

# Qwest: A scrappy little company with big ambitions

April 22 2010, By CATHERINE TSAI and SANDY SHORE , AP Business Writers

---



The Qwest Communications tower is shown in downtown Denver on in this Oct. 29, 2008 file photo. CenturyTel Inc. said Thursday April 22, 2010 that it will buy Qwest Communications International Inc. in a stock swap worth \$10.6 billion, creating a telecommunications giant serving customers in 37 states. (AP Photo/David Zalubowski, File)

(AP) -- Since the day it was created, Qwest Communications has been like the scrappy little guy who swings for the fences but doesn't quite hit a home run.

CenturyTel Inc. is buying a company with a checkered history, led by colorful men who made bold moves - some of them successful. Others

landed a former CEO in federal prison and forced Qwest to pay millions to settle civil fraud claims and shareholder lawsuits stemming from an accounting scandal.

[Qwest Communications](#) International Inc. was founded by Denver billionaire Phil Anschutz, a one-time oil wildcatter from Kansas who built an empire over four decades with an instinct for turning underdeveloped areas into successes - from oil fields to movies.

In the 1980s, Anschutz bought the Denver & Rio Grande and Southern Pacific railroads, which then became part of Union Pacific Corp. in a \$5.4 billion deal that created the nation's biggest railroad. He held onto Southern Pacific's telecommunications division, which owned rights of way along the railroad tracks, setting the stage for his next venture: Qwest and a nationwide fiber-optic network that would compete with AT&T Inc. for business customers nationwide.

Anschutz hired Joe Nacchio, a Brooklyn-born former AT&T executive spurned for the telecom giant's top job, to run Qwest. Nacchio helped engineer Qwest's 2000 acquisition of U S West Inc., a former Baby Bell, in a \$35 billion stock swap that also assumed \$12 billion in debt. Qwest ultimately became a telephone service provider for 14 states, mostly in the West.

"Joe Nacchio, as he led Qwest, was really a hard-nosed business man, really trying to make the company grow. Past leaders of U S West were trying to make the company grow, but they didn't have such big ambitions," said D.A. Davidson & Co. senior telecom analyst Donna Jaegers, who has followed the company since before the merger.

"The biggest change was the out-of-region strategy, using U S West's cash flow to fund Qwest's fiber network."

The problem was plenty of other companies were trying to build fiber-optic networks too.

Nacchio's bold personality was reflected not only in the way he did business but in the way he dealt with shareholders and retirees. At one analyst meeting years ago, he arrived costumed as a member of "Survivor," the CBS reality show.

In April 2002, Qwest's serious problems began. The Securities and Exchange Commission opened an inquiry into the company's accounting practices.

Nacchio resigned in June of that year. By fall, Qwest restated \$531 million in improperly recognized revenue, erased \$358 million in earnings and took nearly \$11 billion in charges for reduced value. More than a dozen former Qwest executives and managers were targeted by SEC civil lawsuits or criminal charges over allegations that they resorted to fraud to meet their revenue forecasts.

Nacchio was charged with improperly selling \$101 million of stock months before the scandal hit. Prosecutors claimed Nacchio knew the company was at financial risk and therefore avoided watching his shares plummet from more than \$60 apiece in 2000 to just \$2 in 2002. The near-collapse left thousands of former workers in financial straits after they filled their retirement accounts with Qwest's once-rewarding shares.

Nacchio was convicted in 2007 on 19 criminal insider trading counts and acquitted of 23 charges. He remains in prison while a judge recalculates his six-year prison sentence and \$71 million in fines and forfeitures. An appeals court ruled they were too harsh.

Qwest paid \$250 million to settle the SEC civil claims and about \$400 million in a shareholders' class-action lawsuit stemming from the

accounting scandal.

U S West retirees are still bitter over how Nacchio ran the company.

"Armageddon comes to mind," retiree Mimi Hull said.

After Nacchio came CEO Dick Notebaert, whose job included stabilizing the company and making employees feel valued again, but he swung for the fences, too.

Under his leadership, Qwest made an unsuccessful play for MCI Inc., which ultimately was sold to Verizon Communications Inc.

Since then, employees have viewed current CEO Ed Mueller as a caretaker cleaning up the company for an eventual sale.

Hull said retirees are optimistic about the future.

"Everywhere you turn, everyone has said someone was going to buy them," she said. "It's kind of like walking a tightrope for a year. At least now we know what it is."

©2010 The Associated Press. All rights reserved. This material may not be published, broadcast, rewritten or redistributed.

Citation: Qwest: A scrappy little company with big ambitions (2010, April 22) retrieved 10 April 2024 from <https://phys.org/news/2010-04-qwest-scrappy-company-big-ambitions.html>

<p>This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.</p>
--