

In the Matter of the Transfer of Control of)

DOCKET NO. 98-2204-01

LCI International, Inc., LCI International)

Telecom Corp., and USLD Communications,)

Inc., to QWEST COMMUNICATIONS)

REPORT AND ORDER

INTERNATIONAL, INC.)

ISSUED: June 30, 1998

SYNOPSIS

The proposed corporate merger and reorganization plan appearing to be in the public interest, we approve the same.

By the Commission:

PROCEDURAL HISTORY

On March 20, 1998, Qwest Communications International, Inc. (Qwest), LCI International, Inc. (LCII), LCI International Telecom Corp. (LCIT), and USLD Communications, Inc. (USLDI) notified the Commission of their intention to transfer control of LCIT and USLDI from the current shareholders of LCII to Qwest. Neither has the matter engendered any opposition, nor does it appear likely to do so. An evidentiary hearing on the matter appears to be superfluous and of no help to the Commission in deciding the matter. Accordingly, we determine to decide on the basis of the written record made to date and the recommendation of the Division of Public Utilities, Utah Department of Commerce (DPU). The Administrative Law Judge, having been fully advised in the matter, now enters the following Report, containing proposed Findings of Fact, Conclusions of Law, and the Order based thereon.

FINDINGS OF FACT

The following findings are verbatim quotations from DPU's memorandum supporting the proposed corporate reorganization. We adopt them as the Commission's findings.

1. In support of its application, the Applicants filed a post-merger corporate organizational chart. Other information concerning the legal, technical, managerial, and financial qualifications of Qwest was submitted with the application for certification filed with the Commission on December 15, 1994, in Docket No. 94-2204-01 and was approved August 21, 1995. Information concerning the legal, technical, managerial, and financial qualifications of LCII was submitted June 9, 1997, in Docket No. 97-2237-01 and was approved April 22, 1998.
2. Qwest is a Delaware corporation with its principal office and place of business located at 555 Seventeenth Street, Denver, Colorado. The company is publicly traded on the NASDAQ stock exchange under the symbol "QWST." Its indirect wholly-owned subsidiary, Qwest Communications Corporation (QCC), provides multimedia communications services to interexchange carriers and other communications entities, businesses, and consumers, using its own facilities leased from other carriers. QCC also constructs and installs fiber optic communications systems for other communications companies. QCC is currently implementing the Qwest Network, a fiber optic network that employs a SONET ring architecture cover in excess of 16,285 domestic route miles and connect more than 125 cities once completed. At present, Qwest anticipates that the Qwest Network will be completed in 1999.

3. LCII is a Delaware corporation headquartered at 8180 Greensboro Drive, Suite 800, McLean, Virginia. The company is publicly traded on the New York Stock Exchange under the symbol "LCI." LCII's primary operating subsidiary, LCIT, is the sixth largest interexchange telecommunications company in the nation based upon presubscribed telephone lines as reported by the Federal Communications Commission. LCIT provides a full array of local and worldwide long distance voice and data transmission services to businesses, residential customers and other carriers over its own nationwide network of digital fiber optic facilities, transmission facilities leased from other carriers, and resold telecommunications service. LCIT has been providing interexchange telecommunications services in Utah on an unregulated basis since December 9, 1991. In addition, LCIT is authorized by the FCC to provide interstate and international telecommunications services.

4. USLDI is a Texas corporation and an indirect wholly-owned subsidiary of LCII. USLDI was acquired by LCII in December 1997. USLDI provides interexchange telecommunications services in Utah on an unregulated basis. USLDI also is authorized by the FCC to provide interstate and international telecommunications services.

5. On March 8, 1998, Qwest and LCII entered into a definitive Agreement and Plan of Merger pursuant to which Qwest will acquire LCII by purchasing all of the company's outstanding shares from the current LCII shareholders. Since LCIT and USLDI are wholly-owned by LCII, the acquisition of LCII by Qwest will result in a transfer of ultimate control of LCIT and USLDI to Qwest. The transfer of control will be accomplished through use of a reverse triangular merger whereby a newly-formed, special-purpose subsidiary of Qwest, Qwest 1998-L Acquisition Corporation, will be merged with and into LCII. LCII will be the surviving entity of the merger. Pursuant to a series of internal stock transfer transactions to occur promptly following the effective date of the merger, LCII will become a direct, 100% wholly-owned subsidiary of QCC.

6. On October 1, 1997, WorldCom filed a preliminary registration statement at the Securities and Exchange Commission and notified MCI that it intends to commence an Offer for all of the issued and outstanding stock of MCI. Upon completion of the Offer, and receipt of any necessary regulatory approvals of the transfer of control of MCI to WorldCom, the MCI shares will be transferred to WorldCom and a wholly-owned subsidiary of WorldCom, TC Investments Corp., will merge into and with MCI. MCI, as the surviving company following the Merger, will become a wholly-owned subsidiary of WorldCom.

7. WorldCom is financially well-qualified to consummate the proposed transaction. WorldCom is the nation's fourth largest interexchange carrier and, in 1996, had revenues of approximately \$4.5 billion. Although it had negative net income in 1996, principally because of the one-time expenses associated with its acquisitions of Choice Communications, BLT Technologies, and MFS-CC, it is showing positive net income in the first two quarters of 1997, according to its latest 10-Q filings with the SEC.

8. WorldCom's managers are highly skilled, having acquired extensive experience in all areas of the telecommunications industry. Using their experience and expertise, the WorldCom companies have developed innovative marketing strategies which, in conjunction with effective financial and operational measures, have resulted in substantial growth and performance in revenues and service.

9. WorldCom and its affiliate companies have demonstrated that they possess the technical capability to provide local service on a resale basis. These companies offer a wide range of high quality interexchange services throughout the State of Utah, the United States and in foreign countries. WorldCom has been one of the leading providers of facilities-based competitive local exchange service as well as its expansive long distance network. Its network, both local and long distance, makes use of Signaling System 7 and fiber optic technology across the country.

10. The Division of Public Utilities, Utah Department of Commerce, supports approval of the merger.

DISCUSSION

Consummation of the proposed transaction is likely to serve the public interest, since the two companies combined have the potential to enhance competition by forming an entity with the capital, marketing abilities, and state-of-the-art network to compete against incumbent carriers. By competing more effectively and efficiently, the Petitioners can invest in facilities, customer service, and technological innovation. Utah consumers can benefit by having better service and lower rates.

CONCLUSIONS OF LAW

The proposed merger should be approved.

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED that:

The transfer of control of LCI International, Inc., LCI International Telecom Corp., and USLD Communications, Inc., to QWEST COMMUNICATIONS INTER-NATIONAL, INC., be, and it is, approved effective the date of this Order.

This Order is effective the date of its issuance.

Any person aggrieved by this Order may petition the Commission for review within 20 days of the date of this Order. Failure so to do will forfeit the right to appeal to the Utah Supreme Court.

DATED at Salt Lake City, Utah, this 30th day of June, 1998.

/s/ A. Robert Thurman

Administrative Law Judge

Approved and Confirmed this 30th day of June, 1998, as the Report and Order of the Public Service Commission of Utah.

/s/ Stephen F. Mecham, Chairman

(SEAL) /s/ Constance B. White, Commissioner

/s/ Clark D. Jones, Commissioner

Attest:

/s/ Julie Orchard

