ATTACHMENT 3

DECLARATION OF ERIC J. BRUNO AND
SHELLEY MURPHY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Verizon Communications Inc. and	)	
MCI, Inc.	)	WC Docket No. 05-75
Applications for Approval of	)	
Transfer of Control	)	

DECLARATION OF ERIC J. BRUNO AND SHELLEY MURPHY

1. My name is Eric J. Bruno. I am the Vice President, Product and Portfolio Management, Enterprise Solutions Group, for Verizon. In this role, I am responsible for product management, portfolio management, offer planning and development, lifecycle management, forecasting, and market program prioritization, for all of the products and services Verizon offers to its largest commercial and institutional customers. Previously, I was the Vice President, IP Offer Management, Enterprise Solutions Group, for Verizon. In this role, I was responsible for Internet Protocol ("IP") offer planning and development, lifecycle management, forecasting, pricing and implementation. I have more than fifteen years of experience in the communications industry with significant assignments in business market strategy, competitive planning and response, market management, large business sales, and long distance.

2. My name is Shelley Murphy. I am Vice President, Federal Market Sales, Enterprise Solutions Group for Verizon. In this role, I am responsible for the development and implementation of effective sales strategies to retain and grow Verizon business with civilian and military agencies of the federal government. I have more than ten years experience in enterprise sales and marketing in the communications industry.

Introduction

3. The purpose of our declaration is to describe the impact that the combination of Verizon and MCI would have on the provision of retail communications services to commercial and institutional customers. Commercial and institutional customers include large enterprises – including Fortune 1000 companies, federal and large state government customers, and large public institutions like universities – and medium-sized business customers, including most state and local governments. Commercial and institutional customers represent one of the largest and most valuable segments of the telecommunications industry, and there is intense competition for these customers. Verizon was historically precluded from providing any of the interLATA services that commercial and institutional customers demand, and remains a small player among many larger players serving large enterprise customers. This transaction will be overwhelmingly pro-competitive insofar as commercial and institutional customers are concerned, by creating a strong, full-service competitor that is better equipped to compete with AT&T, Sprint, and a growing list of other significant rivals to serve the communications needs of commercial and institutional customers. The integration of Verizon's strong local network with MCI's nationwide and international facilities will result in better network management capabilities for commercial and institutional customers and will provide increased quality of service. Furthermore, Verizon will bring unquestioned financial stability to back and invest in network resources used to serve commercial and institutional customers, as well as in network resources that play a critical role in government and national security infrastructure.

4. By the same token, the combination will not decrease competition in this segment, which is already and will continue to be fiercely competitive. The commercial and institutional segment is characterized by conditions that are ideally suited to rigorous competition.

Traditional local and long-distance voice services are now an increasingly insignificant part of commercial and institutional communications spending. Instead, commercial and institutional customers demand integrated communications solutions, which include a range of voice and data services, including data transport and complex data networking, IP/Virtual Private Network ("VPN") services, as well as equipment and professional services. Just as the computer industry has moved from a concentration on sale of hardware to a focus on business solutions, the communications industry has moved in the same direction. As a result, companies like IBM, Accenture, EDS, Lockheed Martin, CSC, General Dynamics, and Northrup Grumman now compete directly with traditional communications companies to address commercial and institutional communications needs. Those competitors can in turn work with a variety of partners and wholesale providers for underlying telecommunications capabilities. Commercial and institutional customers are also highly sophisticated purchasers, and are able to negotiate lower prices and volume discounts through bidding and other techniques.

Description of the Commercial and Institutional Segment

5. Verizon's Enterprise Services Group manages Verizon's customer relationship with large enterprises, including the federal government, and with medium-sized business customers, including state and local governments, that spend at least $100,000 annually on communications services. Commercial and institutional customers are usually served under individually negotiated contracts and demand sophisticated communications capabilities. These customers generally seek a single primary provider that can meet their end-to-end service needs across metropolitan areas, states, and often countries.

6. Verizon defines large enterprise customers to include large commercial, institutional, and government entities, such as Fortune 1000 companies; universities and

financial concerns; and various entities of federal, state, and local government. Large enterprise customers, not including governments, account for approximately one-third of the overall $155 billion spent on telecommunications services by U.S. businesses.[1]

7. Large commercial enterprise customers require telecommunications that provide connectivity and management services among various locations throughout the country, and often throughout the world. This is because large businesses have geographically expansive corporate operations. Large businesses tend to locate the headquarters of their operations in densely populated metropolitan areas and commercial districts. As a result, large enterprise customers tend to be concentrated in the downtown business districts of major cities. In addition, because of their size, large enterprise customers often have satellite locations, branch offices, or other facilities located in major metropolitan areas and commercial districts throughout the United States (and, in many cases, around the world). These satellite locations and branch offices may be located close to the main office or facility, or hundreds or thousands of miles away from it. These satellite locations and branch offices tend to generate large volumes of traffic on their own and, therefore, often require dedicated high-capacity telecommunications facilities.

