVESTMENTS. ~~5/~~ IS THAT STATEMENT ACCURATE?**

4 **A.** No. Qwest and U S WEST will adhere to all relevant state and federal regulations on
5 accounting and bookkeeping for regulated activities, including for the state of
6 Washington. To the extent that investments occur, the investments would be in
7 accordance with account reporting. The goal of the investments would be to build a
8 stronger post-merger Qwest to provide significant value for their shareholders and for the
9 25 million in-region U S WEST customers, as described above.

10

11 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

12 **A.** Yes, it does.

13

~~5/~~ Mitchell at 13; Ward at 4.