KELLEY DRYE & WARREN LLP

A LIMITED LIABILITY PARTNERSHIP INCLUDING PROFESSIONAL ASSOCIATIONS

1200 19TH STREET, N.W.

SUITE 500

WASHINGTON, D.C. 20036

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(202) 955-9792

WRITER'S DIRECT LINE
(202) 955-9881

WRITER'S E-MAIL
mhazzard@kelleydrye.com

December 15, 1998

VIA OVERNIGHT COURIER

Blanca Bayo
Director
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

981873-TX

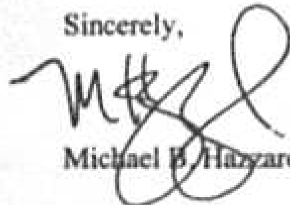
Re: Application of Qwest Communications Corporation for Authority to Provide Alternative Local Exchange Service within the State of Florida

Dear Ms. Bayo:

Enclosed herewith for filing with the Commission are the original and six (6) copies of the Application of Qwest Communications Corporation for Authority to provide alternative local exchange service within the State of Florida. Also enclosed please find a check in the amount of $250.00 to satisfy the Commission's filing fee.

Please date-stamp the additional copy of this filing and return it to the undersigned in the enclosed self-addressed, stamped envelope.

Sincerely,



Michael B. Hazzard

Enclosures

DC01/KIME/68219.1

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DEPOSIT D048 - DATE DEC 17 1998

December 15, 1998

RECEIVED FLORIDA PUBLIC SERVICE COMMISSION 98 DEC 17 AM 11:10 MAIL ROOM

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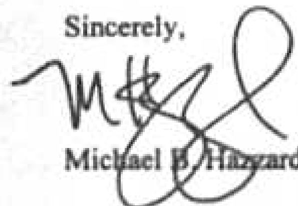

Michael B. Hazzard

Enclosures

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ORIGINAL

FLORIDA PUBLIC SERVICE COMMISSION
Division of Communications, Certification & Compliance Section
2450 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850
(904) 413-6600

APPLICATION FORM

for

AUTHORITY TO PROVIDE ALTERNATIVE LOCAL EXCHANGE SERVICE WITHIN THE STATE OF FLORIDA

INSTRUCTIONS

1. This form is used for an original application for a certificate and for approval or sale, assignment, or transfer of an existing alternative local exchange certificate. In case of a sale, assignment or transfer, the information provided shall be for the purchaser, assignee, or transferee.

2. Respond to each item requested in the application and appendices. If an item is not applicable, please explain why.

3. Use a separate sheet for each answer which will not fit the allotted space.

4. Any questions regarding completion, contact above.

5. Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of $250 made payable to the Florida Public Service Commission at the above address.

APPLICATION FORM FOR AUTHORITY TO PROVIDE ALTERNATIVE LOCAL EXCHANGE SERVICE WITHIN THE STATE OF FLORIDA

1. **This is an application for (check one):**

   (X) Original authority (new company)

   ( ) Approval of transfer (to another certification
   Example: a certificated company purchases an existing company and desires to retain the original certificate authority.

   ( ) Approval of assignment of existing certificate (to a noncertificated company)
   Example: a non-certificated company purchases an existing company and desires to ret in the original certificate authority rather than apply for a new certificate.

   ( ) Approval for transfer of control (to another certificated company)
   Example: a company purchases 51% of a certified company. The Commission must approve the new controlling entity.

2. **Name of applicant:**

   Qwest Communications Corporation

3. A. **National Mailing Address including street name, number, post office box, city, state, zip code and phone number.**

   Street: 555 Seventeenth Street
   PO Box:
   City: Denver
   State: Colorado
   Zip: 80202
   Phone: (303) 291-1400

   B. **Florida Mailing Address including street name, number, post office box, city, state, zip code and phone number.**

   Name: c/o CT Corporation System
   Street: 600 East Jefferson Street
   PO Box:
   City: Tallahassee
   State: Florida
   Zip: 33324
   Phone: (850) 222-1092

   C. **Physical Address of alternative local exchange service in Florida including street name, number, post office box, city, state, zip code and phone number.**

   Street:
   PO Box:
   City:
   State:
   Zip:
   Phone:

Ongoing Liaison:

Name: J. Scott Nicholls
Title: Senior Manager, Qwest Communications Corporation
PO Box:
Street: 4250 N. Fairfax Drive, 11th Floor
City: Arlington
State: Virginia
Zip: 22203
Phone: (703) 363-4866
Fax: (703) 363-4404
Internet Address: scott.nicholls@qwest.net

11. **Please list other states in which the applicant is currently providing or has applied to provide local exchange or alternate local exchange service.**

QCC has filed or plans to file applications to provide local exchange service in the following states: California, Colorado, District of Columbia, Florida, Georgia, Illinois, Maryland, Michigan, New Jersey, New York, Texas, Virginia, and Washington.

12. **Has the applicant been denied certification in any other state?**

Yes ( ) **No (X)**

If so, please list the state and reason for denial.

13. **Have penalties been imposed against the applicant in any other state?**

Yes ( ) **No (X)**

If so, please list the state and reason for penalty.

14. **Please indicate how a customer can file a service complaint with your company?**

Customers may call the company at its toll-free customer service number: (888) 524-0011. In addition, customers may contact the company in writing at 555 Seventeenth Street, Denver, Colorado 80202

15. **Please provide all available documentation demonstrating that the applicant has the following capabilities to provide alternate local exchange service in Florida.**

A. **Financial capability**

Qwest's most recent audited financial statements are attached hereto as Exhibit B.

B. **Managerial capability**

See Exhibit C

C. **Technical capability**

In addition to providing telecommunications services, applicant also constructs and installs fiber optic communications systems for other communications companies. Applicant is presently implementing the Qwest Macro Capacity Fiber Network, a fiber optic network that employs

AFFIDAVIT

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange service in the State of Florida. I have read the foregoing and declare that to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

Further, I am aware that pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree punishable as provided in s. 775.082 and s. 775.083.

Official: Joseph T. Garrity   **Date:** 12/8/96

Joseph T. Garrity

Title: Senior Director – Legal, Regulatory & Legislative Affairs and Assistant Corporate Secretary

Address: 555 Seventeenth Street
Denver, Colorado 80202

Phone: (303) 992-1400

Department of State

I certify from the records of this office that QWEST COMMUNICATIONS CORPORATION, is a corporation organized under the laws of Delaware, authorized to transact business in the State of Florida, qualified on September 25, 1990.

The document number of this corporation is P31106.

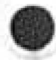
I further certify that said corporation has paid all fees and penalties due this office through December 31, 1998, that its most recent annual report was filed on July 30, 1998, and its status is active.

I further certify that said corporation has not filed a Certificate of Withdrawal.

