b) Qwest relied so heavily on the immediate revenue recognition from one-time IRU and equipment sales transactions to meet the aggressive revenue and growth targets that Qwest management and employees referred to the practice as a "drug," an "addiction," "heroin," and "cocaine on steroids." Moreover, Qwest's reliance on so-called IRU "swap" transactions to meet revenue targets led some in the company to refer sarcastically to those transactions as "SLUTs" (short for Simultaneous Legally Unrelated Transactions).

c) Mobebbi recognized Qwest's reliance on IRU sales to meet revenue targets early on, and stated in a July 21, 1999 e-mail that "[our] revenues are way too flat and we can't mortgage our future every damn quarter by selling stupid IRUs."

d) One of the vice presidents reporting to Casey responded to Qwest's bonus plan by telling his sales team, "[L]eave no stone unturned." "We will drop everything to close an IRU this quarter. It is that important."

e) Mobebbi praised Casey in a June 2001 e-mail as "the guy who made [the merger with US West] happen" because of his closing of IRU deals to meet revenue projections. Mohebbi said that if Casey had not "pulled the quarters" that he did in 1999, "there would not have been a [merger with US West] . . . ."

ANSWER:

Mr. Kozlowski lacks knowledge or information sufficient to form a belief as to the truth of the allegations in Paragraph 63. As previously stated, Mr. Kozlowski had heard others at Qwest refer to IRUs as a "drug," but not the other terms referenced in Paragraph 63, and he has no knowledge as to whether this was done for the reasons suggested by the SEC in Paragraph 63(b). Moreover, Mr. Kozlowski states that the documents referred to in Paragraph 63 speak for themselves, and he denies each and every allegation in Paragraph 63 that is inconsistent therewith. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

> 64) Kozlowski in early 2000 determined that IRU revenue was material to Qwest's financial statements and should be disclosed.

ANSWER:

Mr. Kozlowski denies the allegations in Paragraph 64. For the truthful and accurate account of what actually transpired, Mr. Kozlowski refers back to the Overview section of this Answer, which is incorporated by reference as if fully set forth herein.

ALLEGATION:

> 65) Kozlowski then told Woodruff that the scope and extent of reliance on IRU transactions should be disclosed in Qwest's 1999 10-K. In response, Woodruff asked Kozlowski to draft proposed language.

ANSWER:

Mr. Kozlowski denies the allegations in Paragraph 65. For the truthful and accurate account of what actually transpired, Mr. Kozlowski refers back to the Overview section of this Answer, which is incorporated by reference as if fully set forth herein.

ALLEGATION:

> 66) Kozlowski also discussed IRU disclosure with Qwest's outside auditor who told him Qwest should provide disclosure in the footnotes to the financial statements detailing not only Qwest's IRU accounting policy, but also the amount of revenue and gross margins from IRU transactions.

ANSWER:

Mr. Kozlowski denies the allegations in Paragraph 66. For the truthful and accurate account of what actually transpired, Mr. Kozlowski refers back to the Overview section of this Answer, which is incorporated by reference as if fully set forth herein.

ALLEGATION:

67) Qwest's outside auditor also told Woodruff that Qwest should make disclosure of the IRU transactions.

ANSWER:

Mr. Kozlowski lacks knowledge or information sufficient to form a belief as to the truth of the allegations in Paragraph 67. Further answering, Mr. Kozlowski denies the insinuation that Qwest's outside independent auditor – Arthur Andersen, told Mr. Kozlowski that a disclosure was required. Indeed, as explained in the Overview section of this Answer, which is incorporated by reference as if fully set forth herein, Mr. Iwan said no such thing; in fact, Mr. Iwan told Mr. Kozlowski that Arthur Andersen would not insist on disclosure.

ALLEGATION:

68) Kozlowski and Noyes then drafted IRU disclosure [sic] for inclusion in the 10-K annual report. At Kozlowski's direction, Noyes inserted this draft IRU disclosure in the draft 10-K. Noyes circulated the draft 10-K with the disclosure to Woodruff and Szeliga for review.

ANSWER:

Mr. Kozlowski states that following a discussion with Mr. Woodruff, Mr. Kozlowski requested Mr. Noyes to work with Mark Iwan to draft potential disclosure language, and that a potential disclosure was included in the draft 1999 10-K at the direction of Mr. Kozlowski. Mr. Kozlowski is confident the draft 10-K with the disclosure was sent to Mr. Woodruff for review, and believes it also would have been sent to Ms. Szeliga. Mr. Kozlowski incorporates the Overview section of this Answer as if fully set forth herein.

ALLEGATION:

69) Before filing the 1999 10-K annual report with the SEC on March 17, 2000, Woodruff told Kozlowski that he needed to discuss the IRU disclosure with Nacchio. Immediately before the 10-K was filed with the SEC, Woodruff told Kozlowski to remove the IRU disclosure language. As a result Kozlowski told Noyes to "take it out" and the IRU disclosure language was removed from Qwest's 1999 10-K filed with the SEC. Szeliga knew the IRU disclosure had been removed from the 10-K.

ANSWER:

Mr. Kozlowski admits the first three sentences of Paragraph 69. Mr. Kozlowski lacks knowledge or information sufficient to form a belief as to the truth of the allegations in the fourth sentence of Paragraph 69. Mr. Kozlowski incorporates the Overview section of this Answer as if fully set forth herein.

