

REBOUL, MACMURRAY, HEWITT, MAYNARD & KRISTOL

SUITE 406

1111 NINETEENTH STREET, N.W.

WASHINGTON, D. C. 20036

TELEPHONE: (202) 429-0004

TELECOPIER: (202) 429-8743

SUITE 1500

1801 CENTURY PARK EAST
LOS ANGELES, CALIF. 90067

TELEPHONE: (310) 551-3070

TELECOPIER: (310) 551-3071

45 ROCKEFELLER PLAZA
NEW YORK, N.Y. 10111

TELEPHONE: (212) 841-5700

TELECOPIER: (212) 841-5725

February 2, 1999

Mr. Don Mills
Executive Director
Kentucky Public Service Commission
730 Schenkel Lane
Frankfort, Kentucky 40602

VIA FEDERAL EXPRESS

Re: Transfer of Control of Coastal Telecom Limited Liability Company to
Eclipse Telecommunications, Inc.

Dear Mr. Mills:

Eclipse Telecommunications, Inc. ("Eclipse") and Coastal Telecom Limited Liability Company ("Coastal") (referred to jointly as the "Parties"), by their attorneys, hereby notify the Kentucky Public Service Commission of their intention to transfer control of Coastal to Eclipse, and the ensuing merger of Coastal into Eclipse. The Parties both hold Certificates of Public Convenience and Necessity. A description of the Parties and the proposed transfer of control is provided below.

Eclipse, a Delaware corporation, maintains its headquarters at 1122 Capital of Texas Highway South, Austin, Texas 78746-6426. Eclipse is a wholly owned subsidiary of IXC Communications, Inc. ("IXC-CSI"). IXC-CSI, in turn, is a wholly owned subsidiary of IXC Communications, Inc. ("IXC"), whose stock is publicly traded on the NASDAQ Stock Market. Eclipse currently operates as a reseller of intrastate interexchange services in forty-eight states, including Kentucky. Eclipse received its authority to provide telecommunications services in Kentucky under the name Network Long Distance, Inc. ("Network") on August 18, 1994, in Case No. 94-224. Network's name has since been changed to Eclipse. Eclipse also provides interstate and international telecommunications services pursuant to authority of the Federal Communications Commission ("FCC").

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Coastal, a Tennessee Limited Liability Company, is currently composed of two member entities — the Andrew M. Bursten 1994 Trust and the Riva Bursten 1994 Trust. Coastal maintains its headquarters at 2 Riverway, Suite 800, Houston, Texas 77056. Coastal provides resold intrastate interexchange telecommunications services in nine states, including Kentucky. Coastal received its authority to provide telecommunications services in Kentucky on April 22, 1996, in Case No. 96-106.

On January 11, 1999, Eclipse and Coastal executed a Purchase Agreement ("Agreement"). Eclipse and IXC Internet Services, Inc. ("IXC Internet"), an affiliate of Eclipse, will acquire the current membership interests in Coastal after requisite regulatory approvals have been obtained.¹ Eclipse and IXC Internet will purchase 100 percent of the membership interests in Coastal, which are currently owned equally by two trusts — the Andrew M. Bursten 1994 Trust and the Riva Bursten 1994 Trust. Eclipse will acquire a 99 percent membership interest and IXC Internet will acquire a one percent membership interest. Upon acquisition of the membership interests, Coastal will be merged with and into Eclipse.² Eclipse will be the survivor of the merger with Coastal, and Coastal will surrender its certification in Kentucky.

Eclipse's and Coastal's current customers will not be affected adversely by the proposed acquisition. In taking over Coastal's operations, Eclipse will incorporate into its tariff Coastal's tariffed prices, terms, and conditions of service for current Coastal customers. Further, the Parties will send appropriate notifications to the affected customers. Accordingly, the proposed transaction will in no way disrupt service or cause inconvenience or confusion to Coastal's customers. Similarly, the proposed transaction will have no effect on the operation of Eclipse, which will continue to provide telecommunications services to its intrastate customers pursuant to its existing authorization. The current management of Eclipse will not change as a

¹ Coastal is a Tennessee limited liability company, and Tennessee law requires Coastal to have at least two members. IXC Internet provides Internet services and is not engaged in the provision of interexchange or local telecommunications services.

