New ventures show promising revenue growth, enhanced value to MCIC. MCIC ventures and developing markets include its local services unit MCImetro, its wireless business (cellular and paging), information technology (SHL Systemhouse), and multimedia. On a combined basis, these new businesses generated $476 million, before $35 million in intercompany eliminations, which includes a full quarter of SHL Systemhouse for the first time. The $476 million compares to $258 million in 4Q95 and $24 million in 1Q95, but these are apples-to-oranges comparisons because of the various business purchases throughout the year. MCIC's initiatives are in various stages of development, and taken as a whole generate negative cash flow and earnings. These initiatives resulted in a net loss of $84 million ($0.12 per share) in 4Q95 compared to a net loss of $60 million ($0.09 per share) in 4Q95 and $20-$21 million ($0.03 per share) in 1Q95.

Local - MCImetro. An important aspect of MCIC's long-term strategy that we view positively is the rollout of MCImetro, now in 25 cities with 43 operational local city networks. This is up from 38 operational local city networks at year-end 1995, with a target for 60 by year-end 1996. MCIC's local access unit also has 11 switches installed as of 1Q96. MCImetro generated $40 million in revenues, flat from 4Q95 levels, but more than double year-to-year growth. MCImetro generated a net loss of $10 million in 1Q96, similar to 4Q95. We expect the net losses to accelerate over the next several quarters as MCImetro proceeds with its expansion plans, but MCIC may look to expand through alliances with other competitive providers, easing the level of capital expenditures on the company.

Wireless Business. MCIC's wireless business includes its reselling strategy for paging and cellular service, inclusive of the Nationwide Cellular acquisition. MCIC's wireless services, which began operations in 1995, contributed $88 million in revenues in 1Q96, compared to the $82 million for 4Q95. MCIC paging services, offered as part of its Friends & Family package, is one of the fastest growing providers of paging services with a 5% sequential increase in subscribers, to 488,000, in 1Q95. On the cellular side, MCIC's cellular subscriber base grew to 373,000, or 7.5% sequential growth compared to the end of 1995. As a whole, MCIC's wireless business generated a $4 million cash flow loss and $10 million loss in net income.

Information Technology - mostly SHL Systemhouse. MCIC purchased SHL Systemhouse in November 1995 to gain an expanded presence into the growing information technology industry while meeting the demands of its business customers with a full range of communications-oriented services. In addition this segment includes the start-up of its fast-growing call centers. This represents the first full quarter of results from SHL and, with the call centers, generated $341 million in revenues, and 9.9% cash flow margins, an improvement from the low single-digits margins when the company was first acquired. This segment generated a net loss of $11 million in the quarter, mostly due to goodwill and interest expense.

Global (Concert, Avantel). MCIC has two international alliances, its 50/50 joint venture with BT called Concert, and its alliance with Banamex in Mexico called Avantel. Concert currently serves over 2,500 customers with more than $1 billion in contracts. Revenues from Concert in 1Q96 were $105 million, up from $76 million in 4Q95 and double from a year ago. In 1Q96 Concert generated a $10 million loss (recorded in Equity in Losses of Affiliates), an improvement compared to the $25 million loss in 1Q95. Avantel represents MCIC's foray into the Mexican long distance market when it opens for competition in August 1996, with switched competition in January 1997. Avantel is currently in a buildout phase, increasing its route miles by 43% since year-end 1995 to 2,200, with a target of 3,200 mile fiber network covering over 30 key Mexican cities. For the quarter, Avantel resulted in an $8 million loss.

Sprint (FON)

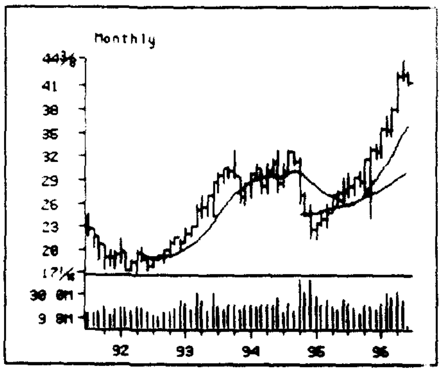
Rating: Hold

	52-Week	Earnings Per Share			P/E			
Price	Range	12/95A*	12/96E#	12/97E#	12/96E	12/97E	Divd	Yield
42 1/8	46-31	$2.85	$2.95	$2.90	14.4	14.6	$1.00	2.4%