ALLEGATION:

70) Nacchio, Woodruff, and Szeliga each signed false management representation letters to Qwest's outside auditors falsely stating, among other things, that the financial statements in the 1999 10-K were not materially misleading and complied with GAAP.

ANSWER:

Paragraph 70 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that, along with Qwest's outside independent auditor, which in March 2000 and repeatedly thereafter represented that the financial statements in the 1999 10-K conformed with GAAP, Mr. Kozlowski did not believe based on the information provided and known to him that the financial statements in the 1999 10-K were misleading and believed they complied with GAAP. Mr. Kozlowski incorporates the Overview section of this Answer as if fully set forth herein.

ALLEGATION:

71) Qwest's outside auditor who had approved the filing of the 10-K with the IRU disclosure language was never consulted about the removal of that language from the filed annual report and had no knowledge that the 10-K was filed without the IRU disclosure language.

ANSWER:

Mr. Kozlowski denies the allegations in Paragraph 71. Further answering, for the reasons explained in the Overview section of this Answer, which is incorporated as if fully set forth herein, the allegations in Paragraph 71 not only are untrue, they make no sense.

ALLEGATION:

72) By June 2000, Qwest stock was trading above $50 per share and Qwest was able to merge with US West by using Qwest's common stock, a currency that was significantly inflated by the fraudulent scheme.

ANSWER:

Mr. Kozlowski admits that Qwest merged with US West. Mr. Kozlowski denies that he participated in any fraudulent or other scheme, and denies that he engaged in wrongdoing of any type or nature. Mr. Kozlowski lacks knowledge or information sufficient to form a belief as to the truth of remaining allegations in Paragraph 72. Mr. Kozlowski incorporates the Overview section of this Answer, and his Answers to Paragraphs 127, 128, 130, 132 and 153, as if fully set forth herein.

ALLEGATION:

73) Following the merger, Qwest, along with other telecommunications companies, experienced declines in demand for Internet and other services. Nevertheless, despite pleas from senior Qwest executives to reduce public revenue and growth projections, Nacchio, Woodruff, and Szeliga continued to predict double-digit growth for the company without disclosing that the growth was fueled by one-time IRU and equipment sales.

ANSWER:

Mr. Kozlowski lacks knowledge or information sufficient to form a belief as to the truth of the allegations in the first sentence of Paragraph 73. The second sentence of Paragraph 73 does not pertain to Mr. Kozlowski and thus no answer is required.

ALLEGATION:

74) Nacchio, Woodruff, and Szeliga publicly touted Qwest's state-of-the-art network and boasted that Qwest was different from stodgy, old-style telephone companies like US West. They continually emphasized the company's future revenue growth from recurring Internet and telecommunications services in public statements. These statements were materially false because, among other reasons, Nacchio, Woodruff, and Szeliga failed to disclose either the existence of, or significance of, one-time IRU and equipment sales to Qwest's reported data and Internet services revenue. For example:

a) In Qwest's July 19, 2000 earnings release for the second quarter 2000, Nacchio was quoted saying, Qwest would "generate compound annual growth rates of 15-17 percent revenue and 20 percent EBITDA through 2005."

b) Qwest's second quarter 2000 earnings release stated, "Internet and data services grew more than 150 percent over the second quarter of 1999 and now comprise more than 33 percent of total revenue."

c) In that same release, Woodruff was quoted saying, "Internet and data services continued to drive revenue growth."

d) Qwest's third quarter 2000 earnings release continued to tout future revenue growth including the growth of its recurring telecommunications services revenue.

e) Qwest's fourth quarter 2000 earnings release stated, "Internet and data services, a high-growth segment for Qwest, grew more than 60 percent in 2000."

f) In that same release, Nacchio was quoted saying, "With the initial integration of the merger successfully complete, we are on track to meet our expected growth rates."

g) The fourth quarter 2000 earnings release emphasized data and Internet services revenue growth, stating that such services had increased some 40 percent and represented 70 percent of Qwest's total revenue growth in the quarter.

h) In Qwest's first quarter 2001 earnings release, Nacchio was quoted stating, "We believe the industry will continue to provide solid growth opportunities in 2001, especially for our broadband Internet and data services."

i) In that same release Szeliga was quoted saying, "For the second quarter of 2001 we expect revenue to increase between 12 percent and 13 percent compared to pro forma second quarter 2000."

j) In the first quarter 2001 earnings call with analysts, Nacchio stated, "We have 12 percent revenue growth our first quarter [2001] over first quarter [2000] - it is 2 to 3 times the rate of anyone else in the industry."

k) In the same call, Nacchio continued, "Nothing you hear positively or negatively will change our view of [2001 revenue targets] which we have been holding steadfast now for the better part of a year since we announced it."

l) In that call, Nacchio, also claimed, in commenting on the economy, "[W]e believe that it may be a little harder, we may have to work a little harder, but we will meet our numbers. And I think that is what we get paid to do."

m) Szeliga stated in the same call, "Although this is my first opportunity to speak with you . . . it is in fact my 15th consecutive quarter of participation with this management team in achieving our quarterly objectives."

n) Qwest's second quarter 2001 earnings release stated, "Qwest has met or exceeded the consensus of analysts' estimates for the 17th consecutive quarter."

o) That same release also stated that, "Second quarter Internet, data and IP services revenues grew about 41 percent over the second quarter 2000. Internet and data revenues represent more than 27 percent of total revenue."

