

***SBC And Ameritech International Investments Are Complementary***

***SBC***

- Chile
- China
- France
- Japan
- Mexico
- South Africa
- South Korea
- Switzerland
- Taiwan
- United Kingdom

***Ameritech***

- Belgium
- Denmark
- Hungary
- Norway

***New Types Of Benchmarks Are Emerging, And The Mergers  
Themselves Will Create Even More***

- The critical regulatory issues for developing local competition involve interconnection and access.
- Every new interconnection agreement presents a new, publicly available benchmark.
- CLECs themselves, including AT&T/TCI and MCI WorldCom, will create additional benchmarks as they provide interconnection to others.
- The mergers will allow entry into out-of region markets, creating even more new benchmarks.

***Benchmark Concerns Raised By Opponents Are Based On Theory Alone, Not On The Reality Of The Marketplace***

- The arguments presented by Sprint and others do not quantify the ultimate effect of the merger, if any, on the FCC's ability to regulate.
- Comparisons with an ILEC's own retail operations and performance measurements are far more important than inter-RBOC comparisons.
- The FCC and the state commissions reach regulatory decisions based on their own close analyses of all relevant data, not solely on the basis of what a single RBOC does.

***The Substantial Benefits Of The Merger  
Outweigh Any Speculative “Benchmark” Effect***

- Substantial demonstrable benefits plainly outweigh the speculative possibility of some unquantified effect on regulatory ability.
- Benchmark regulation is becoming ever less relevant as competition continues to develop.
- This merger will itself increase such competition.

***Necessary Conditions For Harm  
From Loss Of Potential Competition***

- Likely Entrant
- One of Few
- Substantial Deconcentrating Effect

*Sprint's Economists In State Proceedings Have Admitted*

*The merger will not eliminate one of a few potential competitors:*

- AT&T, MCI WorldCom and Sprint are all potential competitors of Ameritech in Illinois and Ohio. (Illinois Testimony of John Woodbury, January 28, 1999, at 1470; Ohio Testimony of John Woodbury, January 15, 1999, at 31.)
- If SBC were viewed as a potential competitor of Ameritech, then Bell Atlantic, BellSouth, GTE and U S West would have to be viewed as significant potential competitors as well. (Illinois Testimony of John Woodbury, January 28, 1999, at 1470; Ohio Testimony of John Woodbury, January 15, 1999, at 33.)

## *Existing Competitors In St. Louis*

### *Facilities-Based*

- MCI WorldCom
- AT&T (TCG)
- Intermedia
- Digital Teleport
- Frontier
- Birch Telecom
- WinStar
- Sprint ION (Announced)
- Teligent (Announced)
- AT&T/TCI (Announced)

### *Resellers*

- Maxtel Communications
- Omniplex  
Communications

***Sprint's Economists In State Proceedings Have Admitted***

**Arguments that the merger will lead to discrimination are speculative:**

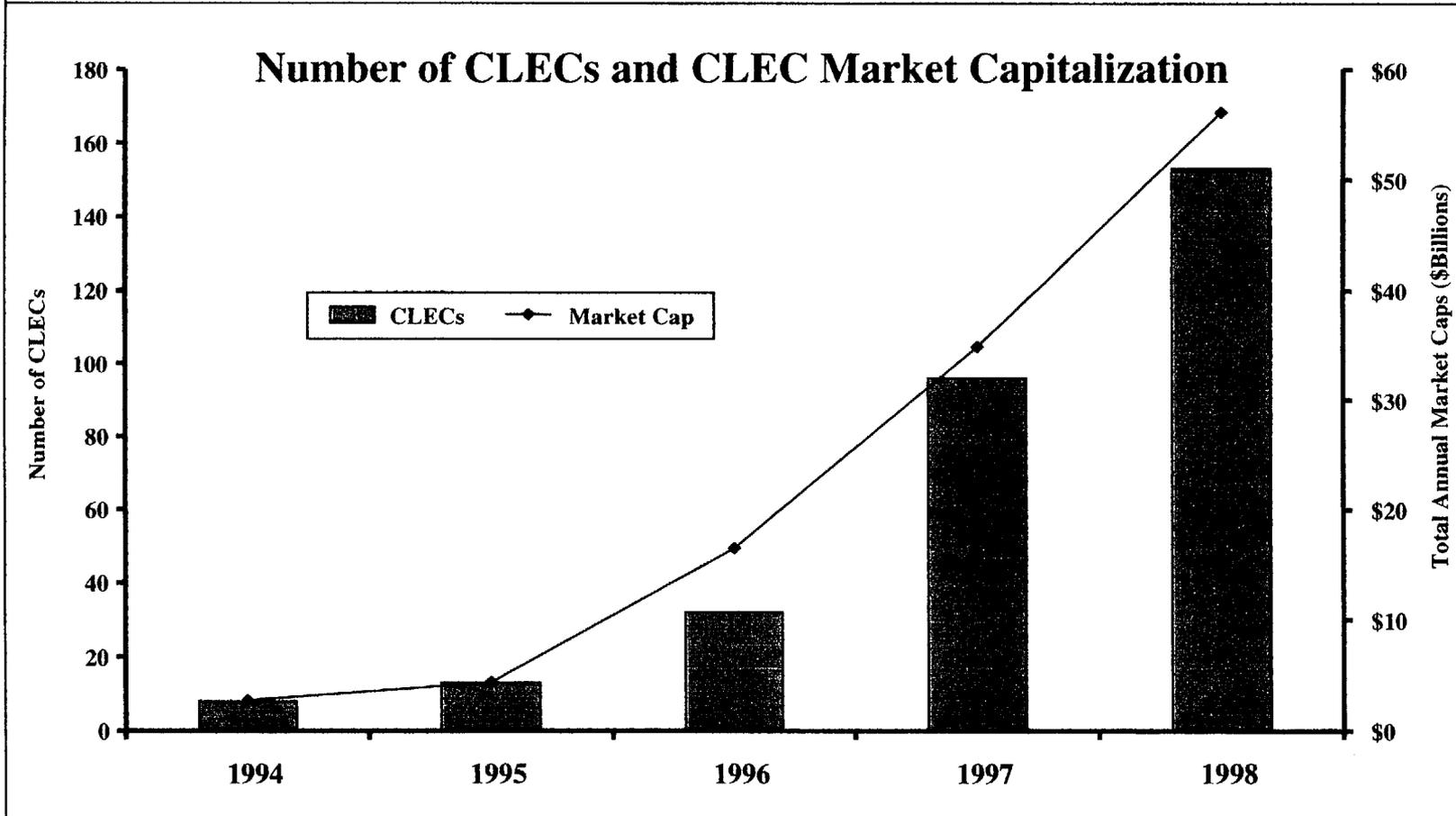
- Sprint has a greater incentive to discriminate against other IXCs in its local exchange operations than SBC. (Illinois testimony of John Woodbury, January 28, 1999, at 1496-99.)
- No quantitative analysis has been performed to assess the extent to which the merger increases the incentive to discriminate; nor has any quantitative analysis been done to assess the extent to which any such increased incentive would likely result in increased discrimination conduct. (Illinois Testimony of John Woodbury, January 28, 1999, at 1479-80.)

***Sprint's Economists In State Proceedings Have Admitted***

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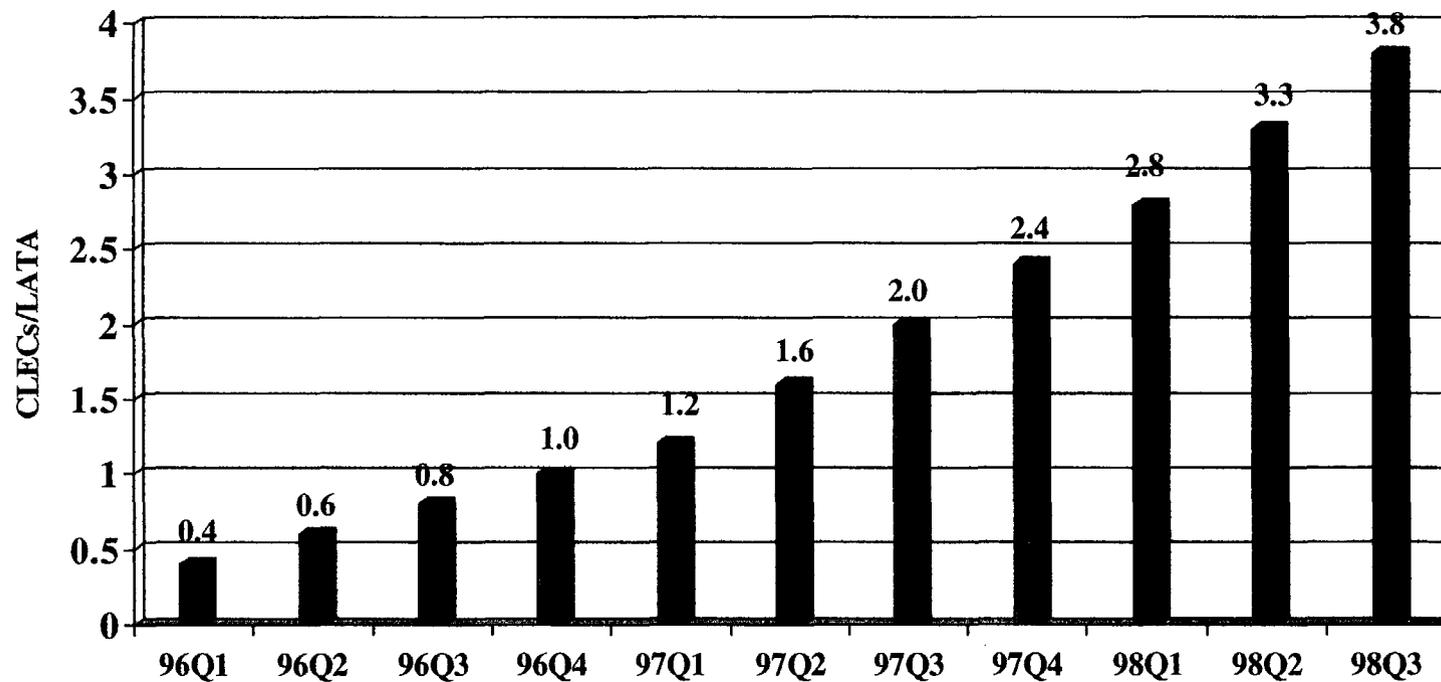
- No federal antitrust agency or federal or state regulatory commission has ever disapproved a merger on the basis of “negative spillover effects.” (Ohio Testimony of John Woodbury, January 15, 199, at 103; Illinois Testimony of John Woodbury, January 28, 1999, a 1486-87.)
- This merger creates the possibility of “positive spillover effects” (e.g., more efficient interconnection negotiations and OSS arrangements). (Illinois Testimony of John Woodbury, January 28, 1999, at 1492-93.)

*Dramatic Growth In CLEC Entry  
Nationwide*



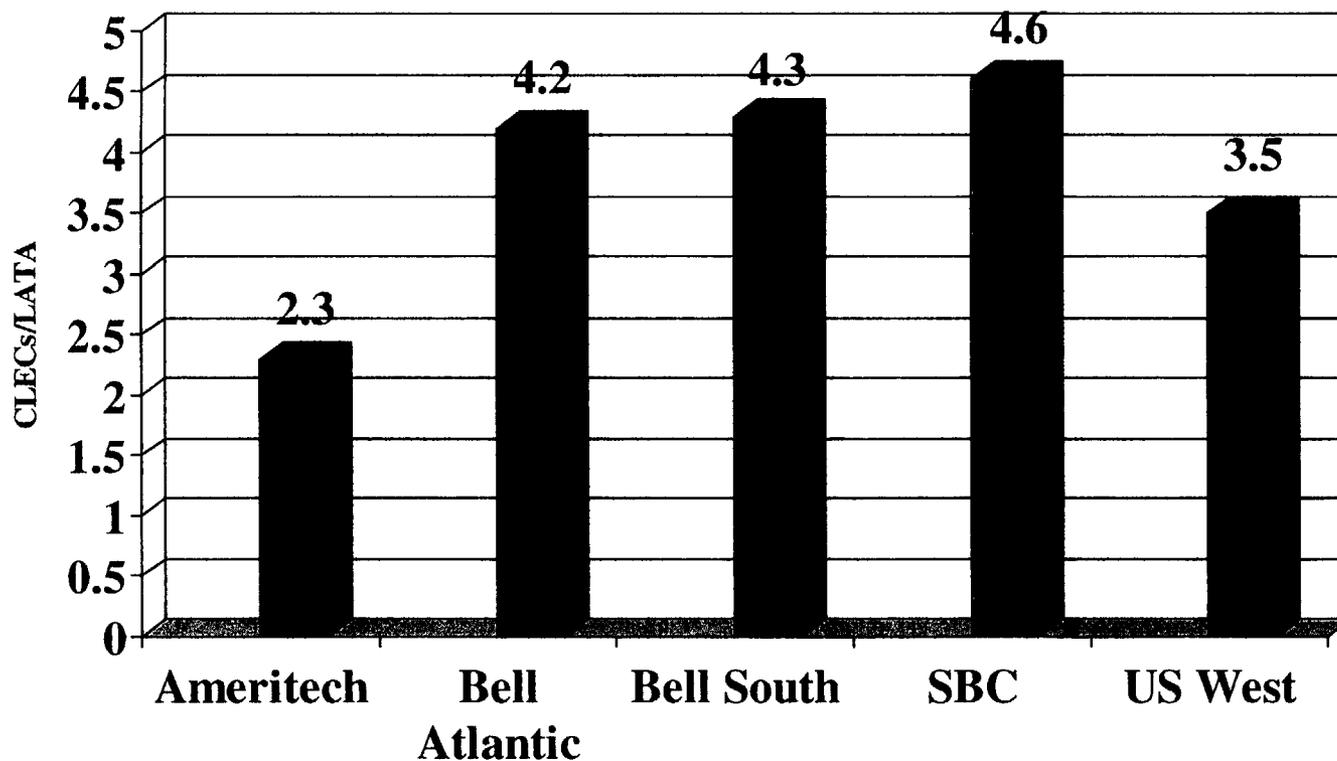
*Dramatic Growth In CLEC Entry  
Nationwide*

Number of CLECs per LATA



Source: FCC, "Local Competition", Table 4-13.  
Note: Based on CLECs holding numbering codes.

