THE RETIREE GUARDIAN

Newsletter of AUSWR —Representing Retirees of U S WEST, Qwest and their predecessor companies

2010 Issue 3

www.uswestretiree.org www.qwestretiree.org

Federal Judge Rules Against Retirees Again

AUSWR Appeals Group Life Insurance

INSIDE

Denver Federal Judge Walker Miller made his final ruling July 22, 2010, against AUSWR retirees in the *Kerber, et al v. Qwest Group Life Insurance Plan, et al* case, by denying their September 2009 filed request for reconsideration. Judge Miller said in his last order:

> "I considered the entire record in the case in arriving at my decision on the Motions for Summary Judgment (ECF No. 159), including the content of the Video Conference, all exhibits, all of the plan documents presented to Plaintiffs, and each reservation of rights statement. Accordingly, Plaintiffs' Motion to Alter or Amend Judgment (ECF No. 162) is denied."

Thus, the trial court proceedings are over. On August 10, 2010, Curtis L Kennedy, AUSWR Litigation Attorney, started an estimated one to one-half-year long appeals process by filing a "Notice of Appeal" to the Denver Tenth Circuit Court of Appeals. The appeal will seek a reversal of Judge Miller's rulings upholding Qwest's reduction of retirees' basic group life insurance benefits to $10,000 in 2006 for all non-management and in 2007 for all management employees and retirees.

AUSWR retirees contend Qwest violated a plan rule that said basic life insurance benefits "*shall not be reduced below*" $20,000 for any retiree who retired before January 1, 1996, and basic life insurance benefits "*shall not be reduced below*" $30,000 for any retiree who retired on or after January 1, 1996."

Retirees contend reduced benefits were paid to many beneficiaries before the terms in the controlling plan documents were properly amended and adopted.

There will be periodic updates and reports in future additions of the *Retiree Guardian.* All important court filings are posted at AUSWR's website: http://www.uswestretiree.org/legal2.htm#gli

"To preserve and protect the pension and benefits that we earned." — **AUSWR Mission**

Why AUSWR Will Not Oppose the Merger

Mimi Hull
AUSWR President

The reason that I believe AUSWR should not be involved in any formal way in the merger hearings before state Utility Commissions is that there is nothing the Commissioners can do to assure or save any retiree benefits that are enforceable under the law. For example, if a Commission said that CenturyLink had to continue telephone concession to retirees, and two months after the merger, telephone concession is canceled, the only recourse that a state Commission would have is to reduce rates –and very few rates are controlled by Commissions in most states, —and that reduction would be miniscule to the new Company. Any rate reduction would benefit the consumer, but not the retiree.

Retiree pensions and benefits are governed by federal law. That is why we participate with the NRLN as our advocate in Washington, DC.

Also consider that the new CenturyLink management team is people we do not know. We've had very little dealings with even those who are coming from Qwest to the new company. We are trying to establish a relationship with CenturyLink. We are soliciting the help of Qwest officers who have so far agreed to help set up a meeting down the road to facilitate building a relationship.

Pursuing utility commission hearings by intervening and opposing the merger where we retirees have nothing to gain adds unnecessary risk to future relationships.

That being said, retirees can insert themselves into the hearings and express their opinions and frustrations as individual retirees.

__Mimi Hull

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Pensioner Death Benefit Update

**If you are a 1990 "5+5" retiree who accepted the monthly pension and you have a spouse —please read this article and decide if you are affected …
and you want to take action.**

The AUSWR board of directors continues to weigh the possibility of legal action on behalf of those who lost the Pensioner Death Benefit March 1, 2010.

As we reported to you in the last *Retiree Guardian* newsletter, retirees turned to Curtis L Kennedy, AUSWR Litigation Attorney, for advice to mount legal action that might restore the benefit.

Curtis determined the criteria for the best potential case. The most likely potential plaintiffs are those who retired under the 1990 retirement offer known at the "5+5."

Each plaintiff must prove the following:

1) A material misrepresentation;
2) An ambiguous plan term in the written plan document;
3) An oral explanation or interpretation of that ambiguous plan term;
4) Reasonable and detrimental reliance by the retiree; and
5) Extraordinary circumstances.

(Refer to Retiree Guardian 2010 Issue 2 page 5 for details of the each of the items listed above.)