8. Medium-sized business customers are not as large as the large enterprise customers described above but they are unlike small business customers in that they either require customized packages of communications services or they purchase off-the-shelf products on a significantly larger scale in combination with other services. This segment also includes most state and local governments. These customers use many of the same communications services as large enterprises, but their operations tend to be more localized or regional in scope.

[1] R.D. Lynch, *et al*., Lehman Brothers, *Enterprise Telecom Services* at 15 (Nov. 11, 2003) (attached as Exhibit 1); *see also* K. Barney, In-Stat/MDR, *Share of Wallet?: Telecom Trends and Expenditures in the US Business Market, Part One: US Enterprises (1,000+ Employees)* at 18 (Aug. 2004).

9. Commercial and institutional customers rely heavily on telecommunications services to perform their own mission-critical applications. Commercial and institutional customers use multiple voice, video, and data services, including local and long distance voice service; Asynchronous Transfer Mode (ATM), Frame Relay, or other packet-switched data services; dedicated private lines; Wide Area Network ("WAN") services; wireless services; data backup, storage, and retrieval services; and provisioning and maintenance services for telecommunications equipment. Many commercial and institutional customers purchase bundles that include many or all of these services.

10. Verizon's own estimate is that spending on traditional voice services makes up only about 30% of commercial and institutional spending on communications services, and that voice services are declining in absolute terms and as a percentage of overall commercial and institutional communications spending. Spending on core data transport is likewise stagnant. By contrast, two other aspects of commercial and institutional services – emerging IP services and CPE/integration services – are growing. Analysts have found that spending on wireless services – voice and data – is likewise growing rapidly.[2]

11. Because of the amount of telecommunications traffic commercial and institutional customers generate and because of their need for the most reliable and sophisticated services, commercial and institutional customers also rely heavily on dedicated high-capacity telecommunications services. In Verizon's experience, large enterprise customers are the primary retail purchasers of high-capacity services among Verizon's retail customers.

12. Large enterprises, and many medium-sized businesses as well, generally request bids for their enterprise-wide communications needs. Communications providers are free to bid

[2] J. Armstrong, *et al.*, Goldman Sachs, *US Telecom Services* at 10 (Mar. 2, 2005) ("wireless is where the growth is").

on an entire contract or on pieces of a contract. However, because commercial and institutional customers require sophisticated high-capacity services that provide end-to-end connectivity across broad geographic areas, commercial and institutional customers often seek one primary communications service provider that is capable of serving the bulk of their communications needs on a nationwide basis. This enables the commercial and institutional customer to shift the burden of assembling far-flung network capabilities to the provider while creating a single point of accountability for the customer. Large enterprise customers often employ their own internal telecommunications specialists to evaluate, select, and manage their telecommunications vendors and to negotiate contracts to obtain the fastest, most reliable service for the lowest costs. Medium-sized business customers may utilize the services of consultants to negotiate the most competitive communications services packages. Commercial and institutional customers also negotiate with additional providers to ensure that there are one or more secondary providers available to ensure redundancy and price competition among suppliers.

13. The federal government shares many of the characteristics of large businesses – and is therefore encompassed within the term "large enterprise" – with the important difference that the federal government also requires infrastructure specifically designed for national defense and homeland security applications. Like large commercial enterprises, the government generally puts out requests for proposals ("RFPs") for large communications services contracts that may cover multiple government agencies or specific departments. Those contracts may be larger than even the largest commercial contracts, and the contract cycles are also longer. In addition, service providers may be approved as suppliers through Indefinite Delivery Indefinite Quantity ("IDIQ") contracts, which allow those suppliers to sell services to the federal government.

Current Competitors

14. There is robust competition throughout the commercial and institutional segment, as a diverse group of providers compete to provide a variety of communications services to these customers. Broadly speaking, traditional IXCs – AT&T, MCI, Sprint, and Qwest – compete with system integrators and international telecommunications firms for the bulk of large enterprise communications services spending. ILECs have been distinctly secondary players in the large enterprise segment. The IXCs and system integrators compete to serve medium-sized businesses as well, with additional CLECs and DLECs also competing actively in this segment.