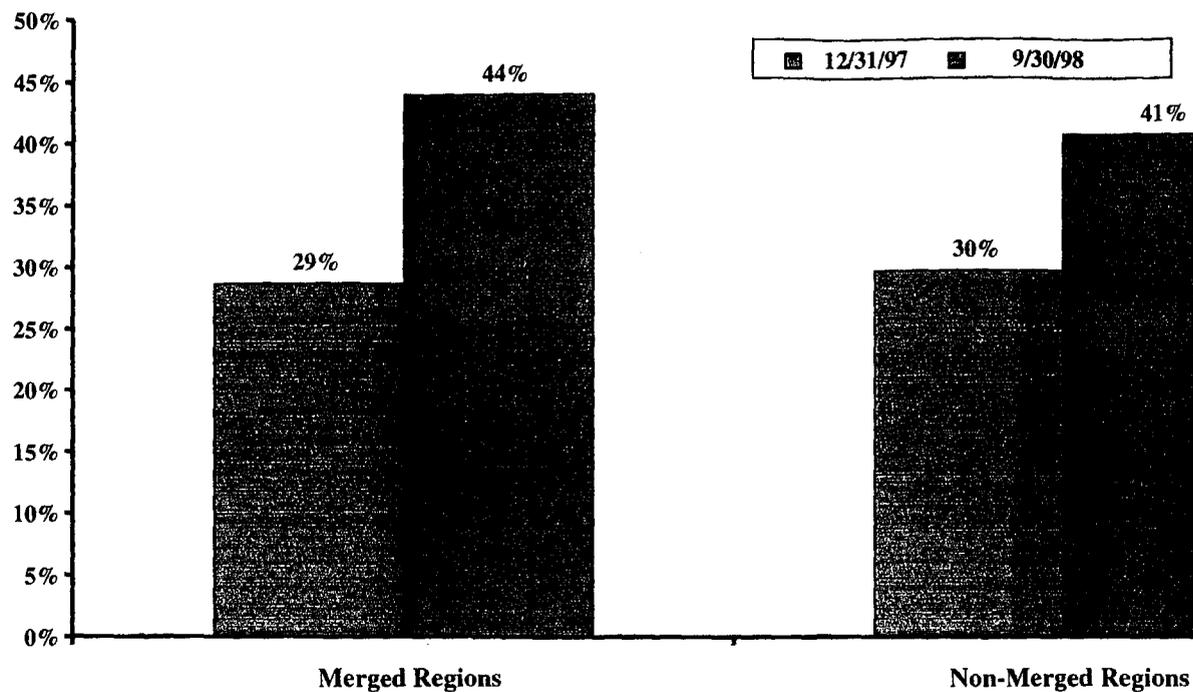
*Number of CLECs Per LATA By RBOC (3Q98)*



Source: FCC, "Local Competition", Table 4-13. Note: Based on CLECs holding numbering codes. Reflects SBC/PacTel/SNET and Bell Atlantic/NYNEX mergers.

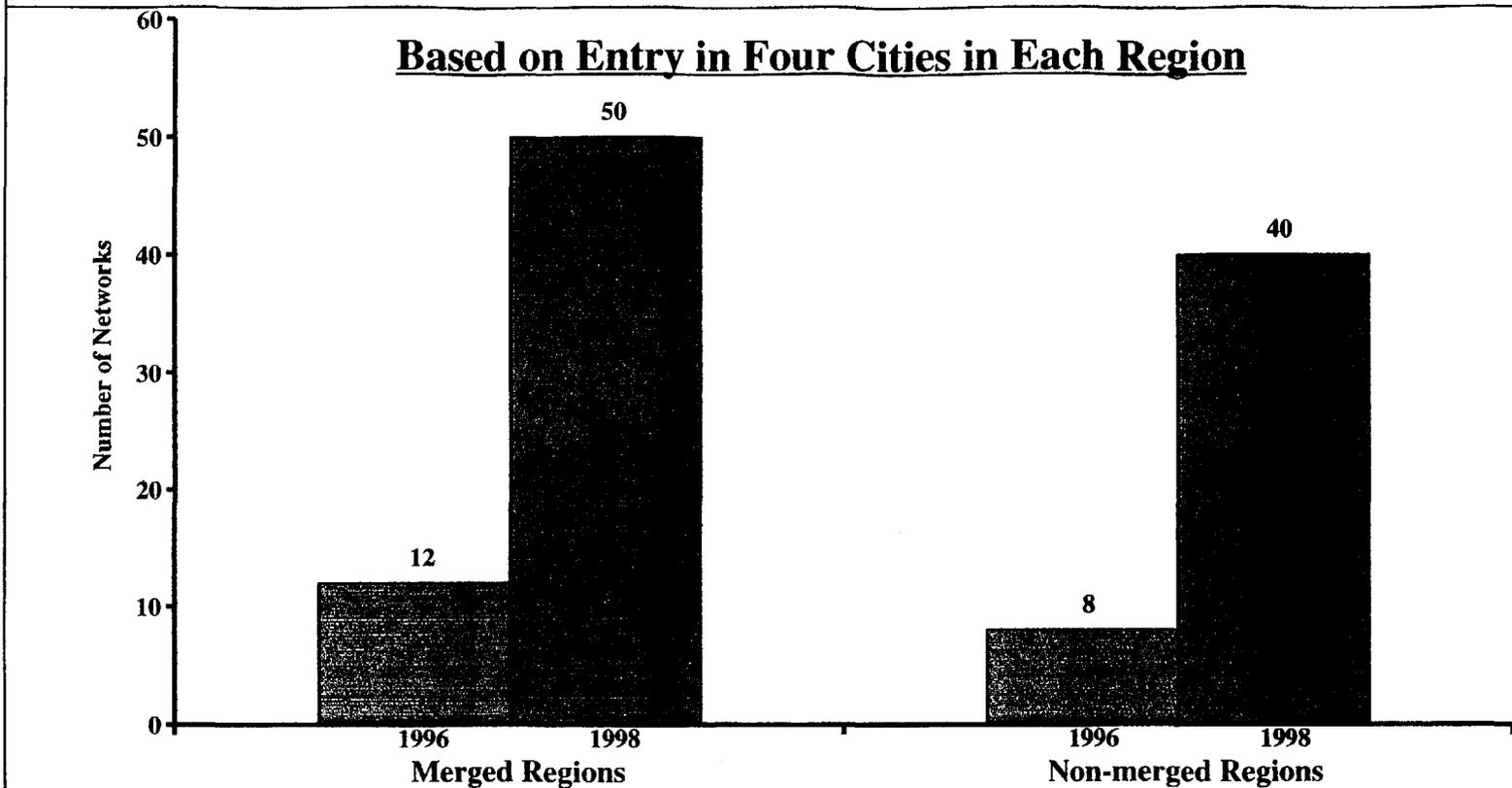
## Comparison Of Collocation In Merged And Non-Merged Regions

Percentage of Lines in Wire Centers With Collocation



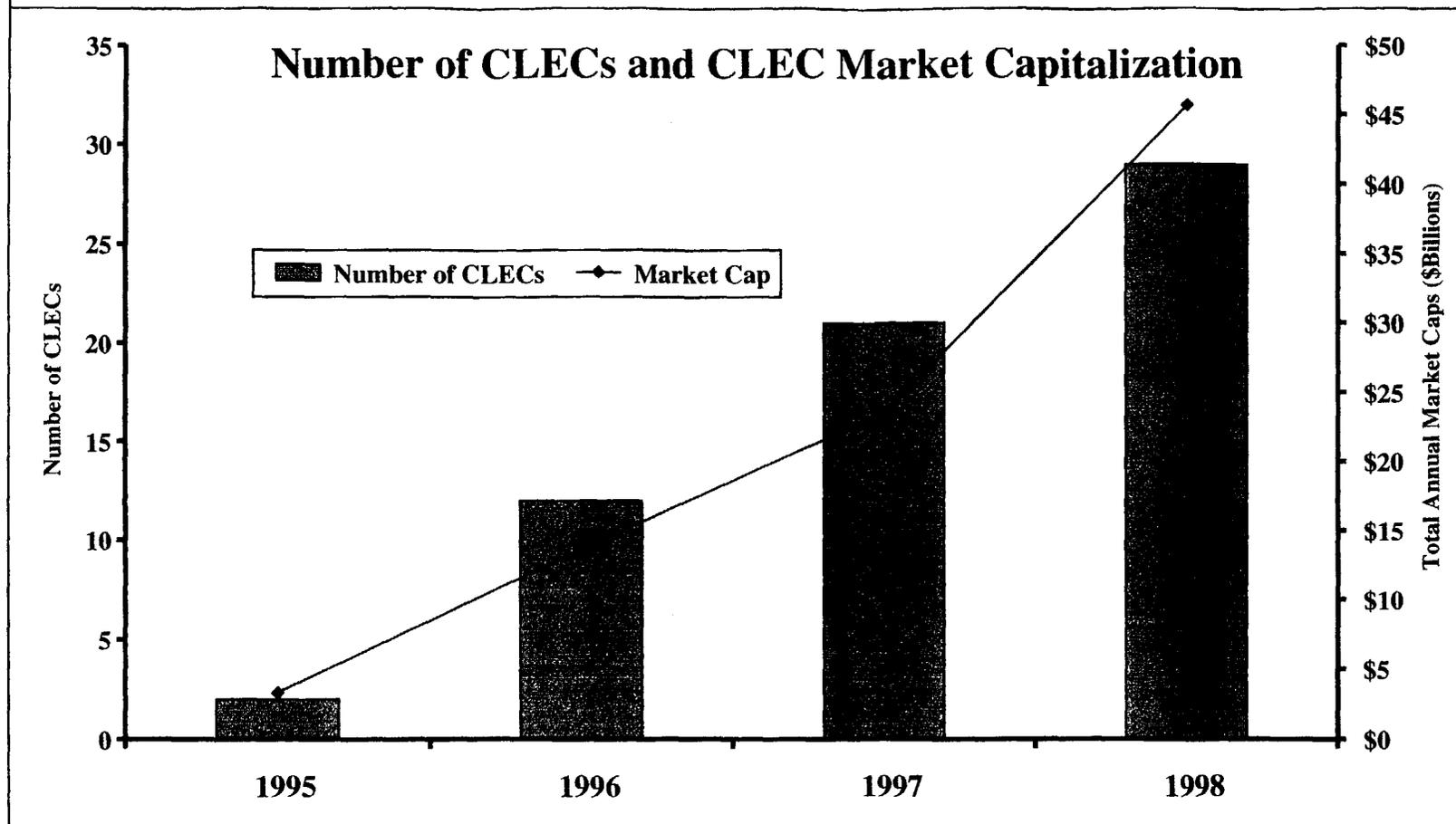
**Merged Regions:** SBC, PT, BA, Nynex. **Non-merged Regions:** BellSouth, U S WEST  
Ameritech excluded given announced merger with SBC

*Comparison of CLEC Entry  
in Merged and Non-merged Regions*

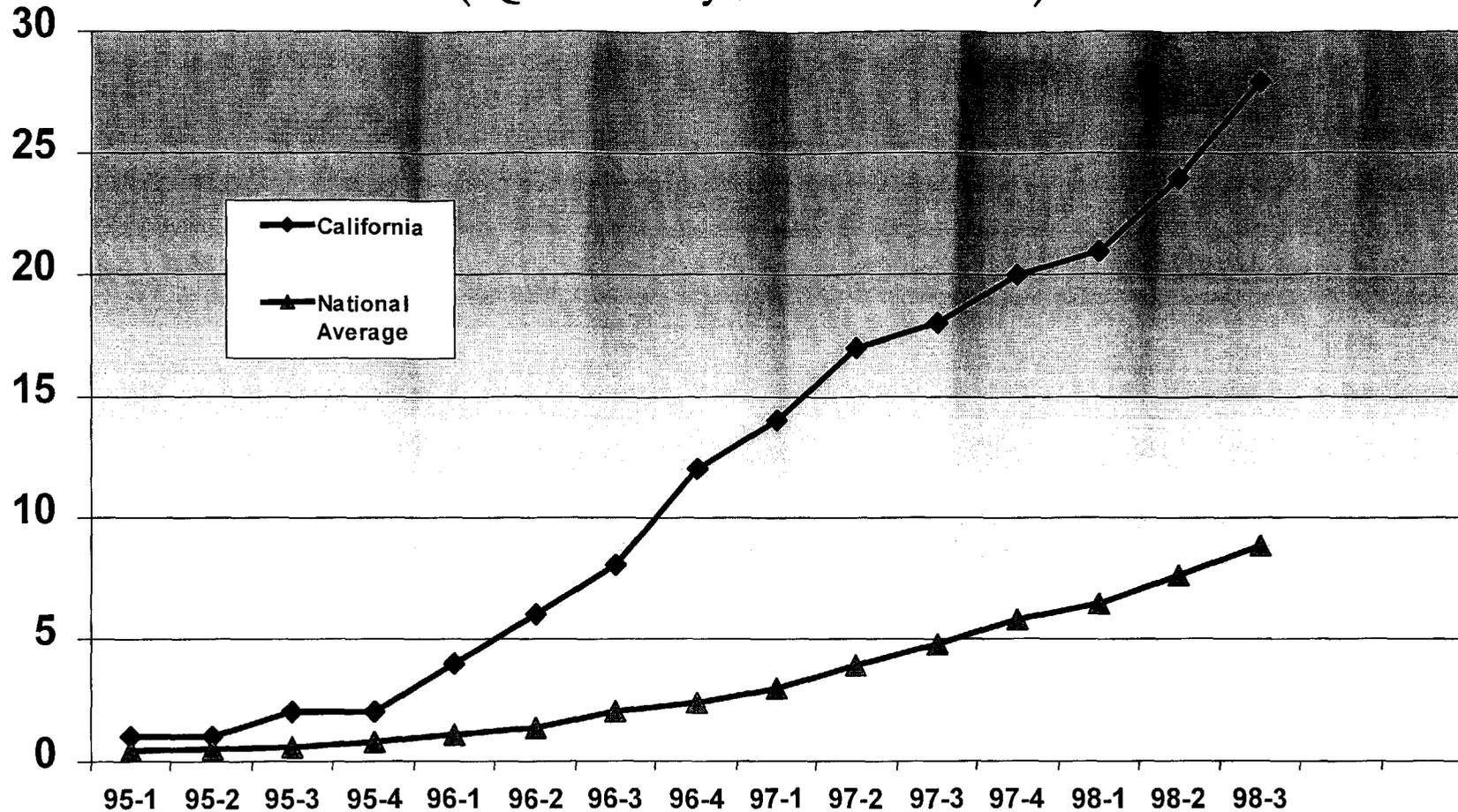


**Merged Regions:** Boston, Dallas, SF, Washington DC. **Non-merged Regions:** Atlanta, Denver, Miami, Minneapolis  
Selected cities have similar Rand McNally city ratings