How can you participate if you are a 1990 "5+5" retiree who took the monthly pension, and you have a spouse or dependent?

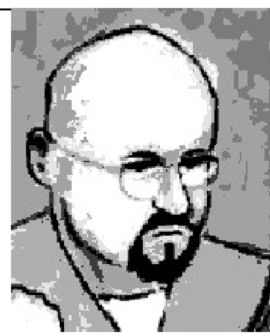
Contact Curtis L Kennedy, AUSWR Litigation Attorney, via his email at:

CurtisLKennedy@aol.com

Nacchio 6-Year Sentence Reduced 2 Months

Denver Federal Judge Marcia Krieger concluded three days of courtroom hearings on June 24, and re-sentenced Joseph Nacchio to a 70-month prison term. Judge Krieger reduced only two months off the original prison sentence.

Former Qwest CEO Joe Nacchio in 2006



Joe Nacchio May 2010 in Denver re-sentencing

Nacchio has been incarcerated for about 16 months. He will remain in federal prison until the end of the 5 year, 10 months sentence unless a future sentencing appeal is decided in his favor.

Nacchio has every right to appeal this latest sentencing outcome. His appeal would be at his expense. Qwest will not be paying his attorney's fees for any further appeal of this criminal case in which he was found guilty of insider trading. While he can appeal the sentencing decision again, he cannot appeal his conviction.

The total fines and forfeitures were reduced from the original $72 million to $64.6 million. Those monies are already in escrow and will be paid to the U.S. general treasury. None of the criminal fines and forfeiture monies coming from Nacchio will be distributed to Qwest shareholders.

No additional criminal proceedings will be filed against Nacchio, however, one pending civil case remains to be prosecuted by the U. S. Securities Exchange Commission (SEC), which was delayed due to Nacchio's ongoing criminal proceedings. If the SEC pursues the civil action and should prevail in court, it is very likely that the results may cause Nacchio to lose or forfeit the majority of his remaining wealth attributable to his gains from Qwest stock.

Qwest Calls Shareholder Meeting to OK CenturyLink Deal

Reported by the Denver Business Journal

Qwest Communications has set August 24 as the date for its special meeting of shareholders to vote on its proposed takeover by CenturyLink.

The shareholder meeting will be held at the Denver Marriott City Center starting at 10 a.m. MDT. Shareholders as of July 13, 2010, will be eligible to vote on whether to accept the acquisition offer by Monroe, La.-based CenturyLink.

The meeting will be audio webcast live at http://investor.qwest.com/presentations and will be available for replay afterward, Qwest said.

CenturyLink announced plans April 22 to buy Qwest in a deal involving a $10.6 billion stock swap and about $12 million in debt acquisition.

The deal is expected to close in the first half of 2011, subject to shareholder and regulatory approval.

If completed, the merger will create a telecom serving 37 states with about 5 million broadband customers and 17 million phone lines. Qwest alone operates in Colorado and 13 other states; CenturyLink has a 33-state territory.

Qwest's headquarters is expected to move out of Denver, but CenturyLink "will maintain a key operational presence in Denver, including a regional headquarters," the company said in April.

Your Benefits Management Gets Easier—

Qwest Service Center Changes

Qwest benefits' management company, Hewitt, launched a new website in early August to make it easier for you to review and change your health and life benefits.

You can change or just review your health or dental benefits, change life insurance beneficiaries —and other updates to stay up-to-date on your Qwest benefits.

Log-on to:

www.QwestHealthAndLife.com

- You will be directed to the Hewitt site.
- Click the blue "LogOn" button in the center of screen, and you will be directed to set-up your personal ID and password that you will use for future visits.

(You may continue to call **800-729-7526** for Qwest Service Center assistance).

$98 Million Qwest Pension Plan Investment Loss

Did Qwest Pension Plan Fiduciaries Invest In Something Too Good to Be True?

Report by Curtis L Kennedy
AUSWR Litigation Attorney

This is a follow-up to my prior report in the *Retiree Guardian* about the Qwest Pension Plan's $98 million investment loss with Westridge Capital Management, a registered investment adviser, which completed transactions through its affiliated WG Trading, a registered investment broker-dealer. Both entities were controlled by Paul Greenwood of Connecticut and Stephen Walsh, of New York — men who successfully got Qwest to accept their hype that they had a long track record of using a proven investment strategy that always beat the stock market.