² As part of the same transaction in which Eclipse is acquiring Coastal, Eclipse is also acquiring the membership interests of a Wisconsin limited liability company also named Coastal Telecom Limited Liability Company ("Wisconsin Coastal"). The two current members of Coastal are also the members of Wisconsin Coastal, which does not operate in Kentucky. Under Wisconsin law, Wisconsin Coastal cannot be merged directly into Eclipse, a Delaware corporation. Accordingly, Wisconsin Coastal will be merged into Coastal immediately prior to Coastal's merger into Eclipse. The merger of Wisconsin Coastal into Coastal is a mere formality, and will not in any way affect Coastal's current operations or proposed merger into Eclipse.

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result of the transaction. Coastal's management team and employees will also remain in place as employees of Eclipse.

As set forth above, Eclipse is a wholly owned subsidiary of IXC-CSI, which is a wholly owned subsidiary of IXC, a publicly traded company. IXC is financially well qualified. In October 1995, IXC issued and sold notes in the aggregate principal amount of \$285,000,000 to institutional and accredited investors. In July 1996, IXC's initial public offering of equity generated net proceeds (before expenses) of approximately \$83,000,000 in additional capital for the company. In April 1997, IXC completed the sale of \$100 million of 7¼% Junior Convertible Preferred Stock Due 2007. In August 1997, IXC completed the sale of \$300 million of 12¼% Junior Exchangeable Preferred Stock Due 2009. In March 1998, IXC completed the sale of Depository Shares of 6 3/4% Cumulative Convertible Preferred Stock, which resulted in net proceeds of approximately \$128 million for the company. In April 1998, IXC raised approximately \$450 million through the issuance of 9% Senior Subordinated Notes Due 2008. Most recently, in October 1998, IXC-CSI established a \$600 million credit facility.

The transfer of control described above is clearly in the public interest. The proposed transaction will bring together Eclipse and Coastal, two rapidly growing providers of interexchange telecommunications services. The combination of the two companies' resources and expertise will strengthen competition in the interexchange marketplace in Kentucky and elsewhere, by permitting the combined companies to compete more effectively with larger carriers currently providing service in Kentucky.

The transaction will also combine the complementary management skills, background, and experience of Eclipse and Coastal, allowing the companies to capitalize and build on the diverse expertise of each company in providing telecommunications services to the public. In addition, the transfer of control will enable the combined companies to realize significant economic and marketing efficiencies and enhancements, permitting significant savings in operating costs and capital expenditures. In sum, the proposed transaction will benefit the public interest by enhancing the ability of the combined companies to offer a full range of competitively priced services in the interexchange marketplace, thereby further invigorating interexchange competition in Kentucky.

It is the Parties' understanding that prior Commission approval is not required for the transaction described above. In the event, however, that the Commission determines that approval is required, please consider this letter as a request for expedited approval. Absent written notice to the contrary within 30 days of the date of this letter, the Parties will assume no further action is required and will consummate the merger as planned.

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Enclosed please find an Adoption Notice. Also enclosed are ten (10) copies and a receipt copy of this letter. Please file-stamp and return the receipt copy in the self-addressed, stamped envelope provided. Please contact the undersigned with any questions or comments regarding this transaction.

Respectfully submitted,



James E. Magee
Kristie Stokes Hassett
Reboul, MacMurray, Hewitt,
Maynard & Kristol
Suite 406
1111 19th Street, N.W.
Washington, D.C. 20036

Attorneys for Eclipse Telecommunications,
Inc.

Leon Nowalsky
Nowalsky, Bronston & Gothard, L.L.P.
Suite 1442
3500 N. Causeway Boulevard
Metairie, LA 70002

Attorney for Coastal Telecom Limited
Liability Company

Enclosures


P.S.C. Ky. Adoption Notice No. _____

ADOPTION NOTICE

The undersigned Eclipse Telecommunications, Inc., a Delaware corporation, hereby adopts, ratifies, and makes its own, in every respect as if the same had been originally filed and posted by it, all tariffs and supplements containing rates, rules and regulations for furnishing telecommunications services statewide in the Commonwealth of Kentucky, filed with the Public Service Commission of Kentucky by Coastal Limited Liability Company, a Tennessee limited liability company, and in effect on the 1st day of May, 1999, the date on which the public service business of the said Coastal Limited Liability Company will be taken over by Eclipse.

This notice is issued on the 2nd day of February, 1999, in conformity with 807 KAR 5:011, Section 11 of the Regulations for the filing of Tariffs of Public Utilities with the Public Service Commission of Kentucky.

Eclipse Telecommunications, Inc.



By: Kristie Stokes Hassett
Counsel for Eclipse Telecommunications,
Inc.

Authorized by K.P.S.C. Order No. N.A.