## *Dramatic Growth In CLEC Entry California*



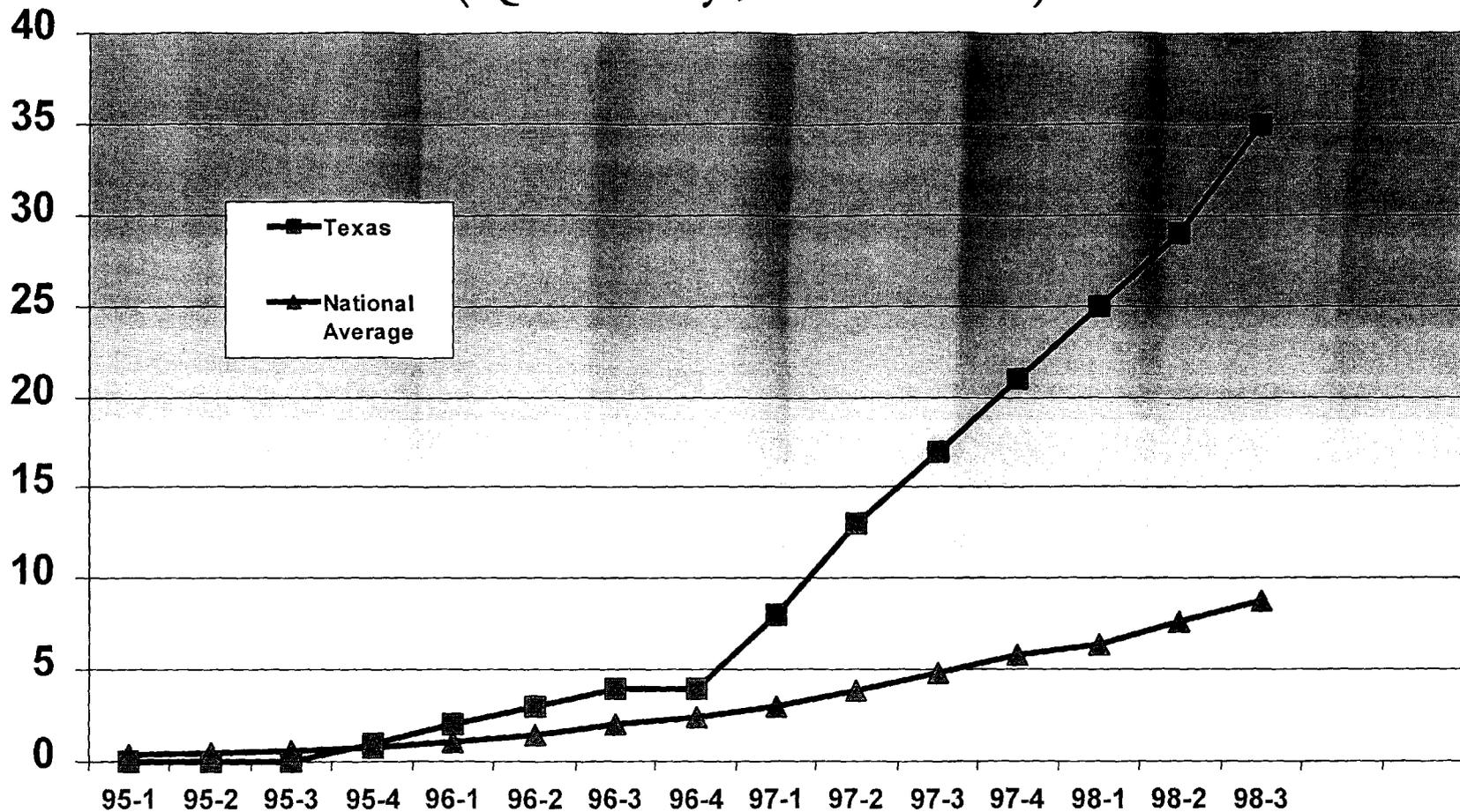
# Number of CLECs Holding Numbering Codes\* by State (Quarterly, 1995-1998)



Source: Report on Local Competition, December 1998, Table 4.5.

\* Numbering codes are necessary for a facilities-based CLEC otherwise authorized to provide mass-market switched telephone service to commence service. Report on Local Competition at 41.

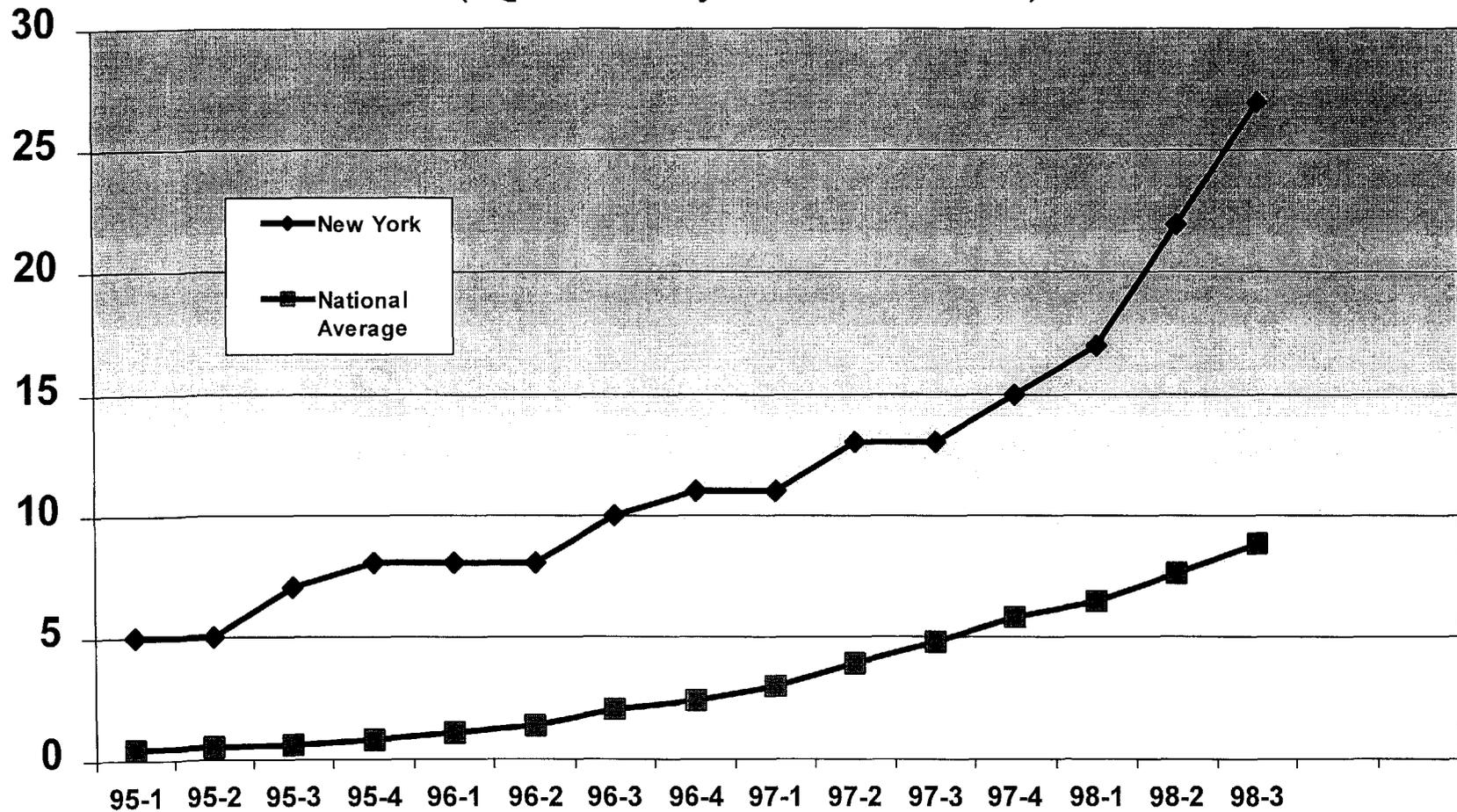
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### ***Recent Multi-Market CLEC Entry***

<b>Company</b>	<b>Services</b>	<b>Where</b>	<b>When</b>
AT&T/TCI <sup>1</sup>	Integrated communications services, including local, long distance, and data	Chicago, Dallas, Denver, Fremont, Pittsburgh, Portland (OR), Salt Lake City, St. Louis, San Francisco, Seattle	"By the end of 1999"
		"most of TCI's other markets"	"By the end of 2000"
AT&T/TCI Affiliates <sup>2</sup>	Advanced communications services	customers in MI, MN, WI, NB, WA, CA, OR, IL, IN, OH, TN, KT, GA, SC, UT, OK	"begin commercial operations in the year 2000"
AT&T/Time Warner <sup>3</sup>	Cable telephony service to residential and small business and broad band communication applications, including video telephony	33 states where Time Warner's cable systems operate, including New York City, Tampa, Houston, Orlando	one or two cities by end of 1999 and "broader commercial operations in the year 2000"
Sprint ION®	Unlimited bandwidth communications services, including voice (local and long distance), data, and video	Atlanta, Chicago, Dallas, Houston, Kansas City (finalizing plans for Denver and New York City) <sup>4</sup>	Fall 1998 (for 7 cities). "Beginning in January 1999, large business nationwide can purchase . . . the Sprint ION® platform" <sup>5</sup>

<sup>1</sup> The New York Times, "At Last, a New Strategy for AT&T," January 17, 1999.

<sup>2</sup> The 5 TCI affiliates include: Bresnan Communications, Falcon Cable TV, Insight Communications, InterMedia Partners, and Peak Cablevision. "<http://www.att.com/press/item/0,1193,275,00.html>" (visited January 11, 1999).

<sup>3</sup> "<http://att.com/press/item/0,1193,330,00.html>" (visited February 1, 1999).

<sup>4</sup> "<http://www.sprint.com/Stemp/press/releases/9806/9806170591.html>" (visited February 2, 1999).

<sup>5</sup> "<http://www.sprint.com/Stemp/press/releases/9812/9812070702.html>" (visited February 2, 1999).

### Recent Multi-Market CLEC Entry

Company	Services	Where	When
MCI WorldCom "On-Net"	"allows business customers to combine voice and data traffic from U.S. and international locations onto one seamless, end-to-end network" <sup>6</sup>	"wholly-owned network facilities in 81 major markets and nearly 50 international locations" <sup>7</sup>	Currently exists
	residential "bundle of long-distance and local services"	New York City and state of New York	"available immediately" <sup>8</sup>
Bell Atlantic/ GTE	local	plans to enter the following SBC/Ameritech cities: Los Angeles, San Francisco, San Diego, Dallas, Houston, Austin, San Antonio, Chicago, Cleveland, Cincinnati, Indianapolis, and Detroit; plans to enter the following cities that are also targeted by SBC/Ameritech's National-Local Strategy: Miami, Orlando, Jacksonville, Raleigh, Nashville, Memphis, Louisville, Seattle, and Portland (OR) <sup>9</sup>	"within 18 months of closing"

<sup>6</sup> MCI WorldCom Unveils new "On-Net" Communications Services for Businesses, Press Release (September 28, 1998).

<sup>7</sup> Id.

<sup>8</sup> Stephanie N. Mehta, "MCI to Offer New Local-Phone Service," The Wall Street Journal, B6 (February 3, 1999).

<sup>9</sup> Bell Atlantic/GTE Public Interest Statement, at 6-7.

### Recent Multi-Market CLEC Entry

Company	Services	Where	When
Nextlink	“local phone service fully bundled with enhanced products and services” <sup>10</sup>	“selected markets” including: Los Angeles, Anaheim, San Jose, Chicago, Cleveland, Columbus, Salt Lake City, Spokane, New York City, Newark, Philadelphia, Atlanta, Memphis, Nashville, Dallas (by 4Q98), Miami (by 4Q98), San Diego (by 2Q99), and Washington, DC (by 2Q99) <sup>11</sup>	Now (unless otherwise indicated)
Level3 Communications	“a full range of communications services – including local, long distance, and distance, and data transmission as well as other enhanced services” <sup>12</sup>	Seattle; Los Angeles. San Diego, San Jose, San Francisco, Denver, Dallas, Houston, Atlanta, Chicago, Detroit, Washington, DC, Philadelphia, Boston, New York City, Providence, Manchester (NH), and London, England <sup>13</sup>	Now
Teligent	Local, Long Distance, Internet and Data <sup>14</sup>	New York, Chicago, Dallas/Ft. Worth, Austin,	Now

<sup>10</sup> “<http://www.nextlink.net/xpage/xcity1.htm>” (visited February 3, 1999).