Given under my hand and the
Great Seal of the State of Florida
at Tallahassee, the Capitol, this the
Eighteenth day of November, 1998

CR2EO22 (2-95)

Sandra B. Mortham
Secretary of State



CONSOLIDATED BALANCE SHEETS

December 31, 1997 and 1996

(In Thousands, Except Share and Per Share Information)

Assets	1997	1996
Current assets:		
Cash and cash equivalents	$ 379,784	$ 6,905
Accounts receivable, net	67,395	29,248
Costs and estimated earnings in excess of billings	256,566	4,989
Notes and other receivables	10,855	14,934
Other current assets	9,342	328
Total current assets	723,942	56,404
Property and equipment, net	614,640	186,535
Deferred income tax asset	17,988	4,593
Notes and other receivables	59	11,052
Intangible and other long-term assets, net	41,476	3,967
Total assets	$ 1,398,105	$ 262,551

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS, continued

December 31, 1997 and 1996

(In Thousands, Except Share and Per Share Information)

Liabilities and Stockholders' Equity	1997	1996
Current liabilities:		
Accounts payable and accrued expenses	$ 253,313	$ 80,129
Billings in excess of costs and estimated earnings	21,390	5,034
Deferred income tax liability	22,344	—
Current portion of long-term debt	12,011	25,193
Payable to Majority Shareholder	2,091	19,138
Deferred revenue	4,273	2,649
Total current liabilities	315,422	132,143
Long-term debt	630,463	109,268
Other liabilities	70,476	11,698
Total liabilities	1,016,361	253,109
Stockholders' equity:		
Preferred Stock, $.01 par value. Authorized 25,000,000 shares. No shares issued and outstanding.	—	—
Common Stock, $.01 par value. Authorized 400,000,000 shares. 206,669,874 shares and 173,000,000 shares issued and outstanding at December 31, 1997, and December 31, 1996, respectively.	2,066	1,730
Additional paid-in capital	411,605	54,162
Accumulated deficit	(31,927)	(46,450)
Total stockholders' equity	381,744	9,442
Commitments and contingencies		
Total liabilities and stockholders' equity	$1,398,105	$ 262,551

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended December 31, 1997, 1996, and 1995

(In Thousands, Except Per Share Information)

	Common Stock				
	Number of shares	Amount	Additional paid-in capital	Accumulated deficit	Total stockholders' equity
Balances, January 1, 1995	173,000,000	$ 1,730	$ 37,203	$ (14,352)	$ 24,581
Cash contribution from Majority Shareholder	—	—	28,000	—	28,000
Reduction in additional paid-in capital attributable to effect of the tax allocation agreement with Majority Shareholder	—	—	(975)	—	(975)
Net loss	—	—	—	(25,131)	(25,131)
Balances, December 31, 1995	173,000,000	1,730	64,228	(39,483)	26,475
Cancellation of income tax benefit receivable from Majority Shareholder	—	—	(11,088)	—	(11,088)
Equity contribution from Majority Shareholder	—	—	1,022	—	1,022
Net loss	—	—	—	(6,967)	(6,967)
Balances, December 31, 1996	173,000,000	1,730	54,162	(46,450)	9,442
Issuance of common stock in initial public offering, net	31,050,000	310	319,171	—	319,481
Issuance of common stock warrants	—	—	2,300	—	2,300
Issuance of common stock for Growth Shares	2,591,532	26	35,284	—	35,310
Issuance of common stock upon exercise of employee stock options	9,644	—	132	—	132
Issuance of common stock under Equity Incentive Plan	18,698	—	556	—	556
Net earnings	—	—	—	14,523	14,523
Balances, December 31, 1997	206,669,874	$ 2,066	$ 411,605	$ (31,927)	$ 381,744

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS, continued
For the Years Ended December 31, 1997, 1996, and 1995
(In Thousands)

	1997	1996	1995
Cash flows from financing activities:			
Proceeds from issuance of common stock in initial public offering, net	$ 319,481	$ —	$ —
Proceeds from issuance of common stock warrants	2,300	—	—
Proceeds from exercise of employee stock options	132	—	—
Borrowings of long-term debt	678,003	65,000	62,806
Repayments of long-term debt	(200,233)	(21,322)	(2,331)
Debt issuance costs	(16,445)	(112)	(591)
Net (payments to) advances from Majority Shareholder	(17,047)	(19,069)	26,256
Contribution from Majority Shareholder	—	1,022	28,000
Net cash provided by financing activities	766,191	25,519	113,940
Net increase (decrease) in cash and cash equivalents	372,879	5,421	(1,553)
Cash and cash equivalents, beginning of period	6,905	1,484	3,037
Cash and cash equivalents, end of period	$ 379,784	$ 6,905	$ 1,484
Supplemental disclosure of cash flow information:			
Cash paid for interest, net	$ 16,896	$ 8,825	$ 3,972
Cash paid for taxes, other than to Majority Shareholder	$ 244	$ 160	$ 725
Supplemental disclosure of significant non-cash investing and financing activities:			
Accrued capital expenditures	$ 76,267	$ 28,000	$ —
Capital expenditures financed with equipment credit facility	$ 22,604	$ —	$ —

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements Years Ended December 31, 1997, 1996, and 1995

(1) Organization and Background

Qwest Communications International Inc. (the "Company") was wholly owned by Anschutz Company (the "Majority Shareholder") until June 27, 1997, when the Company issued common stock in an initial public offering (the "IPO"). As of December 31, 1997, the Majority Shareholder owns approximately 83.7% of the outstanding common stock of the Company. The Company is the ultimate holding company for the operations of Qwest Communications Corporation and subsidiaries ("Qwest").

The Company is a developer and operator of telecommunications networks and facilities and operates in a single business segment, the telecommunications industry. It principally provides the following services within that industry:

•Telecommunications Services - the Company provides dedicated line and switched services to interexchange carriers and competitive access providers ("Carrier Services") and long distance voice, data, and video services to businesses and consumers ("Commercial Services").

•Network Construction Services - the Company installs fiber-optic communications systems for interexchange carriers, local telephone companies, cable television companies, competitive access providers, and other communications entities, as well as for its own use.

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying audited consolidated financial statements as of December 31, 1997, and 1996 and for the years ended December 31, 1997, 1996, and 1995 include the accounts of the Company and all majority-owned subsidiaries. Intercompany balances and transactions have been eliminated in consolidation.

(b) Telecommunications Services Revenue

Revenue from telecommunications services is recognized monthly as the services are provided. Amounts billed in advance of the service month are recorded as deferred revenue.

(c) Long-Term Construction Contracts

The Company accounts for long-term construction contracts relating to the development of telecommunications networks using the percentage of completion method. Under the percentage of completion method, progress is generally measured on performance milestones relating to the contract where such milestones fairly reflect progress toward contract completion.

Network construction costs include all direct material and labor costs and those indirect costs related to contract performance. General and administrative costs are charged to expense as incurred. When necessary, the estimated loss on an uncompleted contract is expensed in the period in which it is identified. Contract costs are estimated using allocations of the total cost of constructing the Qwest Network, a coast-to-coast, technologically advanced, fiber-optic telecommunications network (the "Qwest Network"). Revisions to estimated profits on contracts are recognized in the period they become known.

(d) Cash and Cash Equivalents

The Company classifies cash on hand and deposits in banks, including commercial paper, money market accounts, and any other investments with an original maturity of three months or less, that the Company may hold from time to time, as cash and cash equivalents.

(e) Property and Equipment

Property and equipment is stated at cost. Depreciation is computed on a straight-line basis using the estimated useful lives of the assets, commencing when they are available

(3) Other Income (Expense)

On March 10, 1997, the Company entered into an agreement with an unrelated third party to terminate certain equipment purchase and telecommunications capacity rights and options of the Company exercisable against the third party for $9.0 million in cash, which the Company received in 1997 and has recorded as gain on sale of contract rights.