15. No telecommunications carrier in the United States, including Verizon and MCI, has ubiquitous high-capacity telecommunications facilities that are capable of serving all the needs of commercial and institutional customers. As a result, all retail service providers must depend, to a greater or lesser degree, on multiple facilities-based carriers to create a network that can serve all of the needs of commercial and institutional customers. Furthermore, provision of underlying facilities is only one piece of the puzzle, because commercial and institutional customers demand integrated communications solutions that are likewise compatible with their overall information technology infrastructure.

16. To become a primary service provider for commercial and institutional customers, a provider must offer the full range of sophisticated telecommunications services that commercial and institutional customers require, including end-to-end connectivity among these customers' various locations, while ensuring high service quality service and reliability at competitive prices. An emerging trend that is reshaping competition in the large business market is the demand for "converged" services. Traditionally, voice and data were provided through separate physical networks. Converged services, by contrast, seek to offer voice, data, and (in

the future) video over a common network infrastructure rather than separate physical networks.[3] In particular, IP Virtual Private Networks ("IP VPNs") "are generating strong revenue growth" as customers migrate away "from legacy Frame Relay/ATM and private-line services" to these next-generation VPN services.[4] One survey estimates that IP VPN "will be the fastest growing managed service at a [compound annual growth rate] of 36 percent" and will "exceed all other managed services by 2007."[5] In this changing technological environment, there is intense competition among a wide variety of providers to serve the communications services needs of commercial and institutional customers.

17. Interexchange carriers have historically provided both voice and data services for commercial and institutional customers and have showed particular strength as the primary providers for large enterprise customers.

a. Among these carriers, which include AT&T, MCI, Sprint, and Qwest, AT&T has emerged as the largest competitor. AT&T's legacy long-distance network, combined with its historical relationships with commercial and institutional customers, make it well suited to meeting those customers' sophisticated needs. More over, since 1997, AT&T has acquired a leading provider of local telephone service to business customers (TCG), and acquired a leading provider of global data networking services (IBM Global Network). As a result of these and other investments, AT&T has a substantial lead over other carriers in large enterprise customer revenues.

[3] Converged Access, *Implementing Business Quality VoIP in a Global Enterprise*, http://www.convergedaccess.com/solutions/voice-over-ip/implementing-business-class-voip.htm.

[4] In-Stat/MDR Press Release, *IP VPN Services Continue to be Winners for Providers* (Feb. 7, 2005).

[5] M. Schoener, *et al.*, Gartner, *Fixed Public Network Services, United States, 2001-2007: Market Trends* at 13 (June 17, 2003).

b. Sprint is the third largest provider of telecommunications services to large businesses. Sprint is one of the largest carriers of Internet traffic in the country, is the third-largest provider of long-distance services based on revenues, provides wireless services nationwide, and also provides local service through its own or leased facilities in 36 states.[6] Moreover, Sprint offers a number of services geared toward large enterprise customers, such as Multi Protocol Label Switching ("MPLS") VPN,[7] VoIP for business,[8] and data services including ATM, Frame Relay, and dedicated private lines.[9] Ninety-six percent of Fortune 1000 companies rely on Sprint for combinations of voice, data, Internet, and wireless services.[10] Analysts have recognized that Sprint stands alone at present in being able to offer nationwide wireless service and nationwide wireline enterprise offerings.[11]

c. Likewise, Qwest offers long distance, data, Internet access, managed solutions and (within its 14-state franchise) local service to large business customers. Qwest's traditional telephone network is made up of both copper cables and fiber optic broadband cables and serves approximately 15.5 million access lines in 14 states.[12] Qwest also has a worldwide fiber optic broadband network extending approximately 155,000 miles (exclusive of its local network) to major cities,

[6] Sprint, Form 10-K (SEC filed Mar. 9, 2004).

[7] Sprint, *Sprint MPLS VPN*, http://www.sprint.com/business/products/products/MPLSVPN.jsp.

[8] Sprint, *VoIP: Unleash Saving and Possibilities*, http://www.sprint.com/business/products/products/voip.jsp.

[9] Sprint, *Networking*, http://www.sprint.com/business/products/sections/networking.jsp.

[10] Sprint, *The PGA of America*, http://www.sprint.com/business/products/whySprint/cs-PGA.jsp.

[11] *See* J. Armstrong, Goldman Sachs, *US Telecom Services* at 5 (Mar. 2, 2005).