<sup>11</sup> Id.

<sup>12</sup> “[http://www.Level3.com/company/level3\\_firsts.html](http://www.Level3.com/company/level3_firsts.html)” (visited February 3, 1999).

<sup>13</sup> “[http://www.Level3.com/company/net\\_today.html](http://www.Level3.com/company/net_today.html)” (visited February 3, 1999).

<sup>14</sup> “[http://www.teligentinc.com/default\\_services.asp](http://www.teligentinc.com/default_services.asp)” (visited February 3, 1999).

**Recent Multi-Market CLEC Entry**

Company	Services	Where	When
		Denver, Los Angeles, Houston, San Antonio, Tampa, Washington, DC <sup>15</sup>	
Winstar <sup>16</sup>	"local and long distance phone service, as well as high speed data, Internet and information services"	27 markets including Atlanta, Baltimore, Boston, Chicago, Columbus, Dallas, Denver, Detroit, Fort Worth, Houston, Kansas City, Los Angeles, Milwaukee, Minneapolis, New York, Newark, Oakbrook (IL), Oakland, Orange County, Philadelphia, Phoenix, San Diego, San Francisco, Seattle, Stamford, CT, Tampa, Washington, DC ("Miami, St. Louis and Cleveland by the end of [1998].")	Now

(...continued)

<sup>15</sup> ["http://www.teligentinc.com/whatsnew/whatsnew.html"](http://www.teligentinc.com/whatsnew/whatsnew.html) (visited February 3, 1999).

<sup>16</sup> ["http://www.winstar.com/PressRelease/923colocation.htm"](http://www.winstar.com/PressRelease/923colocation.htm) (visited February 3, 1999).

HOME

PUC 

# Public Utility Commission of Texas

Office of Customer Protection, Information and Education, 1701 N. Congress, Austin, TX 78701 Fax 512-936-7003

Contact: Leslie Kjellstrand 512-936-7135  
Margaret Wilson 512-936-7143

**News Release**  
Jan. 26, 1999

## SWB's long distance bid nears finish line

(Austin, TX Jan. 26, 1999) – Southwestern Bell Telephone Company (SWB) has fully met ten of the 14-point checklist items required to win approval to enter the Texas long distance market. At the Public Utility Commission's Jan. 20 meeting, commissioners also cleared most of the public interest requirements and performance measures.

"I am very pleased and heartened by the successful resolution of so many critical issues," said Chairman Pat Wood, III. "I credit the company, our staff and diverse new local competitors who have participated in the process."

Among the issues still to be resolved are the terms for combination of network elements by SWB for competitors; extended links of these elements; some procedural matters regarding physical, virtual, cageless collocation of competitors' facilities; and the deployment of digital subscriber line (DSL) service. Staff also reported that performance measures needed validation to clarify the process so that a penalty structure could be developed. These issues will be considered in mid-February, possibly concluding the lengthy collaborative process.

The final phase of SWB's application to enter the Texas long distance market requires testing to make sure that SWB's operating systems can communicate with competitors' systems. Communications between operating systems is key to ensuring that customers can be seamlessly transferred to competing carriers. Bellcore, an independent consultant, will help design these tests and evaluate whether the SWB systems offer competitors an opportunity to provide customer services equivalent to SWB's. Testing is scheduled to continue for at least three months.

The goal for the PUC is a competitive market for local service. When SWB has met the FCC's requirements for proving that the preconditions for local phone service have been met, the PUC will recommend to the Federal Communications Commission (FCC) that SWB has met the requirements to enter the long distance market. After the PUC's recommendation, the FCC will consider the many resolved issues, the testing process and all the federal requirements. To date, no Regional Bell Operating Company has gained FCC approval to provide intrastate long distance.

"Southwestern Bell has met the majority of the 14 points required for us to recommend its entry into long distance," said Commissioner Judy Walsh. "Based on its cooperation in this process, I am confident that the remaining issues can be resolved, and that upon successful completion of operations systems testing, the Commission can then make a positive recommendation to the FCC."

Southwestern Bell first petitioned the PUC in March 1998 for permission to enter the long distance market. The process requires that state regulators review the efforts that the company has made in opening its network to competitors.

Commissioners denied SWB's petition in June, but established a collaborative process to work with SWB and its competitors to address and resolve the remaining issues. The collaboration began with a list of about 130 sub-issues that addressed many critical points in the federal 14-point checklist and public interest requirements. Four detailed status reports have updated commissioners on the progress.

Texas has more than 250 telephone companies certified to compete in the local market, either as resellers or with their own facilities. Many have signed and filed interconnection agreements at the PUC.

In Texas' changing regulatory environment, the PUC facilitates competition and customer choice while regulating electric and telephone utilities to ensure that rates, operations and services are just and reasonable for customers.

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## News Release

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FOR RELEASE MONDAY, FEBRUARY 1, 1999

### **AT&T and Time Warner form strategic relationship to offer cable telephony**

New York -- AT&T and Time Warner today announced the formation of a significant strategic relationship that will include a joint venture to offer AT&T-branded cable telephony service to residential and small business customers over Time Warner's existing cable television systems in 33 states. The two companies expect to pilot the service in one or two cities by the end of 1999 and to begin broader commercial operations in the year 2000. The two companies also agreed to jointly market communications services and to develop other broadband communications services, such as video telephony.

AT&T Chairman and Chief Executive Officer C. Michael Armstrong said, "Today's announcement with Time Warner will significantly advance AT&T's ability to offer end-to-end 'any distance' communications services to American consumers and businesses.

"Together with our merger with Tele-Communications, Inc. (TCI) and agreements with five TCI affiliates, the Time Warner joint venture will enable AT&T to reach more than 40 percent of U.S. households over the next four to five years. In addition, we look forward to working with Time Warner in the delivery of next-generation broadband communications services."

Time Warner Chairman and Chief Executive Officer Gerald M. Levin said: "Our strategic relationship with AT&T reflects the shared awareness that fiber-optic cable networks are the surest, quickest route to the digital future. Together, along with using this platform to bring real competition to local phone markets, we have exciting opportunities for cross-marketing and cross-promoting our companies' respective programming and communications services.

"The partnering of Time Warner and AT&T -- the world's leading media and entertainment company with the world leader in telecommunications services -- is a competitive milestone in bringing the benefits of broadband technology to America's homes and businesses. For Time Warner, it's one major component of our strategy for deriving the maximum return on the multi-year investment we're making in our cable systems. With 85 percent of our cable plant expected to be upgraded by the end of this year, our cable rebuild is already delivering significant dividends, allowing us to offer the enhanced services that consumers are so eager for. These include digital television, high-speed data via the Internet, and with today's transaction, local telephone service."

The joint venture's services will be priced competitively and will feature multiple phone lines per household, along with timesaving features such as conference calling, call waiting, call forwarding, and individual message centers for family members.

Under the terms of the agreement, AT&T will own 77.5 percent of the joint venture and Time Warner will own 22.5 percent. AT&T will fund the joint venture's negative cash flow. However, it expects the joint venture to have positive cash flow and net earnings after three full years of operation. AT&T also expects the joint venture to have annual revenues of \$4 billion in the same time period.

The joint venture will acquire exclusive rights to offer residential and small business telephony services over Time Warner's cable systems for 20 years. In return, the joint venture will make a payment of \$15 to Time Warner per home passed as systems are upgraded. The payment, which will be made in two

annual installments, is expected to total about \$300 million.

In addition, the joint venture will pay a monthly fee of \$1.50 per telephony subscriber, scaling up to \$6 per month over a six-year period, with guaranteed minimum penetration levels. AT&T estimates that even in the later years of the agreement, the monthly fee is far below the best rate offered by incumbent local telephone companies for leasing the wires between their switching centers and people's homes. In addition, the cable dedicated to communications can support multiple lines into each home.

AT&T President John D. Zeglis, who heads the company's Consumer Services unit, said: "We plan to give consumers in Time Warner cable territories more than a choice in local service – as important as that is. We're going to combine the information carrying capacity of cable with our own networking expertise to give families an easy-to-use suite of 'any distance' communications services. We'll give them individual lines for different family members and flexible call-handling features such as conferencing, call forwarding, and personal messaging services."

The AT&T and Time Warner joint venture will report to Leo Hindery, Jr., president of TCI, who will head AT&T's cable service operations once the AT&T-TCI merger is complete.

Hindery said: "Time Warner brings more than households to our joint venture – even though they pass 20 million of them. They also bring a vision of how we can use broadband media as a platform to improve communications services in the communities we serve. We share that vision and I look forward to working with Time Warner management and their dedicated employees across the country in making it a reality."

Time Warner Inc. President Richard D. Parsons said: "On every level, cable customers are the winners in this combination. In addition to our existing cable systems' capacity to provide high-speed Internet delivery, cable programming and digital services, this venture will provide customers with telephony services through the same architecture. Going forward, the working partnership of Time Warner and AT&T in developing and deploying broadband communications also ensures that our customers will be among the first to enjoy new digital services, such as video telephony."

The joint venture's communications services will be offered to the 20 million homes passed by Time Warner's cable systems, whether or not they are currently Time Warner cable customers. Time Warner owns and manages cable systems serving 12.6 million customers, with 80 percent of its customers in systems of 100,000 subscribers or more. Time Warner's cable systems serve many of the country's largest metropolitan areas, including parts of New York City, and Tampa, Houston, Orlando and Raleigh Durham.

Time Warner Cable will remain responsible for upgrading its cable systems to support two-way communications. It expects the upgrade to be 85 percent completed by the end of the year and finished by the end of the year 2000.

AT&T will be responsible for the joint venture's capital expenditures, including the cost of powering the system, and, as customers sign up for the service, the cost of adding communications equipment to cable nodes and in people's homes. AT&T estimates those latter costs will eventually range from \$300 to \$500 per home, depending on whether or not the customer already subscribes to Time Warner's video service.

In addition to their joint venture, AT&T and Time Warner plan to establish several market "laboratories" in 1999 to develop and test a range of broadband communications services such as video telephony. The companies will work with each other in the development and deployment of these applications.

The companies said they expect to finalize their agreement within 90 days and to close the joint venture in the second half of 1999. They noted that the transaction is subject to certain conditions, including definitive documentation and various approvals.

AT&T (NYSE: T, [www.att.com](http://www.att.com)) is the world's premier provider of voice and data communications, with more than 80 million customers, including businesses, government and consumers. AT&T runs the world's largest, most powerful long-distance network and the largest wireless network in North America.

The company is a leading supplier of data and Internet services for businesses and the nation's largest direct Internet service provider to consumers. AT&T also provides local telephone service to a growing number of businesses.

Time Warner Inc. (NYSE: TWX, [www.timewarner.com](http://www.timewarner.com)), the world's leading media company, consists of four businesses: cable networks, publishing, entertainment and cable.

**Editor's Note:** NEW YORK NEWS CONFERENCE – AT&T and Time Warner will discuss these announcements in a news conference at noon (USET) today at AT&T's world headquarters at 32 Avenue of the Americas in New York City. AT&T Chairman and CEO C. Michael Armstrong and Time Warner Chairman and CEO Gerald M. Levin will make remarks and take questions. Reporters who cannot attend can participate by calling in prior to noon at 1-800-260-0712 in the United States or 612-288-0318 elsewhere. No access code is required. Trouble number: 1-800-932-1100 for U.S.; 612-334-6983 elsewhere. A replay of the news conference will be available beginning at 6 p.m. EDT today at 1-800-248-7600 in the U.S. and 1-402-493-8905 elsewhere. The replay will be available until 6 p.m. Thursday, Feb. 4.

**SATELLITE COORDINATES** – A satellite feed of the noon EDT news conference in New York is available at the following coordinates: Ku band satellite, Telstar 5, transponder K19. Downlink polarity, vertical; downlink frequency, 12053 Mhz; satellite location, 97 degrees.

The foregoing contains "forward looking statements" which are based on management's beliefs as well as on a number of assumptions concerning future events made by and information currently available to management. Readers are cautioned not to put undue reliance on such forward looking statements, which are not a guarantee of performance and are subject to a number of uncertainties and other factors, many of which are outside AT&T and Time Warner's control, that could cause actual results to differ materially from such statements. For a more detailed description of the factors that could cause such a difference, please see AT&T's and Time Warner's filings with the Securities and Exchange Commission. AT&T and Time Warner disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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## News Release

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FOR RELEASE FRIDAY, JANUARY 8, 1999

### AT&T provides financial guidance for 1999

NEW YORK – AT&T said today that it expects earnings per share (EPS) from continuing operations for 1999 to be in the range of \$4.20 to \$4.30, excluding the impact of its planned merger with Tele-Communications, Inc. (TCI) and the separately announced stock split and share repurchase. The company said that as a result of the TCI merger, AT&T expects EPS dilution to be approximately \$1.00 per share on a pro forma basis, assuming the merger closes at the end of the first quarter.

The company expects 1999 revenue growth to range from five to seven percent on a pro forma basis, including the effect of its planned mergers with TCI and Vanguard Cellular Systems and the previously announced acquisition of the IBM global network business. The company said it expected these acquisitions and investments to transform its revenue, cash-flow and asset base from dependence on a single product line – long distance voice – to a more diversified portfolio of high-growth communications, information and video services.

Business Services is expected to increase revenue between seven and nine percent as a result of continued growth in data, local and wholesale services. AT&T Wireless Services plans to continue to expand its national presence and its successful Digital One Rate plan. It expects to report revenue growth, as well as growth in earnings before interest, taxes, depreciation and amortization (EBITDA), in the high teens. AT&T Solutions expects to report revenue growth of about 30 percent, given several major outsourcing contracts signed and announced within the past year.

The company also said, as anticipated, that Consumer Services long distance revenue is expected to decline between two to four percent, as a result of declining prices in a hotly competitive market and the substitution of wireless services for calling card and other higher-priced long distance services.