"It appears that Qwest Asset Management Corporation (QAM), the group responsible for Qwest Pension Plan investments, gambled over a hundred million dollars of your retirement money in the high stakes world of hedge funds...

As you know from reading my prior report, the Securities and Exchange Commission (SEC) and the Commodities Futures Trading Commission brought separate civil charges against Greenwood and Walsh. In addition, criminal charges were filed. On July 27, 2010, Greenwood pled guilty to all six charges while admitting that he and Walsh starting in 1996, misused investors' funds for their own personal investments and to buy expensive homes and collectibles.

A Manhattan Federal Judge appointed Robb Evans & Associates, LLC, to serve as Receiver with responsibility to forensically reconstruct the fraud and recover assets. Thus far, the Receiver has captured assets and investments valued at about $900 million and have estimated claims against the assets are about $1.5 billion. The Receiver's initial 305-page report is an eye opener about greed and waste of investors' monies by Greenwood and Walsh. See: www.robbevans.com/pdf/wgtradingreport01.pdf

Since all of the claims against Westridge and WG Trading exceed available assets by between $500-600 million, Qwest Pension Plan's recovery will be a small fraction of a $97.9 million "promissory note" reported in an annual Department of Labor Form 5500 filing as a complete loss.

My review of the Receiver's reports and court filings reveals that although it was evident that Westridge had no independent watchdog to verify its results or judge the effectiveness of investor safeguards in place, Qwest decided to invest heavily with the erstwhile investment firm. It appears that Qwest Asset Management Company (QAM), the group responsible for Qwest Pension Plan investments, gambled over a hundred million dollars of your retirement money in the high stakes world of hedge funds, accepted Westridge's hype, and placed far too much reliance and faith in spasmodic and lackadaisical governmental regulatory oversight of Westridge.

Westridge enticed clients, including Qwest, into depositing monies with Westridge, which entity would then act as an intermediary and relay funds into WG Trading's exotic investment scheme. Much like a gambler at a casino, QAM gave huge amounts of pension monies to Westridge and, in exchange, received promissory notes -- loan agreements stating that Westridge had "borrowed" from the Qwest Pension Plan and would repay the loans.

According to court documents, Westridge represented to its investors including Qwest that it would regularly put 15 percent of a client's deposited money toward matching the return of the S&P 500.

(...continued on the next page…)

(Westridge...continued from previous page…)

The other 85 percent of deposited money would go into an exotic investment called "enhanced index trading" at WG Trading Co., the limited partnership controlled by Greenwood and Walsh. Thus, there was the classical situation of "the fox guarding the chicken house." According to court filings, Westridge invested in WG Trading only "a mere fraction" of all investor funds received, including Qwest Pension Plan monies. The rest was simply misappropriated to pay for Greenwood's and Walsh's lavish and luxurious lifestyles. Investors' money was used to cover-up investment losses and to buy exotic cars, multi-million dollar homes, scores of horses, a bucolic 300 acre horse farm, a $3 million home for Walsh's ex-wife, rare books and a $3 million collection of 1,348 Steiff teddy bears. In other words, they stole the money, spent it, and wrote an I.O.U. for it.

Allegedly, Westridge/WG Trading misrepresented that financial statements were "audited" at least once by the venerable accounting firm of Deloitte & Touche. However, the accounting firm states it conducted only a "limited review" of WG Trading's internal controls and other investor safeguards which it said were "adequate." How the heck did the auditors miss the "elephant in the room"? I.O.U. notes of Greenwood and Walsh made up $554 million of the trading company's "receivables".

Further review reveals that apparently, for far too long, none of the major investors, including Qwest, actually examined WG Trading's books and asked where the hundreds of millions of dollars were going and why Greenwood and Walsh had all the I.O.U. notes. Finally, late in 2008, one investor, the San Diego County Employees Retirement Association hired its consultant to check on matters. Upon arrival at WG Trading's office, the consultant found Greenwood most uncooperative and evasive. Accordingly, the matter was referred to the National Futures Association which sent inspectors to WG Trading's office. Soon thereafter the Feds swooped in and uncovered the entire fraud which affected about 35 investors including the Qwest Pension Plan.