On July 1, 1996, the Company sold its right, title, and interest in certain telecommunications service agreements to an unrelated third party (the "Buyer") for $5.5 million. During the transition of service agreements to the Buyer, the Company incurred certain facilities costs on behalf of the Buyer, which are reimbursable to the Company. On March 31, 1997, the arrangement relating to the transition services agreements expired and has not yet been renegotiated. A dispute has arisen with respect to reimbursement of these costs and, as a result the Company made a provision of $2.0 million in the three months ended March 31, 1997. Negotiations with the Buyer are continuing. As of December 31, 1997 and 1996, net amounts of approximately $5.0 million and $2.0 million, respectively, were due to the Company for such costs. The Company believes that the receivable balance as of December 31, 1997, is collectible.

(4) Acquisitions

On October 22, 1997, the Company and an unrelated third party consummated an agreement whereby the Company acquired from the third party all of the issued and outstanding shares of capital stock of SuperNet, Inc. ("SNI"), a regional Internet service provider, and the capital stock of SNI issued at the closing of the acquisition, for approximately $20.0 million in cash, plus acquisition costs. The acquisition was accounted for using the purchase method of accounting. The purchase price was allocated as follows (in thousands):

Working capital	$ (1,517)
Property and equipment	2,890
Goodwill	19,200
Other	(423)
	$ 20,150

The accompanying consolidated statements of operations include the operating results of SNI since October 22, 1997. The following pro forma operating results of the Company and SNI for the years ended December 31, 1997 and 1996 have been prepared assuming the acquisition had been consummated as of January 1, 1996 (in thousands, except per share amounts):

	1997	1996
Revenue	$ 702,260	$ 236,538
Net earnings (loss)	$ 10,783	$ (14,226)
Earnings (loss) per share - basic	$ 0.06	$ (0.08)
Earnings (loss) per share - diluted	$ 0.06	$ (0.08)

(5) Network Construction Services Revenue and Expenses

Costs and billings on uncompleted contracts included in the accompanying consolidated financial statements are as follows (in thousands):

	December 31, 1997	December 31, 1996
Costs incurred on uncompleted contracts	$ 473,760	$ 82,840
Estimated earnings	238,191	48,853
	711,951	131,693
Less: billings to date	476,775	131,738
	$ 235,176	$ (45)
Costs and estimated earnings in excess of billings	$ 256,566	$ 4,989
Billings in excess of costs and estimated earnings	(21,390)	(5,034)
	$ 235,176	$ (45)
Revenue the Company expects to realize for work to be performed on the above uncompleted contracts	$ 506,791	$ 328,686

The Company has entered into various agreements to provide indefeasible rights of use of multiple fibers along the Qwest Network. Such agreements include contracts with three major customers for an aggregate purchase price of approximately $1.0 billion. The Company obtained construction performance bonds totaling $175.0 million which have been guaranteed by the Majority Shareholder. Network Construction Services revenue relating to the contracts with these major customers was approximately $513.0 million and $121.0 million in 1997 and 1996, respectively. Progress billings are made upon customers' acceptance of performance milestones. The Company expects to bill and collect all costs and estimated earnings in excess of billings as of December 31, 1997, in 1998.

Although these construction agreements provide for certain penalties if the Company does not complete construction within the time frames specified within the agreements, management does not anticipate that the Company will incur any substantial penalties under these provisions.

(6) Accounts Receivable

Accounts receivable consists of the following (in thousands):

	December 31,	
	1997	1996
Carrier services	$ 11,833	$ 9,978
Commercial services	14,095	5,736
Network construction services	37,085	13,751
Due from affiliate	1,804	—
Other	7,189	3,452
	72,006	32,917
Less allowance for doubtful accounts	(4,611)	(3,669)
Accounts receivable, net	$ 67,395	$ 29,248

(7) Notes and Other Receivables

In 1994, an unrelated third party entered into a $45.0 million agreement to purchase a single conduit from the Company. Contract revenue from this agreement was approximately $3.1 million and $29.7 million in the years ended December 31, 1996 and 1995, respectively. The Company may be required to pay up to $13.0 million to the third party in the event of the sale of the Company-owned conduits. The balance of the notes receivable related to the contract was paid subse[illegible]ent to year end.

(8) Property and Equipment

Property and equipment consists of the following (in thousands):

	December 31,	
	1997	1996
Land	$ 991	$ 506
Facility and leasehold improvements	17,910	7,951
Communications and construction equipment	83,313	52,076
Fiber and conduit systems	118,192	42,446
Office equipment and furniture	16,019	6,360
Capital leases	3,778	3,197
Work in progress	417,042	99,915
	657,245	212,451
Less accumulated depreciation and amortization	(42,605)	(25,916)
Property and equipment, net	$ 614,640	$ 186,535

(9) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consists of the following (in thousands):

	December 31,	
	1997	1996
Accounts payable	$ 80,862	$ 41,642
Construction accrual	75,543	18,071
Property, sales, and other taxes	33,926	3,582
Capacity service obligation	8,196	3,658
Accrued interest	7,704	707
Right of way obligations	34,006	3,290
Other	13,076	9,179
Accounts payable and accrued expenses	$253,313	$80,129

(10) Other Liabilities

Other liabilities consists of the following (in thousands):

	December 31, 1997	December 31, 1996
Right-of-way obligations	$ 39,014	$ 1,297
Growth share accrual	17,686	9,291
Equipment to be financed	10,756	—
Other	3,020	1,110
Other liabilities	$ 70,476	$ 11,698

(11) Right-of-Way Obligations

The Company has easement agreements with railroads and public transportation authorities. The following is a schedule by years of future minimum payments under easement agreements together with the present value of the net minimum payments as of December 31, 1997:

Year ended December 31	
1998	$ 34,225
1999	4,228
2000	4,228
2001	4,250
2002	6,099
Thereafter	83,788
Total minimum payments	$ 136,818
Less amount representing interest	(63,798)
Present value of net minimum payments	$ 73,020

The present value of net minimum payments is included in accounts payable and accrued expenses and other liabilities. (See note 9 - Accounts Payable and Accrued Expenses and note 10 - Other Liabilities.)

In certain limited instances the Company may be obligated to pay costs of relocating certain conduits owned by third parties on approximately 500 miles of railroad rights of way. The majority of such commitments expire in February 2001. The Company has made a provision of approximately $2.9 million for such costs in 1997.

Pursuant to certain easement agreements, the Company is required to provide easement grantors with communications capacity for their own internal use.

