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Decision 98-06-001 June 1, 1998

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Qwest Communications International, Inc., LCI International, Inc., LCI International Telecom, Corp. (U-5270-C), and USLD Communications, Inc. (U-5186-C) For Approval of a Transfer of Control.

ORIGINAL

Application 98-03-042
(Filed March 25, 1998)

O P I N I O N

By application filed March 25, 1998, Qwest Communications International, Inc. (Qwest), LCI International, Inc. (LCII), LCI International Telecom Corp. (LCIT) (U-5270-C), and USLD Communications, Inc. (USLDI) (U-5186-C) (collectively applicants) request authority pursuant to Public Utilities (PU) Code §§ 852 and 854 to transfer control of LCIT and USLDI from the current shareholders of LCII to Qwest.

LCIT and USLDI currently are certificated to provide telecommunications services in California, and will continue to provide such service after the transfer of control.

Notice of the filing of the application appeared in the Daily Calendar on March 30, 1998. In Resolution ALJ 176-2990 dated April 9, 1998 the Commission preliminarily categorized this application as ratesetting, and preliminarily determined that hearings were not necessary. No protest or other opposition to the application has been filed, and no hearing is deemed necessary. It is not necessary to disturb the preliminary determinations made in Resolution ALJ 176-2990.

The Parties

Qwest is a Delaware corporation having its principal place of business located at 555 Seventeenth Street, Denver, Colorado 80202. The company is publicly traded on the NASDAQ stock exchange under the symbol "QWST". Qwest's indirect wholly-owned subsidiary, Qwest Communications Corporation (QCC), a California certificated interexchange carrier (Decision (D.) 93-10-018), provides communications services to interexchange carriers and other communications entities, business and residential, using its own facilities as well as 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 that will 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.

LCII is a Delaware corporation headquartered at 8180 Greensboro Drive, Suite 800, McLean, Virginia 22102. 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 (FCC).¹

LCIT is a Delaware corporation authorized to do business in California, having its principal place of business at 8180 Greensboro Drive, Suite 800,

¹ Applicants note that LCIT recently advised the Commission about proposed plans to merge with its immediate parent company, LCI International Management (Application (A.) 98-03-011), and to complete a series of financial transactions internal to LCI that will result in LCIT incurring certain debt obligations. Those inter-company transactions are not affected by this application.

McLean, Virginia 22102. 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 services. LCIT received authority to provide interexchange telecommunications services on June 3, 1992 (D.92-06-009, A.91-11-069) and to provide local telecommunications services on March 1, 1996 (D.96-02-072, Investigation (I.) 95-04-044, Rulemaking (R.) 95-04-043). In addition, LCIT is authorized by the FCC to provide interstate and international telecommunications services.

USLDI is a Texas corporation and an indirect wholly-owned subsidiary of LCII, having been acquired by LCII in December 1997, pursuant to authority granted in D.97-12-075, A.97-09-037. USLDI received its authority in California to provide interLATA interexchange telecommunications and operator services on July 6, 1989 (D.89-07-021, A.88-12-031), and authority to provide intraLATA interexchange and operator services on September 15, 1994 (D.94-09-065, I.87-11-033). On February 23, 1996, USLDI received authority to provide resold local telecommunications services (D.96-02-072, I.95-04-044, R.95-04-043) and to provide facilities-based local services on May 6, 1997 (D.97-05-004, A.96-11-026). USLDI also is authorized by the FCC to provide interstate and international telecommunications services.

The Transaction

On March 8, 1998, Qwest and LCII entered into a definitive Agreement and Plan of Merger (Merger Agreement) (Exhibit/Attachment A to the Application) under the terms of 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 Qwest 1998-L Acquisition Corporation (Qwest Sub), a newly formed, special-purpose subsidiary of Qwest, will be merged with and into LCII, with LCII as 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.

Following approval of the transfer of control and for such time as Qwest may deem desirable, LCIT and USLDI, as Qwest subsidiaries, will, under their current names and current Utility Identification Numbers, continue to serve and bill customers under the rates, terms, and conditions of their respective tariffs. Thus, the transfer of control will be seamless and will have no impact on LCIT's and USLDI's customers in California.

