TECHNOLOGY

Ex-Qwest Official Says Chief Was Misleading on Growth

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Joseph P. Nacchio, the former chief executive of Qwest Communications who is on trial for insider trading, knowingly repeated unreliable growth forecasts in 2000 and 2001, a former company official testified yesterday.

Mr. Nacchio projected revenue growth of 15 percent to 17 percent a year, without disclosing that the increase relied on one-time sales of network capacity, a former investor relations chief, Lee Wolfe, told jurors yesterday in Federal District Court in Denver.

Investors and analysts became skeptical of Mr. Nacchioâ€™s claims that revenue from Internet and data services drove growth, he said.

â€œThey were becoming increasingly accusatory in terms of, â€˜What are you guys doing that enabled you to beat the numbers?â€™ â€ said Mr. Wolfe, the trialâ€™s first witness.

Prosecutors accuse Mr. Nacchio, 57, of selling $101 million in Qwest shares from January to May 2001, before the price plunged, based on internal warnings that the company would not be able to meet its targets. Mr. Nacchio denies engaging in insider trading and said he believed Qwestâ€™s public projections were accurate.

On cross-examination, Mr. Nacchioâ€™s lawyer, John Richilano, suggested that Mr. Wolfe had tailored his testimony to avoid prosecution on insider-trading charges. Mr. Wolfe said prosecutors had agreed not to charge him as long as he told the truth.

Both Mr. Nacchio and Mr. Wolfe worked at Qwest from 1997 to 2002 after working at AT&T.

Mr. Wolfe said he learned in company meetings in late 2000 and early 2001 that Qwest was not reaching Mr. Nacchioâ€™s targets for Internet and data service growth. Mr. Nacchio controlled virtually all the information released to investors, Mr. Wolfe said.

â€œQwest found ways, and Mr. Nacchio found ways, to trivialize and minimize the one-time transactions, and way understated the true impact they were having,â€ Mr. Wolfe said.

Mr. Wolfe said he implored Mr. Nacchio not to reaffirm the revenue growth rate of 15 percent to 17 percent before a conference call announcing Qwestâ€™s first-quarter earnings in April 2001.

â€œI said there were problems with growth,â€ Mr. Wolfe said. â€œIâ€™m not sure that he responded to my concerns.â€

Shares of Qwest reached a closing high of $64.50 in March 2000 on expectations that use of its fiber-optic network would surge. Mr. Nacchio sold the last of his shares in May 2001 at $38.25. Shares fell to $1.11 in August 2002, meaning Qwest lost more than $100 billion in market value.

In testimony yesterday, Mr. Wolfe said that in early 2001, he exercised options to buy 20,000 shares and sold them for $646,000. He allowed options to buy 25,000 shares to expire, he said.

â€œI knew deep down that I had material information in the form of the fact that we were using one-timers to make our numbers,â€ Mr. Wolfe said. â€œI knew it was wrong. It was a crisis of conscience to say I should not do that anymore. I knew I shouldnâ€™t have done it before.â€

Under questioning from Mr. Richilano, Mr. Wolfe said he had never consulted company lawyers before making his stock sales based on inside information.

He said he had testified for six days to the Securities and Exchange Commission and spent many days cooperating with the Federal Bureau of Investigation.