How could Qwest pension plan fiduciaries miss the long-term on-going fraud? Should Qwest have insisted on receiving nothing less than audited financial statements? Should Qwest have insisted on regularly inspecting records from the actual custodian of the pension plan's money to ensure that the money was there? Since the hedge fund controlled the custodian of funds, as Westridge did, no due diligence investigator worth his or her title would have taken any comfort from the fictitious statements Westridge sent to Qwest showing promised investment returns. That's because any scam artist can use technology to spit out financial statements and brokerage records that look authentic.

It is believed that the Westridge/WG Trading investment loss was a significant contributing factor causing Qwest leaders to choose to eliminate the Pensioner Death Benefit so as to try and shore up the pension plan's deficit. Presently, AUSWR leaders are looking into legal options, including whether there may be a viable claim of breach of ERISA fiduciary duty since there was a failure to adequately supervise and monitor the huge pension plan investment entrusted with Westridge/WG Trading.

Certainly, QAM's payment of over $3.7 million to Westridge for services performed cannot be justified, because, instead of growing the pension assets, Westridge was stealing Qwest Pension Plan monies.

Curtis L. Kennedy

Health Care Reform:

Myths & Rulemaking

By Barbara Wilcox, AUSWR CO/WY

In this, my second column on the new health care reform law, I debunk some myths and describe rulemaking procedures that potentially impact us Qwest retirees. Of course, at this time, we don't know what changes might occur in the benefits provided Post-1990 retirees after the merger with CenturyLink. What I am writing pertains to the insurance we have now. Send your questions for future articles to me at ***Email:*** ***BMW@mho.com***

The Truth About Some Myths

Q. I received an email saying that we would have to pay income tax on the value of our Qwest-provided health insurance. Is this true?

A. NO. There is confusion, because the Affordable Care Act does require that employers begin reporting the value of the health insurance they provide on employees' W-2 forms. But individuals do not pay income taxes on that value. Health insurance could be taxed in the future if the value exceeds certain limits, but the insurance company will pay the tax, not the insured person. See the discussion of "Cadillac" health plans in Issue 2 of the *Guardian.*

Q. I heard that the health care reform law has a new real estate tax in it. They're saying that, if I sell my home, I'll have to pay a 3.8% sales tax. Is this true?

A. NO. There is no real estate or sales tax in the Affordable Care Act. There is a 3.8% income tax on investment income beginning in 2013, but only for individuals earning more than $200,000 or couples earning more than $250,000. So, if you fall in that high income bracket, and you sell your house, you might have to pay the 3.8% tax, on any gain you made over and above the cost of the house, depending on other details in your earnings.

Rulemaking

The Federal Department of Health and Human Services (HHS) is conducting rule-making procedures to set the specifics of how each provision of the new law will be implemented.

New Rules for Medicare

Q. What new benefits are added to Medicare in 2011?

A. As of January 1, 2011, Medicare will cover many preventive services at no expense to the patient, including annual wellness visits with your primary care physician.

Q. What other changes are happening in Medicare next January?

A. Rules have also been issued for providing increased payments to primary care doctors and general surgeons.

New Rules for Grandfathered Plans

Q. Is the health insurance we get from Qwest considered to be grandfathered, under the new law?

A. YES, right now it is an existing, grandfathered plan.

Q. As a grandfathered plan, will our insurance have to make any changes under the new law?

A. YES. The Affordable Care Act does make certain requirements of all health insurance plans, regardless of whether they are existing plans or new plans. These rules are known as the Patients' Bill of Rights, which takes effect for plan years beginning after Sept. 23, 2010. Depending on the exact plan you are on, here are some key provisions that may cause improvements in your insurance:

* No lifetime limits on coverage.
* Phase out of annual dollar-amount limits on coverage.
* Extension of parents' coverage of young adults up to age 26.