ANSWER:

Paragraph 74 does not pertain to Mr. Kozlowski and thus no answer is required. Moreover, Mr. Kozlowski states that the documents referred to in Paragraph 74 speak for themselves, and he denies each and every allegation in Paragraph 74 inconsistent therewith. Mr. Kozlowski incorporates the Overview section of this Answer, and his Answers to Paragraphs 127, 128, 130, 132 and 153, as if fully set forth herein. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

75) Even after merging with US West and increasing revenue five-fold, Qwest's dependence on non-recurring revenue to meet its public revenue and growth targets increased dramatically.

ANSWER:

Mr. Kozlowski lacks knowledge or information sufficient to form a belief as to the truth of the allegations in Paragraph 75. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

76) In January 2001, a senior Qwest executive warned Nacchio, Woodruff, and Szeliga that given the general downturn in the telecommunications industry, the investment community was growing concerned about how Qwest could continue to meet its aggressive public revenue projections.

ANSWER:

Paragraph 76 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

77) Pressure by Nacchio and other senior executives on lower level executives and Qwest employees, to do whatever was necessary to meet public revenue projections continued after the merger with US West. For example:

a) At a January 2001 all-employee meeting, Nacchio stated, "[T]he most important thing we do is meet our numbers. It's more important than any individual product, it's more important than any individual philosophy, it's more important than individual cultural change we're making. We stop everything else when we don't make the numbers."

b) A Qwest executive characterized the budget process in which Nacchio set revenue targets as one in which Nacchio "strong-armed" the business unit heads into "following his view of where the targets should be."

c) A Qwest executive noted that Qwest employees were afraid of the consequences of standing up to Nacchio and disputing revenue targets because the consequence was "potentially losing your job."

d) Nacchio told one executive concerning revenue targets, "you do this or I'll find someone who will."

e) In February 2001, Casey complained to Mohebbi about his target revenue, saying "Remember I had to sign in blood for my budget."

f) In July 2001, Casey complained to Mohebbi that Nacchio had overlooked in determining bonuses the "extraordinary effort" of his unit in the second quarter 2001, not only in exceeding their target number by $50 million but also in engineering an IRU deal that enabled another business unit to make its revenue targets. In response to Mohebbi's explanation of Nacchio's view that Casey's "margins were below business plan expectations", Casey said "So he was fully informed, he knows what we did, he made a conscious choice to compensate us this way . . . . You guys have just gotten used to us pulling it off."

ANSWER:

Paragraph 77 does not pertain to Mr. Kozlowski and thus no answer is required. To the extent the first sentence in Paragraph 77 was intended by the SEC to encompass Mr. Kozlowski, Mr. Kozlowski denies that he was "[p]ressured [by anyone] . . . to do whatever was necessary [to allow Qwest] to meet public revenue projections." As for the remaining allegations in Paragraph 77, like so many of the other allegations in the SEC's "Amended" Complaint, Mr. Kozlowski simply has no knowledge or information sufficient to form a belief as to the truth of those assertions. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

78) By at least mid-January 2001, Nacchio, Woodruff, and Szeliga knew that Qwest was already significantly behind in meeting revenue targets and various business units were predicting target misses. They knew that to meet the revenue targets, Qwest would have to again increase its one-time sales of IRUs and equipment. Yet, Nacchio, Woodruff, and Szeliga continued to hide the existence and significance of the non-recurring revenue, even though analysts were beginning to question Qwest's purported data and Internet services growth. For example, in a late January 2001 earnings call Nacchio responded to a specific question about how revenues were derived with a lengthy answer that never once mentioned non-recurring IRU and equipment sales. A senior Qwest executive characterized Nacchio's skill at not answering such questions as dodging "the elephant in the room."

ANSWER:

Paragraph 78 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

79) In early 2001, Qwest's auditor insisted to Woodruff that Qwest include in the 2000 10-K annual report disclosure about the significance of IRUs to the company. Woodruff caused the following materially false and misleading language to be included in the 2000 10-K annual report in the MD & A discussion: "To a lesser extent, the Company sells capacity under [IRU] contracts. Revenues from these contracts are included in commercial services and were not significant in either fiscal 2000 or 1999." Among other things, the statement was materially false and misleading because it grossly minimized Qwest's use of IRUs, and stated falsely that they were insignificant. Moreover, it was materially false and misleading because there was no disclosure concerning one-time equipment sales.

ANSWER:

Paragraph 79 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

80) On April 5, 2001, a senior Qwest executive sent an e-mail to Szeliga proposing IRU disclosure for Qwest's first quarter 10-Q "given the materiality of IRUs to our results, and the SEC scrutiny on revenue recognition." The proposed disclosure included, among other things, the dollar amount of IRU transactions. The executive also told Szeliga that because IRU sales were significant to Qwest's financial results, the amount should be disclosed in the first quarter earnings release scheduled for late April 2001. Szeliga rejected the disclosure.

ANSWER:

Paragraph 80 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

81) On April 24, 2001, Nacchio and Szeliga issued Qwest's first quarter 2001 earnings release and again highlighted the company's remarkable data and Internet services and overall growth without mentioning the one-time, non-recurring revenue from IRU and equipment sales. Nacchio and Szeliga also falsely claimed in the release that Qwest's growth stemmed from various recurring revenue products. As a result, the release was materially false and misleading.

ANSWER:

Paragraph 81 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

82) Nacchio and Szeliga knew that Qwest could meet its growth targets only through continued dependence on non-recurring revenue. They fraudulently reconfirmed in the first quarter 2001 earnings release Qwest's financial targets for 2001 and predicted revenue growth of between 12 and 13 percent for the second quarter.

