1 and 14 state region surrounding Colorado.
2 And U S WEST was much bigger than Qwest. When Qwest
3 acquired U S WEST, Qwest was only about 25 percent of the
4 combined company; whereas U S WEST was the remainder
5 three-quarters of the company.
6 And companies in the rel- -- and the relative size of
7 companies are often evaluated on revenue. So revenue is
8 something -- company's revenue and revenue growth is something
9 that was very important to investors when they evaluated
10 companies, including Qwest.
11 And all revenue is, that's the amount of money that
12 the company brings in during the course of the year.
13 Essentially, their income.
14 And there are only two types of revenue. There is
15 either recurring revenue and non-recurring revenue. And while
16 those two names -- two words might be readily apparent what
17 that means, it's worth understanding, because it's important in
18 this case.
19 Recurring revenue is where Qwest would have a customer
20 that would pay Qwest month after month after month. So Qwest
21 could count on receiving income or revenue from that customer
22 relationship.
23 So it would be like a telephone customer, someone has
24 a telephone service with Qwest, you pay your bill this month,
25 pay your bill next month, and so forth. Qwest can predict that

1 revenue and count on that revenue, because they're counting to
2 get it each month.
3 It's more predictable, it's more sustainable, it's
4 more reliable.
5 And you're going to hear in the telecommunications
6 industry, anyway, it was considered revenue of higher quality.
7 Now, non-recurring revenue, on the other hand, at
8 Qwest was referred to as one-timers. And the name is
9 descriptive. It was revenue that the company earned one time.
10 There wasn't an ongoing relationship with the customer, where
11 Qwest could count on a revenue stream that kept coming in. So
12 they'd have to start over each quarter or each period and earn
13 additional one-timers.
14 And the principal kind of one-timer at Qwest were
15 these large contracts, where Qwest would sell a customer access
16 to a piece of their network. And so basically what they would
17 do is a customer would buy the right to use a piece of their
18 network for 20 years. So let's say from Denver to Chicago, a
19 customer would go to Qwest and say, we just want to be able to
20 transmit this much information across your network for the next
21 20 years. And Qwest would structure those contracts in a way
22 that they would be able to get all of that money up-front,
23 essentially, paid up-front.
24 And so Qwest would generate all of that revenue today,
25 but they wouldn't get the revenue for the next 20 years.

1 You're going to hear that these one-timers, because
2 they have to start over with them each quarter, they're less
3 reliable, less predictable.
4 You're also going to hear that Qwest used these
5 one-timers as a way to achieve their growth targets that they
6 set with investors, starting in 1998 and through 2000.
7 Now, the problem with growing your company through
8 one-timers is that you have to start over each quarter. And if
9 you're growing your company by relying on one-timers, not only
10 do you have to be able to do as many of those one-timers as you
11 did last quarter, you have to do more to make the growth
12 projections that you told investors to expect.
13 And that problem is even further complicated in
14 2000 and 2001, because the industry was getting more and more
15 competitive, which was driving the price of Qwest one-timers
16 down.
17 So not only did Qwest have to sell more one-timers in
18 subsequent quarters to make -- to account for the growth, they
19 had to sell even more to make up for the prices that were
20 dropping in these one-timers that they sold.
21 I actually think I have a slide that I forgot to
22 project to you on this. I spent all of that time preparing it,
23 I'm going to make you look at it.
24 Again, just to review this, because this is important.
25 Two types of revenue, recurring revenue on the left-hand side

1 of your screen, and non-recurring on the right. And the way
2 this chart is set up is basically two examples to help you
3 understand the difference between recurring and non-recurring
4 revenue.
5 For recurring revenue, we're talking about something
6 like a telephone customer, ongoing relationship with a
7 customer. And on the other hand, non-recurring revenue, these
8 20-year contracts that I was telling you about, where Qwest
9 structures them in a way to get that revenue up-front, which is
10 great, of course, for the revenue today, but you don't have --
11 your -- you can't count on that revenue in the future. You
12 have to go out and sell more of these in the next quarter.
13 So the recurring revenue is considered more
14 predictable, reliable, sustainable, generally, higher quality.
15 Non-recurring, one-timers, you're going to hear that reference
16 a lot, both this afternoon while I'm talking and also during
17 trial, less reliable because Qwest has to start over each
18 quarter.
19 These are complicated deals. Qwest has to go out and
20 find a customer for these networks. And we're talking big, big
21 dollars. These are complicated deals to close.
22 Now, inside Qwest you will hear that Mr. Nacchio
23 valued recurring revenue over non-recurring revenue, basically
24 for the reasons that we've just talked about.
25 And internal Qwest financial documents, they tracked