

**June 14, 2007**

Thanks, Rob, for that introduction. I'd like to begin by recognizing the fact that I know many of you had expected to see Dick Notebaert, chairman and chief executive officer of Qwest Communications. Dick had a scheduling conflict and couldn't be here.

Most of you have probably heard the news about Dick's decision to retire as soon as his successor is found. I would be remiss if I didn't acknowledge Dick's contributions to Qwest during his five year tenure. His leadership in the company's transformation has exceeded all expectations. And, while we'll miss him tremendously, we know he will leave Qwest well positioned for future growth.

The good news for me is that I am here in his place. And, what an exciting agenda you all are covering. I'm thrilled to be here with you.

You know – as I listened to Rob lay out my career and various positions I've held throughout the past 35 plus years, it made me pause and think – wow. Together, we as an industry have seen and experienced a lot together.

As evidenced by the topics you are addressing here at the IEC Forum, we have entered a new and exciting era for video and many other related applications and services.

And so, today I want to address some of the major industry trends we're seeing from the viewpoint of a service provider, as well as the challenges all of us are facing.

On a personal note, I am a bit of a "gadget freak" myself. I love to try the latest and greatest devices designed to make my life fuller and simpler at the same time.

With my travel, a pet has always been a challenge. Until recently, my pets were Sonny & Cher, two playful robotic dogs with unique personalities and no bad habits. My wife recently brought home a new puppy, Gucci, She does have some bad habits, so I now can watch on my cell phone thru the wifi camera in her space. And I think she knows it.

I could spend the entire time talking about gadgets, and I know I could get a lot of tips from many of you on what you've tried and what you use.

But, I want to get back to the subject of the evolving world of video and the service provider's role in that evolution. I think it's important to say up front: *there is no "one size fits all" model for video content delivery.*

As we look at video and how it's delivered to and consumed by consumers, we all understand that the Internet has had dramatic impact on *who* accesses *what* content, *when and where*.

Clearly, the distribution model and timeline for content has changed. Access to the Web has eliminated vast layers and cut significant time out of the process. As a result, direct access is being pushed further toward the content source.

As usual, the original experiences we've all had are now a part of history. In the past, we got our entertainment through large-scale distributors such as broadcasters, video and record stores and big-box retailers.

As the Internet continued to evolve, we saw brick-and-mortar stores evolve to click-and-mortar stores. Major stores, broadcasters and retailers moved on-line to capture an emerging audience.

As on-line shopping evolved, consumers rapidly moved past first-line distributors and went directly to sources with trusted ecommerce sites.

It wasn't too long ago that taking my daughter to her favorite record store was a treat for both of us. Today that music store is closed, and we both download what we like as we need it.

The result of all this change has been a massive movement to on-demand, highly-personalized viewing. During this movement, volume increased significantly. In October 2006, Comcast shared that their customers had consumed more than 3 billion TV shows using on demand since it was introduced. While this represents a small number compared to linear programming, the impact of this trend can't be argued, and it's not going to stop.

You can see this movement in people who use ABC.com to see recent episodes of shows like Desperate Housewives and Gray's Anatomy. Neither show are my cup of tea, but they are certainly driving volume.

That's the beauty of the on-demand and personalized era in which we live. In my case, I favor football... So watching Tony Romo play for the Cowboys in the NFL championship was something I was not going to miss this year, despite my travel. Thanks to my wireless phone, my slingbox and a generous battery, I felt the pain of Tony when he fumbled the snap leading to the exit of the Cowboys from last year's NFL playoffs.

In the on-demand era, the changes aren't just about how you watch something, it's about what you're watching. The "what" has really changed, thanks to user-generated content. Combined with mash-ups, User Generated Content represents continued growth in our business. What's most important, I believe, is that the consumer (through their references) sets the pace of what does and

doesn't get presented and viewed. It reminds us that it's about getting what we want, when we want it, and in the way we want it.

In the end, this is about some very basic human needs: total control over our viewing and the desire for immediate gratification. Over time, consumers have learned to bypass the "latency" of recorded content, and are reaching the live feed of the content itself.

Clearly, this trend is going to continue as the Internet isolates the most relevant and timely content for consumers.

But this trend has its challenges... The prior "one-to-few" relationships between consumers and distributors have been replaced with the "one-to-infinite" relationships between consumers and content. This means that the consumer can reach content directly, bypassing distributors and creating challenges for providers.

Most of us remember the classic "Must See TV", which was NBC's Thursday Night Line-up of *Cosby* and *Seinfeld* from the 80's. It was a big television viewing night, and if viewers wanted to catch Jerry's and Elaine's antics on *Seinfeld*, they had to tune into NBC at a particular time. That was it. There were no choices for other times or ways to view the shows.

Just think of the various ways consumers today can catch their “Must See TV”. People can tune in whenever they want and get it however they want. Whether it’s through DVRs or the internet, the viewer is no longer tied to a timeslot, a channel, or even a single screen.

Taking the “NBC Thursday Night TV” example into today’s marketplace, how do NBC and the content providers create value in the distribution process and insert themselves back into content distribution?