As a key part of the company's strategy for growth in overall Consumer Services revenue, AT&T said it is accelerating plans to offer cable telephony services. In 1999, AT&T and TCI expect to conduct ten market trials in which they will co-market voice, video and high-speed data services to customers in two San Francisco Bay area communities, and in Chicago, Dallas, Pittsburgh, Seattle, Denver, Salt Lake City, Portland, Ore., and St. Louis. AT&T said it plans to quickly expand these market trials and to be offering local telephony in most TCI markets in 2000. Initially, the company said it plans to offer circuit switched telephony, but expects to begin to deploy IP technology when it is available in 2000.

AT&T said it has made significant progress in transforming its cost structure in 1998. Through the first three quarters of 1998, selling, general and administrative (SG&A) expenses were cut from almost 30 percent of revenue to less than 25 percent. The company expects to lower that ratio to 21 percent for 1999, excluding its wireless and local services businesses, which have a different cost structure requiring additional investment to fund their growth.

AT&T estimated that its 1999 pro forma EBITDA would grow in the high teens, to \$18 to \$20 billion, which would be primarily reinvested in its business.

AT&T estimated 1999 capital spending would be approximately \$9 to \$10 billion. However, the company said it was shifting much of the spending from its core long distance voice network into higher growth areas, primarily wireless, local, and data/IP services. Assuming completion of the TCI merger at the end of the first quarter, total capital spending is expected to range from \$11 to \$12 billion for the year. This reflects AT&T's decision to accelerate the upgrade of TCI cable systems in certain major

metropolitan areas to increase video capacity and add power for telephony applications.

The foregoing are "forward looking statements" which are based on management's beliefs as well as on a number of assumptions concerning future events made by and information currently available to management. Readers are cautioned not to put undue reliance on such forward looking statements, which are not a guarantee of performance and are subject to a number of uncertainties and other factors, many of which are outside AT&T's control, that could cause actual results to differ materially from such statements. For a more detailed description of the factors that could cause such a difference, please see AT&T's filings with the Securities and Exchange Commission. AT&T disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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## News Release

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FOR RELEASE FRIDAY, JANUARY 8, 1999

# AT&T reaches agreements to form commercial joint ventures with five cable operators

**Bresnan Communications, Falcon Cable TV, Insight Comm., InterMedia Partners, and Peak Cablevision**

NEW YORK -- AT&T today announced that it had reached agreements with five Tele-Communications, Inc. (TCI) affiliates to form separate joint ventures to offer customers advanced communications services. AT&T expects to finalize joint ventures with Bresnan Communications, Falcon Cable TV, Insight Communications, InterMedia Partners and Peak Cablevision in early 1999, begin piloting the new services later in the year and then begin commercial operations in the year 2000.

The joint ventures will offer customers new communications services that feature multiple phone lines per household, along with options such as conference calling, call waiting, call forwarding and individual message centers for family members.

In June 1998, AT&T announced plans to merge with TCI, the country's second largest cable operator, passing more than 17 million U.S. households via TCI's cable plant.

The announced telephony joint ventures combined will reach an additional five million U.S. households.

"These joint ventures bring us another step closer to our goal of giving U.S. consumers a choice in local phone service," said C. Michael Armstrong, chairman and CEO of AT&T. "It's a facilities-based approach that will allow us to deliver on our commitment to provide all-distance telephony service to our customers."

AT&T, which expects to own between 51 percent and 65 percent of each of these joint ventures, will have long-term exclusive rights to offer communications services over the systems of each of the five operators in return for one-time payments to be made when the systems meet certain performance milestones. AT&T expects the total of these payments to be in the tens of millions of dollars. In addition the operators will receive ongoing monthly telephony subscriber payments.

Each cable company will bear the cost of upgrading its cable system to support two-way communications. Upgrade efforts are currently underway at each of the five cable companies and most expect to complete the process by the end of the year 2000.

The telephony joint venture, in each case, will bear the cost of adding communications equipment when a customer signs up for service. AT&T estimates those costs will eventually range from \$300 to \$500 per home, depending on whether the customer already subscribes to the cable operator's digital video service.

Each telephony joint venture will report to Leo Hindery, Jr., the current president of TCI who will head AT&T's new cable services operations once the AT&T-TCI merger is complete.

The five cable companies operate in various regions of the country.

Following completion of its cable system joint venture with TCI, Bresnan Communications will serve

— more than 600,000 customers in Michigan, Minnesota, Wisconsin and Nebraska and will pass approximately 900,000 homes. The company is headquartered in White Plains, N.Y.

— "I'm excited that our broadband platform will now be associated with the AT&T brand," said William J. Bresnan, president and founder of the cable and telecommunications company. "Through this partnership, we'll be able to deliver an even broader range of telecommunications services."

— Falcon Cable TV operates systems in 26 states, including Washington, Oregon and California. It serves more than one million customers, passes approximately 1.6 million homes and is headquartered in Los Angeles.

— Marc B. Nathanson, chief executive officer and founder of Falcon, said. "This is a win-win deal for everyone. For us, it means an expansion into telecommunications services. For AT&T, it means access to the local residential phone market. And for consumers, it means the ease of one-stop shopping for all cable and telecommunications services in small and medium sized communities throughout the country."

— Insight Communications, which also has customers outside its partnership with TCI, collectively has more than 500,000 customers and passes more than 800,000 homes in seven states, including Illinois, Indiana, Ohio and California and is based in New York City.

— "These ventures represent a new era in the cable and telecommunications industries," said Michael S. Willner, chief executive officer of Insight. "We're pleased to be a part of the convergence of these industries with the undisputed leader in telecommunications services."

— InterMedia Partners is based in Nashville and serves more than one million customers and passes nearly 1.6 million homes in four states – Tennessee, Kentucky, Georgia and South Carolina.

— "I believe this is an exceptional growth opportunity for InterMedia Partners and AT&T," said Robert J. Lewis, managing general partner and CEO for InterMedia Partners. "It allows us to fully utilize our already upgraded network to serve our customers with a single broadband platform for cable and telecommunications services, which they have been seeking."

— Peak Cablevision serves more than 100,000 customers and passes 180,000 homes primarily in Utah and Oklahoma. Its headquarters are in Englewood, Co.

— Donne Fisher, president of Peak, said. "We're pleased to be able to offer our customers access to AT&T's quality services and its reputation for reliability."

— The completion of the joint ventures are subject to a number of conditions including execution of definitive documentation.

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## News Release

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FOR RELEASE TUESDAY, DECEMBER 8, 1998

# AT&T to Acquire IBM's Global Network Business for \$5 Billion

## Companies also sign series of outsourcing contracts

NEW YORK – AT&T and IBM today announced a series of strategic agreements under which AT&T will acquire IBM's Global Network business for \$5 billion in cash, and the two companies will enter into outsourcing contracts with each other. IBM will outsource a significant portion of its global networking needs to AT&T. AT&T will outsource certain applications processing and data center management operations to IBM.

The transactions could represent \$2.5 billion in additional revenue to AT&T in the first full year of operation.

The IBM Global Network business AT&T will acquire serves the networking needs of several hundred large global companies, tens of thousands of mid-sized businesses and more than 1 million individual Internet users in 59 countries.

The acquisition boosts AT&T's strategy to rapidly increase the company's revenue, especially at its fast-growing networking services unit, AT&T Solutions. About 5,000 IBM employees will join AT&T as part of the acquisition.

"These strategic agreements are all about growth," said AT&T Chairman and CEO C. Michael Armstrong. "Growth in revenue, growth in technology, and - most important - growth in what AT&T can do for customers.

"For AT&T, today's announcement supports four areas we've targeted for growth: global services, data networking, Internet Protocol technology and network outsourcing through our AT&T Solutions business," said Armstrong. "The acquisition of IBM's global data network will accelerate our ability to deliver IP-based services to global customers. It will give us a sophisticated new platform for revenue growth."

By providing customers with more attractive global services, Armstrong said the acquisition will enable AT&T to compete more effectively with strong rivals for the provisioning of global managed data network services, including IP.

"We are delighted that AT&T will be the new home for our Global Network operation," said IBM Chairman and CEO Louis V. Gerstner, Jr. "With this agreement, the network will receive the management focus and resources necessary to maintain its standing as a world-class provider of connectivity to IBM and millions of customers.

"AT&T will use its expertise to enhance and expand the Global Network to the benefit of its customers, including IBM," he said. "We can now focus fully on helping our customers take advantage of the emerging networked world through e-business applications and solutions."

IBM's Global Network has more than 1,300 dial-up points of presence and dedicated access from more than 850 cities in 59 countries. The Global Network offers business customers innovative services and worldwide operations and support, including in-country, native-language support personnel.

AT&T said its acquisition of IBM's high capacity global network would be supportive of the 100-city, IP-based network that would be created as part of the global joint venture announced by AT&T and BT in July.

IBM said that this transaction, in its entirety, is not expected to have a significant impact on the company's 1999 operational results. AT&T said earnings dilution from the transaction is expected to be insignificant in the first full year of operation and accretive thereafter.

AT&T and IBM said they expect the acquisition to conclude by mid-1999, following clearance by U.S. regulators and certain regulatory authorities outside the U.S.

Armstrong said today's announcement is about more than acquiring IBM's global network. "We have also reached several significant outsourcing agreements that match each company's strengths with the other company's business needs," he said.

IBM has awarded AT&T Solutions an outsourcing contract valued at \$5 billion over five years for a significant portion of IBM's own global networking needs, making it the single largest networking outsourcing contract ever awarded. The contract is expected to double the network outsourcing revenue of AT&T Solutions and will enable it to grow more rapidly by serving a wider set of customer needs with a broadened scope of services.

In addition, AT&T and IBM's Global Services unit have reached agreement for outsourcing services valued at about \$4 billion over the next 10 years. As part of the agreement, IBM will manage AT&T's legacy applications processing, including billing, service-order-processing, installation and maintenance, for customers of AT&T business long-distance services. In addition, IBM will assume management of AT&T's data processing centers, which operate corporate information systems such as accounts payable and receivable and employee payroll and benefits. Under the agreement, more than 2,000 AT&T management employees will be offered positions with IBM.

**Editor's Note: NEW YORK NEWS CONFERENCE** - AT&T and IBM will discuss these announcements in a news conference at 11 a.m. (USEST) today at AT&T's world headquarters at 32 Avenue of the Americas in New York City. AT&T Chairman and CEO C. Michael Armstrong and IBM Chairman and CEO Louis V. Gerstner, Jr. will make remarks and take questions. Reporters who cannot attend can participate by calling in prior to 11 a.m. at 1-800-700-8174 in the United States or 612-332-0430 elsewhere. No access code is required. Trouble number: 1-800-932-1100 for U.S.; 612-334-6983 for elsewhere. A replay of the news conference will be available beginning at 3 p.m. EDT today at 1-800-248-7600 in the U.S. and 1-402-493-8905 elsewhere. The replay will be available until 3 p.m. Friday, Dec. 11.

**SATELLITE COORDINATES** -- A satellite feed of the 11 a.m. EDT news conference in New York is available at the following coordinates: Ku band satellite, Telstar 5, transponder 13. Downlink polarity, vertical; downlink frequency, 11958 Mhz, 97 degrees west.

(Note: The foregoing are "forward-looking statements" which are based on management's beliefs as well as on a number of assumptions concerning future events made by and information currently available to management. Readers are cautioned not to put undue reliance on such forward-looking statements, which are not a guarantee of performance and are subject to a number of uncertainties and other factors, many of which are outside AT&T's control, that could cause actual results to differ materially from such statements. For a more detailed description of the factors that could cause such a difference, please see AT&T's filings with the Securities and Exchange Commission. AT&T disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.)

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**For more information:**

Visit the [AT&T Global Network Web site](#)

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**For information about AT&T services (including current prices), visit:**

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## TECHNOLOGY & TELECOMMUNICATIONS

# MCI to Offer New Local-Phone Service

By STEPHANIE N. MEHTA

Staff Reporter of THE WALL STREET JOURNAL

MCI WorldCom Inc. is expected to announce today that it will offer local telephone service to residential customers in the state of New York.

The long-distance giant said it is leasing Bell Atlantic Corp.'s network to deliver local-calling services throughout most of the state. The strategy allows MCI WorldCom to immediately reach millions of potential customers in a bid to sell a combined bundle of long-distance and local

services.

The company already offers local calling to business customers in more than 100 major markets nationwide. It also sells local-telephone service to a limited number of residential customers in Illinois, Michigan and California, but has stopped promoting the service.

While MCI WorldCom has embraced use of Bell networks in New York, long-time rival AT&T Corp. aims to deliver local-telephone service via cable-television lines. This week AT&T forged a pact to use

Time Warner Inc.'s cable lines to offer local service. AT&T also has agreed to acquire cable operator Tele-Communications Inc. as part of its effort to bypass the Bell networks.

MCI WorldCom said its service will be available immediately. AT&T, by contrast, has said its residential local-service offerings are at least a year away.

MCI tried to sell local-phone service in New York once before. In the fall of 1997, MCI Communications attempted to serve customers by renting Bell Atlantic's complete network at wholesale prices and reselling the service to consumers. The company in January 1998 said the strategy, known as "total resale," was a money loser and stopped marketing the service.

MCI WorldCom expects its newest venture into the local-service market to be profitable because Bell Atlantic is leasing its complete network to competitors under a different discount plan. MCI WorldCom says under the new lease structure it won't have to pay fees to the Bell for originating some of its local customers' long-distance calls, for example.

The Baby Bell telephone companies must prove to state and federal regulators that their networks are open to competitors in order to win permission to offer long-distance services in their home regions.

Bell Atlantic executives said MCI WorldCom's push into local service shows that the local carrier has opened its network. "This underscores what we have been saying for a long time," said James Cullen, president of Bell Atlantic. "The competitors are coming in."