[12] Qwest Communications Int'l, Form 10-K (SEC filed Feb. 8, 2005).

enabling long-distance voice services and data and Internet services.[13] These facilities allow Qwest to provide commercial and institutional customers with end-to-end connectivity for our broadband data services to large and multi-location enterprises and other telecommunications carriers in key United States metropolitan markets.[14] In late 2004, Qwest began offering a nationwide commercial VoIP service to its business customers, and has expanded this offering to more than 100 cities.[15]

18. With the increasing complexity and utilization of IT and communications systems, large businesses are increasingly turning to network integrators to assess, plan, and manage their telecommunications systems. The need for network integrators is heightened by the need for extensive planning and management needed to create converged systems without having to create new physical networks from scratch. Network integrators thus provide managed services to large business customers, such as network design and operation. These companies typically purchase wholesale transport services from carriers. For example:

a. Electronic Data Systems Corp. (EDS) is the largest systems management firm in the United States. In the telecommunications space, EDS designs, builds, deploys and manages seamless network solutions that integrate voice, video and data; improves the effectiveness of data exchange in the supply chain; and delivers secure connectivity and smooth operations over both wired and wireless platforms. In recent years, it has won a number of significant contracts in which

[13] *Id.*

[14] *Id.*

[15] *See Qwest VoIP Service Available Nationwide*, Denver Bus. J. (Dec. 8, 2004).

companies have agreed to have EDS create and manage their integrated converged telecommunications network.[16]

b. IBM Global Services is the largest IT and consulting services providers in the world and has 180,000 employees in 160 countries.[17] The company is a key player in the provision of converged voice and data networks for large businesses and governments, including a recent contract with Lloyd's TSB bank to provide that company with converged voice and data systems, including 70,000 VoIP telephones. It is the largest European deployment of VoIP telephony to date and is worth nearly $1 billion over seven years.[18]

c. Accenture offers a range of management consulting, technology and outsourcing services to an international clientele that includes 84 of the Fortune Global 100 and two-thirds of the Fortune Global 500.[19] The company's Communications and High Tech arm posted $913 million in net revenue for 2004, the represents an 8 percent increase over the previous year's results and the highest of Accenture's five operating groups.[20] Systems integration is also becoming an increasingly vital and profitable part of the company's range of services.[21] Accenture recently

[16] *See, e.g.*, EDS Press Release, *Air Liquide Awards EDS Global Telecommunications Management Contract* (Jan. 16, 2003) (announcing that French company Air Liquide had awarded contract to EDS to create for the company a single converged network); EDS Press Release, *Belk Selects EDS To Manage Its Telecommunications Environment* (Nov. 19, 2002) (announcing contract with Belk, the largest privately held department store in the U.S.).

[17] IBM Global Services Press Release, *IBM To Acquire Corio* (Jan. 25, 2005).

[18] IBM Global Services Press Release, *IBM Wins Lloyds TSB Network Contract* (Dec. 6, 2004).

[19] Accenture, *Company Description*, http://www.accenture.com/xd/xd.asp?it=enweb&xd=aboutus/company/co_company.xml.

[20] Accenture News Release, *Accenture Reports Strong Fourth-Quarter and Full-Year Fiscal 2004 Results* (Oct. 13, 2004).

[21] J. Moore, *Accenture's Consulting Rebound Could Help Integrators*, Channel Insider (July 9, 2004) (Bill Green, Accenture's chief operating officer for client services, said the company's consulting business is seeing particular growth in the supply chain and customer services sectors, as well as merger and acquisition integration

announced plans to offer managed messaging services to large businesses and governments jointly with AT&T.[22] "We provide planning, design and analysis, implementation and migration and ongoing management for technologies that provide secure, real-time and asynchronous voice and data communications within and between client locations and to external entities."[23]

d. Cap Gemini Ernst & Young is one of the largest management and IT consulting firms in the world, and a leader in seamlessly integrating multimedia solutions into mobile operators' processes and IT infrastructure. In 2003, CapGemini teamed up with AT&T Wireless, Deloitte Consulting, Fujitsu Consulting, and Hewlett Packard to form a wireless systems integrator program, which offers business customers a complete mobile solution, from hardware and application, to strategy, integration and outsourcing.[24] In 2002, Cap Gemini was voted OSS World 2002's "Systems Integrator of the Year."

e. Northrop Grumman, historically known as an aircraft manufacturer, now has IT consulting work to account for a third of its $28 billion annual revenue. While the majority of this revenue came in military (70%) and federal (18%) contracts, 3% of Northrop Grumman's business is with domestic commercial organizations.[25]

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work. He said complex integration deals also have started to make a comeback. Green described the activity as classic envision/architect/design/build work. Over the past several years, organizations haven't spent much money on such projects, he added.), available at http://www.thechannelinsider.com/article2/0,1759,1663367,00.asp.