* Operating EPS

Highlights

Operating EPS 2Q96E $0.74 versus $0.69 in 2Q95



Courtesy of ILX

- **EPS above expectations**. FON reported 1Q96 operating EPS of $0.78, before a penny charge associated with the spin-off of its cellular unit, ahead of our $0.74 per share estimate. This represents 19% growth year to year from the $0.65-$0.66 operating earnings per share in 1Q95, excluding an after-tax $0.01-$0.02 per share charge related to a restructuring in its long distance business. The higher-than-expected EPS is the result of stronger than expected long distance revenues and volumes and improved operating margins in its long distance business, as well as lower than expected interest expense. We are raising our 1996 EPS estimate by $0.05 per share to $2.90 and our 1997 EPS estimate by $0.05 per share to $2.95 to reflect this higher growth.

- **Strong Long Distance.** Revenue and minutes growth was robust (14.2% and 17.3% year-to-year growth, respectively), above our forecasts, and above the anticipated industry average growth rates, with particular strength in FON's consumer segment, wholesale, and data. Operating margins, at 11.3%, improved 70 basis points sequentially over 4Q95 levels.

- **Local.** Exhibited strong volume growth (5.1% access line growth) and solid revenue growth (8.7%), with continued strong operating cash flow margins driven by productivity improvements.

- **Reiterate Hold rating**. We are maintaining our Hold rating, believing the upside potential on FON shares is relatively limited to the mid-40s range, targeting a market multiple on 1997 earnings. Although earnings were better than expected, with strength in revenues, volumes and margins in their core long distance and local businesses, we believe FON has some challenges ahead in its redefinition to an integrated service provider. This will result in more modest earnings growth for the foreseeable future, inclusive of $0.20-$0.30 per share dilution from FON's recent strategic initiatives, notably Sprint Spectrum, its PCS venture with cable companies, and Global One, its alliance with France Telecom and Deutsche Telecom (FT/DT). FT/DT have purchased a combined 20% of FON which has significantly increased FON's share base (14.5% in 1Q96) making the EPS growth that much more impressive. In 1Q96, dilution from these two initiatives was $17.3 million ($0.03 per share) for Sprint Spectrum, and $15.2 million ($0.02 per share) for Global One. In addition, while the wireless segment of Sprint Spectrum appears to be moving forward, we are less certain about the prospects of the wireline agreement, which was amended requiring each cable company to form a separate wireline joint venture with FON, rather than as a whole. We believe that the outlook for this aspect of its integrated services strategy is much less clear.

Investment Position

FON reported first quarter operating earnings of $0.78 per share, ahead of our $0.74 per share estimate, and up about 19% from the year earlier quarter's $0.65-$0.66 EPS. The first quarter 1996 operating EPS is before a penny charge associated with the spin-off of its cellular operations. Operating EPS in 1Q95 is before a pre-tax $9 million ($0.01-$0.02 per share after tax) restructuring charge in its long distance business. The difference between our forecast and the reported EPS is partly associated with FON's higher revenue growth and margins in its long distance business and partly due to the greater reduction in interest expense ($21 million sequentially, $0.03 per share) than expected due to the proceeds from France Telecom/Deutsche Telecom. We expect a similar reduction in interest expense in 2Q96. FON's first quarter results also contained above average year-to-year revenue and volume growth in its local operations. We are raising our 1996 and 1997 earnings estimates by a nickel to $2.90 and $2.95, respectively, primarily due to the lift in revenues and operating margins in FON's long distance business. These estimates are inclusive of about $0.20-$0.30 per share in dilution associated with Sprint Spectrum, its PCS venture with cable companies, and the expanded share base associated with France Telecom's and Deutsche Telekom's purchase of a combined 20% interest in FON. We expect FON to invest an additional $500-$600 million in Sprint Spectrum in 1996, and we expect dilution from this initiative to increase in the latter half of 1996 and into 1997, particularly as its PCS operations ramp up. We would point out that FON results no longer include its cellular unit, which was spun off to shareholders as 360 Communication in March 1996.

