

QWEST FAIR FUND DISTRIBUTION **STATEMENT TO INVESTORS**

You have received a distribution payment from a Fair Fund established by the U.S. Securities and Exchange Commission ("SEC"). Below is some information to help you determine the U.S. federal income tax consequences of the distribution payment if you are a citizen or resident of the U.S.

INTRODUCTION

On November 4, 2004, the United States District Court for the District of Colorado entered a Final Judgment against Qwest Communications International, Inc. ("Qwest") wherein Qwest agreed to pay \$1 in disgorgement and a \$250 million civil penalty. *SEC v. Qwest Communications International Inc.*, Civil Action No. 04-D-2179 (OES) (D. Colo.) These funds were added to the Fair Fund (the "Qwest Fair Fund") previously established, pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, for the benefit of defrauded Qwest shareholders in *SEC v. Augustine Cruciotti*, Civil Action No. 04-D-1267 (WYD) (D. Colo.). The Qwest Fair Fund also includes moneys paid by other former Qwest employees in connection with settled criminal and SEC enforcement actions. These actions include *SEC v. Roger B. Hoaglund*, Civil Action No. 05-N-482 (D. Colo.), *SEC v. William L. Eveleth*, Civil Action No. 05-M-481 (BNB) (D. Colo.), *SEC v. Gregory M. Casey*, Civil Action No. 05-MK-480 (DBS), *SEC v. Szeliga*, Civil Action No. 05-cv-480 (MSK-CBS) (D. Colo.), and *U.S. v. Szeliga*, Criminal Action No. 05-cr-0234 (D. Colo.).

In these matters, the SEC alleged that Qwest and certain other named defendants made numerous false and misleading statements about Qwest's financial condition and engaged in improper accounting (financial fraud) causing a plunge in market capitalization and huge losses to investors.

In total, the Qwest Fair Fund held approximately \$267,000,000. This amount, plus interest, less distribution costs, was eligible to be distributed pro rata to persons and entities that purchased Qwest common stock, bonds, or options from July 27, 1999 through and including July 28, 2002. The Qwest Fair Fund was distributed based on a calculation of loss amounts as described in the Plan of Allocation set forth in Section VI of the Notice of Pendency in *In re Qwest Communications International Inc. Securities Litigation*, Civil Action No. 01-CV-1451-REB-CBS (D. Colo.). However, the Qwest Fair Fund is *in addition to and separate from* the amount recovered in that case.

THE DISTRIBUTION PAYMENT AND TAXES

The Qwest Fair Fund is a Qualified Settlement Fund ("QSF") under the Internal Revenue Code. Damasco & Associates LLP was appointed as the Tax Administrator for the QSF. Damasco & Associates LLP has participated in the

preparation of this statement, but is not providing services or advice to you or any other investor receiving a distribution payment.

Your payment is composed entirely of an amount that represents how Qwest's conduct impaired the value of your investment. Your payment is intended by the SEC to compensate you for this harm. This payment is not income to you to the extent of your basis in your investment. Generally, your basis is the amount you paid for your investment.¹

Internal Revenue Code section 111, known as the "tax benefit rule," requires the inclusion in income of amounts that were deducted by a taxpayer in a prior tax year to the extent that those amounts generated a tax benefit to the taxpayer through a reduction in the amount of tax liability in the prior year. Therefore, if you have deducted the losses on your investment in a prior year, then the "tax benefit rule" requires you to include your distribution payment in income to the extent that the prior deduction reduced your tax bill.

The QSF will not issue a Form 1099 to you with respect to the distribution. The QSF is not required to report the distribution payment to you or to the IRS.² Nevertheless, you should consult with your tax advisor if you have any questions as to how to determine your basis and/or report your distribution payment.

YOU SHOULD NOT RELY ON THIS STATEMENT AS TAX ADVICE. CONSULT WITH YOUR TAX ADVISOR WITH RESPECT TO THE SPECIFIC TAX CONSEQUENCES OF THE DISTRIBUTION PAYMENT, INCLUDING THE EFFECTS OF U.S. FEDERAL, STATE, LOCAL, AND NON-U.S. TAX RULES AND THE EFFECT OF POSSIBLE CHANGES IN LAWS.

¹ Please consult with your with tax advisor to determine your basis.

² This conclusion is consistent with guidance from the Internal Revenue Service ("IRS") with respect to capital recovery payments to injured investors from Fair Funds established by the SEC. For example, see the following IRS Private Letter Rulings ("PLRs") obtained by the Tax Administrator in other proceedings: 200645008, 200645017, 200646010, 200701001, 200702006, 200702008, 200702009, 200702010, 200702011, 200702012, 200702048, 200703008, 200703009, 200703010, 200703034, 200712004, 200712005, 200722004 and 200722025. You may obtain copies of these PLRs from the IRS Web Site, www.irs.gov. Although the QSF does not have a Form 1099 reporting obligation, such determination does not affect nor imply the tax consequence of a distribution payment *in the hands of an investor*. The payments may, in whole or in part, constitute income even though no 1099s will be issued to investors.