(12) Long-Term Debt

Long-term debt consists of the following (in thousands):

	December 31, 1997	December 31, 1996
9.47% Notes	$ 356,908	$ —
10 7/8% Notes	250,000	—
Revolving credit facility	—	60,000
Equipment credit facility	22,604	—
Network credit facility	—	27,077
Equipment loans	—	9,820
Term notes	—	9,416
Capital lease and other obligations	12,962	28,148
Total debt	642,474	134,461
Less current portion	(12,011)	(25,193)
Long-term debt	$ 630,463	$109,268

In October 1997, the Company issued and sold $555.9 million in principal amount at maturity of 9.47% Senior Discount Notes, due 2007 (the "9.47% Notes"), generating net proceeds of approximately $342.1 million, after deducting offering costs which are included in intangible and other long-term assets. The 9.47% Notes will accrete at a rate of 9.47% per annum, compounded semiannually, to an aggregate principal amount of $555.9 million by October 15, 2002. The principal amount of the 9.47% Notes is due and payable in full on October 15, 2007. The 9.47% Notes are redeemable at the Company's option, in whole or in part, at any time on or after October 15, 2002, at specified redemption prices. In addition, prior to October 15, 2000, the Company may use the net cash proceeds from certain equity transactions to redeem up to 35% of the 9.47% Notes at specified redemption prices. Cash interest on the 9.47% Notes will not accrue until October 15, 2002, and thereafter will accrue at a rate of 9.47% per annum, and will be payable semiannually in arrears commencing on April 15, 2003 and thereafter on April 15 and October 15 of each year. The Company has the option of commencing the accrual of cash interest on an interest payment date on or after October 15, 2000, in which case the outstanding principal amount at maturity of the 9.47% Notes will, on such interest payment date, be reduced to the then accreted value, and cash interest will be payable thereafter. In February 1998, the Company completed an exchange of the 9.47% Series B Senior Discount Notes (the "9.47% Exchange Notes"), registered under the Securities Act of 1933 (the "Act"), for all of the 9.47% Notes. The 9.47% Exchange Notes are identical in all material respects to the originally issued 9.47% Notes.

In May 1997, the Company entered into a $90.0 million credit agreement (the "Equipment Credit Facility") with an unrelated third party supplier of transmission electronics equipment (the "Supplier") to fund a portion of certain capital expenditures required to equip the Qwest Network currently under construction. The facility subsequently was assigned by the Supplier to another institution, which assumed the Equipment Credit Facility and currently acts as the agent. Under the Equipment Credit Facility, the Company may borrow up to 75% of

the price of purchased equipment and related engineering and installation services provided by the Supplier, with the purchased equipment and related items serving as collateral for the loans. The Company is committed to purchase from the Supplier a minimum of $100.0 million of such equipment and services under a separate procurement agreement, which was executed in May 1997. The Company's total remaining commitment under the procurement agreement was approximately $68.4 million as of December 31, 1997. Principal amounts outstanding under the Equipment Credit Facility will be payable in quarterly installments commencing on June 30, 2000, with full repayment due on March 31, 2004. Borrowings will bear interest at the Company's option at either (i) a floating base rate offered by a designated reference bank plus an applicable margin; or (ii) LIBOR plus an applicable margin.

On March 31, 1997, the Company issued and sold 10 7/8% Senior Notes due 2007 having an aggregate principal amount at maturity of $250.0 million. The net proceeds of the 10 7/8% Senior Notes were approximately $242.0 million, after deducting offering costs which are included in intangible and other long-term assets. Interest on the 10 7/8% Senior Notes is payable semiannually in arrears on April 1 and October 1 of each year, commencing October 1, 1997. The 10 7/8% Senior Notes are subject to redemption at the option of the Company, in whole or in part, at any time on or after April 1, 2002, at specified redemption prices. In addition, prior to April 1, 2000, the Company may use the net cash proceeds from certain specified equity transactions to redeem up to 35% of the 10 7/8% Senior Notes at specified redemption prices. In August 1997, the Company completed an exchange of 10 7/8% Series B Senior Notes (the "10 7/8% Notes"), registered under the Act, for all of the 10 7/8% Senior Notes. The 10 7/8% Notes are identical in all material respects to the originally issued 10 7/8% Senior Notes.

In April 1996, the Company entered into a long-term $100.0 million revolving credit facility agreement as amended in September 1996 (the "Facility") which was collateralized by shares of common stock owned and pledged by the Majority Shareholder. In October 1997, the Company repaid the outstanding balance and terminated the Facility.

In April 1995, the Company entered into a $45.0 million customer contract credit facility agreement to finance certain construction projects undertaken at that time. The facility converted to a term loan upon completion of the construction projects in 1996 and 1995 and is now secured by notes receivable issued in connection with these construction projects. The facility bears interest at the Company's option at either (i) the higher of (a) the bank's base rate of interest, or (b) the Federal Funds Rate plus 1/2%; or (ii) LIBOR plus 9/16%. The outstanding balance was repaid in February 1998.

The Company also incurred other indebtedness during the three-year period ended December 31, 1997, including in 1995 and 1996 $10.0 million in aggregate under five equipment loans and in January 1995 $12.0 million in aggregate under two term notes, the proceeds of which were used to repay a portion of the advance from the Majority Shareholder used to purchase Qwest Transmission Inc. In addition, the Company had other outstanding indebtedness in 1997 which it had incurred prior to 1995, including amounts payable under a network credit facility and an additional equipment loan. Such indebtedness had a weighted average interest rate of approximately 9% in 1997, and was repaid in the second quarter of 1997 with proceeds from the 10 7/8% Senior Notes.

The indentures for the 10 7/8%, 9.47%, and 8.29% Notes (defined below) contain certain covenants that, among other things, limit the ability of the Company and certain of its subsidiaries (the "Restricted Subsidiaries") to incur additional indebtedness and issue preferred stock, pay dividends or make other distributions, repurchase capital stock or subordinated indebtedness, create certain liens, enter into certain transactions with affiliates, sell assets of the Company or its Restricted Subsidiaries, issue or sell capital stock of the Company's Restricted Subsidiaries, or enter into certain mergers and consolidations.

The Company leases certain network construction equipment under capital lease agreements. The amortization charge applicable to capital leases is included in depreciation expense. Future minimum payments under capital lease obligations is included in contractual maturities of long-term debt summarized below.

Contractual maturities of long-term debt as of December 31, 1997 are as follows (in thousands):

	1997
Year ended December 31:	
1998	$ 12,011
1999	622
2000	3,671
2001	5,078
2002	5,877
Thereafter	615,215
	$642,474

The carrying amounts of the Term Loan and the Equipment Credit Facility approximate fair value since the interest rates are variable and reset periodically. The estimated fair values of the 9.47% Notes and the 10 7/8% Notes, each with a carrying value at December 31, 1997 of approximately $356.9 million and $250.0 million, respectively, were approximately $382.2 million and $280.8 million, respectively, at December 31, 1997, based on current rates offered for debt

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 1997 and 1996 are as follows (in thousands):

	December 31, 1997	December 31, 1996
Current deferred tax assets (liabilities)		
Allowance for doubtful accounts	$ 1,130	$ 1,283
Accrued liabilities	1,219	1,277
Deferred compensation	492	—
	2,841	2,560
Network construction contracts	(25,185)	(2,560)
	$ (22,344)	$ —
Long-term deferred tax assets (liabilities)		
Deferred compensation	$ 6,503	$ 3,252
Depreciation	4,337	2,205
Accrued liabilities	1,235	—
Net operating loss carryforward	34,773	—
	46,848	5,457
Intangible assets, principally due to differences in basis and amortization	(71)	(112)
Property and equipment	(28,789)	(752)
	(28,860)	(864)
	$ 17,988	$ 4,593

The Company has analyzed the sources and expected reversal periods of its deferred tax assets. The Company believes that the tax benefits attributable to deductible temporary differences will be realized by recognition of future taxable amounts. Accordingly, the Company believes a valuation allowance for its federal deferred tax assets is not necessary.