[22] AT&T News Release, *Accenture and AT&T Team to Provide Managed Messaging Solutions to Businesses and Government Agencies* (May 24, 2004) ("The new service combines the strengths of two of the world's largest and most experienced technology service providers, bringing together Accenture's technology integration capabilities with AT&T's hosting and networking integration expertise.").

[23] Accenture, *Infrastructure Outsourcing: Communications Services*, http://www.accenture.com/xd/xd.asp?it=enweb&xd=services%5Coutsourcing%5Cinfrastructure%5Ccapabilities%5Ccommunications.xml.

[24] AT&T Wireless News Release, *AT&T Wireless Forms Systems Integrator Program* (Mar. 18, 2003).

[25] Northrop Grumman, *Concerto Software, Inc. Partners with Northrop Grumman IT To Provide World-Class Service*, http://www.it.northropgrumman.com/home.asp?bid=1616#concerto.

f. General Dynamics historically was a leader in the commercial and military aerospace and maritime fields. Like many other companies, it has entered the IT sector. General Dynamics had a 2.9% share of the U.S. Government's systems integration contracts worth $428.2 million in 2003.[26]

g. Computer Sciences Corp. is a leading international IT services company that specializes in providing outsourcing, systems integration and consulting services. CSC is the largest systems integrator in the federal market, and they have also signed significant private sector contracts in 2004 with Britain's Royal Mail Group ($2.4 billion) and Sweden's SAS Airlines ($1.5 billion) among others.[27]

19. Network integrators have shown that they can compete successfully against traditional telecommunications providers. For example, in October 2004, system integrator Lockheed teamed up with AT&T, Hewlett-Packard Co., Hughes Network Systems Inc., and large local exchange carriers to become the comprehensive provider of managed network services to over 37,000 U.S. Postal Service locations. The $3 billion contract was awarded to Lockheed Martin over incumbent providers MCI and Sprint.[28]

20. Incumbent local telephone companies (ILECs), including Verizon, also provide service to commercial and institutional customers, including local voice and private line services. However, among the largest corporations and the federal government, ILECs have usually not played the role of primary communications services provider, because they were, until recently, unable to provide interLATA communications at all. Even today, ILECs cannot match the

[26] M. Hardy, *20 Top Systems* Integrators, Federal Computer Week (Sept. 20, 2004), http://www.fcw.com/fcw/articles/2004/0920/fed-20inte-09-20-04.asp.

[27] CSC, *At a Glance*, http://www.csc.com/aboutus/ataglance.shtml; CSC, *2004 Annual Report* at 18, 19.

[28] J. Miller, *USPS Taps Lockheed Martin for $3 Billion Telecom Contract*, Gov't Computer News (Oct. 14, 2004), http://www.gcn.com/vol1_no1/outsourcing/27505-1.html.

national and global reach of traditional interexchange carriers, and their focus on facilities-based services has generally put them at a disadvantage to system integrators that specialize in assembling multiple communications capabilities. For this reason, as discussed further below, Verizon has trailed far behind AT&T, MCI, and Sprint as the primary communications service providers for large enterprises.[29]

21. Competitive local exchange carriers (CLECs) also have a significant presence in serving commercial and institutional customers. (Global Crossing and Level 3, which operate as CLECs, are described elsewhere in our declaration.) Many of them have particular focus on medium-sized business customers. There are a large number of CLEC competitors with varying geographic reach. A few examples include:

a. XO Communications is the largest facilities-based CLEC in the U.S. XO has a substantial IP network and a private line network, each of which provides connectivity between major metropolitan areas across the United States.[30] Using these networks, XO provides an extensive array of voice, data, Internet access, security solutions, and integrated and managed services to Fortune 500 companies.[31] XO also competes actively for medium-sized business customers.[32]

b. US LEC Corp. is a super-regional telecommunications carrier providing integrated voice, data and Internet services to medium and large businesses and

[29] *See* J. Armstrong, Goldman Sachs, *US Telecom Services* at 7 (Mar. 2, 2005) ("Out-of-region traction has been limited for RBOCs").

[30] XO Communications, *XO Network*, http://www.xo.com/about/network/maps.html.

