

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE JOINT FILING OF LITEL TELECOMMUNI-)
CATIONS CORPORATION, LCI COMMUNICATIONS,)
INC., AND LCI COMMUNICATIONS HOLDINGS CO.) CASE NO.
RESPECTING THE ACQUISITION OF CONTROL OF) 10364
LITEL TELECOMMUNICATIONS CORPORATION AND)
RELATED FINANCING TRANSACTIONS)

O R D E R

On September 1, 1988, LiTel Communications Corporation ("LiTel"), LCI Communications, Inc. ("LCI"), and LCI Communications Holdings Company ("LCHC") (collectively, "the Filing Parties") filed a petition ("the Joint Filing") requesting that the Commission issue an Order respecting the acquisition of LCI, which owns 100 percent of LiTel, by LCHC. Specifically, the Filing Parties requested that the Commission issue an Order finding that the acquisition of LCI and related financing transactions ("the Proposed Transactions") do not require Commission approval. Certain requests for confidential treatment were granted to the Filing Parties on September 28, 1988. The Joint Filing was supplemented and amended on October 19, 1988. An additional request for confidential treatment was also filed on October 19, 1988, relating to Exhibit N of the Joint Filing.

LITEL AND LCI

LiTel is a Delaware corporation authorized to do business in the Commonwealth of Kentucky. LiTel is authorized to provide

intrastate interLATA telecommunication service to the public in Kentucky.

LiTel is a wholly-owned subsidiary of LCI, a Delaware corporation. LCI is a holding company which has six major shareholders, ALLTEL Corporation, CENTEL Network Company, Pirelli Cables, Inc., TELETTRA International SA, Mr. Lawrence A. McLernon, and Mr. Peter A. Lusk. These six shareholders own more than 90 percent of the capital stock of LCI. LCI is not a utility, and is not a person under the jurisdiction of the Commission. LCI owns, and LiTel manages, a midwestern fiber optic telecommunication network. No facilities of the network are located in Kentucky.

LCHC

LCHC is a corporation organized under the laws of the State of Delaware for the purpose of acquiring control of LCI. The initial shareholders of LCHC will be Warburg Pincus Capital Company, L.P., Primus Capital Fund, and Primus Capital Fund II. After the Proposed Transaction, stock ownership of LCHC will differ somewhat, yet Warburg Pincus Capital Company, L.P. will own 75 percent of the common shares of LCHC. LCHC is not a person under the jurisdiction of the Commission.

LMC

LCI Merger Company ("LMC") is a wholly-owned subsidiary of LCHC organized under the laws of the State of Delaware for the purpose of merging into LCI. This merger will help effectuate the transfer of control of LCI from the current shareholders of LCI to LCHC.

THE PROPOSED TRANSACTION

Pursuant to an agreement (contained within Exhibit H to the Joint Filing), the Proposed Transaction will take place as follows: LMC will purchase all of the outstanding shares of LCI now owned by its six major shareholders (except for 40 percent of the common stock of Lawrence A. McLernon which will be exchanged for capital stock of LCHC). LMC will then merge into LCI. Upon consummation of the merger, some of the directors of LMC and Mr. McLernon will become the directors of LCI. The present management of LiTel will remain substantially the same, and the separate corporate existence of LMC will cease. LCI will continue its corporate existence as a wholly-owned subsidiary of LCHC and LiTel will remain a wholly-owned subsidiary of LCI.

The transaction will be transparent to LiTel's customers. Following the closing of the Proposed Transaction, LiTel will continue to provide service under its existing Kentucky intrastate tariff.

APPLICABLE LAW

Pursuant to KRS 278.020(4), persons under the jurisdiction of the Commission must receive Commission approval prior to the acquisition or transfer of ownership or control of a utility.

KRS 278.020(5), which governs certain utility acquisitions, is inapplicable to the facts of this case, since LiTel derives a greater portion of its gross revenue from interstate business than from business in Kentucky. Additionally, the Proposed Transaction

is subject to review¹ by the FCC. It is the Commission's opinion that the FCC proceeding affords protection to Kentucky ratepayers substantially equal to that afforded such ratepayers by KRS 278.020(5). Therefore, KRS 278.020(4) governs the Proposed Transaction.

The Commission is of the opinion that consummation of the Proposed Transaction may enhance LiTel's ability to compete in the Kentucky intrastate interexchange telecommunications market. The Proposed Transaction should not affect the ability of LiTel to provide reasonable service within Kentucky.

However, the Commission is also of the opinion that the Proposed Transaction will not effect a change of ownership or control of LiTel, within the meaning of KRS 278.020(4). After the Proposed Transaction, LiTel will continue to be a wholly-owned subsidiary of LCI. The Proposed Transaction involves the acquisition of the non-utility parent corporation of LiTel, by another non-utility. We do not believe that our approval is necessary for the Proposed Transaction to occur.

The Filing Parties have requested that the Commission issue an Order finding that the Proposed Transaction does not require Commission approval. We agree that such an Order is appropriate.

¹ Exhibit H to the Joint Filing is a copy of LiTel's "Application for Consent to the Transfer of Control of LiTel Telecommunications Corporation" filed with the Federal Communications Commission ("FCC") on August 24, 1988. LiTel, as a holder of Radio Station licenses and other authorizations, has filed an application (FCC Form 704) seeking FCC consent to the Proposed Transaction. LiTel will remain the relevant licensee.

The Commission FINDS that:

1. The October 19, 1988 request for confidential treatment of Exhibit N is in accordance with 807 KAR 5:001, Section 7 and should be granted; and

2. The Proposed Transaction does not constitute a change in ownership or control within the meaning of KRS 278.020(4).

IT IS THEREFORE ORDERED that:


1. The request for confidential treatment of Exhibit N be and it hereby is granted; and

2. The relief requested by the Filing Parties is hereby granted, and this case is hereby dismissed.

Done at Frankfort, Kentucky, this 26th day of October, 1988.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director