ANSWER:

Paragraph 82 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

83) On April 29, 2001, Nacchio appeared on the Fox News Channel and, when questioned about Qwest achieving its projected targets in light of a weakening telecommunications economy, Nacchio stated fraudulently that, "[m]ost of our growth comes from development of new products and, quite frankly, the taking of market share from the larger incumbents on the long distance side."

ANSWER:

Paragraph 83 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

84) On May 15, 2001, Qwest filed its 10-Q for the first quarter. Szeliga wrote a materially false statement that minimized Qwest's use of IRU transactions and the significance of IRU revenue to meet Qwest's targets.

ANSWER:

Paragraph 84 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

85) In mid-May 2001, Casey, who reported to Mohebbi and was responsible for reviewing IRU sales, advised Szeliga and Mobebbi that IRU sales were becoming increasingly difficult to generate and that as a result "the quarter is in significant jeopardy." Casey also stated that, "[p]ersonally, my advice would be to reset expectations and put the best face on to Wall Street that we can. You have an opportunity . . . to reposition this as a recurring revenue business and if you don't take it now and make it succinct, I think you run the risk of a feeding frenzy on the street." In a separate e-mail from Mohebbi to Casey, Mohebbi stated, "Business is in bad shape . . . need a ton of one-time items to make the quarter."

ANSWER:

Paragraph 85 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

86) At this time, most of the company's business units had reported to Nacchio and Szeliga that they anticipated target shortfalls that could only be made up with more IRU sales. Despite this, Nacchio and Szeliga continued publicly to paint a completely different picture of the company and its prospects.

ANSWER:

Paragraph 86 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

87) For example, on May 25, 2001, Nacchio told analysts he would not reduce public growth and revenue targets and that "our overall growth rate for the next several years is - we estimate to be between 15 and 17 percent for the company as a whole."

ANSWER:

Paragraph 87 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

88) In early June 2001, Qwest's outside auditor told Szeliga that the audit firm could no longer be associated with Qwest's financial statements without better disclosure of the IRU sales transactions. Szeliga told Qwest's auditor that she and Nacchio would inform investors that IRU disclosure would be forthcoming before Qwest filed its 10-Q for the second quarter.

ANSWER:

Paragraph 88 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

89) In mid-July 2001, documents provided to Nacchio and Szeliga for Qwest's second quarter earnings call with analysts highlighted that Qwest was entirely dependent on IRU sales to meet its publicly announced revenue targets. One document stated, "Shortfalls to be offset by increased IRUs . . ." and, "Over two thirds of the $2.5B full year over year revenue growth is driven by data and Internet products. Over one-third of total growth and almost three-fourths of data growth is related to IRUs."

ANSWER:

Paragraph 89 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

90) Nacchio and Szeliga, however, released earnings on July 24, 2001, without disclosing the amount of IRU and equipment sales and Qwest's dependence on those one-time sales to meet public revenue, earnings, and growth projections. Instead, the release stated that Qwest's second quarter revenue, as Qwest had predicted, increased 12.2 percent and its EBITDA increased 13.1 percent. Moreover, the release once again highlighted data and Internet services revenue, stating that data and Internet grew 41 percent and represented more than 27 percent of total revenue. Additionally, Nacchio and Szeliga reconfirmed Qwest's double-digit growth projections for the future. The release was materially false.

ANSWER:

Paragraph 90 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

> 91) After the July earnings release, a senior Qwest executive was barraged with e-mails from stock analysts asking for disclosure of Qwest's revenue breakdown and questioning the credibility of Nacchio and Szeliga. One analyst stated that "the lack of transparency is going to hurt you because investors don't know how many cockroaches you still have in your bag." Another analyst wrote that "Joe [Nacchio] is developing a reputation for just not being candid with investors."

ANSWER:

Paragraph 91 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

> 92) On August 7, 2001, Nacchio told analysts at a conference that Qwest had generated $540 million of revenue from certain IRU swaps in the first two quarters of 2001 alone. This statement was materially false because, among other things, Nacchio failed to inform the analysts that, in total, Qwest had actually booked approximately $857 million of revenue from IRUs in the first half of 2001.

ANSWER:

Paragraph 92 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

93) On August 7, 2001, Qwest filed an 8-K with the SEC that included the same false information Nacchio had told analysts that day.

ANSWER:

Paragraph 93 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

94) In Qwest's 10-Q for the second quarter of 2001, filed in mid-August 2001, shortly after the August 7, 2001 discussion with analysts, Qwest for the first time disclosed IRU revenue amounts.

ANSWER:

Paragraph 94 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

95) Qwest first disclosed revenue amounts from its one-time equipment sales in a conference with analysts in December 2001.

ANSWER:

Paragraph 95 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

96) The charade was over and Qwest's stock declined steeply.

ANSWER:

Paragraph 96 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001. In addition, like other assertions made by the SEC throughout its "Amended" Complaint, Paragraph 96 contains "scandalous" accusations within the meaning of Rule 12(f) of the Federal Rules of Civil Procedure and should be stricken.

ALLEGATION:

97) In a scheme to fraudulently record revenue to meet unrealistic revenue targets, Mohebbi, Casey, and Noyes entered into secret side agreements and falsified documents to hide from Qwest's internal accountants and outside auditors facts that would have prevented immediate revenue recognition for IRU swaps as a violation of GAAP requirements.

