Sprint

401 9th Street, NW, Suite 400
Washington, DC 20004

November 19, 2003

Marlene H. Dortch
Secretary
Federal Communications Commission
TW-A325
445 12th St., SW
Washington, D.C. 20554

Re: Ex Parte Presentation,
WC Docket No. 02-361

Dear Ms. Dortch:

Today, Dick Juhnke and I met with Bill Maher, Jeff Carlisle, Tom Navin, Josh Swift, Tamara Preiss, Jennifer McKee and Robert Tanner, all of the Wireline Competition Bureau, to discuss AT&T's petition for declaratory ruling regarding its phone-to-phone IP telephony service. Sprint's comments were consistent with its filings in these proceedings, and we urged expeditious action by the Commission. Sprint also distributed copies of a recent magazine article on VoIP (attached).

I request that this letter, which is being filed electronically, be placed in the file for the above-captioned proceeding.

Please contact me at (202) 585-1915 with any questions.

Sincerely,

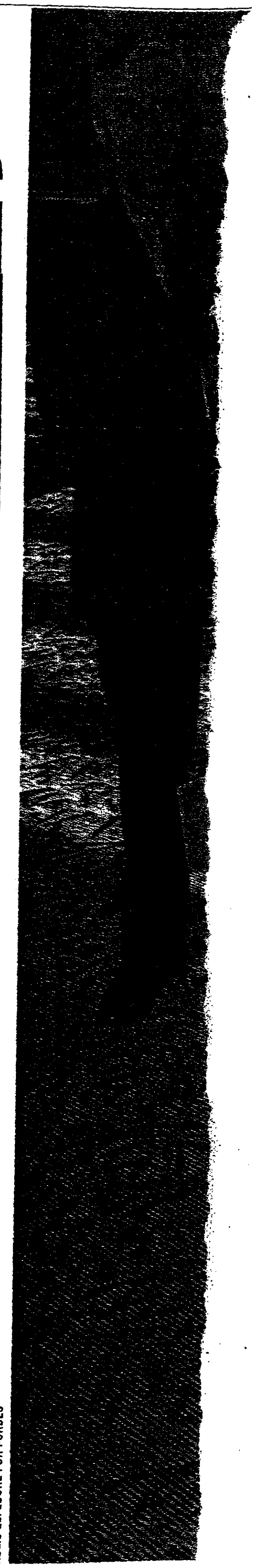
Norina Moy

Norina Moy
Director, Federal Regulatory
Policy and Coordination

c: B. Maher
J. Carlisle
T. Navin
J. Swift
T. Preiss
J. McKee
R. Tanner

Forbes
OCTOBER 13, 2003

SCREAMING MATCH



REGIS LEFEBURE FOR FORBES

Mike Capellas has done a remarkable job reviving MCI and giving it a future. Now if only rivals would let the company move beyond its fraudulent past.

BY NEIL WEINBERG

MICHAEL CAPELLAS HAS MOVED DAMNED FAST since taking over the scandal-scarred, left-for-dead remains of the former WorldCom less than a year ago. He has killed the old name and readopted MCI, pushed through a bankruptcy plan that will wipe out all but $5.5 billion of what had been $41 billion in debt and agreed to pay $750 million to settle civil fraud charges. He also has replaced the entire 11-member board, half a dozen senior executives and a hundred accounting people on duty when WorldCom ginned up $11 billion in false profits. And Capellas has set up a $200 million autopsy by 600 outside consultants, who are studying how it all happened—and putting in safeguards to ensure it can't happen again. Impressed, a federal judge in July rhapsodized that he had never seen a large company "so rapidly and so completely divorce itself from the misdeeds of the immediate past" and take "such extraordinary steps to prevent" a relapse.

So here's the troubling part: It may not be enough. For MCI to recover—and for Capellas to build his own legacy as a can-do cleaner-upper—he must navigate 15 pending investigations and reviews, and whip into shape a firm that even admirers admit is a sloppy patchwork of 70 acquisitions. Worse yet, MCI's new chief must fend off a torrent of attacks from rivals eager to see the company punished for past misbehavior; and they are working overtime to prove that MCI has continued its wayward practices even on Capellas' watch. "I did expect it to be noisy," he admits, "but no sane person could anticipate it would get *this* noisy."

The sniping from rivals began as soon as the company filed for Chapter 11 protection from creditors in July 2002. Verizon, in U.S. Senate testimony, labeled MCI a criminal enterprise—akin to a mafia clan—and urged liquidation. AT&T and others encouraged a federal court to reject MCI's big civil settlement with the Securities & Exchange Commission as insufficient, and filed a flurry of objections to its reorganization plan. AT&T lobbied to get MCI cut off from government work, and subsequently it was. SBC encouraged the Oklahoma State attorney general to file a criminal indictment against the reeling giant, and on Aug. 27 he did. Verizon funded a group that supported anti-MCI ads and protests on courthouse steps during MCI's SEC hearings. Verizon even distributed PowerPoint printouts at a recent national governors' conference, urging state leaders to oppose MCI's reorg because it dodged local taxes.