At current prices, FON shares are trading at 13.2 times our revised 1996 earnings estimates and offer a 2.6% yield, a lower valuation than MCI Communications (MCIC-$29^{15/16}$-Buy) trading at a 17.6 P/E multiple, but that company has slightly higher growth prospects in our opinion and a clearer strategy with respect to its recent strategic initiatives. We continue to rate the FON shares Hold, but recognize that the company's strategy is evolving with several positive alliances (Sprint Spectrum – wireless (PCS) with cable companies; Global One; and Telmex (TMX-$35^{5/8}$-Hold). While these alliances, should be positive for FON's long-term positioning, they will involve substantial long-term dilutive effects and face huge challenges as the company moves to become a national integrated services provider. In general, we have been less positive on the FON shares, because its integrated services strategy is less clear and the realization of benefits are longer term. For example, although Sprint Spectrum approved rollout plans for its much tighter wireless (PCS) venture, with respect to landline, instead of joint efforts, it now appears that the cable partners will pursue wireline opportunities through individual joint ventures with FON, suggesting the alignment of interests for all five companies (including Teleport) was tough to achieve. It will be difficult to measure its success in the intermediate term

First Quarter Highlights

Long distance exhibited higher revenue and traffic growth as well as higher operating margins than expected, compared to last quarter. Long distance revenues were up 14.2% year to year in 1Q96 (versus 12.7% in 4Q95) on traffic volume growth of 17.3% (versus 10.1% in 4Q95), resulting in a negative revenue-volume gap of 3.1% (versus a positive gap of 2.6% in 4Q95). These respective growth rates were ahead of our expectations, and will likely be above the average industry growth rates for traffic volume (which we estimate at about 11%-12% for the big three). Sequential comparisons in the quarter exhibited 3.9% revenue gain (compared to the 5.4% sequential gain in 4Q95) and a 12% increase in volumes (versus 3.6% in 4Q95). The negative gap between revenues and volume (in contrast to the positive gap in 4Q95) is the result of two factors: (1) FON transferred its international operations associated with the Global One venture, and now books those revenues at a wholesale rate, reducing revenue growth with similar minutes growth; and (2) FON realized a higher proportion of minute-driven revenues in 1Q96 (i.e., consumer and wholesale revenues) than it did in 4Q95 when over 10% of long distance revenues were derived from non-minute services (data, private line). *We would point out that had Global One assets been transferred as of 1Q95, revenue growth for the quarter would have been 15.5% in 1Q96, higher than the 14.2% reported growth because of the wholesale booking issue, although there would be little impact on volume growth.* FON experienced strength in the business segment, particularly in data services, with frame relay revenues nearly tripling year to year, and in the wholesale segment, up 20% year to year. The consumer segment continued its rebound, with 15% growth in both revenues and volumes. FON continues to reflect favorable customer response from Sprint Sense, which added California, and has seen a favorable reaction to its "ten cent per minute to Canada" promotion.

Operating income in 1Q96 in long distance operations jumped 47.3% year to year with 11.3% operating margins, a 70 basis point improvement from the 10.6% operating margins in 4Q95. The 1Q96 operating margins compares very favorably to the 8.8% margins generated 1Q95. The improvement is due to lower SG&A costs as a percentage of sales (23.5% in 1Q96 vs. 24.3% in 4Q95 and 25.7% in 1Q95) due to higher sales productivity and targeted marketing of a higher margined product mix. Interconnection costs as a percentage of long distance revenues increased to 44.6% from 4Q95's 41.9% level. The increase is related to the higher wholesale revenues and the transfer of international assets to Global One with FON's international revenues now booked at the lower wholesale rates although access costs remain unchanged. Although only a small portion of its total (less than 5%), FON has been moving its traffic to Teleport, which provides more favorable access pricing than the RHCs. The positive movement in margins is good news given the competitive pressures. We believe FON can maintain double-digit margins, particularly if the long distance volumes and revenues remain strong in 1996, as expected.