ANSWER:

Paragraph 97 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

98) Mobebbi directed and managed the IRU sales unit which sold most of Qwest's lit fiber IRUs. Further, Mobebbi controlled Qwest's capital expenditure budget for IRU transactions, and was responsible for all purchases of lit fiber in swap transactions between 1999 and 2001.

ANSWER:

Paragraph 98 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

99) Casey negotiated and executed most of Qwest's lit fiber IRU transactions from 1999 through third quarter 2001, and with Mohebbi's approval, purchased lit fiber in IRU swap transactions.

ANSWER:

Paragraph 99 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

100) Noyes directed that the IRU contract with Enron Broadband Services, Inc. be backdated to immediately recognize revenue.

ANSWER:

Paragraph 100 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

101) Casey complained to Mobebbi frequently about having to fill Qwest's revenue gap with IRU sales, including swaps.

ANSWER:

Paragraph 101 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

> 102) Mohebbi, Casey, and Noyes knew the accounting rules for immediate revenue recognition from IRUs. Additionally, Mohebbi, Casey, and Noyes also knew that porting prohibited immediate revenue recognition on IRU sales. In June 2001, Szeliga reiterated the accounting rules for IRU transactions, including the effect of porting, in a voice-mail to Mobebbi and Casey which was forwarded to Noyes.

ANSWER:

Paragraph 102 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

> 103) Mobebbi and Casey knew that many customers would only purchase IRUs if portability was part of the deal. They also knew that Qwest's internal accountants would deny immediate revenue recognition if Qwest provided for the buyer's ability to port. Further, Mobebbi and Casey knew that unless all aspects of each IRU agreement were fully communicated to Qwest's internal accountants they could not properly review the agreement.

ANSWER:

Paragraph 103 does not pertain to Mr. Kozlowski and thus no answer is required, although Mr. Kozlowski does agree that he could not properly review IRU transactions unless all aspects of the agreements were communicated to him, and that he would have questioned up-front revenue recognition had he been apprised that Qwest agreed at the time of the transaction that the buyer would be able to port. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001. Mr. Kozlowski adds that prior to his departure he was never informed of any alleged side or secret agreement with a purchaser of an IRU, and was never apprised of any alleged agreement giving a purchaser of an IRU a right to port.

ALLEGATION:

104) Therefore, to recognize revenue immediately, Mobebbi and Casey granted secret portability to IRU purchasers which they concealed from Qwest's internal accountants and outside auditors.

ANSWER:

Paragraph 104 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001. Mr. Kozlowski adds that prior to his departure he was never informed of any alleged side or secret agreement with a purchaser of an IRU, and was never apprised of any alleged agreement giving a purchaser of an IRU a right to port.

ALLEGATION:

105) By falsely making the IRU sales appear eligible for immediate revenue recognition, Mobebbi and Casey allowed Qwest to improperly recognize over $366 million in immediate revenue on seven IRU transactions between the third quarter ended September 30, 1999 through the second quarter June 30, 2001. This fraudulent revenue recognition caused Qwest's financial statements to be materially false and misleading.

a) In the third quarter 1999, Verio, Inc. purchased a $57 million IRU from Qwest, and Qwest recognized $57 million as immediate revenue. An e-mail to Casey from a Verio executive on September 9, 1999, stated that, "We have assumed, to this point, that the capacity inherent in the IRU is 'fungible' - meaning substitutions and upgrades." Casey knew that Verio would not sign the IRU contract unless the IRU was portable, and . . . Casey provided a Verio a secret verbal assurance of portability of the IRU. Casey did not inform Qwest's internal accountants of this secret verbal agreement.

b) In the fourth quarter 1999, Verio also purchased a $10 million IRU from Qwest, and Qwest recognized nearly all of that revenue immediately. Verio agreed to purchase the IRU with the understanding that the lit fiber could be exchanged. Again, Casey provided Verio a secret verbal assurance of portability, without informing Qwest's internal accountants.

c) In the first quarter 2000, Qwest sold to Cable & Wireless a $9.6 million IRU, and recognized $8.2 million in immediate revenue. In order to close the deal, Casey gave Cable & Wireless verbal assurances that the lit fiber could be ported. Casey told Cable & Wireless that the IRU was like a "coupon," meaning that the lit fiber purchased was interchangeable for other lit fiber. Casey never told Qwest's internal accountants about this secret verbal side deal.

d) In the second quarter 2000, Qwest also sold to Cable & Wireless $65 million of older-technology lit fiber, and recognized about $65 million in immediate revenue. During negotiations, Cable & Wireless informed Casey that it wanted newer technology lit fiber on different routes, which Qwest had not completed constructing at the time. Casey signed a secret option agreement that granted Cable & Wireless the ability to port the lit fiber. Casey once again failed to disclose this secret arrangement to Qwest's internal accountants.

e) In the fourth quarter 2000, Qwest sold to Cable & Wireless another IRU for $109 million. It recognized $108 million in immediate revenue. Qwest did not have the lit fiber that Cable & Wireless actually wanted to buy at the time. Therefore, Mohebbi and Casey convinced Cable & Wireless to purchase lit fiber through a secret written side agreement promising that Cable & Wireless could exchange the lit fiber later. Accordingly, on December 29, 2000, Mohebbi sent to Cable & Wireless the secret agreement in an e-mail that guaranteed "a full and fair trade" of the lit fiber Cable & Wireless bought for the different lit fiber at a later date. Neither Mohebbi, nor Casey informed Qwest's internal accountants of this secret deal. In October 2001, when confronted about the e-mail promising porting, Mohebbi denied knowledge of the e-mail and attempted to delete it from his computer.