Q. Will our Qwest-provided insurance always be grandfathered?

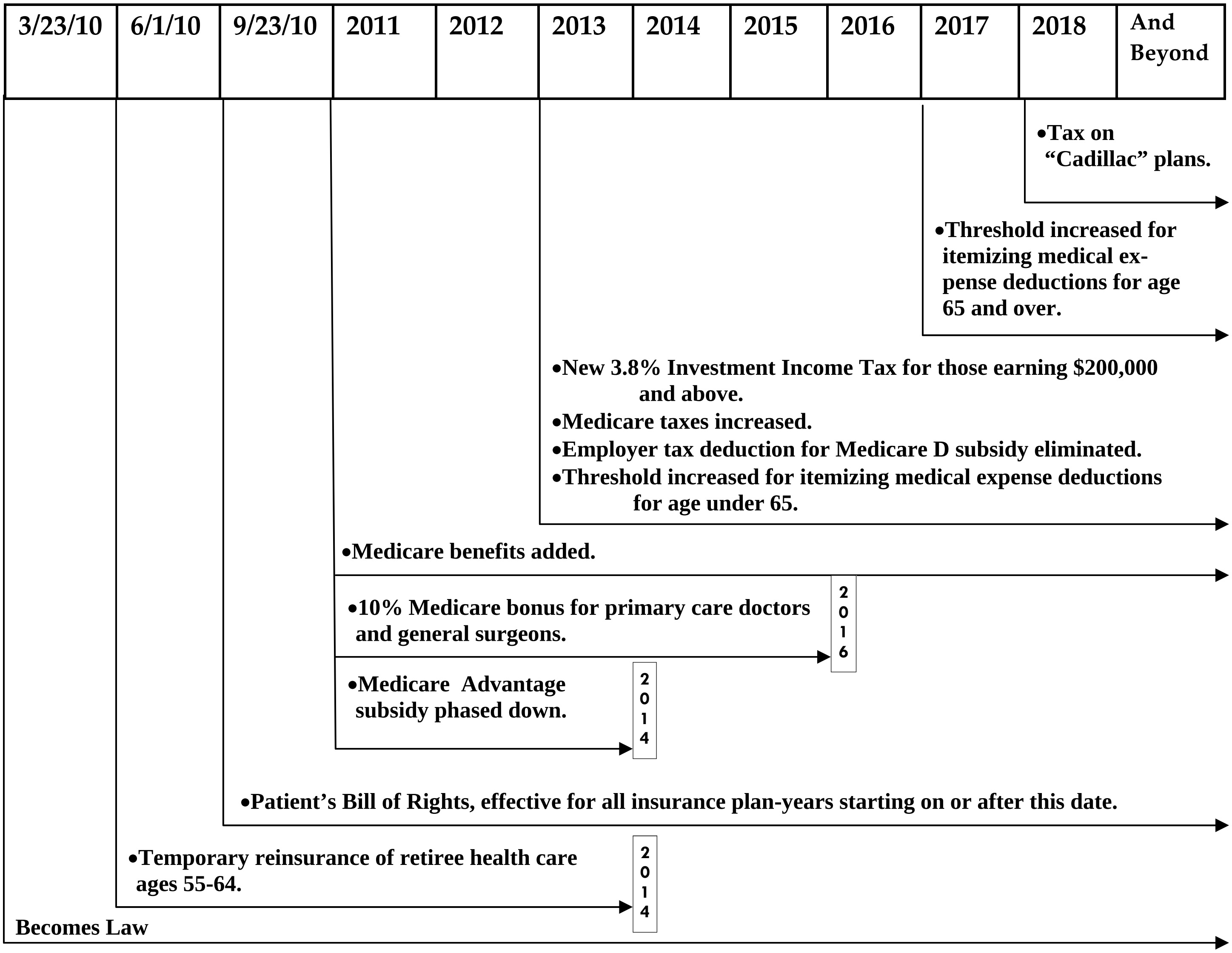
A. The rules list a number of changes to a plan that would cause it to lose grandfathered status. For example, the plan cannot significantly cut or reduce benefits or increase deductibles or co-pays beyond specified amounts. Neither can the employer offering the plan tighten or decrease its cap on the amount of premium the employer pays.

Q. If our Qwest-provided insurance should lose its grandfathered status, what happens then?

A. Then the Company would have to meet additional requirements that any new plan has to meet. For example, they would have to provide specified preventive care at no cost to you.

Health Care Reform Timeline

This timeline shows some of the events contained in The Patient Protection and Affordable Health Care Act of 2010. Included are the events mentioned in the accompanying health care reform article.