[31] XO Communications, *XO Products and Programs*, http://www.xo.com/products/.

[32] XO Communications, *Our Story*, http://www.xo.com/about/ourstory/index.html.

enterprise organizations throughout 15 Eastern states and the District of Columbia.[33]

c. PAETEC Communications, Inc., a national communications solutions provider specializing in IP-based services, has installed over 675,000 access line equivalents on its network as of September 30, 2004. This represents an increase of 166,200 access line equivalents in service over the September 2003 total.[34] PAETEC specializes in developing targeted solutions for medium and large businesses, governmental organizations, and affinity groups across North America.[35]

d. Time Warner Telecom is a leading provider of managed voice and data networking solutions for businesses in 22 states. The company has surpassed 5,000 buildings served directly by the Company's fiber network. It has increased its customer base to more than 10,000, driven by strong enterprise growth.[36] Time Warner focuses its marketing efforts on small and medium-sized businesses.[37]

22. There are a large number of additional CLECs operating in Verizon's region – including 360networks,[38] Electric Lightwave,[39] Con Edison Telecom,[40] Covad,[41]

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[33] US LEC News Release, *US LEC Expands in Virginia* (Jan. 20, 2005).

[34] PAETEC Press Release, *PAETEC Exceeds 675,000 Access Lines* (Oct. 14, 2004) (quoting Brad Bono, Co-Chief Operating Officer at PAETEC).

[35] PAETEC, *Target Industries*, http://www.paetec.com/2_1/2_1_3__1.html/.

[36] Time Warner Telecom Press Release, *Time Warner Telecom Announces Strong Fourth Quarter 2004 Results* (Feb. 1, 2005).

[37] Time Warner Telecom, *Integrated Business Line (iBL)*, http://www.twtelecom.com/cust_solutions/services/ibl.html.

[38] 360networks, *About Us*, http://www.360.net/About_Us/.

[39] Electric Lightwave, *About Us*, http://www.electriclightwave.com/about.html.

ITC^DeltaCom,[42] and Telephone & Data Systems.[43] These competitors all focus on or provide services to medium-sized businesses.

23. The provision of international telecommunications is also increasingly important service for large enterprise customers, as more of them expand overseas. A growing trend towards off-shore manufacturing and global sourcing, and outsourcing of service facilities such as call centers, have resulted in sharply rising international call volume. According to one study, international voice traffic grew 323% to 37 billion minutes from 1991 to 2001, and Trans-Atlantic and Trans-Pacific data traffic grew 3260% to 489 Gbps between 1998 and 2004.[44] According to International Data Corporation (IDC), US-based companies will triple their offshore outsourcing spending from $5.5 billion in 2000 to more than $17.6 billion in 2005.[45] Because of the growth in multinational operations, foreign telecommunications carriers are increasingly becoming significant competitors for the business of large enterprises, including those based in the United States. As with the rest of the sector, these companies are also focusing on converged technologies. For example:

Europe:

a. Equant, a part of the France Telecom Group, boasts the world's largest global network in terms of geographic coverage, spanning more than 160 countries and

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[40] Con Edison Communications, *Business Services*, http://www.conedcom.com/businessservices.cfm/.

[41] Covad, *Covad Corporate Brochure*, http://www.covad.com/companyinfo/docs/CovadCorpBrochure.pdf.

[42] ITC^DeltaCom, *Company Information*, http://www.itcdeltacom.com/Company_info.asp.

[43] Telephone & Data Systems, *About TDS Telecom*, http://www.teldta.com/tds-tele/index.html.

[44] *See* Converged Access, *Implementing Business Quality VoIP in a Global Enterprise*, http://www.convergedaccess.com/solutions/voice-over-ip/implementing-business-class-voip.htm (citing study by Telegeography Research).

[45] *IDC: Offshore Outsourcing Increasing from U.S.*, ITworld.com (Feb. 28, 2001), available at http://www.itworld.com/Man/2701/ITW_2-28-01_outsourcing/.

territories, nearly 1,000 cities and towns with more than 1,468 POPs worldwide.[46] Equant offers all core infrastructure services, ranging from pure connectivity & access to fully managed WAN & LAN.[47] Its MPLS-based IP VPN service is fully operational in more than 140 countries and allows customers to allocate bandwidth dynamically to voice, data and video over a single managed connection.[48] Equant has experienced significant growth, and now has one of the largest VoIP multinational customer bases in the industry.[49] Equant serves over 3,700 large business customers, including two-thirds of the top 100 companies in Business Week's "Global 1000" list for 2003, such as Ernst & Young, Hanjin Shipping, Japan Tobacco International, Le Meridien Hotels, and Zurich Financial Services.[50]

b. British Telecom ("BT") is also one of Europe's leading providers of large enterprise telecommunications services. BT's global network operates in over 200 countries across five continents, and it owns POPs in 14 major U.S. metropolitan areas.[51] It also plans expansion to seven additional cities in 2005.[52] BT recently completed its acquisition of Infonet, one of the world's leaders in the

[46] Equant, *Network Coverage*, http://www.equant.com/content/xml/about_network.xml.