Gaining this role appears to be everyone’s interest... As we’ve eliminated *layers*, we’ve certainly expanded the competitive *players*. The direct reach to content has created a wealth of content sources and models.

Non-traditional players are going “over the top” with content, bringing new competition into the home. Many are fighting over one piece of real-estate, hoping to leverage their spot to capture the lion’s share of the home entertainment. Basically, everyone wants to be the hub. But, will there be just one hub? Is one hub enough?

Some of the most visible participants in this battle are Microsoft and Apple. Both are expanding horizontally, entering new segments of the home and increasing both the reach and depth of their hold on the market.

Their devices, Xbox and AppleTV, are two great examples of the battle for the set-top. Microsoft is using gaming to get into video. Apple is using music to fight for the same spot. Will one win? Or can there even be a “winner” in this war?

As in any battle, allies are important. Take, for instance, the Tivo and Amazon relationship. They’re bringing together Tivo’s excellent user interface and set-top capabilities with Amazon’s strong base and established distribution. This forms a powerful combination.

The challenge in the war is one of relevance. How do you rise above the pack? How do you find the right partner? How do you maintain focus and not become distracted by shiny objects?

Take, for example, one way to gain a beachhead – Gaming. Is gaming the ticket to control the experience? Or, should they leave it to XBOX and XBOX Live? Picking the right attack point is crucial to gaining more ground and expanding relevance with consumers.

That said, it’s equally important to discuss how a provider enters the market as it is to discuss the products they use. Today’s content industry is moving fast.. With the new content distribution processes, access to content has become easier, and there are fewer hurdles to new business models. As a result, models are evolving quickly.

We've already seen that happen. The advertising-funded model quickly became a major factor in content distribution, and companies like MSN, AOL, and Yahoo pour money into the space. But ads haven't totally eclipsed pay-per-view. In fact, pay-per-view is increasingly being pursued by non-traditional players – take Tivo and Amazon as examples. From our current view, it appears that there may be a place for both.

And while this pay/don't pay battle continues, the classic a la carte models such as Blockbuster have given way to subscription services like Netflix. Blockbuster's launch of subscription shows that it goes both ways.

Through all this, content providers have diversified the bundle model to meet consumers' evolving needs and desires. Premium bundles have evolved to channel brand packages. Now, premium brands like Starz and HBO are taking the next step, simultaneously supporting traditional TV alongside the internet.

The various ways to distribute content, the TV, internet, and mobile handset, makes the barriers to new models drop even faster.

And as barriers to new business models drop, and time-to-market for new models continues to shorten, these new business models will have rapid life – and death – cycle. We're seeing it every day with new market entrants.

All this creates challenges for everyone in the content industry, including providers...

Because of these ever-changing distribution models, there are no clear and definitive approaches for the service provider to follow. Instead, when new models come about, the provider needs to be able to react quickly to address it.

And reacting isn't clear-cut... many models may not have a large community of interest. Some may appeal to smaller and smaller demographics, while generating real money. So... should the provider have a few relevant models for the masses, or should it provide a forum for new models to emerge? The direction isn't clear-cut.

And here, I can tell you what we at Qwest are doing to meet this challenge. We're offering Windows Live from Microsoft to our broadband customers. It's a very effective framework for us to give customers access to all types of content – once again, when, where and how they want it. At the same time, it's a forum for new content and models, since new players can publish into the Windows Live framework. Bundled with broadband, it represents a real opportunity to meet customers' needs and evolve as their needs grow.

But as industry, how do we know who wants what, where they want it, and how? Players in the space must address both the sophistication of the customer and their evolving needs.

And a big part of that question is the sophistication of the user... We're seeing a big increase in the number of consumers turning to self-install-home networking. Today's video consumer is smart and getting more savvy every day. If we compare audio/video knowledge to that of the past – it's like comparing the PC-literate of today with those of 20 years ago. Full In-home distribution is no longer the domain of the technical geek.

Newer standards for home networking, like 802.11n and home plug, simplify and improve the consumer's experience – and, more pertinent to our discussions here today – further reduce the barrier of entry.

Players such as Microsoft, Apple, and Tivo (Amazon p/s) are leveraging this new home network to provide VoD offerings in competition with traditional distributors.

The ability to seamlessly and simply connect content between the source and the consumer has opened up opportunities for this new competition.

So, the service provider faces a two-pronged challenge. How do you embrace the new literacy of the rapidly expanding market while demonstrating value in this more technically open and rich landscape?

With the proliferation of over-the-top content and home networking, do customers still need service providers? How can providers carve out a place in the market, despite the ever-expanding number of options for in-home technology?

And the battle is not just in the home... As home networking impacts how consumers get and generate content, wireless and mobility are radically changing their viewing behavior. And, with improvements in mobile access, devices and synchronization, consumers' expectations increase exponentially.