For more information about the new health reform law, the following sources are recommended:

- <u>Kaiser Family Foundation:</u> ***http://healthreform.kff.org/***
- <u>AARP:</u> ***http://www.aarp.org/health/health-care-reform/***
- <u>Alliance for Retired Americans:</u> ***http://www.retiredamericans.org/issues/health-care-reform***
- <u>U.S. Department of Health and Human Services:</u> ***http://www.healthcare.gov/***
- <u>Speaker of the House:</u> ***http://www.speaker.gov/newsroom/legislation?id=0361***
- <u>The White House:</u> ***http://www.whitehouse.gov/***

Curtis L. Kennedy
AUSWR Litigation Attorney

Qwest Health Care Plan

What would happen in the event of a bankruptcy?

At *every* retiree meeting I speak at, someone expresses concerns about a potential bankruptcy and what might happen to retiree welfare benefits, such as health and life insurance coverage. Naturally, this concern is attributable to everyone's awareness that throughout the nation corporations going through bankruptcy seek to shed retiree liabilities.

While I do not want this explanation to cause anyone to worry about a potential Qwest bankruptcy -- as there is no such threatening situation for either Qwest or CenturyLink, the company which is expected to takeover Qwest next year -- I do want to briefly explain how a change in federal law enacted in year 2005 makes it more difficult for corporations to end retiree welfare benefits as happened in the past.

After more than a decade of corporate abusive actions taken against retirees when corporations went through Chapter 11 bankruptcy proceedings, finally in year 2005 a federal law was enacted which is intended to restrict a corporate debtor's ability to modify or terminate, except through a particular process, *any* retiree benefits during a Chapter 11 bankruptcy proceeding, regardless of whether the corporation had the unilateral right to terminate those benefits outside of bankruptcy. The "Bankruptcy Abuse Prevention and Consumer Protection Act of 2005," Pub.L.No. 109-8, 119 Stat. 23 (2005) (codified at 11 U.S.C. Section 1114) was most recently explained and interpreted by a federal appeals court based in Philadelphia.

In the case of *In re Visteon Corp*, --- F.3d ----, 2010 WL 2735715 (3rd Cir. July 13, 2010), the appellate court was faced with a challenge brought by retirees to Visteon's unilateral decision to terminate health care benefits soon after filing for Chapter 11 bankruptcy. In short, the retirees successfully argued and received a ruling by the Third Circuit that the lower court judges should have required Visteon to comply with each of the steps set forth in the federal law, 11 U.S.C. Section 1114.

Visteon Corporation, originally formed as a division of Ford Motor Corporation, was spun off in 2000 to become its own corporate entity and, today, is one of the world's largest suppliers of automotive parts. On May 28, 2009, Visteon filed a petition in the Delaware Bankruptcy Court for Chapter 11 bankruptcy. Less than a full month later, on June 26, 2009, Visteon asked the bankruptcy court for permission to terminate all United States retiree benefit plans. Certain retirees filed an opposition arguing that Visteon could not terminate any retiree benefits during a Chapter 11 proceeding without first complying with the requirements of 11. U.S.C. Section 1114.

About six months later, the bankruptcy judge on December 10, 2009, granted Visteon's request as to the vast majority of the retiree benefits on the grounds that, since Visteon had a 'reservation of rights' (ROR) in the retiree plan documents and could have unilaterally eliminated benefits, the corporation was not restrained and could do such during bankruptcy. The retirees appealed to the Delaware Federal Court which agreed with the bankruptcy judge ruling. Next, the retirees appealed to the Third Circuit Court of Appeals in Philadelphia.

In a case of first impression before the federal appeals court, the Third Circuit issued a ruling fully agreeing with the retirees that before there could be any changes to retiree benefits, Visteon was required

(...continued on the next page…)

(...What if bankruptcy... from previous page ...)

to comply with the procedures set forth in 11 U.S.C. Section 1114.