[47] Equant, *Your Answers Here at Equant*, http://www.equant.com/content/xml/network_products_home.xml.

[48] Equant, *Build Your Business on a Solid Foundation*, http://www.equant.com/content/xml/network_products_managed_networks.xml.

[49] Equant Press Release, *Equant Reports Surge in Demand for VoIP among Multinational Corporations* (May 27, 2004).

[50] Equant, *About Equant*, http://www.equant.com/content/xml/who_we_are.xml.

[51] British Telecom, *Our Network*, http://www.btglobalservices.com/business/global/en/about_us/our_network/index.html.

[52] British Telecom, *Americas*, http://www.btglobalservices.com/business/global/en/about_us/around_the_world/americas.html.

provision of voice and data services. BT has also had success in providing managed services to U.S. businesses. In January 2005, BT announced that Bristol-Myers-Squibb had awarded BT a multi-year contract estimated at approximately €500 million to provide managed services and to migrate Bristol-Myers's world-wide LAN and WAN infrastructure to a new IP-based global MPLS infrastructure.[53]

c. Deutsche Telekom, Europe's largest telecommunications company, is also a major competitor in the United States through its T-Systems and T-Mobile subsidiaries. T-Systems now offers a MPLS-based Layer 2 service VPN solution which allows multinational companies to achieve a "virtual global presence" without the need to invest capital in additional backbone infrastructure. Last year, T-Systems entered into a partnership with Level 3 Communications to provide T-System's MPLS-based service to customers across Level 3's entire network. The partnership offers corporate customers a dense backbone network with more than 100 Points of Presence (PoPs) in the U.S. T-Systems boasts a complete solution for business customers, including corporate WANs, voice applications, disaster recovery networks, data overflow networks, video distribution networks, and IP backbones.[54]

d. COLT Telecom Group plc is a leading pan-European provider of business communications services and solutions. COLT boasts Metropolitan Area Networks in 32 European cities across 13 countries and a fully owned and

[53] *See Look Out Bells, Here Come the Brits*, Red Herring (Feb. 7, 2005), http://redherring.com/Article.aspx?a=11231&hed=Look+out+Bells%2C+here+come+the+Brits#.

[54] T-Systems Press Release, *T-Systems Expands Reach of MPLS-Based Network* (Mar. 4, 2004).

managed 20,000 km EuroLAN network that is one of the most advanced communications infrastructures in the world.[55] COLT offers a broad portfolio of network-centric Managed Data Services to business users, including IP VPN, Gigabit IP, Switched Ethernet, CPE, Internet, ATM/Frame Relay and SWIFT-based products.[56] COLT's Metropolitan Area Networks also deliver high capacity, high-speed bandwidth services to Europe's major business centers. COLT offers fully managed global network solutions via Network-to-Network Interface agreements with carriers worldwide, including the United States.[57]

e. KPN Telecom BV is a leading provider of telecommunications services to business customers is Europe. KPN's wholly owned EuroRings network is a state-of-the-art IP backbone with a seamless footprint extending across major business and financial centers in Europe and into the United States.[58] Through this network, KPN delivers a full range of carrier and corporate networking solutions, including IP transit, ATM, MPLS VPN, and IP VPN services.[59] For example, last year KPN won a major contract with ABN Amro, connecting more than 100 of ABN Amro Wholesale's locations in 50 countries across the globe.[60] KPN has recently been aggressively expanding its reach beyond Europe through partnerships with other carriers. In November, it announced a distribution and interconnection partnership with Singapore Telecom ("SingTel"), which will give

[55] COLT, *Network Map*, http://www.colt.net/coltinteractive_map.

[56] COLT, *Managed Data Services*, http://www.colt.net/products_services/managed_network_services.

[57] COLT, *Global Map*, available at http://www.colt.net/coltinteractive_map.