Mobility is changing the content world dramatically. The ability to program, control and manipulate content anywhere at any time is very near and will become commonplace soon. Plus, the ability to share, enjoy, and originate video content will further expand the sources of content. And through all of this increased mobility, the line between tethered and untethered devices is blurring quickly. In the highly mobile world, consumers no longer differentiate between the untethered iPod and the tethered digital set-top. They are simply different devices providing a single experience.

This blurring of tethered and untethered services creates great opportunities for fixed-line providers. By aggressively integrating fixed and mobile services, these providers are uniquely positioned to succeed.

To accomplish this, providers must rapidly evolve and enable the customer. For the provider, this evolution often builds on the strength of the fixed-line history.

But how do you integrate a mobile service and capitalize on fixed-line strengths without over-restricting the market niche? Should the fixed-line provider focus on the integration of their exclusive mobile asset? Or, should the provider focus on creating a generalized offering, sacrificing integration for a larger market?

And, since we all must make a profit, how do you create valuable services while moving from the lower-cost, fixed-line environment to the capital-intensive mobile network?

As you can see, this industry is full of questions. But uncertainty is also opportunity. While service providers can't ignore these trends without becoming vulnerable, these challenges also present opportunities to play a bigger role in these trends and benefit from increased consumer demand for video content and new delivery methods.

Of utmost importance in achieving this role is the service provider's relationship with the consumer. As the distribution model flattens, providers must leverage the trusted relationship with the consumer. There are three main ways the consumer must place its trust in the service provider in order to build such a relationship.

First, consumers must view the service provider as a trusted way of doing business. Customers must recognize the provider's brand and be comfortable with that relationship on an ongoing basis.

Second, consumers must believe the provider is a place where they can get 100 percent of their solutions. They want to know the service provider is working with a network of trusted partners.

Finally, consumers need to view the service provider as a resource that can help them find, secure and consume content. With the one-to infinite evolution of data, customers can be overwhelmed. They want a trusted source that understands the content space and makes it easy for them.

In addition, the provider must capitalize on its trusted relationship to consolidate and simplify, differentiating themselves in the expanding world.

What providers accomplish through this is simplicity. Consumers, while benefiting from choice, will curse the complexity of too many sources.

I'm sure many of you have households where one member is a technophile and the other is struggling to learn the DVR remote. The result, as I've personally seen, is frustration with the technology and a reduced desire to adopt. As long as I continue to network my TV sets, this isn't likely to change in my house. The provider, on the other hand, must change.

The key to solving this is to make viewing easy, predictable and intuitive, regardless of the platform used. By acting as a simplifying influence on the consumer's electronic life, providers can add real value to the consumer's lifestyle.

And, by choosing effective and reliable partners, providers can further drive simplicity by creating a unified offering that follows the best-in-class model. Here again, I offer the Qwest and Windows Live example. We've incorporated Windows Live into our broadband service product, which gives customers the richness of the Microsoft product, along with the performance and stability of our broadband product. Qwest strongly believes that both represent the best that the industry has to offer.

Another opportunity is to provide simple choices. With the expanding array of content provider models, there are many choices, but no one business model dominates. The result is often confusion.

Providers can respond to this by providing flexible choices to meet customers' lifestyles. Rather than forcing them to have relationships with multiple sources, this lets them consolidate with their well-trusted providers.

Personally, I value this type of simplicity. Rather than read multiple newspapers, I've simplified my reading into one source of news information. The result is both a simpler and less cluttered life, and a small sense that I've saved a few trees by my actions.

We've spoken of trust, and we've spoken of simplicity. The other thing a provider can do is to evolve. As the trusted relationship grows, the provider needs to be able to satisfy the growing needs of the audiophiles and videophiles who want more complete, easy to access and use content.

Being able to address the evolving mobile demand is probably most critical to success. Because they already have a relationship with the consumer, providers are best-positioned to realize the vision of true mobility. And, they can expand this relationship with new integrated services and control.

For example, the mobilization of the popular DVR control function will increase the value of both the mobile handset and the video service, offering a lifestyle freedom that users will increasingly value. This lifestyle freedom is just one example of how a provider can evolve to keep up with the growing needs of the consumer.

I want to get back to that one word I just used: Freedom. I think the word “freedom” is key to what we’re talking about here today. Customers want the freedom to access content when and how and where they want it. Can providers deliver freedom to consumers and satisfy their needs? ABSOLUTELY. In fact, there may be no other source for this much-needed, and highly-elusive trait.

And perhaps the most important question of all is “Will customers respond?” To this, I again say ABSOLUTELY. Customers have demonstrated repeatedly that they will reward companies who drive simplicity. They have also shown that they can be ruthless with companies that don’t get it. For those that question whether customers will respond, I’d caution that by the time the response is heard, it’s probably too late.

And finally, many you will ask “Is this really going to happen?” And the answer is ABSOLUTELY.

Providers who focus on customers, delivering simple products that enrich their lives, and fulfill their need for freedom and complete mobility will prosper.

Providers who ignore the demand for simplicity and unification will suffer. In the end, this can be a win-win for consumers and providers alike. It will truly be an exciting time. Speaking personally, I look forward to being part of this time.

Thank you.