Therefore, it is firmly established that before any corporation can eliminate retiree welfare benefits while undergoing a Chapter 11 bankruptcy reorganization, the corporation-debtor must:

1) attempt to reach an agreement with the retirees regarding modification of retiree benefits before it can ask the bankruptcy court to modify or terminate them;

2) make a proposal to the authorized representative of the retirees which provides for those necessary modifications in the retiree benefits that are necessary to permit the reorganization of the debtor and assures that all creditors, the debtor and all of the affected parties are treated fairly and equitably;

3) must also provide the authorized representative with information about the company's financial situation to allow for informed evaluation of the proposal; and

4) must meet with the authorized representative to confer in good faith in attempting to reach mutually satisfactory modifications of such retiree benefits.

Even should this completed process prove unsuccessful and the corporate-debtor still asks the bankruptcy court to reduce or eliminate retiree benefits, the authorized representative may make a court challenge and ask either that there be continuation or an increase in benefits, which the court should grant if consistent with the federal law standards.

Note the reference to "authorized representative" of the retirees. Who is that? Despite the misconception held by many retirees, in general, unions do not represent retirees. In general, unions only represent current workers who are part of the designated bargaining group. This fact is particularly true with respect to retirees of both Qwest and CenturyLink. The unions are not the authorized representatives of any of the retirees.

Thus, the *Visteon* case decision also highlights the need for retirees to plan ahead and have at the ready an "authorized representative." No doubt, when a former employer goes bankrupt, retirees are particularly vulnerable because of their ages, their reduced incomes, and their inability to replace benefits under threat of termination. Retirees sorely need some competent person or entity to act as an authorized representative. Fortunately, in recent years more and more retirees are organizing retiree associations which can serve as an authorized representative in a bankruptcy proceeding.

Should there ever be the unlikely event of a bankruptcy, your Association of U S WEST Retirees stands ready to act as an authorized representative for all U S WEST/Qwest retirees and will serve your best interest by requesting the federal courts cause the corporate debtor to comply with each and every step of 11 U.S.C. Section 1114 and all other laws to protect retiree benefits.

As clarified by me at each retiree meeting, I have one last point to reiterate. . . Even if Qwest's, successor CenturyLink, or any future successor were to seek Chapter 11 bankruptcy reorganization, **the guarantee for Pre-1991 Retirees cannot be jettisoned**.

Indeed, the rights of Pre-1991 Retirees are the same as the rights of secured creditors, thanks to Nelson B. Phelps of Denver who championed the *Phelps v. U S WEST* case in 1996.

Curtis L. Kennedy

"...unions only represent current workers who are part of the designated bargaining group...unions are not the authorized representatives of any of the retirees.

Retirees sorely need some competent person or entity to act as an authorized representative..."

Who represents U S WEST/ Qwest Retirees?

As in the past, AUSWR Stands Ready To Serve Your Interests.

Beware "Scam Artists" Calling About Pensions

by Jim Heinze, Retiree Advocate

The folks at Qwest Human Resources called to alert us of a situation that has developed which so far has affected only current employees of Qwest. But their concern is that we retirees may become affected by the situation as well.

Some employees have begun receiving phone calls from individuals who claim to be financial advisors who are trying to raise concerns regarding the pensions of employees, retirees or surviving spouses —and solicit their business. Personal information has been sought in these phone calls.

Qwest has confirmed the fact that neither Qwest nor CenturyLink can modify the Qwest Pension Plan to reduce or eliminate any pension benefits that have already been earned, so the concerns raised by these callers have no validity.

Qwest also points out that representatives of Qwest or its affiliates will never contact employees, retirees or surviving spouses by telephone to ask for personal or financial information.

If you become aware of instances in which anyone is raising concerns about Qwest pension benefits and seeking personal information in connection with this subject, please let me know, so I can pass the information along to the proper people at Qwest.

As we monitor the activities in the expected merger between Qwest and CenturyLink, many opportunists from outside either company may emerge to attempt to take advantage of retirees.

Please stay on alert and check any such attempts. Should you have questions, please contact me or your state leaders.

— Jim

Retiree Advocates Here To Help YOU!