At December 31, 1997, the Company has net operating loss carryforwards for income tax purposes of approximately $99.4 million which, if not utilized to reduce taxable income in future periods, will expire in 2012.

The Company is included in the consolidated federal income tax return of the Majority Shareholder, which has a July 31 year-end for income tax purposes. There is a tax allocation agreement between the Company and the Majority Shareholder which encompasses U.S. federal tax consequences. The Company is responsible to the Majority Shareholder to the extent of income taxes for which the Company and its subsidiaries would have been liable if the Company had filed a consolidated federal income tax return, giving effect to any loss or credit carryover belonging to the Company and its subsidiaries from periods after the Effective Date (defined below). The Majority Shareholder would be responsible to the Company to the extent an unused loss or credit can be carried back to an earlier taxable period after the Effective Date.

The tax agreement was amended effective as of January 1, 1997 (the "Effective Date"). Prior to the amendment, the Company was responsible to the Majority Shareholder for its share of the current consolidated income tax liabilities. The Majority Shareholder was responsible to the Company to the extent that the Company's income tax attributes were utilized by the Majority Shareholder to reduce its consolidated income tax liabilities, subject to certain limitations on net operating loss and credit carryforwards. At December 31, 1996, the income tax benefit receivable from the Majority Shareholder of approximately $11.1 million was canceled, which resulted in a reduction of additional paid in capital.

In certain cases, differences may arise between amounts reported in the financial statements under generally accepted accounting principles and the amounts actually payable or receivable under the tax allocation agreement. Those differences are generally reported as adjustments to capital, as in substance dividends.

(14) Related Party Transactions

(a) Transactions with Majority Shareholder

The Majority Shareholder incurs certain costs on the Company's behalf, including primarily insurance and corporate transportation services, and allocates such costs to the Company based on actual usage. The cost to the Company for such services was approximately $4.3 million, $2.1 million, and $2.5 million in the years ended December 31, 1997, 1996, and 1995, respectively. In addition, accounts receivable from (payable to) the Majority Shareholder are recognized to reflect federal income tax benefits receivable (income taxes payable) pursuant to the tax allocation agreement between the Company and the Majority Shareholder. Advances from the Majority Shareholder of approximately $19.1 million outstanding at December 31, 1996 were repaid in 1997.

The Company has agreed to indemnify the Majority Shareholder and its subsidiaries against

any costs or losses incurred by them as a result of their providing credit support to the Company (in the form of collateral pledges, guarantees, performance bonds, or otherwise).

(b) Transactions with Other Related Parties

The Company leases its corporate office in Denver, Colorado from an affiliate of the Majority Shareholder. The cost to the Company for such lease was approximately $1.4 million, $1.2 million, and $1.0 million in the years ended December 31, 1997, 1996, and 1995, respectively.

The Majority Shareholder owned approximately 25% of Southern Pacific Rail Corporation and its subsidiaries ("SPRC") at December 31, 1995. In September 1996, SPRC was acquired by Union Pacific Corporation. As a result of this transaction, the Majority Shareholder's ownership was reduced to approximately 5% of Union Pacific Corporation, and SPRC ceased to be a related party. While a related party, the Company provided telecommunications services to SPRC and charged SPRC approximately $1.5 million and $3.6 million in the years ended December 31, 1996 and 1995, respectively. Additionally, the Company purchased and has made future commitments relating to right of way easements from SPRC and utilizes specialized SPRC personnel and equipment for its construction projects. While a related party, SPRC charged the Company approximately $3.3 million and $2.2 million for these services in the years ended December 31, 1996 and 1995, respectively.

(c) Equity Contribution from Majority Shareholder

On November 11, 1996, the former president and chief executive of the Company resigned his position. Upon his resignation, the Majority Shareholder forgave a note receivable from him in the amount of approximately $1.0 million. This charge was allocated to the Company in 1996 and is included in selling, general and administrative expenses, and additional paid-in capital in the Company's consolidated financial statements.

(15) Fair Value of Financial Instruments

The carrying amounts of cash, cash equivalents, accounts receivable, accounts payable, and accrued expenses approximate fair value due to the short-term maturities of these assets and liabilities. The carrying amounts of notes and other receivables approximate fair value due to the relatively short period of time between the origination of these instruments and their expected realization. The carrying amount of long-term right-of-way obligation approximates fair value since it is based upon current interest rates of obligations with similar maturities.

(16) Commitments and Contingencies

(a) Network Construction Project

In 1996, the Company commenced construction of the Qwest Network. The Company projects its total remaining cost at December 31, 1997, for completing the construction of the Qwest Network will be approximately $1.1 billion. This amount includes the Company's remaining commitment through December 31, 1998, to purchase a minimum quantity of materials for approximately $147.0 million as of December 31, 1997, subject to quality and performance expectations, and contracts for the construction of conduit systems aggregating approximately $24.7 million.

(b) Network and Telecommunications Capacity Exchanges

The Company enters into agreements to exchange telecommunications capacity rights and to exchange network assets. In 1997, the Company entered into agreements to acquire network assets from unrelated third parties in exchange for certain of the Company's network assets under construction. Title to the network assets will pass to the exchange parties upon completion of construction and consummation of the exchange.

In January 1998, the Company entered into an agreement to acquire long-term telecommunications capacity rights from an unrelated third party in exchange for long-term telecommunications capacity rights along segments of the Qwest Network under construction. The exchange agreement provides for the payment of cash by either of the parties for any period during the contract term in which a party provides less than the contracted telecommunications capacity. It is anticipated that the Company will make cash payments for a portion of the telecommunications capacity it receives pursuant to the agreement until it completes construction of the Qwest Network. The exchange agreement provides for liquidating damages to be levied against the Company in the event the Company fails to deliver the telecommunications capacity, in accordance with the agreed-upon timetable.

(c) Leases and Telecommunications Service Commitments

The Company leases certain terminal locations and office space under operating lease agreements and has committed to use certain telecommunications capacity services. Future minimum payments under noncancelable operating lease and service commitments as of December 31, 1997, are as follows (in thousands):

Year ended Dec. 31:	Capacity service commitments	Operating leases	Total
1998	$3,977	$6,187	$10,164
1999	250	5,113	5,363
2000	—	3,170	3,170
2001	—	2,280	2,280
2002	—	1,950	1,950
Thereafter	—	4,848	4,848
Total minimum payments	$4,227	$23,548	$27,775

Capacity service expenses are included in telecommunications service expenses. Amounts expensed related to capacity service commitments in the years ended December 31, 1997, 1996, and 1995 were approximately $7.3 million, $19.0 million, and $19.6 million, respectively.

Amounts expensed in the years ended December 31, 1997, 1996, and 1995 related to operating leases were approximately $6.2 million, $5.0 million, and $4.6 million, respectively.

(d) Mexico Fiber Purchase Agreement

In July 1997, the Company entered into an agreement with an unrelated third party whereby the Company will receive (i) four dark fibers along a 2,220 kilometer route to be constructed in Mexico by the third party, and (ii) certain construction inventory and value added tax refunds, totaling approximately $2.9 million. In exchange for these assets, the third party will receive the stock of the Company's subsidiary, SP Servicios de Mexico S. A. de C. V., and approximately $8.7 million upon the achievement of certain milestones.