Local Operations [illegible] 1Q96 year to year on robust volume growth [illegible] access line gains and [illegible]% growth in minutes of use in the quarter [illegible] compared [illegible] access line and 10.0% minutes of use gains in 4Q95 [illegible] calling revenues grew [illegible]3% year to year, while CLASS and AIN service revenues doubled from 1Q95. This helped to drive local revenue growth, which improved from the 7.1% level in 3Q95, with relatively modest rate cuts in 1Q96 and including competition in the intralata toll markets. The minutes of use growth was helped in part by severe weather in the Northeastern part of the U.S. Local service operating margins, at a robust 26.8%, improved from the 24.2% in 4Q95, normalized for one-time charges, and from 23.7% in 1Q95. The improvement is due to productivity and process improvements in both the network and administrative areas. FON is transitioning to price cap regulation, with 46% of its access lines now under price regulation, and up to 70% by year-end 1996.

Product Distribution and Directory Publishing. Revenues grew 4.5% year to year, with revenue growth at non-affiliated FON customers up 7.4%, and operating margins at 8.3%, above the 7.9% in 4Q95.

June 1996

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Monday	Tuesday	Wednesday	Thursday	Friday
3 FCC number portability order to be released in early June.	4 Sprint investment community reception, Ritz Carlton Hotel, Kansas City, 7:00pm-9:00pm	5 Sprint investment community meeting, Ritz Carlton Hotel, Kansas City, 8:00am-5:00pm Federal-State Board meeting. Expert panels on Universal Service	6 CPUC Meeting	7 IDT Analysts' Day Hackensack, NJ 10am-2pm
10 FRO Management meeting with UBS clients in Boston.	11 UBS hosted lunch with AT&T's Gail McGovern, 12pm, 299 Park Avenue, 27th floor. FRO Management meeting with UBS clients in Hartford.	12 UBS hosted lunch with SBC Communications CEO, Edward E. Whitacre Jr., 12pm, 299 Park Avenue, 27th floor. FCC Meeting.	13	14 June 15th Judge to make ruling on TWX/UMG lawsuit (if not resolved beforehand.) FCC deadline for comments on Texas PUC request for ruling on legality of Texas Public Regulatory Act vis a vis the Telecom Act (potential impact on SBC). Applications/up-front payment for participating in re-auction of 18 C Block licenses.
17	18	19 CPUC Meeting. First CPUC hearing regarding PAC/SBC merger proposal.	20	21
24	25	26 AMEX Communications Conference Millenium Broadway Hotel 145 West 44th Street 8:00am-5:00pm	27 AMEX Communications Conference Millenium Broadway Hotel 145 West 44th Street 8:00am-12:00pm	28 Northern Business Information - Annual Executive Briefing 9:30am - 4:00pm 1221 Avenue of the Americas, 2nd flr.

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Investment
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June 12, 1996

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Telecommunications Services

National Survey of Local Competition Issues: A State by State View

- **We have compiled information on the regulatory status of competitive telecom issues for each of the 50 states.**
- **The survey offers investors a timely reference of the relative position of each state's PUC in administering local competition.**
- **We continue to recommend underweighting the RBOCs. Our concerns center on the impact of competitive pressures on the long-term growth outlook. We prefer the new entrants, including MFS, ICG, Intermedia and GST.**
- **We believe that of the cable television providers, Cox and US WEST Media Group are positioned to deploy telephony most rapidly. Both are rated Strong Buy.**

June 12, 1996

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Telecommunications Services

National Survey of Local Competition Issues: A State-by-State View

Summary and Investment Conclusion

There has been considerable attention devoted to the implications of the federal telecom bill for competition in the local exchange business. However, we feel it is equally important to monitor the state-by-state regulatory activity because in fact, this could be where all the action is.

To this end, we have compiled a study of key regulatory activity with regard to competitive local exchange issues on a state-by-state basis. We have also sorted some of the data in order to provide a better understanding of the positions of state public utilities commissions (PUCs) on the various key competitive issues.

We believe the data will help investors appreciate the momentum under way in many of the states. Perhaps more important, some of the largest states (for example, New York, California and Illinois) are likely to see competitive barriers to the local exchange fall faster than some of the less concentrated or populous states

We maintain our investment recommendations, which suggest underweighting the RBOC stocks. **Specifically, we expect that the competitive local exchange market will be much more difficult than currently anticipated** — with or without consolidation among the RBOCs. Margins should be under pressure given expected changes in the operating cost structure, including increased marketing expenses, broadband and PCS deployment, and loss of market share in the local exchange business. The RBOCs' ability to improve productivity by cutting costs and potentially through consolidation likely will offset these negatives only somewhat.