Public Interest

The transfer of control of LCIT and USLDI to Qwest will have no adverse effect on the customers of either of those entities, inasmuch as service to their respective customers will continue at the same rates and under the same terms and conditions as before the transfer of control. Moreover, LCIT's and USLDI's access to Qwest's capital, fiber optic network, economies of scale and various service offerings will enable those companies to improve their services to both existing and new customers. We thus find the transfer of control of LCIT and USLDI to Qwest to be in the public interest.

Financial Information

In support of the application, Qwest has furnished, as Exhibit/ Attachment F to the application, a copy of its Form 10-K Annual Report for the fiscal year ended December 31, 1997 filed with the United States Securities and Exchange Commission. An examination of that document indicates that Qwest

has sufficient unencumbered financial assets to meet Commission requirements for this type of transaction.

Conclusion

In view of the fact that the transfer of control will not adversely affect the customers of LCIT and/or USLDI; will give those companies access to the financial and managerial assets of Qwest; and will not lessen competition within the industry, we will approve the application.

Findings of Fact

1. Qwest, LCII, LCIT (U-5270-C), and USLDI (U-5186-C) request authority to transfer control of LCIT and USLDI to Qwest.

2. LCIT and USLDI are each certificated to provide telecommunications services in California, and will continue to do so under their present names and Utility Identification Numbers.

3. Qwest has agreed to acquire control of LCIT and USLDI through the use of a "reverse triangular merger" whereby Quest Sub, a newly formed, special purpose subsidiary of Qwest, will be merged with and into LCII, with LCII as the surviving entity. Pursuant to a series of internal stock transfers to occur shortly after the effective date of the merger, LCII will become a direct, 100% wholly-owned subsidiary of QCC, an indirect 100% wholly-owned subsidiary of Qwest.

4. Following transfer of control of LCIT and USLDI to Qwest, service to the customers of LCIT and USLDI will continue at the same rates and under the same terms and conditions as before the transfer of control.

5. The transfer of control will have no adverse effect on LCIT's and/or USLDI's respective customers, as the transfer will be seamless.

6. LCIT's and USLDI's access to Qwest's capital, fiber optic network, economies of scale and various service offerings will enable those companies to improve their services to both existing and new customers.

7. Qwest has filed with the application a copy of its Form 10-K for the Fiscal Year ended December 31, 1997, which it filed with the United States Securities and Exchange Commission.

8. By Resolution ALJ 176-2990 (April 9, 1998) this matter was preliminarily categorized as ratesetting with no hearing required.

9. The Executive Director is authorized under previous decisions of the Commission to issue orders granting noncontested applications of nondominant interexchange carriers to transfer control under PU Code §§ 851-854.

10. There were no protests filed.

Conclusions of Law

1. The transfer of control of LCIT and USLDI from LCI to Qwest will be seamless to the respective customers of LCIT and USLDI.

2. The requested transfer of control is in the public interest and will not lessen competition in the telecommunications industry.

3. LCIT and USLDI will continue to provide their authorized services under their current names and respective Utility Identification Numbers.

4. Qwest meets the Commission's financial requirements.

5. The application should be approved and effective immediately.

O R D E R

IT IS ORDERED that:

1. The application for transfer of control of LCI International Telecom Corp. (LCIT) and USLD Communications, Inc. (USLDI) from LCI International, Inc. to Qwest Communications International, Inc. (Qwest) is approved.

2. LCIT shall continue to provide the services authorized by its certificate of public convenience and necessity under its current name and Utility

Identification Number U-5270-C, at the same rates and under the same terms and conditions as provided in its tariffs on file with the Commission.

3. USLDI shall continue to provide the services authorized by its certificate of public convenience and necessity under its current name and Utility Identification Number U-5186-C, at the same rates and under the same terms and conditions as provided in its tariffs on file with the Commission.

4. Within 30 days after the completion of the transfer of control of LCIT and USLDI as contemplated and authorized herein, Qwest will advise the Commission's Telecommunications Division of the name and address of the official custodian of the records and documents effecting the transfer.

5. Application 98-03-042 is closed.

This order is effective today.

Dated June 1, 1998, at San Francisco, California.

/s/ WESLEY M. FRANKLIN

WESLEY M. FRANKLIN
Executive Director