(17) Growth Share Plan

The Company has a Growth Share Plan (the "Plan") for certain of its employees and directors. A "Growth Share" is a unit of value based on the increase in value of the Company over a specified measurement period. All Growth Share grants made through December 31, 1997, have been made based on a beginning Company value that was greater than or equal to the fair value of the Company at the grant date. The total number of Growth Shares is set at 10 million and the maximum presently available for grant under the Plan is 850,000. All participants, except those granted Growth Shares under the October 1996 Plan, vested fully upon completion of the Company's IPO and settlement was made with 2,591,532 common shares, net of amounts relating to tax withholdings of approximately $21.9 million. Growth Shares granted under the October 1996 Plan vest at the rate of 20% for each full year of service completed after the grant date subject to risk of forfeiture and are to be settled with the Company's Common Stock. The future compensation expense associated with the remaining shares has been capped at $11.00 per share, or approximately $23.4 million, and will be amortized as expense over the remaining approximately 4-year vesting period. At December 31, 1997, approximately $14.9 million is included in other long-term liabilities related to outstanding Growth Shares. The Company does not presently intend to make any additional Growth Share grants under this plan. Certain triggering events, such as a change in control of the Company, cause immediate vesting of the remaining Growth Shares and would result in accelerated expense recognition of all unamortized compensation. Participants receive their vested portion of the increase in value of the Growth Shares upon a triggering event, which includes the end of a Growth Share performance cycle.

The Company has estimated an increase in value of the Growth Shares during 1997 and has recorded approximately $73.5 million of additional compensation expense for this plan in the year ended December 31, 1997. Had the Company accounted for compensation under the Growth Share Plan pursuant to the fair value method in Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, the amount of compensation would not have been different from what has been reflected in the accompanying consolidated financial statements.

The following table summarizes Growth Share grants and Growth Shares outstanding:

	Outstanding Growth Shares
December 31, 1994	676,000
1995 grants	11,000
1995 forfeitures	(42,500)
December 31, 1995	644,500
1996 grants	67,500
1996 forfeitures and settlements	(436,600)
December 31, 1996	275,400
1997 grants	358,050
1997 settlements	(253,950)
December 31, 1997	379,500

The Company estimated an increase in value of the Growth Shares at December 31, 1996, due to the signing of an agreement to provide an indefeasible right of use to a major customer and recorded approximately $13.1 million of additional compensation expense in 1996, approximately $6.0 million of which is payable subsequent to December 31, 1997. No expense was recognized in the accompanying consolidated financial statements for the year ended December 31, 1995, as there were no significant compensatory elements in that period.

(18) Capital Stock

On January 20, 1998, the Board of Directors declared a stock dividend of one share for every share outstanding to stockholders of record as of February 2, 1998, to be distributed on February 24, 1998. This dividend was accounted for as a two for one stock split. All share and per share information included in the consolidated financial statements and the notes hereto have been adjusted to give retroactive effect to the change in capitalization.

On May 23, 1997, the Board of Directors approved a change in the Company's capital stock to authorize 400 million shares of $.01 par value Common Stock (of which 20 million shares are reserved for issuance under the Equity Incentive Plan, 2 million shares are reserved for issuance under the Growth Share Plan, and 8.6 million shares are reserved for issuance upon exercise of warrants, as described below), and 25 million shares of $.01 par value Preferred Stock. On May 23, 1997, the Board of Directors declared a stock dividend

to the existing stockholder of 172,980,000 shares of Common Stock, which was paid immediately prior to the effectiveness of the registration statement on June 23, 1997. This dividend was accounted for as a stock split. The Company completed the IPO of 31,050,000 shares of Common Stock on June 27, 1997, raising net proceeds of approximately $319.5 million.

Effective May 23, 1997, the Company sold to an affiliate of the Majority Shareholder for $2.3 million in cash, a warrant to acquire 9.6 million shares of Common Stock at an exercise price of $14.00 per share, exercisable on May 23, 2000. The warrant is not transferable. Stock issued upon exercise of the warrant will be subject to restrictions on sale or transfer for two years after exercise.

Effective June 23, 1997, the Company adopted the Equity Incentive Plan. This plan permits the grant of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, stock units, and other stock grants to key employees of the Company and affiliated companies and key consultants to the Company and affiliated companies who are responsible for the Company's growth and profitability. A maximum of 20 million shares of Common Stock may be subject to awards under the Equity Incentive Plan.

The Company's Compensation Committee (the "Committee") determines the exercise price for each option; however, stock options must have an exercise price that is at least equal to the fair market value of the Common Stock on the date the stock option is granted, subject to certain restrictions.

Stock option awards generally vest in equal increments over a five-year period, and awards granted under the Equity Incentive Plan will immediately vest upon any change in control of the Company, as defined, unless provided otherwise by the Committee at the time of grant. Options granted in 1997 have terms ranging from six to ten years.

Stock option transactions during 1997 were as follows:

	Number of options	Weighted average exercise price
Outstanding January 1, 1997	—	—
Granted	13,958,000	$15.88
Exercised	(12,000)	$11.00
Outstanding December 31, 1997	13,946,000	$15.89
Exercisable December 31, 1997	1,340,000	$11.00

The following table summarizes certain information about the Company's stock options at December 31, 1997:

Range of exercise prices	Number of options outstanding	Weighted average remaining contractual life	Weighted average exercise price
$ 7.50 - $11.00	8,654,000	5.6	$10.80
$ 14.69 - $16.06	535,000	9.6	$15.84
$ 22.88 - $24.00	3,100,000	9.7	$23.15
$ 25.13 - $30.19	1,657,000	9.9	$29.39
$ 7.50 - $30.00	13,946,000	7.2	$15.88

Compensation expense recognized for grants under the Equity Incentive Plan was not material in 1997. If compensation expense for the Equity Incentive Plan had been determined using the fair value method described in SFAS 123, the Company's net earnings and earnings per share for 1997 would have been reduced to the pro forma amounts shown in the following table (in thousands, except per share information):

	1997
Net earnings	
As reported	$14,523
Pro forma	861
Earnings per share - basic	
As reported	0.08
Pro forma	—
Earnings per share - diluted	
As reported	0.07
Pro forma	—

The weighted-average fair value of each option grant is estimated as of the date of grant to be $7.94 using the Black-Scholes option pricing model, with the following weighted average assumptions: risk free interest rate of 5.8%, no expected dividend yields, expected option lives of 7.6 years, and expected volatility of 31%.

common stock and up to $310.0 million in cash over an extended payment term. There are restrictions on the sale by the Company of the unrelated third party's common stock, and the unrelated third party has the right to repurchase the common stock until the Contract's second anniversary. The Company will also receive monthly operations and maintenance fees over the term of the multi year Contract. Prior to delivery of the telecommunications capacity and acceptance by the unrelated third party, the unrelated third party has the right to purchase interim capacity from the Company. The total cash consideration under the Contract will be reduced by 60% of the sums paid by the unrelated third party for purchases of interim capacity. Pursuant to the terms of the Contract, the unrelated third party may require the Company to purchase an additional $10.0 million of its common stock. If the Company fails to complete at least 75% of the unrelated third party's network by the Contract's third anniversary, the unrelated third party may at its option either: (i) accept the completed portion and pay for it on a pro rata basis, or (ii) terminate the Contract and require the Company to return all consideration received.