f) In the second quarter of 2001, Flag sought to purchase certain lit fiber from Qwest. Qwest did not have the lit fiber available to sell at that time but, Qwest's sales team offered to sell Flag alternative lit fiber and to give Flag the ability to port it at a later date. Flag requested that the written contract include the ability to port. Casey learned that "[b]ottom line Flag is willing to trust us," so he instead provided secret verbal assurance to Flag of the ability to exchange the IRU outside the written contract. Thereafter, on June 27, 2001, Qwest and Flag entered into a swap transaction in which Qwest sold to Flag $20 million of lit fiber. Qwest recognized $19.9 million in revenue on the transaction in the second quarter 2001. Casey never told Qwest's internal accountants about the verbal agreement to port.

g) In June 2001, Qwest sold approximately $101 million of lit fiber to Global Crossing, and recognized nearly $97 million of revenue immediately. Global Crossing requested the ability to exchange at a later date the fiber it purchased at the original purchase price, rather than the fair market value at the time of the porting as provided for in the contract. A Qwest salesperson arranged a telephone conference between Casey and Global Crossing's president to "confirm the gentleman's agreement," regarding the porting and price issues. Casey gave secret verbal assurances beyond the written contract to Global Crossing's president that Qwest would agree to port the lit fiber at the original purchase price. Later, when Global Crossing sought to exchange some of the lit fiber, a Qwest executive stated in e-mail correspondence that our "only option is to allow the trade . . . ." "Our word is our bond." Casey never disclosed the secret side agreement to Qwest's internal accountants.

ANSWER:

The first two sentences of Paragraph 105 do not pertain to Mr. Kozlowski and thus no answer is required, although Mr. Kozlowski does state that he was not apprised of any alleged agreements with buyers that would have resulted in improper up-front recognition of revenue in connection with IRU transactions. Mr. Kozlowski lacks knowledge or information sufficient to form a belief as to the truth of the allegations in the first three sentences of Paragraph 105(a), and further states that at no time was he apprised of any alleged verbal agreement with Verio regarding portability.

Mr. Kozlowski lacks knowledge or information sufficient to form a belief as to the truth of the allegations in the first two sentences of Paragraph 105(b), and further states that at no time was he apprised of any alleged verbal assurance with Verio regarding portability.

Mr. Kozlowski lacks knowledge or information sufficient to form a belief as to the truth of the allegations in the first three sentences of Paragraph 105(c), and further states that at no time was he apprised of any alleged verbal side deal with Cable & Wireless.

Mr. Kozlowski lacks knowledge or information sufficient to form a belief as to the truth of the allegations in the first three sentences of Paragraph 106(d), and futher states that at no time was he apprised of any alleged option agreement with Cable & Wireless regarding portability.

Mr. Kozlowski incorporates the Overview section of this Answer, and his Answers to Paragraphs 127, 128, 132 and 153, as if fully set forth herein.

Because Mr. Kozlowski departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001, the allegations in Paragraph 105(e) through 105(g) do not pertain to him and thus no answer is required thereto.

ALLEGATION:

106) In the rush to complete enough IRU transactions by quarter close to make Qwest's revenue targets, Mohebbi, Casey, and Noyes backdated contracts for the explicit purpose of falsely making it appear that immediate revenue recognition was appropriate in a specific quarter. Mohebbi, Casey, and Noyes failed to inform Qwest's internal accountants of this backdating and the revenue was recognized.

a) Qwest sold to Cable & Wireless, a $9.6 million IRU, and recognized $8.2 million in immediate revenue on the transaction in the first quarter 2000. Casey knew that the contract was not executed until April 4, 2000, after the close of the first quarter. The contract falsely appeared eligible for immediate revenue recognition, thereby causing Qwest to recognize improperly approximately $8.2 million of revenue in the first quarter ended March 31, 2000.

b) Qwest entered into a swap transaction with Cable & Wireless recorded in the first quarter 2001, and recognized $69.8 million in immediate revenue. The IRU sale contract was not executed until April 12, 2001. Mohebbi knew that the transaction with Cable & Wireless was not signed in the first quarter. On April 1, 2001, two Qwest executives each called Mohebbi at home to inform him that the IRU agreement had not been signed. On April 12, Casey executed the backdated contract with a false date of March 31, 2001.

c) In the third quarter 2001, Qwest recognized $85.5 million of revenue from the sale of an IRU in a swap transaction with Enron. The agreements negotiated by Noyes had a false date of September 30, 2001, but in fact were not executed by the parties until October 1, 2001, after the close of the quarter.

ANSWER:

The first sentence in Paragraph 106 does not pertain to Mr. Kozlowski and thus no answer is required. With respect to the second sentence of Paragraph 106, Mr. Kozlowski never was apprised of any alleged backdating of contracts. Mr. Kozlowski lacks knowledge or information sufficient to form a belief as to the truth of the allegations in Paragraph 106(a), and incorporates the Overview section of this Answer as if fully set forth herein. Because Mr. Kozlowski departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during

2001, the allegations in Paragraph 106(b) through 106(c) do not pertain to him and thus no answer is required.

