

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 60484 / August 12, 2009**

**ACCOUNTING AND AUDITING ENFORCEMENT**  
**Release No. 3034 / August 12, 2009**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-13578**

<p><b>In the Matter of</b></p> <p style="text-align:center"><b>DOUGLAS K. HUTCHINS,</b></p> <p><b>Respondent.</b></p>
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**ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING A CEASE-AND-DESIST ORDER**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), against Douglas K. Hutchins (“Hutchins” or “Respondent”).<sup>1</sup>

**II.**

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over him and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order (“Order”), as set forth below.

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<sup>1</sup> This matter is related to a civil action, Securities and Exchange Commission v. Douglas K. Hutchins, Civ. Action No. 1:03-cv-328, filed on July 9, 2009, in which Hutchins has consented to pay a \$25,000 civil penalty.

### III.

On the basis of this Order and Respondent's Offer, the Commission finds<sup>2</sup> that:

1. Douglas K. Hutchins, age 37, of Denver, Colorado, was the director of finance for Qwest Communications International's Global Business Markets ("Global Business") unit and reported to the chief financial officer ("CFO") of Global Business from January 2001 until February 2002 when Hutchins was promoted to senior director of quality. Hutchins resigned from Qwest on October 12, 2002.

2. Qwest, based in Denver, Colorado, is one of the largest telecommunications and Internet services companies in the United States. Qwest's common stock is registered with the Commission pursuant to Section 12(b) of the Exchange Act, and the company is obligated to file reports on Forms 10-K and 10-Q. Qwest's common stock is traded on the New York Stock Exchange.

3. In January 2001, the Arizona School Facilities Board ("ASFB") and Qwest entered into agreements providing that Qwest would design and implement a statewide network and provide internet and local area network services for Arizona schools using equipment provided by Qwest.

4. The CFO of Global Business told Hutchins that Global Business needed to be aggressive in recognizing revenue on the ASFB transaction. The CFO of Global Business consulted with the assistant controller of Qwest and Hutchins and they inappropriately decided to separate the equipment sale from the other elements of the ASFB contract and then to improperly characterize the sale as a bill and hold transaction to ensure immediate revenue recognition.

5. Hutchins prepared the memorandum incorrectly concluding that Qwest met each requirement for a bill and hold transaction and that revenue could be recognized immediately on the equipment sale. The assistant controller of Qwest reviewed and edited the memorandum.

6. Hutchins drafted letter agreements for an ASFB official to sign to fulfill the bill and hold requirements, knowing they included terms contrary to the official's oral agreements with Qwest. The senior vice president ("SVP") and vice president of sales for the Government and Educational Services unit ("GES") and the assistant controller of Qwest reviewed and edited letter agreements, and the SVP of GES signed them.

7. As a result of the scheme, Qwest improperly recognized approximately \$34 million in revenue on the sale of the equipment in its second quarter ended June 30, 2001. Accordingly, Qwest's June 30, 2001 quarterly report, September 30, 2001 quarterly report, and December 31, 2001 annual report were materially false and misleading.

8. As a result of the conduct described above, Qwest violated, and Hutchins was a cause of Qwest's violations of, Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, and

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<sup>2</sup> The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

13a-13 thereunder, which require every issuer of a security registered pursuant to Section 12 of the Exchange Act to file with the Commission information, documents, and annual and quarterly reports as the Commission may require, and mandate that periodic reports contain such further material information as may be necessary to make the required statements not misleading.

9. As a result of the conduct described above, Qwest violated, and Hutchins was a cause of Qwest's violations of, Section 13(b)(2)(A) of the Exchange Act, which requires reporting companies to make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect their transactions and dispositions of their assets, and Section 13(b)(2)(B), which requires all reporting companies to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles.

10. Lastly, as a result of the conduct described above, Hutchins violated Section 13(b)(5) of the Exchange Act, which prohibits persons from knowingly circumventing or knowingly failing to implement a system of internal accounting controls, or knowingly falsifying any book, record or account, and Exchange Act Rule 13b2-1, which prohibits persons from directly or indirectly falsifying or causing to be falsified any book, record, or account subject to Section 13(b)(2)(A) of the Exchange Act.

#### **Undertakings**

In connection with this action and any related judicial or administrative proceeding or investigation commenced by the Commission or to which the Commission is a party, Respondent undertakes to cooperate with the Commission staff and: (i) agrees to appear and be interviewed by Commission staff at such times and places as the staff requests upon reasonable notice; (ii) will accept service by mail or facsimile transmission of notices or subpoenas issued by the Commission for documents or testimony at depositions, hearings, or trials, or in connection with any related investigation by Commission staff; (iii) appoints Respondent's attorney as agent to receive service of such notices and subpoenas; (iv) with respect to such notices and subpoenas, waives the territorial limits on service contained in Rule 45 of the Federal Rules of Civil Procedure and any applicable local rules, provided that the party requesting the testimony reimburses Respondent's travel, lodging, and subsistence expenses at the then-prevailing U.S. Government per diem rates; and (v) consents to personal jurisdiction over Respondent in any United States District Court for purposes of enforcing any such subpoena.

In determining whether to accept the Offer, the Commission has considered these undertakings.

#### **IV.**

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent Hutchins' Offer.

Accordingly, it is hereby ORDERED that:

A. Respondent Hutchins cease and desist from committing or causing any violations and any future violations of Section 13(b)(5) of the Exchange Act and Rule 13b2-1 thereunder, and from causing any violations and any future violations of Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 thereunder.

By the Commission.

Elizabeth M. Murphy  
Secretary