On March 8, 1998, the Company signed a definitive merger agreement with an unrelated third party communications services provider. The boards of directors of each company have approved the merger. The terms of the merger agreement call for the acquisition of all of the third party's outstanding common shares and the assumption of all of the third party's stock options by the Company. The purchase price of the all-stock transaction is anticipated to be approximately $4.4 billion. The merger is intended to qualify as a tax-free reorganization and will be accounted for as a purchase.

(23) Selected Consolidated Quarterly Financial Data
(In Thousands, Except per Share Information) (Unaudited)

	1997			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	$ 72,693	$ 228,673	$ 188,955	$ 206,382
Earnings (loss) from operations	(12,644)	(7,098)	19,860	23,763
Net earnings (loss)	(4,776)	(5,612)	12,651	12,260
Earnings (loss) per share - basic	$ (0.03)	$ (0.03)	$ 0.06	$ 0.06
Earnings (loss) per share - diluted	(0.03)	(0.03)	0.06	0.06

	1996			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	$ 34,632	$ 50,871	$ 44,333	$ 101,160
Earnings (loss) from operations	(14,653)	(2,262)	571	4,330
Net earnings (loss)	(9,979)	(2,376)	3,454	1,934
Earnings (loss) per share - basic	$ (0.06)	$ (0.01)	$ 0.02	$ 0.01
Earnings (loss) per share - diluted	(0.06)	(0.01)	0.02	0.01

The Company adopted SFAS 128 in the fourth quarter of 1997. All per share information reflected in the selected consolidated quarterly financial data above has been restated.

Independent Auditors' Report

The Board of Directors
Qwest Communications International Inc.

We have audited the accompanying consolidated balance sheets of Qwest Communications International Inc. and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Qwest Communications International Inc. and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1997, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

KPMG Peat Marwick LLP
Denver, Colorado
February 24, 1998, except as to note 22, which is as of March 8, 1998

responsible for AT&T's core consumer long distance business, and AT&T's DirecTV, AT&T Alascom and Language Line businesses. He was also responsible for marketing and sales targeted at all consumer and small businesses in the United States. In 1994 and 1995 Mr. Nacchio was President of AT&T's Consumer Communications Services long distance, a winner of the Malcolm Baldrige National Quality Award for Excellence. From November 1991 until August 1994, Mr. Nacchio was President of AT&T's Business Communications Services unit focused on the long distance communications needs of business customers. Since joining AT&T in June 1970 he held assignments in network operations, engineering, marketing and sales. Mr. Nacchio earned an M.S. degree in management from the Massachusetts Institute of Technology in the Sloan Fellows Program. He also received an M.B.A. degree and a B.S. degree in electrical engineering, both from New York University.

Robert S. Woodruff became a Director and Executive Vice President—Finance and Chief Financial Officer of Qwest in February 1997. He served as interim Chief Operating Officer of Qwest and QCC from November 1996 through April 1997. He has served as a Director of QCC since December 1996. He became Executive Vice President—Finance, Chief Financial Officer and Treasurer of QCC in August 1994. He serves as a Director of FSI Acquisition Corp., Government Communications Inc., Qwest Transmission Inc., Qwest Properties, Inc., and U.S. TeleSource, Inc., all of which are wholly owned subsidiaries of QCC. He is also Sole Administrator of QCC's Mexican subsidiaries, Opticom, S.A. de C.V., Servicios Derecho de Via, S.A. de C.V., and S.P. Servicios Mexico, S.A. de C.V. Prior to joining Qwest he had been a partner in the accounting firm of Coopers & Lybrand since 1984, where his responsibilities included providing services to communications companies. Mr. Woodruff received a B.B.A. degree in accounting, with honors, from the University of Wisconsin.

Jordan L. Haines was appointed a Director of Qwest in June 1997. He was Chairman of the Board of Fourth Financial Corporation, a Kansas-based bank holding company, and its subsidiary, Bank IV Wichita, N.A., from 1983 until his retirement in 1991. He has been a member of the Board of Directors of KN Energy, Inc. since 1983 and a Director of Forest Oil Corporation since 1996. Mr. Haines serves as a member of the Audit Committee of the Qwest Board (the "Audit Committee") and the Compensation Committee.

Cannon Y. Harvey has been a Director of Qwest since February 1997, and was Director of QCC from December 1996 until September 1997. He has been President and Chief Operating Officer of both Anschutz Company and The Anschutz Corporation since December 1996. From February 1995 until September 1996 he served as Executive Vice President—Finance and Law of SPRC; from September 1993 to February 1995 he served as Senior Vice President and General Counsel of SPRC; from May 1993 to September 1993 he served as Vice President—Finance and Law and General Counsel of SPRC. Prior to joining SPRC, Mr. Harvey was a Partner in the law firm of Holme Roberts & Owen LLP for more than five years. Mr. Harvey serves on the Audit Committee.

Richard T. Liebhaber has been a Director of Qwest since February 1997. He has been a Managing Director of Veronis, Suhler & Associates, Inc., the New York media merchant banking firm, since June 1, 1995. Mr. Liebhaber has been a member of the board of directors of Objective Communications, Inc. since August 1994, the board of directors of Alcatel Network Systems, Inc. since June 1995, the board of directors of Geotek Communications, Inc. since April 1995, the Board of Directors of Internet Communications Corporation since May 1997, and the Board of Directors of Scholz Master Builders since December 1985. From December 1985 to his retirement in May 1995, Mr. Liebhaber served as Executive Vice President of MCI Communications Corporation and as a member of its Management Committee. Mr. Liebhaber was a member of the Board of Directors of MCI Communications Corporation from July 1992 until his retirement in May 1995.

Douglas L. Polson has been a Director of Qwest since February 1997, and was Director of QCC for more than five years until 1997. He has been a Director and Vice President—Finance of both Anschutz Company and The Anschutz Corporation for more than five years. He was a Director of SPRC from June 1988 to September 1996; Vice Chairman of SPRC from June 1988 to September 1996; and a Vice President of SPRC from October 1988 to September 1996.

Craig D. Slater has been a Director of Qwest since February 1997 and a Director of QCC since November 1996. He has been President of Anschutz Investment Company since August 1997 and Vice President—Acquisitions and Investments of both Anschutz Company and The Anschutz Corporation since August 1995. Mr. Slater served as Corporate Secretary of Anschutz Company and The Anschutz Corporation from September 1991 to October 1996 and held various other positions with those companies from 1988 to 1995. He has been a Director of Forest Oil Corporation since 1995 and Internet Communications Corporation since 1996.

W. Thomas Stephens was appointed a Director of Qwest in June 1997. He is President, Chief Executive Officer and a Director of MacMillan Bloedel Limited, Canada's largest forest products company. He served from 1986 until his retirement in 1996 as President and Chief Executive Officer of Manville Corporation, an international manufacturing and resources company. He also served as a member of the Manville Corporation Board of Directors from 1986 to 1996, and served as Chairman of the Board from 1990 to 1996. Mr. Stephens is a Director of The Putnam Funds and New Century Energies. He serves as a member of the Audit Committee and the Compensation Committee.