"This is the quintessential case for corporate prosecution," Verizon General Counsel William Barr told the Senate Judiciary Committee in July, "given the magnitude of the crime, the number of high-level executives involved, the pervasive culture of fraud and the total breakdown of internal controls."

Well said. The priority now for Capellas is to convince the world MCI is squeaky-clean. That task grew more difficult in May, when news broke that federal prosecutors were looking into allegations that MCI, since 1994 and before merging into WorldCom, had begun illegally disguising long-distance calls as local ones to avoid paying the Bells millions of dollars in access fees—and continues to do so.

Year Zero

$180 billion

6

600

$75 billion

15

Pursuing similar charges, AT&T filed its own racketeering suit against MCI in September. Verizon and SBC believe they have been likewise defrauded, and SBC says it handed evidence over to the U.S. attorney general's office. Capellas refutes AT&T's charges but has hired a Washington law firm to investigate all the allegations. For him, the stakes are sky-high: Unlike the previous accounting schemes, these charges concern practices on his watch.

"It's a huge new complication" for MCI, says James Cicconi, AT&T's general counsel. "It's one thing for accounting to make up numbers and another if it's discovered their entire network is programmed to defraud competitors when the premise of their bankruptcy emergence is that they're now clean."

It will be a hard sell. Stripped of accounting fraud, MCI would have failed to meet Wall Street forecasts in 12 of 13 quarters from 1998 to 2002; it actually ran a loss for the last five quarters. By classifying operating costs, which should be deducted immediately, as capital costs that are spread over longer periods, MCI posted an $800 million pretax profit over three quarters—instead of the $1.4 billion loss it really had. Six former executives are under criminal indictments.

Yet MCI's business is intact. It has 20 million household customers, and Capellas claims hands-on service for big clients has prevented a single major account from defecting (although FedEx, Goldman Sachs and Morgan Stanley have taken some business elsewhere). If MCI can emerge from Chapter 11 (it hopes to do so by year-end), it will have one of the cleanest balance sheets in telecom. It has $24 billion in annual sales, $1 billion in cash and operating income of $200 million a month.

What's more, Capellas has ratcheted up pressure on rivals this year by migrating 10% of MCI's phone calls from old circuit-switched networks—subject to those antiquated access fees—to the Internet, which is free of them. He aims to push Net traffic to 50% of all MCI calls next year and to almost a full 100% in 2005. That would hasten the end of $25 billion a year in access and other fees collected by the Bells for delivering calls over traditional networks (albeit MCI, for now, pays fees even on Internet calls).

It would save MCI around $5 billion annually in such fees. Combining voice, video and data on one network would cut billions more in operating costs and enable MCI to roll out a flurry of new services—voice mail that stores messages for home, office and cell phones for access via phone, computer or PDA. "Part of this fight is about MCI. Part is over the nature of the industry as it moves on," says Capellas. "There will be a new economic model and changing of the guard."

MCI is also spending upwards of $200 million completely reconstructing three years of faulty financials, as required by creditors and to prep MCI for a reappearance on a big stock exchange; it was delisted from the Nasdaq in July 2002.

Capellas is running the financial makeover out of a war room modeled after the one he used as chief of Compaq when it merged with Hewlett-Packard. Deep inside MCI's Ashburn, Va. headquarters, its walls are plastered with flow charts aimed at having hundreds of accounting tasks completed in time for its expected emergence from bankruptcy.

MCI Chief Financial Officer Robert Blakely has the auditors combing through dozens of past acquisitions, reconstructing all financial records and resubstantiating goodwill. They are rereading old board minutes to determine whether stock options were properly accounted for. Blakely aims to whittle 65 billing and 23 accounts-receivable systems down to a much smaller number. Another Capellas goal: raising operating profit margins from a paltry 10% closer to AT&T's 26%.

If Capellas can pull all that off, he will get to do the geeky stuff that really turns him on: launch a slew of new Internet-driven services, from central spam filters to home networks that consumers can control from a PDA anywhere in the world. WorldCom's disgraced former chief, Bernard Ebbers, made fun of people who used e-mail. But Capellas "is a chief technology officer at heart," says Vinton Cerf, MCI's technology chief and an early designer of the Internet. "He wants to get into the business and the remarkable opportunities of our network." That, anyway, is the promise—if only Mike Capellas can get past MCI's troubled past. F