We find more interesting investment opportunities in the emerging local exchange providers or the companies which have been characterized as competitive access providers (CAPs). Among these companies are such names as MFS Communications ($35), IntelCom Group ($26), Intermedia Communications ($33), and GST ($14).

Given the relatively small size of many of these companies as well as their startup nature, another way to participate in the group is to own a basket of these stocks that incorporates large- and small-capitalization names. For the most part, these stocks trade as a group, but some are more volatile than others, and some have periods of relative outperformance or underperformance.

We believe that Cox ($22) and US WEST Media Group ($18) are the cable television companies best positioned to offer telephony. A discounted cash flow analysis of the deployment plans for these companies indicates that residential telephony represents $1.22 or 5% of the estimated fair market value per share for Cox and $0.93 per share or 4% of our price target for UMG. Beyond specific discounted cash flow values, we believe that three factors increase the visibility and lower the operational risks associated with the telephony deployments of both companies.

• Both Cox and UMG should maintain debt to cash flow ratios of 5.0x or less over the next two years. We estimate that leverage above 5.0x leaves a company with insufficient funds to internally finance telephony capital expenditures. Thus, a highly leveraged company will either have to delay deployment or accept the risks of potentially higher debt leverage.

• Cox and UMG are scheduled to complete the upgrades of their systems to hybrid fiber-coaxial architectures by late 1998 or early 1999. UMG has also disclosed that it will probably accelerate Continental Cablevision's rebuild plans if the merger of the two companies is completed.

• Clustering will be the preeminent management issue for telephony deployment. The complexity of launching residential telephony will in most cases require that managements focus on specific markets rather than wide area deployment. Clustering should permit market focus without sacrificing the scale of the deployments. Cox has 25% of its subscribers in California and US WEST has 854,000 households in Georgia. Both states have regulatory frameworks that will permit local competitive telephony in 1997 and 1998, ahead of the average pace dictated by federal regulations.

State Regulatory Policy Observations and Conclusions

Our survey indicates that several state regulators are advancing toward competitive local exchange policies in advance of final rules from the FCC. More than half the states have implemented, or are in the process of implementing, rules for competition in their states. Based on our assessment, fourteen states are at the advanced stages of competitive regulatory policy. Another 12 states have begun a process toward setting rules for competitive entry.

Equally interesting is the concentration of access lines represented by states that are in advanced stages of regulatory reform. It appears that a great deal of the progressive regulatory policy is in larger states like California, Illinois and New York. Approximately 48% of the access lines are in more progressive or advanced regulatory jurisdictions.

We expect that California will be the first state to see competitive inroads in both the business and residential local services markets. First, the California commission is among the farthest along in advancing competitive local telecom policy. In addition, over 62 competitive entrants have applied for or received certification to provide local services. Major cable companies cover over 45% of the California residential access lines (in terms of homes passed), and a significant portion of these lines is covered by Cox, which has an aggressive local service buildout plan.

Even in the pro-competition states, there is still a lot of work to be done. While our state-by-state view of regulatory progress shows advances on the most basic issues, there remain some **significant and perhaps more controversial prerequisites to local competition that have not been widely resolved by state or federal reforms**. Specifically, many states in the advanced stages of regulatory reform have addressed interconnection and compensation issues which are clearly the first steps to competitive entry in the local exchange. However, fewer states have resolved more intricate issues such as unbundling, resale of local exchange, pole attachment, rights-of-way, etc.

We would expect that resolving the broader interconnection requirements is important to the entry of competitors in a market. However, evidence of broader competition in a specific market, or the development of more competition in the state, will depend on the manner (and the timing) in which these "second level" issues are resolved.

The FCC's rulemaking, expected in August, is likely to be important in advancing some specific competitive implementation issues on which the states have not been as consistent. As illustrated in Figures 4 through 6, there has been less progress on several issues of local competition. We expect guidelines outlined by the FCC's notice of proposed rulemaking to be critical to both the progress and the consistency with which states deal with these issues.

We believe the RBOCs most vulnerable to competition include Ameritech and Pacific Telesis. Not only have the states advanced on the implementation of pro-competitive policies, but they have also made progress on some of the second-level issues such as unbundling and local resale. Furthermore, a significant number of competitors have applied for or received certification in these RBOCs' operating territories. They also have significant overlap with major cable operators' residential homes passed.