ALLEGATION:

107) As part of the scheme, Mohebbi, Casey, and Noyes fraudulently purchased lit and dark fiber for Qwest in IRU swaps that Qwest did not need. It was a violation of GAAP for Qwest to recognize revenue from the sale side of the swaps under these circumstances.

ANSWER:

Paragraph 107 does not pertain to Mr. Kozlowski and thus no answer is required.

ALLEGATION:

108) Mohebbi and Casey bought whatever fiber was available to close IRU swap deals without regard to Qwest's actual needs for the assets purchased. Mobebbi, Casey, and Noyes were willing to buy lit and dark fiber Qwest did not need in these swap transactions to achieve immediate revenue recognition on the transaction in order to meet revenue targets. Mobebbi and Casey rarely consulted with Qwest's network planning unit, the group responsible for determining the fiber needed for Qwest's fiber network. As a result, Qwest accumulated a huge amount of lit and dark fiber it did not need. For example:

a) In the first quarter ended March 31, 2001, and the second quarter ended June 30, 2001, Mohebbi and Casey in swaps purchased East Asia fiber cable on four occasions from several customers for a total of approximately $289 million. Qwest did not need at least two-thirds of the East Asia cable it bought, but Mohebbi and Casey agreed to make the purchases for the explicit purpose of selling IRUs to customers in swap transactions to obtain immediate revenue recognition. Qwest recognized approximately $288 million of revenue from these swaps.

b) In the swap transaction between Qwest and Enron falsely backdated to September 30, 2001, Noyes purchased a large amount of dark fiber from Enron for $308 million so that Enron would in turn purchase lit fiber from Qwest. The fiber Qwest purchased was duplicative of routes that Qwest already owned, and was located in areas of low demand. Further, a detailed Qwest analysis done before the transaction was completed described most of the dark fiber to be purchased as having only "scrap value." That analysis concluded that Qwest was paying between $36 and $75 million in excess of fair market value for the IRU. Noyes was aware of this fair market analysis, but disregarded it and prepared his own analysis for, among others, Qwest's accountants that made it appear falsely that Qwest paid market rates for the dark fiber.

ANSWER:

Paragraph 108 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

109) Another internal analysis conducted in approximately November 2001 showed that Qwest could use only one-third of the billion dollars of international lit fiber it had accumulated. This included lit fiber bought by Mohebbi and Casey in order to close swap deals. Qwest's senior vice president of network planning, engineering, and technology stated, "[i]t just blew my mind when I found how much [international fiber] we had. . . ."

ANSWER:

Paragraph 109 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

110) As part of the overall fraudulent scheme to show revenue and earnings growth every quarter Nacchio, Woodruff, and Szeliga accelerated revenue recognition at Qwest's wholly-owned subsidiary, Qwest Dex, Inc.

ANSWER:

Paragraph 110 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

111) Dex published telephone directories once every twelve months. Qwest recognized all revenue from a Dex directory at the time it began delivering that directory to the public.

ANSWER:

Mr. Kozlowski lacks knowledge or information sufficient to form a belief as to the truth of the allegations in Paragraph 111.

ALLEGATION:

112) In August 2000, executives at Dex informed Nacchio, Woodruff, and Szeliga that Dex would not meet its 2000 EBITDA target. The Dex executives presented them with the option of making up the revenue shortfall by publishing Dex's Colorado Springs, Colorado directory in December 2000 rather than January 2001 as scheduled, thereby allowing Qwest to recognize revenue from that directory twice in 2000.

ANSWER:

Paragraph 112 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

113) While presenting that option, one Dex executive expressed his concern that such a schedule change would reduce 2001 revenue and earnings and that, in his view, Qwest probably would be required to disclose the change to the public. The Dex executive made it clear to Nacchio, Woodruff, and Szeliga that he did not favor the schedule change. Nevertheless, Nacchio, in the presence of Woodruff and Szeliga, directed Dex to go forward with the schedule change to meet Dex's EBITDA target.

ANSWER:

Paragraph 113 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

114) Even though Nacchio required the accelerated recognition of $28 million of revenue in 2000, he told the Dex executives that their 2001 revenue targets would remain unchanged.

ANSWER:

Paragraph 114 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

115) By recognizing revenue from the Colorado Springs directory in 2000, Qwest generated $28 million in additional revenue and $18 million in additional EBITDA for the year.

ANSWER:

Mr. Kozlowski lacks knowledge or information sufficient to form a belief as to the truth of the allegations in Paragraph 115. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

116) Qwest's 2000 10-K annual report filed with the SEC stated that Dex's 2000 revenue increased by almost $100 million due in part to "an increase in the number of directories published." The statement was materially false because it failed to apprise investors that Dex generated more than one-quarter of the revenue increase by publishing its Colorado Springs directory twice in 2000, or that the schedule change could produce a commensurate decline in Dex revenue for the first quarter of 2001.

ANSWER:

Paragraph 116 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

117) Nacchio signed the 2000 10-K, Woodruff reviewed the 10-K and Szeliga reviewed and signed the 10-K. Nacchio, Woodruff, and Szeliga signed false management representation letters to Qwest's outside auditors about the 10-K.

ANSWER:

Paragraph 117 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

118) For 2001, Nacchio and Szeliga established an unrealistic EBITDA target for Dex. Dex executives met with Szeliga in March 2001 to discuss "gap-closing" alternatives for the first two quarters of 2001. One alternative proposed by the Dex executives was advancing the publication dates of several directories, thereby allowing Dex to recognize revenue in earlier quarters, and lengthening the lives of other directories from 12 to 13 months, thereby allowing Dex to bill each advertiser for one additional month of advertising fees. Szeliga instructed the Dex executives to implement the proposed changes.