Timothy Price, president of MCI WorldCom's communications division, in an in-

### Local Connection

MCI WorldCom Inc.'s strategy for offering local telephone service includes:

- Service to residents in New York State via leased Bell Atlantic facilities
- Service to businesses in 100 major markets nationwide via its own network
- Service to a few customers in California, Illinois and Michigan via wholesale purchase of Bell networks.

Source: The company

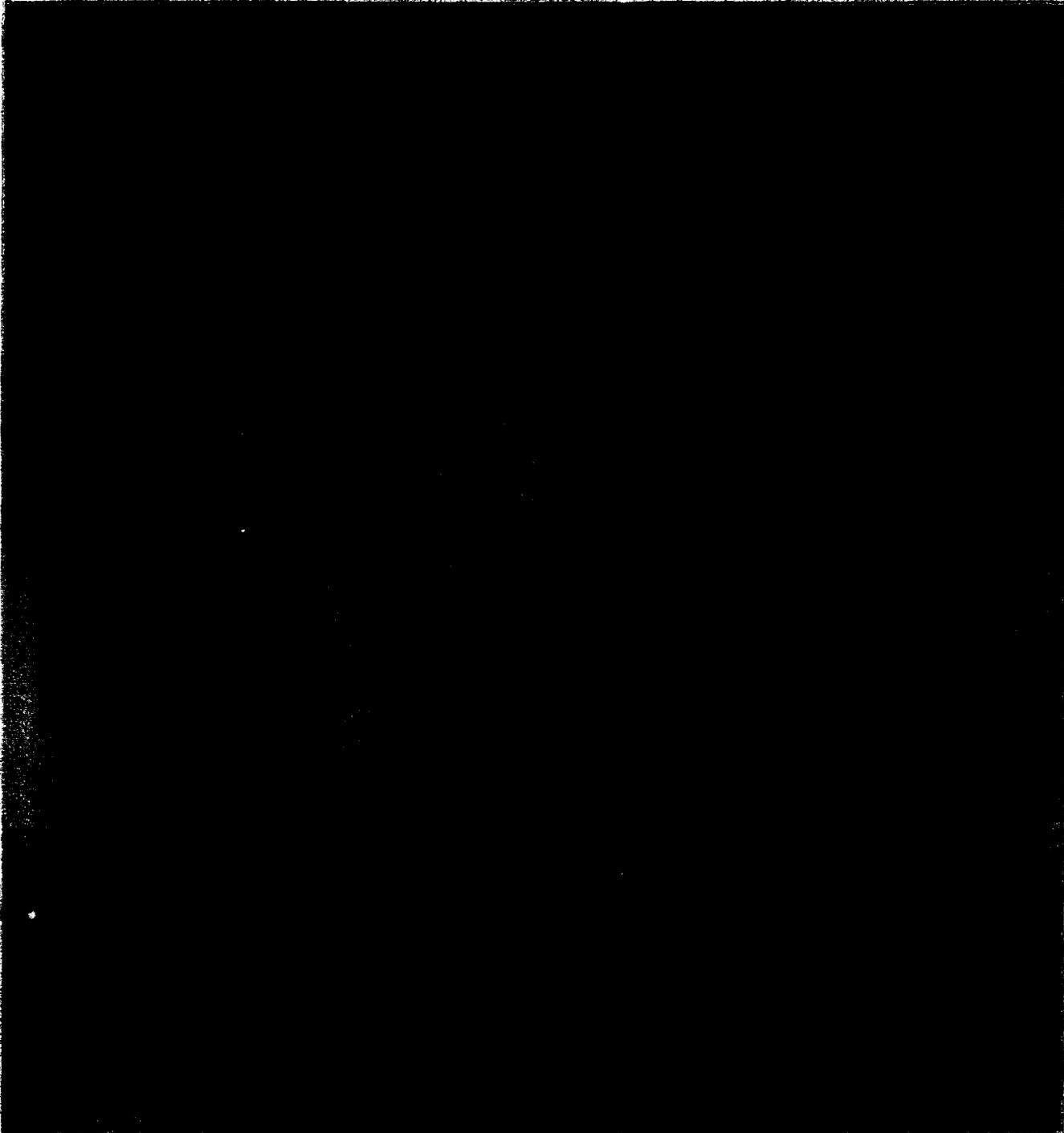
terview said he remains concerned that Bell Atlantic may drag its feet in switching new customers to MCI WorldCom local service. Rival local carriers have complained that the Bells have impeded competition by failing to process new orders, for example. Bell Atlantic executives have said this won't be a problem for competitors. Executives of the New York-based Bell have said they expect to ask federal regulators' permission to offer long-distance services in New York by the end of March.

MCI WorldCom will offer a basic local-telephone line, plus 100 calls a month, for about \$20 a month to residents in upstate New York. Consumers in New York City and the surrounding suburbs can order the same package for \$15 a month. The \$5 difference reflects lower costs of leasing the Bell lines in the more dense areas. MCI WorldCom said it will sell special services, such as Caller ID, at a discount of 5% off Bell Atlantic's rates.

MCI WorldCom said its offer doesn't apply to parts of New York not served by Bell Atlantic.

Advertising Supplement to The Wall Street Journal

**For the second time in American history,\* the merger of two networks has opened a new world of business.**



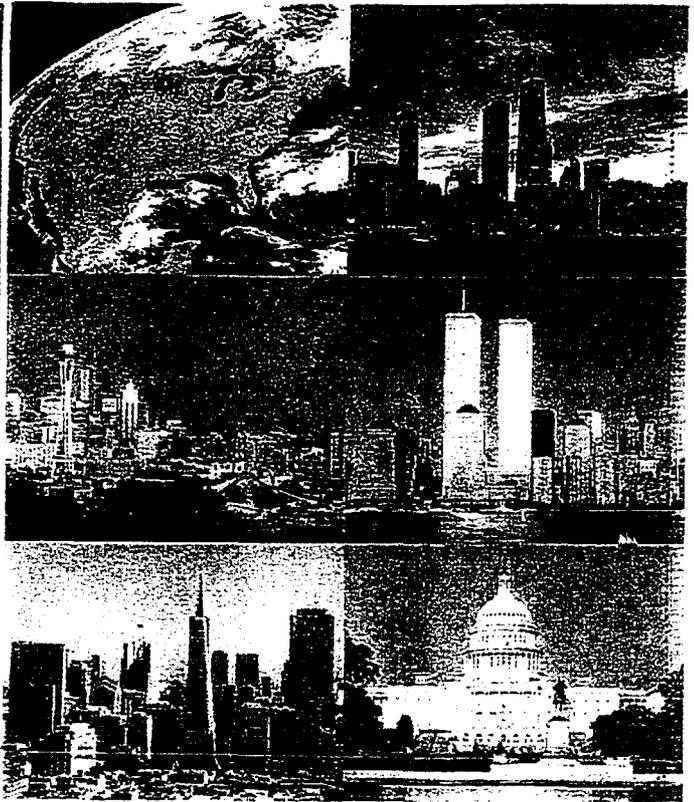
Who benefits from this? You do, if you're a customer of MCI WorldCom. Take a look through the next few pages and see precisely how this leads to other breakthroughs, starting with on-net, an ingenious new product of the only telecommunications merger that works, from day one, to your advantage.

**MCI WORLD COM**

\* When was the first time? 1862, Promontory Point, Utah, when the Union Pacific and the Southern Pacific became one.

The only local...

...to national...



While other communication companies are talking about building a seamless network, or planning to build one, or conjuring images of building one, MCI WorldCom's network is here today. The only local-to-global network in the world.\*

#### LOCAL

It's said that all business is local, and that's where all of MCI WorldCom's network begins. We've built local facilities in over 90 markets in the U.S. and Europe. We can handle more than half of American business's local calling needs in the U.S. alone. (That's more than anyone else.)

But how is our local network better than the service you've been buying from the local monopolies? Our network is truly the next-generation network: the SONET rings we deploy make our service newer, faster and more reliable. Faster because of SONET's superior bandwidth capacity. More reliable because we use self-healing technology that lets the network restore service faster than the blink of an eye. (To be precise, within one-tenth of a second.)

But beyond speed, beyond newness, there is something

else you can expect from a one-carrier network. Consistency from market to market, the same services, working the same way. For example, your local service or high-speed Internet access works the same in Paris as it does in Tulsa. Now there is one company, one contract and one account team for all your communication needs. Even when those needs span different cities on different continents.

Further, the artificial communication boundaries of yesterday's networks no longer exist on our network. So all of your local services are now combined with your other services for greater volume discounts.

#### NATIONAL

Both MCI and WorldCom built fast, reliable, state-of-the-art national networks. What do you get when you put these two networks together?

Quantity. We continue to expand and interconnect our SONET ring networks. Our SONET service coverage is greater than other carriers—totaling more than 3500 city pairs.

Quality. Our national network has the same millisecond

\*The 1992 WorldCom and MCI network. Some services dependent on carrier. ©1992 MCI Telecommunications Corporation. All rights reserved.

## ...to global network from one company.



restoration as our local networks. Your data will get to where it needs to go.

Capacity. Our network has capacity so vast it can carry all of the data traffic of all other carriers combined.\*\* Wave Division Multiplexing lets us increase network capacity without adding more lines or laying new cable. It's like increasing capacity without increasing our cost.

### GLOBAL

The MCI WorldCom network extends across the ocean and into Europe with new East-West cables that employ state-of-the-art technology. Using two diverse transatlantic paths, the network provides redundancy that no other carrier can provide. And MCI WorldCom has the bandwidth to handle ever-growing capacity needs.

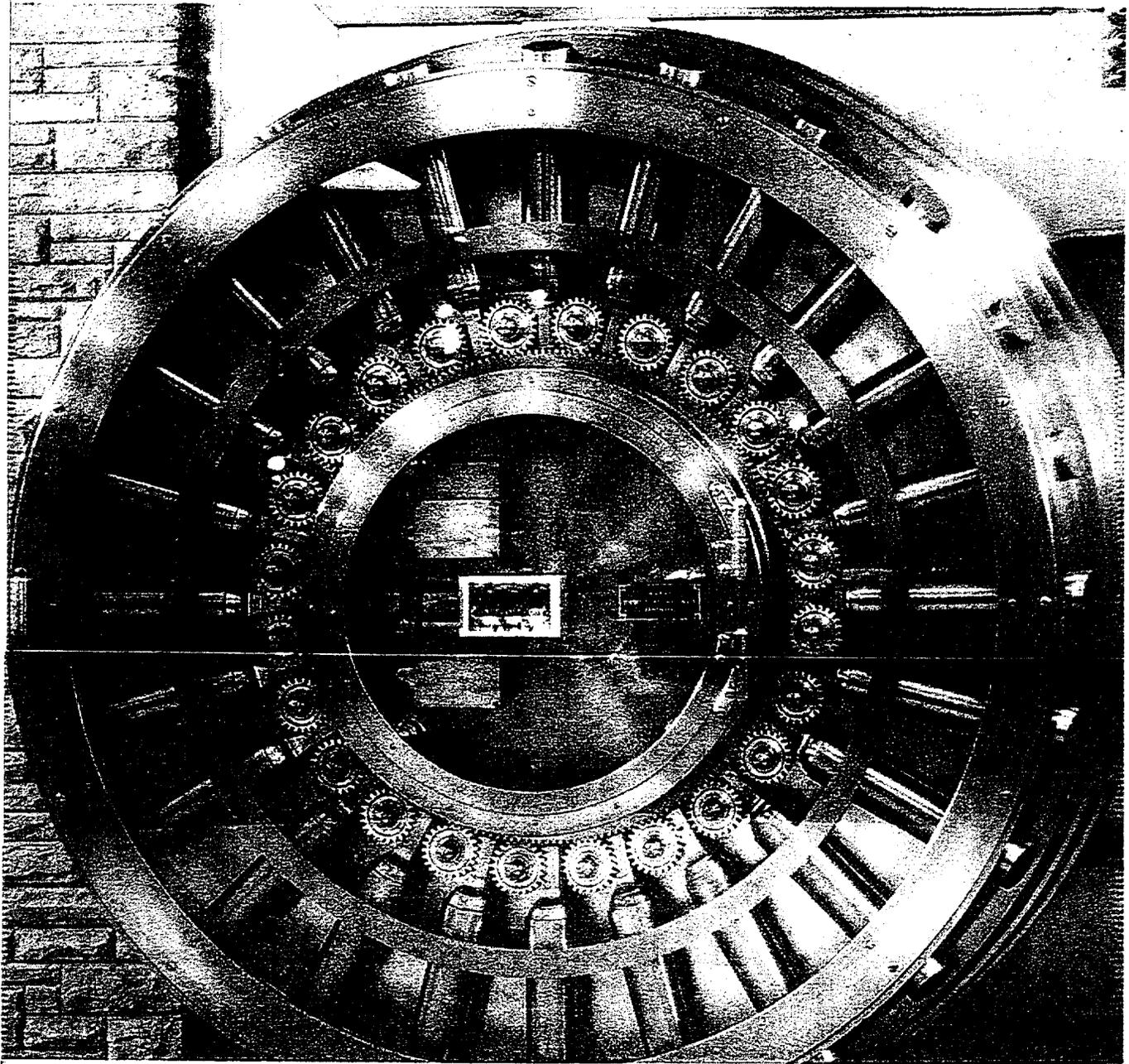
What does a global network mean for your business? It means that you get "end-to-end" reliability. You pump some data in from a building in lower Manhattan and it goes out on MCI WorldCom. It leaves New York and heads across the Atlantic. All on MCI WorldCom. In Europe, it travels on local networks which are, in turn, connected to

a Pan European network...all owned by MCI WorldCom. It's not been touched by a local phone company. Not terminated by a second company overseas. It's been carried by the first truly local-to-global, end-to-end communications company.

