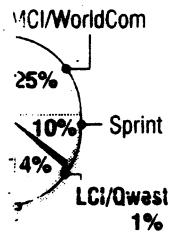


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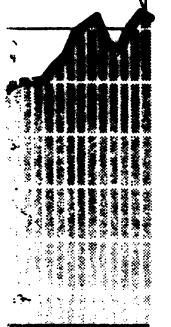
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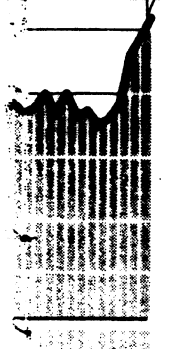


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Kevin Rechin, USA TODAY

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Agreement values LCI at \$42 a share

Under the merger agreement, LCI shareholders will get \$42 a share in Qwest stock for each of their shares.

Qwest will issue LCI shareholders about 122.4 million shares, or 36.4% of the combined company shares. The number will be based on the average Qwest share price the 15 days before the deal closes.

Qwest will pay no less than 1.0625 shares if the average price is higher than \$39.53 and no more than 1.5583 shares if it's less than \$26.95. If Qwest stock falls below \$26.95 a share, LCI can end the deal.

Qwest also will assume \$525 million in LCI debt.

scratch," Bruneau says.

Qwest went public in June at \$11 a share, split-adjusted, and has marched steadily higher. It closed Monday at \$36, down 1/2.

One part Qwest was missing, though, was a way to get right to consumers. Qwest had started offering consumer long-distance and Internet access, but it needed help.

Brian Thompson, CEO of LCI, the nation's fourth-largest long-distance carrier, had visited Anschutz in 1992 looking for a partnership. "It only took him five years to answer my call," Thompson jokes. "The moon was in the right position a couple of weeks ago. His people came to us with an offer."

LCI, which has been growing about 40% a year, has a nationwide network of sales and marketing employees plus one of the industry's most sophisticated billing systems, capable of billing customers to the second.

Analysts love the combination. "It will take a while to build Qwest's business, and LCI has lots of customers right now," says David Roddy of Deloitte & Touche.

But no way is this enough for Nacchio. "They will either become a buyer or be bought," Moore says. Most watchers bet on the former for now. Rumor is Qwest will make another big acquisition in 1998, probably focused on the Internet.

Contributing: Steve Rosenbush
▶ Details of deal, 1B

Polite marketing by LCI gets attention

By Paul Davidson
USA TODAY

If LCI International doesn't enjoy the brand recognition of AT&T or MCI, it's probably because the company is too polite. It has refused to interrupt your dinner with relentless pitches to be your new long-distance phone carrier.

LCI had quietly become the nation's fifth-largest long-distance company partly through multilevel, or relationship marketing — a strategy that is gaining favor among long-distance companies and analysts.

Qwest Communications cited LCI's established multilevel marketing network as a factor behind its planned \$4.4 billion purchase of the company.

LCI has used the technique almost exclusively to build its \$480 million residential revenue base and, to a lesser extent, its \$1.1 billion in business sales.

It's largely the same approach used by such venerable multilevel marketers as Amway and Mary Kay cosmetics. Instead of paying full-time sales employees, independent agents sign up friends and relatives for the phone service and recruit some to be salespeople.

LCI agents earn 2% to 8% of the monthly revenue generated by their phone customers and up to a \$250 bonus for each recruit. They also get a percentage of the revenue and bonuses their recruits generate, and so on down the pyramid.

While AT&T and MCI are dabbling in relationship marketing, LCI and Excel rely on it for most or all of their residential sales.

It's highly effective, LCI executives say, because churn, or customer turnover, is a big problem in the long-distance wars. "When

you have a face-to-face deal, you'll always have a more loyal customer who'll think twice before leaving," says telecommunications analyst Jeffrey Kagan.

LCI also saves big bucks in marketing. The company pays a percentage of revenue to about 10 agencies that run the multilevel marketing programs.

The drawback, Kagan says, is that LCI limits its growth potential by ignoring customers it could get through other means.

American Communications Network, LCI's largest agency, oversees 200,000 agents. They range from part-timers earning a few hundred dollars a month or less to regional vice presidents clearing more than \$30,000 monthly.

Mike Krach, 54, a former vice president for a Fortune 500 company, has 10,000 customers and recruits in his organization. He earns \$33,000 a month working from his house in Wayne, Pa. Although he still signs up customers and trains recruits, he gets much of his income without lifting a finger; he draws tiny cuts from the money his thousands of recruits generate. "I was looking for a way to control my life and have more freedom to be with my five kids," he says.

"This is the least pressure I've ever had in my life, the most fun and the most rewarding. I'm helping people realize their dreams."

Multilevel marketing has come under regulatory scrutiny when it's used to simply pay recruitment bonuses while selling no products. In such cases, the early entrants make big bucks and those at the bottom suffer. That's not the case for LCI, analysts say, since agents must sell phone service to receive the bonuses.