If you have questions about your benefits, contact the **Qwest Service Center….800-729-7526**
Press ***Option 2***, then select the appropriate options. To put your question or claim in writing, send to the:
Qwest Service Center, 950—17th St., Box 46, Denver, CO 80202
The address for the Qwest Benefit Office is: **Qwest Benefits, 1801 California St. 45th floor, Denver, CO 80202**

►*If you are unable to resolve your question after contact with the* ***Qwest Service Center,*** contact your state Retiree Advocate:

State	Tel. No.	Email
ARIZONA: Jim Heinze	303-442-1831	JJonrr@ecentral.com
COLORADO: Jim Heinze	303-442-1831	JJonrr@ecentral.com
IDAHO: Shirley Moss	208-342-3449	samoss05@msn.com
IOWA: Vikki Farrand	605-332-3670	LLFarrand08@yahoo.com
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Qwest –CenturyLink Merger Analysis by Barron's

CenturyLink's POTS of Gold

by Jay Palmer reporting at: online.barrons.com

The popularity of DSL (Internet access) is keeping telecom giant CenturyLink relevant.

POTS, or plain old telephone service, as it's known to investors and those in the business is hardly in a growth mode. Telephone lines have been around for more than a century, and the total number of customers is falling -- and is likely to continue declining -- as more people give up conventional lines in favor of cellular or voice-over-Internet systems.

> **"Deals like Embarq and Qwest ultimately deliver considerable savings and synergies. Integration of acquisitions is a core competency of ours.**
>
> **__Glen Post, CenturyLink President and CEO**

CenturyLink, formerly CenturyTel, delivers local and long-distance phone service to 6.9 million customers across 33 states. It is a classic POTS operation, the third-biggest in the business. Yet, for all the industry woes, the company is doing well. It has rising profits, a rich cash flow and a dividend yield of 8.8%, one of the highest among Standard & Poor's 500 stocks. Equally important, there is reason to believe that the shares, now in the low 30s, could pop higher by about 20% in 2011.

ONE REASON IS SIMPLE: In a shrinking, very fragmented industry long ripe for serious consolidation, CenturyLink has become a textbook consolidator. Its management team, considered one of the strongest in the telecom industry, has been buying rivals, cutting their costs and pumping out strong profits from them.

Over the past 18 years, the company has made 12 major acquisitions, including a $11.9 billion deal last year for Kansas-based Embarq; it paid less than $2,000 for each of that company's 5.8 million access lines. Now, it is acquiring Qwest in a $22 billion all-stock purchase expected to win regulatory approval next year.

SOME WORRY THAT CENTURYLINK has taken on too much, buying Qwest before the Embarq synergies have been achieved. Given the company's track record, that may be worrying too much. Certainly, the payoff from the Qwest deal lies further off, but cost-cutting will pad the company's bottom line. Expectations are that at least 7.5% of Qwest's operating costs can be eliminated through efficiencies and, if past history holds, that is likely to prove a minimum. Moreover, given that Qwest's operations are weighted towards the West Coast and CenturyLink's to the East, there could be greater-than-usual gains from a new ability to create national customer offerings.

According to the Telecommunications Industry Association, cable has a lead in total subscribers. Given that forecasts point to further large increases in the number of high-speed data subscribers over the next five years, and given that to all intents and purposes DSL can offer the same services as cable, digital subscriber lines probably will continue to proliferate.

The $7.2 billion government-spending stimulus on high-speed Internet will aid growth.

CenturyLink is pushing data services hard. In the first quarter, it recorded a record 70,000 DSL net-adds -- gains where the fees charged flow more or less directly to the bottom line. Over the course of the year, the company is expected to sign more than 200,000 new DSL customers.

THE BOTTOM LINE: CenturyLink's rising profits, rich cash flow, strong management and 8.8% dividend yield give it appeal. The shares could pop higher by about 20% in 2011.

That is fueling growth in the company's free cash flow, or cash on-hand that is theoretically available for payouts to stakeholders. CenturyLink's free cash flow is projected to rise from $460 million last year to more than $700 million this year, boosting per-share cash flow from $5.10 to about $5.25. This money funds not only acquisitions and capital spending, but also CenturyLink's $2.90 dividend, up from $2.80 last year.

Though CenturyLink is clearly a cash cow, the stock also holds potential for capital appreciation. Timothy Horan, an analyst with Oppenheimer, says that the shares historically have been stuck in a narrow range whenever a big acquisition is pending. However, in the 12 months following the close of a deal, CenturyLink shares typically rise an average of 19%.

If history repeats, that would have a sweet ring for investors after the Qwest transaction is completed.