MCI WorldCom is the only company that completes your calls without handing them off to others, without passing the buck. A chain is only as strong as its weakest link and MCI WorldCom has eliminated the weak links. That results in unmatched availability, faster provisioning and single-source accountability. Nations that account for two-thirds of the world's business now have access to the newest local-to-global communications network on earth.

What MCI WorldCom's global network means is that the notion of a long-distance or local phone company is a notion from the bell-bottomed era of the 1970's. One end-to-end network not only means one contract (with better volume discounts, because all services are combined into one account), which is an obvious advantage. It also means you always know who is responsible. The buck (truly) has found a place to stop. And it's here.

The value of one company is obvious for us.

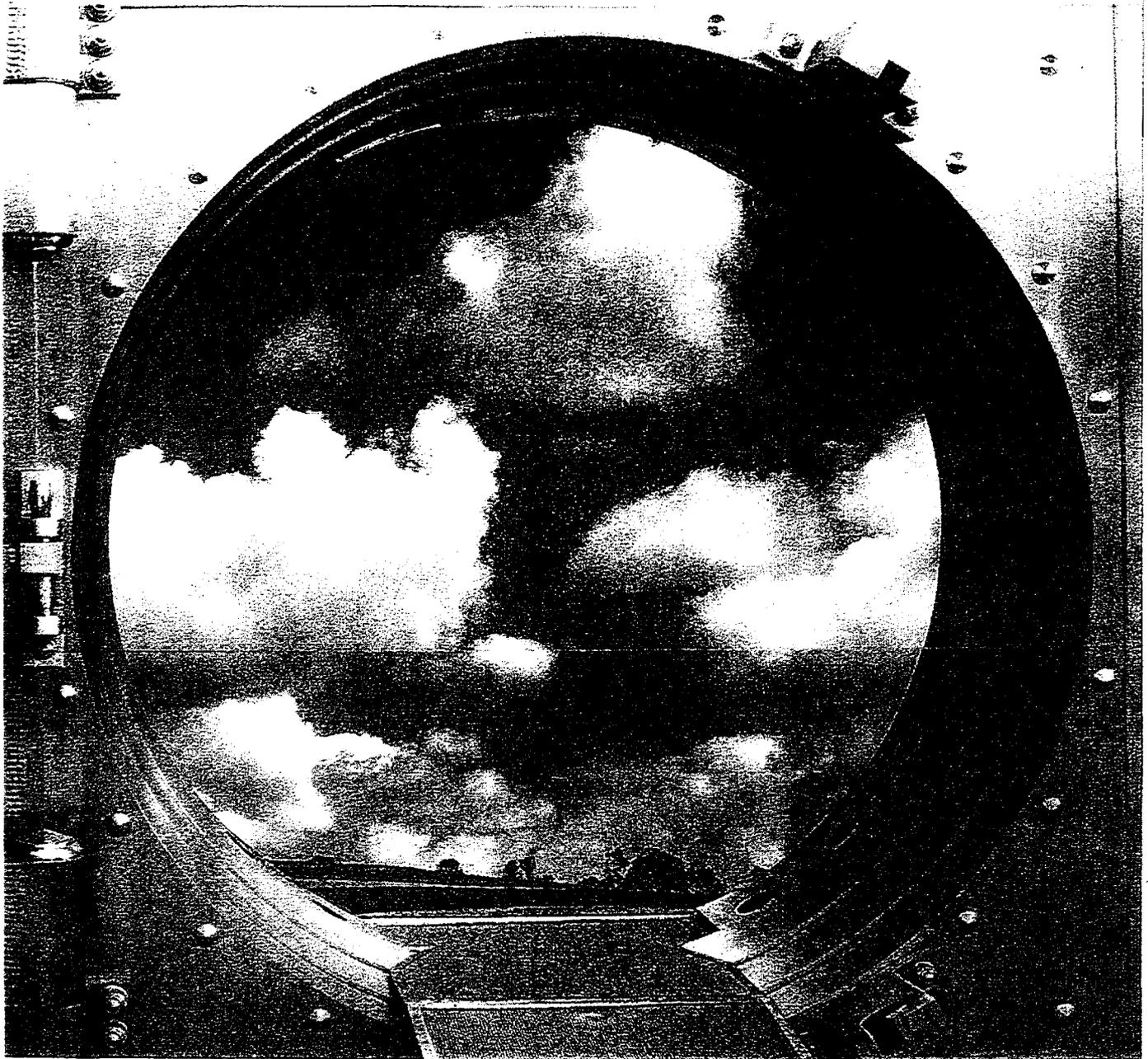


**CAPACITY** MCI WorldCom's network has capacity so vast it can carry all of the data traffic of all the other carriers combined. So we're sure to have your communications needs covered. We're even considered the carrier's carrier—the acknowledged leader in the industry.

**AVAILABILITY** Having a fast, flexible network doesn't do you much good unless you can get on it. Our network is designed to maximize availability. Thanks to SNET technology, our networks can even fix problems before anyone knows they exist.

**INTEGRATION** What does it mean? It means that you can buy every communication service your business requires from one company. And it all works together. How many services? Internet, Data, Voice, Cellular, Paging, Prepaid Cards, 800 Service, Web Hosting, Call Center Services, Local Service – to name a few. Serving every possible communication need also means we can keep products, services and support consistent around the globe.

But what's the value for you?



**FLEXIBILITY** You now have access to unlimited capacity for voice and data. As much as you want. For data, especially, this is key. Because you can control your data-access port to accommodate your changing bandwidth needs on frame relay, ATM and Internet bandwidth.

**ONE CONTRACT** Whether your needs are local, national or international, you deal with one company and one contract. A tangible benefit to both finance and communications, MCI WorldCom's network lets global businesses have one company for all their voice and data services, wherever they do business.

**ECONOMICS** It's simple: Volume discounts, which you get when you consolidate your communications needs, means the more you spend with MCI WorldCom, the more you save. That's it.



**One network. One carrier. One cr**

On-net. Two tiny words that are certain to have a tremendous impact on your business. In fact, they'll simply change the way business is done. Worldwide. On-net is more than just one product. It's a series of products and services. All of which can be tailored to your specific needs. With MCI WorldCom

On-Net, you get one connection for everything. Instead of separate lines for local, long distance, international voice and data, there's one network, one contract and one company to take full responsibility. Somewhere a choir of angels is singing. No matter how much voice and data your company has to

tract. One very happy IT manager.



pump out, MCI WorldCom On-Net can get it there. To one location or one thousand. Instantly. All through our wholly owned global network. Which means we can monitor it every step of the way. Locally. Nationally. Globally. No handoffs to other carriers. One network. One contract. One company.

Nothing could be simpler. Or more cost-efficient. Happy?

  
**MCI WORLD COM**

# The Network has more than fiber all over

**ACCOUNTABILITY** One place to go for answers. One account team for all your services, anywhere in the world. One company with a presence in 200 countries and offices in 65.

Accountability is our corporate culture. Something as highfalutin as corporate culture didn't much matter when all you were talking about was a dial tone. It didn't much matter that almost all of the corporate cultures providing dial tones had been conceived and nurtured in the 19th century. Before the PC, the internal combustion engine or crystal radios.

But a communications company's corporate culture matters for everything in an age when computers, software, telephony, dial tone and modem tone are one. MCI WorldCom, even our critics would agree, has the kind of soul that drives in times that demand creativity. Favor the company with a customer-driven attitude.



**Patricia Zimmerman**  
Service Installation Manager  
St. Louis, MO



**Marion Sterling**  
Branch Manager, Global Accounts  
Asia Pacific



**Bob Hart**  
Senior National Account Manager  
Parsippany, NJ



**Diana Souza**  
Senior Global Account Manager  
Europe



**Suzanne Stidham**  
Customer Service/Escalations Manager  
Tulsa, OK

the world. It has people all over the world.



**Maureen Abele**  
Global Service Consultant  
North America



**Robert Douglas**  
Operations Support Manager  
McLean, VA



**Maribel Schnuer**  
Global Service Consultant  
South America



**Chris Cruz**  
National Account Manager  
Boca Raton, FL



**Charlie Harrison**  
Network Engineer  
Richardson, TX



**Ray Tokuda**  
Technical Manager  
Los Angeles, CA



**Toya Davidson**  
Software Project Engineer  
Atlanta, GA

**“Give me a fulcrum, and I can move the world.”**

—Archimedes, 260 B.C.

**“Get me on-net, and I will move the world.”**

—A businessman, 1998 A.D.

Let us hail the coming of a new era in telecommunications. The Telecosmic Era. An era of bandwidth abundance, blasted free of the copper cages and regulatory blight of the global bureaucrats.

It is a time of competition. But not merely the old style of competition in the highly taxed and carefully tariffed vending of commodity services that are already widely available, such as phone calls and faxes, cable TV and broadcast radio. Instead, we will have an efflorescence of new services, springing from the cornucopian reaches of the World Wide Web—a telephony of high resolution video, an interactive television with millions of channels.

### The Big Bang

Springing from the big bang of digital electronics and photonics, the telecosm flings the world away from you at red-shift Doppler speeds. If you can see it, it's already gone. The orientation for successful business in a new era is five years ahead—and you won't get there by problem solving. You solve problems, such as “competition in the local loop” and “long distance telephony” and you end up deep in the past, at status quo ante, or AT&T. In the telecosm, the entrepreneurial imperative is to pursue opportunities.

The key opportunities emerge from a transformation of the calculus of abundances and scarcities that define the era. Marking the era just passed was abundant power, abundant transistors and microchip silicon real estate, and scarce bandwidth. Marking the new era is scarce power eked from batteries on mobile devices, satellites and undersea cables, together with scarce silicon in single-chip mobile devices, and abundant bandwidth. Marking the old era were complex networks and dumb phones and TVs. Marking the new era will be relatively dumb broadband optical networks with more capacity in every fiber thread than the old networks commanded in all their global reach. These vast broadband avenues of the telecosm, wired and wireless, will link to tiny mobile terminals with more intelligence than an entire central switching office of the old telephone networks.

### Say Goodbye to the Phone Company

In the new era, bandwidth will advance some three times as rapidly as computer technology. It is an era when even computers will be measured in the gigahertz (billions of cycles per second) of microwaves. Gordon Moore's famous law—the 18-month doubling of chip densities—will shrink to relative insignificance before the tsunami rush of communications power that began in 1995, when MCI was the first communications company to break the 10 gigabit per second speed barrier with the first commercially deployed OC-192 fiber system. It was the first step toward the all-optical network that WorldCom and MCI will be building over the next decade. Allowing messages to travel from origin to destination entirely on wings of light, the all-optical network is a new kind of integrated circuit. Just as the integrated circuit of the last era enabled the creation of an entire computer

system on a single sliver of silicon (sand) so the integrated circuit of the new era will enable creation of an entire communications system on a seamless seine of silica (glass). It is an era when the copper cages of the telephone companies—all 43 million tons—give way to crystal cathedrals of fiber optics and the iridescent air of the spectrum.

### Your Opportunity: Rising Wealth

With one fiber thread now capable of containing three times the total traffic on the entire global telecom network three years ago, bandwidth is the new spearhead. Most powerfully wielding the spear will be MCI WorldCom. This new company is poised to usher in a revolution in broadband global telecommunications. Starting now as the leader in cross-Atlantic IP fax and Internet phones, the company will expand to global IP business services, video conferencing, and an array of new services yet to be unveiled.

### Customers Getting What They Want Most: Time

In economics—“the dismal science”—just as crucial as the bounties of abundance are the disciplines of scarcity, the defining limits. The defining scarcity of the telecosm is ultimately time. Time measured by the speed of light and the span of life. Successful companies use the technologies of the speed of light to extend the effective span of life by increasing efficiency in the use of time.



In business terms, life span translates most sharply as the customer's time. The customer is sovereign and he knows what he wants. It is not your product—it is time.

**The key force in saving time today is the Internet, and the most innovative force on the Internet backbone is MCI WorldCom.**

In empowering customers, the new era of telecommunications casts a shadow over the entire established information economy. Just as the light speed limit opens large opportunities for companies supplying new network communications topologies, so the life span limit opens large opportunities for companies that focus on saving the customer's time. The key force in saving time today is the Internet, and the most innovative force on the Internet backbone is MCI WorldCom.

Isaac Newton's determinist dance and static universe yielded an industrial revolution based on the movement and transformation

of matter from the outside and an intellectual revolution based on a calculus of material solidity. Quantum theory stripped the veils of solidity from the things of the world. From the emptied wombs of quantum matter emerged the microchip and Moore's Law. From the constraints of the speed of light and the quantum laser transpires the telecosm.

Light shines newly as a constraint because until the last five years light speed was an abundance—the ultimate velocity underlying the speed of computer and communications devices. Now light speed looms up as abruptly as a barrier as it did in physics at the beginning of the century. Just as light speed limit forced Einstein to reconstitute the entire Cartesian time-space grid of classical physics, the light speed limit today is compelling the reconstitution of the time-space grid of information technology and telecommunications.

With the arrival of MCI WorldCom, customers will ultimately see new all-optical networks that reduce delay by eschewing circuit switches, electronic amplifiers and optoelectronic convertors. Based on wavelength division multiplexing of colors of light across asynchronous networks that do not require a constant clock, optics can exceed the bandwidth and the bit-error performance of copper wires by as much as 10 orders of magnitude. Ten orders of magnitude—a multiple of ten billion—is a revolution in telecommunications.

By making bandwidth abundant, and telecommunications increasingly cost-effective, the new era radically changes the environment of all information industries. In all eras, companies tend to prevail by maximizing the use of the cheapest resources. In the age of the telecosm, they will use the huge intrinsic bandwidth of fiber (all 25,000 gigahertz or more) to supplant the hundreds of billions of dollars worth of switches, bridges, routers, convertors, codecs, compressors, error-correctors, and other devices, together with the trillions of lines of software code that pervade the intelligent switching fabric of both telephone and computer networks.