ANSWER:

Paragraph 118 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

119) Later in 2001, Dex executives met with Szeliga and informed her that Dex would again need to implement directory schedule changes to meet its third and fourth quarter financial targets. Szeliga directed that the schedule changes take place.

ANSWER:

Paragraph 119 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

120) During 2001, in accordance with the plan, Dex advanced the publication dates or extended the lives of 34 directories, and those schedule changes produced $42 million in additional revenue and $41 million in additional EBITDA for Qwest.

ANSWER:

Paragraph 120 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

121) Qwest's 10-Q quarterly reports filed with the SEC for the first three quarters of 2001 stated that period-over-period changes in Dex's revenue were attributable in part to changes in the "mix" and/or "lengths" of directories published. Like the 2000 10-K annual report, the statements in those reports were materially false because they failed to apprise investors that Qwest had manipulated its directory publishing schedule to meet financial targets.

ANSWER:

Paragraph 121 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

122) Qwest maintained a liability for unused employee vacation. When improper revenue recognition alone was insufficient to meet EBITDA growth targets, Szeliga improperly reduced vacation liabilities to artificially inflate earnings. This is because, when a liability is decreased, earnings are increased. In doing so, for the year ended December 31, 2001, Szeliga improperly increased EBITDA by $71.3 million, an amount that was material and was in violation of GAAP.

ANSWER:

Paragraph 122 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

123) Szeliga's first arbitrary and improper adjustment reduced the June 30, 2001, vacation liability by 50 percent resulting in a $44.5 million decrease to Qwest's second quarter expenses and an equal increase in earnings.

ANSWER:

Paragraph 123 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

124) Szeliga's second improper and arbitrary adjustment was made to Qwest's December 31, 2001, financial statements and improperly reduced the liability by an additional 50 percent resulting in Qwest's expenses being reduced by an additional $23.5 million, increasing earnings by an equal amount.

ANSWER:

Paragraph 124 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

125) Szeliga's third improper and arbitrary adjustment occurred in early 2002, when she reduced Qwest's December 31, 2001 vacation liability by another $5 million, thereby increasing earnings by an equal amount.

ANSWER:

Paragraph 125 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

126) Szeliga failed to disclose her arbitrary change in accounting for vacation liabilities and the resulting 2001 financial impact of this change in its filings with the SEC in its 10-Q for the quarters ended June 30, 2001, and September 30, 2001, and its 2001 10-K. This failure to disclose was material and a violation of GAAP. Further, the lowering of the reserve was a violation of GAAP.

ANSWER:

Paragraph 126 does not pertain to Mr. Kozlowski and thus no answer is required. Mr. Kozlowski further states that he departed Qwest at the end of September 2000 and thus was not at Qwest during the fourth quarter of 2000 or during 2001.

ALLEGATION:

127) Starting in 1999, there was a complete break-down concerning accounting practices relating to IRU revenue recognition generally and immediate revenue recognition in particular. In fact, Qwest's IRU revenue recognition failed to meet several GAAP rules and Woodruff, Szeliga, Kozlowski, and Noyes each caused Qwest to improperly recognize revenue in IRU transactions. Moreover, by 2001, most IRU sales were swaps and Qwest's revenue recognition on those transactions was also improper.[5]

ANSWER:

Mr. Kozlowski denies the allegations in the first two sentences of Paragraph 127. As explained in the Overview section of this Answer, which along with the Answers to Paragraphs 128, 130, 132 and 153 are incorporated as if fully set forth herein, because the SEC declined its responsibility and refused to provide definitive guidance on whether up-front revenue recognition on IRU transactions conformed with GAAP, Mr. Kozlowski continued to rely in large measure on Qwest's outside independent auditors (whom even the SEC acknowledged to be experts in the area of sales-type lease accounting) to assist him with IRU accounting determinations. These outside

[5] This is another Paragraph in which the SEC improperly made substantive changes in the allegations against Mr. Kozlowski without leave of Court.

independent auditors reviewed Qwest's IRU accounting policy as well as the accounting for individual IRU transactions and never told Mr. Kozlowski that Qwest's IRU accounting failed to conform with GAAP. Mr. Kozlowski further states that based on the information provided and known to him with respect to IRU transactions, Qwest's accounting for and revenue recognition in connection with, and thus the financial statements including revenue from, the IRU transactions conformed with GAAP during the period prior to his departure in September 2000. Indeed, Qwest's outside independent auditors agreed with Qwest's accounting and continually represented (and have testified) that Qwest's accounting and financial statements conformed with GAAP. In addition, Mr. Kozlowski states that he was not principally responsible for reviewing individual IRU transactions after late 1999, and departed Qwest at the end of September 2000. For the same reason, the last sentence of Paragraph 127 does not pertain to Mr. Kozlowski and thus no answer is required thereto.

ALLEGATION:

128) Woodruff, as CFO, was responsible for all of Qwest's accounting. It was his duty to insure that Qwest accounted for revenue, including IRU transactions, properly and reported those financial results according to GAAP. The improper immediate recognition of revenue from IRU transactions began at Woodruff's direction and continued throughout the time he was CFO. All of Qwest's publicly released financial statements fraudulently included revenue from IRU transactions during the period he was CFO. Woodruff was responsible for these fraudulent financial statements distributed to the public by Qwest.