Roy A. Wilkens was appointed a Director of Qwest in March 1998. Mr. Wilkens was President of Williams Pipeline Company when he founded WilTel Network Services as an operating unit of The Williams Companies, Inc. in 1985. He was Founder/CEO of WilTel Network Services from 1985 to 1997. In 1995, WilTel Network Services was acquired by LDDS Communications, which now operates under the name WorldCom. In 1997, Mr. Wilkens retired from WorldCom as Vice Chairman. In 1992, Mr. Wilkens was appointed by President George Bush to the National Security Telecommunications Advisory Council. He has also served as Chairman of both the Competitive Telecommunications Association ("CompTel") and the National Telecommunications Network. Mr. Wilkens is a member of the Board of Directors of Paging Network Inc., UniDial Inc. and Invensys Corporation Inc.

Joseph T. Garrity has been Secretary of Qwest since February 1997, Secretary of QCC since November 1996, and has been a Director of QCC since September 1997. He is also Senior Director—Legal, Regulatory and Legislative Affairs of QCC since November 1996 and was Director—Regulatory and Legislative Affairs of QCC from March 1995 to November 1996. Prior to joining Qwest, from 1992 to March 1995, Mr. Garrity was Senior Attorney with MCI Telecommunications Corporation; and from 1991 to 1992 he was President of Garrity, Inc. and Joseph T. Garrity, P.C., where he was an attorney and consultant in the areas of domestic and international telecommunications. From 1988 to 1991 he was Counsel and Assistant Secretary to Jones International, Ltd., Jones Intercable, Inc. and Jones Spacelink, Ltd. and from 1989 to 1991 was President, Jones Programming Services, Inc. He has B.S. and M.S. degrees from Northwestern University and a J.D. degree from DePaul University College of Law.

Gregory M. Casey became Senior Vice President—Carrier Markets of QCC in June 1997. In this capacity, he is responsible for all of Qwest's carrier marketing and sales programs. Prior to joining QCC, Mr. Casey was, since 1996, Vice President of Carrier Relations and Regulatory Affairs at LCI, with responsibility for managing relationships with RBOCs and LECs and negotiating interconnection arrangements and wholesale pricing for resale of local service. From 1991 to 1996, he was employed by ONCOR Communications Inc., where he served as Senior Vice President of Regulatory Affairs and Telephone Company Relations. Prior to joining ONCOR, he was Senior Vice President and General Counsel for Telesphere International Inc. Mr. Casey holds a B.A. degree in political science from the University of Connecticut and a J.D. degree from DePaul University College of Law.

Stephen M. Jacobsen became Senior Vice President—Consumer Markets of QCC in March 1997. In this capacity, he is responsible for all of QCC's consumer marketing and sales programs. Prior to joining QCC, Mr. Jacobsen was Regional Vice President—Consumer and Small Business for AT&T in Southern California and Nevada since 1996, with responsibility for all marketing functions for consumer and small business customers in those geographic areas. During his nearly sixteen-year career at AT&T, Mr. Jacobsen held key managerial positions in the network services division, including responsibility for AT&T's network operations center in the

A. Dean Wandry became Senior Vice President—Cable & Access Services for QCC in November 1994 and Senior Vice President—New Business Development for QCC in December 1995. In 1981 Mr. Wandry formed Citation Cable Systems Limited, which merged into Fanch Communications, Inc. in 1986. Following the merger, he served as Vice President-Operations until he joined QCC. He joined Bayly Corp., a multinational apparel manufacturer, in 1967 and served as President of the Sales and Marketing Division from 1977 to 1981. He holds a B.S. degree in economics from the University of Colorado.

Marc B. Weisberg became Senior Vice President—Corporate Development of QCC in September 1997. Prior to joining QCC, he was the founder and owner of Weisberg & Company, where he provided investment banking and advisory services to clients in several industries, including telecommunications, multimedia and emerging technologies. Mr. Weisberg holds a B.A. from Michigan State University.

Lewis O. Wilks became President—Business Markets of QCC in October 1997. Mr. Wilks, who previously was President of GTE Communications, has extensive senior-level management experience in delivering communications services to the corporate sector. While Mr. Wilks served as President of GTE Communications, he oversaw national sales, service and marketing activities for the competitive local exchange markets. The business unit, under his leadership, was responsible for all consumer, business and strategic accounts as well as long distance, media ventures and Internet product distribution. Before joining GTE, Mr. Wilks was a senior executive with MCI Corporation, and held a variety of management positions with Wang Laboratories. Mr. Wilks holds a B.S. degree in public relations and data processing from Central Missouri State University.

Board of Directors Meetings and Committees

The Qwest Board held 14 meetings during 1997, including both regularly scheduled and special meetings and actions by unanimous written consent.

Audit Committee. The Qwest Board established an Audit Committee in May 1997 to: (i) make recommendations concerning the engagement of independent public accountants; (ii) review with Qwest management and the independent public accountants the plans for, and scope of, the audit procedures to be utilized and results of audits; (iii) approve the professional services provided by the independent public accountants; (iv) review the adequacy and effectiveness of Qwest's internal accounting controls; and (v) perform any other duties and functions required by any organization under which Qwest's securities may be listed. Cannon Y. Harvey, Jordan L. Haines and W. Thomas Stephens are the members of the Audit Committee. The Audit Committee did not meet during 1997.

Compensation Committee. In December 1996, the Board of Qwest's predecessor company created a Compensation Committee and appointed Philip F. Anschutz and Cannon Y. Harvey to serve on the committee. In July 1997, Mr. Harvey resigned from the committee. Since July 1997, Philip F. Anschutz, Jordan L. Haines and W. Thomas Stephens have served on the committee. The Compensation Committee determines the salaries, cash bonuses and fringe benefits of the executive officers, reviews the salary administration and benefit policies of Qwest and administers the Growth Share Plan and the Equity Incentive Plan. Effective as of November 1997, Mr. Anschutz elected not to participate in the grant of options and other awards under the Equity Incentive Plan. During 1997, the Compensation Committee held one formal meeting in conjunction with a meeting of the Board, took action by unanimous written consent four times and had informal meetings preceding the actions taken by unanimous written consent.

Each Director attended more than 75% of the aggregate number of the Qwest Board and/or applicable committee meetings in 1997.

** TOTAL PAGE.06 **

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DEPOSIT D048 - DATE DEC 17 1998

December 15, 1998

98 DEC 17 AM 11:10
MAIL ROOM
RECEIVED FLORIDA PUBLIC SERVICE COMMISSION

VIA OVERNIGHT COURIER

Blanca Bayo
Director
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

981873-TX

Re: Application of Qwest Communications Corporation for Authority to Provide Alternative Local Exchange Service within the State of Florida

Dear Ms. Bayo:

Enclosed herewith for filing with the Commission are the original and six (6) copies of the Application of Qwest Communications Corporation for Authority to provide alternative local exchange service within the State of Florida. Also enclosed please find a check in the amount of $250.00 to satisfy the Commission's filing fee.

Please date-stamp the additional copy of this filing and return it to the

FIRST UNION NATIONAL BANK
WASHINGTON, DC

05201

KELLEY DRYE & WARREN LLP
1200 19TH STREET, N.W.
WASHINGTON, DC 20036

Dec. 5, 1998

PAY TO THE ORDER OF Florida Public Service Commission $ 250.00

Two Hundred Fifty and No/100-- DOLLARS

MEMO Fee for Certification 037344-0003