The makers of all this equipment will resist mightily. But the old regime cannot prevail by fighting cheap and simple optics with costly and complex electronics and software. The all-optical network will triumph in the future for the same reason the integrated circuit triumphed: it will be incomparably cheaper than the competition. Today, measured by the admittedly rough

metric of MIPS per dollar, a personal computer is more than 5,000 times more cost-effective than a mainframe. Within ten years, the all-optical network will be millions of times more cost-effective than electronic networks. Just as the electron rules in computers, the photon will rule the waves of communication.

The all-optical technology of the new telecommunications era will put relentless pressure on all other communications systems. Every competing system will need to adapt to its cost structure. In the end, almost all electronic communications will go through the wringer and emerge in glass.

### The Next 12 Years

During the first ten years of the next century, high-resolution flat-panel displays will become as natural a part of the indoor environment as windows. New Yorkers will be able to look out on a vista in Venice or Vail as readily as on a scene in Soho. Fiber will reunite families to share anniversaries at will or whim. A whiteboard at the Sorbonne or Caltech will be as nearby as the blackboard at your local high school. Geography will collapse into mazes of microchips and reemerge in the luminosity of worldwide webs of glass and light. And around these networks all business will be reorganized to exalt as their prime purpose and passion the enhancement of the customer's time.

—By George Gilder

Author, "Wealth and Poverty," "The Spirit of Enterprise," "Life After Television," and the forthcoming "Telecosm."

# MCI WORLD COM

Dear Reader,

On these pages today, we've tried to show the excitement of our merger. And the unique corporate culture of our new company, MCI WorldCom.

You know, only two types of corporate culture exist today in the telecommunications industry: the monopoly culture, with history on its side, and the culture of this competitor, with the future on its side.

Which side is the customer on? The customer wants choice. Because customers know that, with that choice, they always get something better. They also know from experience (lots of it) that they only get choice when they have competition. Even in 1979, when MCI had only 100 million dollars in revenue, it did business with 423 of the Fortune 500. A small amount of business, but business given to MCI because those companies wanted to see what competition could do.

Even when WorldCom was only a gleam in a few entrepreneurs' eyes, it saw the Internet as the future. That early realization and the guts to act on it is why WorldCom is the world's unquestioned leading Internet provider. Most of WorldCom and MCI's growth in the last 10 years has come from existing customers. Customers who kept giving us more and more of their business because we kept coming through.

With the advent of data as the dominant use of telecommunications, WorldCom and MCI's growth spurred even more. Because the convergence of computers, telephony and software begged for the speed, daring, and entrepreneurial culture of the upstart.

Local phone service is the newest area opening to competition. MCI WorldCom is offering the first serious and, therefore, aggressive alternative to the local monopolies. The first in history.

One surprising fact is that even if you never use the services of MCI WorldCom in your business, you'll still benefit from this merger. Every time we ask for your business (as I'm doing now), we are saying we offer something better, something faster, something newer, something more responsive, something more productive.

By asking for your business, we serve notice on your present telecom companies that if they slip, if they don't keep up, we'll be ready to succeed them. (And, most important, succeed for you.)

*Bernard J. Ebbers*  
Bernard J. Ebbers, CEO

# Sprint's Earnings Trail Estimates; Large Investments Will Continue

By REBECCA BLUMENSTEIN

Staff Reporter of THE WALL STREET JOURNAL

Sprint Corp.'s fourth-quarter earnings fell below Wall Street's expectations, but company officials said the firm will continue investing heavily to develop its networks and global alliances.

Sprint, Westwood, Kan., reported fourth-quarter net income of \$404.6 million, or 93 cents a diluted share, up 13% from \$356.7 million, or 82 cents a share, in the year-earlier period. Revenue increased 7.6% to \$4.14 billion from \$3.85 billion.

The most-recent fourth quarter included a gain of \$104 million, or 14 cents a share, on the sale of local phone lines and other assets. The prior-year figure included a gain of \$51 million, or 10 cents a share, for asset sales.

Excluding those one-time gains, the company earned 79 cents a diluted share, compared with 72 cents a share a year earlier, missing the First Call consensus earnings estimate of 85 cents a diluted share for the most-recent quarter.

In New York Stock Exchange composite trading, Sprint shares fell \$2.25 to \$81.9375.

Sprint's wireless group reported fourth-quarter revenue of \$437.4, up from a pro forma \$147.5 million a year earlier, fueled by a record number of new subscribers. The group's fourth-quarter net loss, however, widened to \$646.5 million from \$161.8 million a year earlier.

The tracking stock for the wireless operation, which Sprint created during the most-recent quarter under the Sprint PCS name, fell \$1.5625, or 5%, to \$30 in New York Stock Exchange composite trading.

Although the core telephone group failed to meet expectations, Sprint senior executives said one-time costs overshadowed solid growth in the long-distance unit. And they said Sprint will continue to invest in finishing its nationwide wireless network, which added 836,000 new subscribers in the fourth quarter. (AT&T Corp., by comparison, added about half that amount in the same quarter.) Sprint also is spending heavily to develop a next-generation voice- and data-services network it calls ION, for Integrated Online Network.

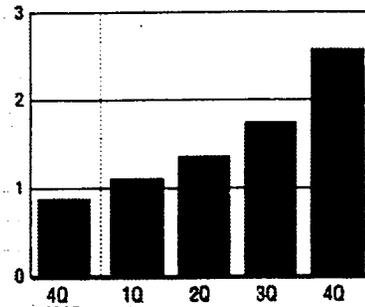
"We're investing in our future, not making acquisitions," said William T. Esry, Sprint's chairman and chief executive officer.

Mr. Esry noted that Sprint spent more than \$80 million in the fourth quarter, or nine cents a share, on the ION Network. Related expenses are expected to grow to 60 cents a share, or \$400 million, pretax, in 1999.

Still, Mr. Esry said it is money well

## Collecting Customers

Subscribers for Sprint PCS, in millions



Source: The company

spent. Sprint expects ION to position it as a leader in packages of local, long-distance and Internet services.

"I would rather spend \$80 million building something than spending \$30 billion to \$50 billion buying something else," said Mr. Esry. His comments were a veiled reference to AT&T's proposed purchase of cable giant Tele-Communications Inc., which it hopes will help it, too, sell consumers and businesses packages of communications services.

But Sprint faces major challenges on other fronts. It continued to lose money on its international joint venture, called Global One. Costs at the unit, a venture with France Telecom and Deutsche Telekom AG, cut core earnings by four cents a share, along with an accounting charge of two cents concerning stock options.

Revenue for the entire company, the only combined figure released for the wireless and main group, was \$17.3 billion for all of 1998, a 13% increase from \$15.3 billion in 1997.

For the year, net income in Sprint's core long-distance and local-telephone operations grew 11% to \$1.53 billion from \$1.37 billion.

Analysts said that while overall results were mixed, they were satisfied with a 32% gain in the income from Sprint's core long-distance unit with big gains in data traffic.

"Clearly, it was a confusing quarter and the stock activity reflected that," said Linda Meltzer, of Warburg Dillon Read LLC. "But the core message was very strong, particularly on the long distance side."

**WSJ Journal Link:** For a video report on Sprint CEO William Esry's comments on fourth-quarter earnings, see The Wall Street Journal Interactive Edition at <http://wsj.com>



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- Order/Sales ↗

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- ↗Sports & Sponsorship
- ↗Career Opportunities
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- ↗Press Relations
- ↗Sprint History
- ↗Sprint Quality
- ↗Supplier Diversity
- ↗Tariffs
- ↗Sprint Homes

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For Immediate Release

**SPRINT ANNOUNCES NETWORK  
 AGREEMENTS WITH LOCAL PHONE  
 COMPANIES FOR INITIAL ROLLOUT  
 OF REVOLUTIONARY NEW  
 SERVICES**

**Sprint ION to Deliver High-Speed, High-Bandwidth  
 Services to Businesses In Seven Major Cities**

KANSAS CITY, Mo., June 17, 1998 -- Sprint today announced that it has secured key network access agreements with Southwestern Bell, GTE, BellSouth and Ameritech that will enable it to begin delivering advanced, high-speed, high-bandwidth services through Sprint ION, Integrated On-Demand Network. Additionally, Sprint unveiled the first major markets that will have access to the revolutionary new Sprint ION services as part of the first phase of its rollout.

This fall, Sprint will deliver unprecedented communications capabilities to large businesses in Chicago, Atlanta, Dallas, Houston and Kansas City. In addition, Sprint said agreements in New York and Denver are being finalized.

"On June 2, we announced a vision for the future of communications, and today we are taking another step toward bringing that vision to life," said William T. Esrey, Sprint's chairman and chief executive officer. "We have the technology and the customers in place to begin making Sprint ION a reality in these major markets."

Sprint ION is the innovative new network that will enable Sprint to consolidate a business' disparate networks and to provide homes and businesses with virtually unlimited bandwidth over a single

existing connection, delivering simultaneous voice, video calls and data services. The result of five years of confidential work, Sprint ION is a combination of numerous technological advances that Sprint has been privately testing with both businesses and consumers for the past year.

"We've already built the network that will handle the advances we've announced. These agreements enable us to deliver the unique, high quality services and network intelligence that is at the heart of Sprint ION to our first customers," Esrey said. "While today's announcement is an important first step, it illustrates only the beginning of our deployment of Sprint ION. More cities and more features will soon be announced as our rollout builds momentum around the country."

Sprint has been privately testing the revolutionary Integrated On-Demand Network capability with both businesses and consumers for the past year. Today's announcement launches the large business rollout of Sprint ION, which will continue throughout 1998. The service will be generally available to medium and small businesses in mid-1999, with consumer availability late in 1999.

#### Infrastructure in Place in Seven Key Cities

New York, Chicago, Atlanta, Dallas, Houston, Denver and Kansas City have several key elements in place that made them logical choices for the initial deployment of Sprint ION. Those elements include broadband metropolitan area networks (BMANs) and a strong, established business customer base that can immediately benefit from Sprint ION.

While Sprint's long distance network is already built and covers the entire United States, BMANs are high-bandwidth fiber optic rings that encircle cities. These BMANs already enable Sprint to provide a variety of advanced services and are now being enhanced to enable new Sprint ION services to pass within proximity of 70 percent of large businesses in these cities.

Sprint has secured key BMAN access agreements from Southwestern Bell in Dallas, Kansas City and Houston. Sprint also has an additional agreement for BMAN access in Dallas from GTE. In Atlanta, Sprint has secured BMAN from BellSouth and Ameritech is providing BMAN to Sprint in Chicago. Agreements in New York and Denver are still being finalized and announcements will be made when appropriate. In total, Sprint already has access to BMANs in 25 major markets nationwide, and will have BMANs in a total of 36 major markets by the end of the year. For smaller business locations, telecommuters, small/home office users and consumers who may not have access to BMANs, Sprint ION supports a myriad of the emerging broadband access services, such as Digital Subscriber Line (DSL).

#### Customers Already on Board

Several major corporations already have committed to beta test Sprint's Integrated On-Demand Network services in the months to come, including Hallmark Cards, Sysco Corp., Coastal States

Management, Ernst & Young LLP, Silicon Graphics, St. Luke's-Shawnee Mission Health System, and Tandy.

Kansas City-based Hallmark Cards will be among the first to implement Sprint ION. "This is the kind of technological innovation that can truly deliver bottom-line results and give Hallmark a competitive advantage," said Jim Miller, vice president of information technology at Hallmark Cards. "Sprint's ION technology has the exciting potential to move Hallmark even closer to our customers by way of enhanced services, expanded communications, and lower costs. This potential is the driving force behind our decision to be one of the first customers to take advantage of the Sprint ION offering."

Said Larry Hardin, director of operations and communications, information services, for Houston-based Sysco Corp., "This will enable us to combine all of our traffic - voice, data and video - onto one path. Sprint is the first company to come to us with revolutionary technology like this that can be a reality so soon."

For these businesses, and others like them, Sprint ION offers a significantly more efficient communications solution than today's model. High-speed, integrated communications will be available to corporate locations, branch offices, small businesses and the small office/home office worker. The result is an enhanced virtual private network that enables applications such as collaborative product development, supply-chain management, distance learning and telecommuting.

#### What Does Sprint ION Do?

Businesses will no longer be required to manage numerous complex networks but can rely on a truly integrated network that consolidates voice, video and data traffic while reducing costs. Sprint's ION allows businesses to expand dramatically their local and wide area networks and dynamically allocate bandwidth, thus paying only for what they use rather than having to purchase a set high-bandwidth capacity that often sits idle. Sprint ION will also set a new industry benchmark for service reliability, utilizing Sprint's pervasive deployment of synchronous optical network (SONET) rings across the United States.

At home, customers will be able to conduct multiple phone calls, receive faxes, run new advanced applications and use the Internet at speeds up to 100 times faster than today's conventional modems- all simultaneously through a single connection. The need for multiple phone lines will be eliminated, and applications such as high-speed online interactive services, video calls and telecommuting will be readily accessible. Use of the Internet will be so fast that typical pages on the World Wide Web will pop up almost instantaneously.

Sprint is able to deliver this revolutionary new capability because its network supports a seamless, integrated service to the desktop over an Asynchronous Transfer Mode (ATM) backbone network. This network fabric provides the speed, flexible bandwidth, scalability, service consistency, security and telephone voice quality that no other protocol currently can deliver.

Sprint ION provides customers with robust voice, video and data services, along with the capability to customize multiple services, all combined with access to virtually unlimited bandwidth, available on demand, all the time, whether they are across town or across the country.

More information on Sprint ION is available at [www.sprint.com](http://www.sprint.com) or by calling 1-800-308-2140.

#### About Sprint

Sprint is a global communications company - at the forefront in integrating long distance, local and wireless communications services and one of the world's largest carriers of Internet traffic. Sprint built and operates the United States' only nationwide all-digital, fiber optic network and is the leader in advanced data communications services. Sprint has \$15 billion in annual revenues and serves more than 16 million business and residential customers.

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