[58] KPN, *EuroRings Network*, http://www.kpn.com/kpn/show/id=355890/sc=103bdf.

[59] *See id.*

[60] KPN Press Release, *KPN Announces Global Network Contract With ABN Amro* (Apr. 29, 2004).

both companies access to more than one thousand Points-of-Presence (PoPs) that around the world.[61] It also announced a partnership with Siemens Communications in which Siemens will provide IP network elements and application platforms (IMS, IP Multimedia Subsystem) to KPN.[62]

Asia:

f. Nippon Telegraph and Telephone (NTT) is the largest telecommunications company in the world, and competes for business customers in the United States through its subsidiaries, NTT America and Verio. Verio was the largest web hosting provider in the world when NTT acquired it in 2000, with customers in over 170 countries.[63] Together, NTT/Verio provide traditional business telecommunications services, including voice, frame relay, ATM, and VPN, along with IP services, including hosting and high-bandwidth connectivity.[64]

g. SingTel is second in size only to NTT in the Asian-Pacific Telecommunications market. SingTel has one of the most extensive regional points of presence with 12 robust and secured data center facilities located in six countries: Australia, Hong Kong, Japan, Singapore, South Korea and Taiwan.[65] Moreover, SingTel has marketing alliances in China, India, Indonesia, Malaysia, the Philippines, Thailand, the U.K., and the U.S. that give it broad international reach.[66] Since

[61] *Singtel and KPN Offer Global MPLS VPNs*, Converge! Network Digest (Nov. 25, 2004), http://www.convergedigest.com/Bandwidth/newnetworksarticle.asp?ID=13063.

[62] Siemens Press Release, *KPN Chooses Siemens as IP Partner* (Dec. 17, 2004).

[63] Verio, *Background Information*, http://www.verio.com/about/corporate/background.cfm.

[64] Arcstar, *Arcstar Global Bandwidth Service*, http://www.nttamerica.com/arcstar/network/bandwidth.html; Verio, http://www.verio.com.

[65] SingTel, *EXPAN Data Centres*, http://business.singtel.com/mnc/managed_hosting/points_of_presence/expanDatacentre.asp

[66] *See id.*

1993, when it established its U.S. subsidiary, SingTel USA, SingTel has offered an extensive suite of voice and data services to U.S. customers seeking seamless connections to Asia through a single carrier.[67] These services include International Toll-Free Service (ITFS), International Private Leased Circuit, Frame Relay, ATM, IP VPN, Internet Access, and Managed Hosting Services.[68]

24. The trend toward converged communications has resulted in the growth of data and IP network providers that deliver IP VPNs, hosting, IP voice, and application services to large and medium-sized business customers. For example:

a. Savvis Communications is one of the largest IP network and hosting providers in the world. It provides full-scale outsourced IT solutions and now serves as the managed network provider for a large number of customers in the retail, financial services and media industries.[69] In 2004, Savvis doubled its size by purchasing Cable & Wireless of America, which provides hosting, consulting, and managed services to Fortune 500 companies.[70] Savvis was recently ranked as the #2 provider in the provision of VPNs, trailing only AT&T, and ahead of MCI.[71]

b. Broadwing Corp. also owns an advanced fiber-optic network connecting over 100 cities in the United States.[72] It uses this network to offer a comprehensive array of data and voice communications services, including voice, Internet access and

[67] SingTel, *SingTel USA*, http://business.singtel.com/singtel_us/default.asp.

[68] *See id.*

[69] *Utility Services Seen Gaining Steam*, Network World (Dec. 21, 2004), available at http://www.planet1comm.com/announcements/2005/Utility%20Services%20Seen%20Gaining%20Steam%20(Network%20World%20-%2012.04).pdf (visited Feb. 25, 2005).

[70] Savvis, *2003 Annual Report* at 5.

[71] *See* WAM!NET Press Release, *IDC and In-Stat/MDR Rank Savvis as Second Largest Hosting Services and IP VPN Services Provider, Respectively* (July 27, 2004).

[72] Corvis Corp., Form 10-K (SEC filed Mar. 15, 2004).

data networking, to multi-location large enterprise customers.[73] Its optically-enabled IP backbone allows it to provide dedicated Internet (nationwide as well as international), IP VPN, as well as private data networking such as nationwide and international private line, Frame Relay, and ATM.[74]

c. Level 3 Communications built an advanced IP backbone with coverage across the United States and Europe, and its network includes nearly 1 million miles of fiber in 99 metropolitan areas including over 150,000 miles in Europe.[75] Level 3 offers a comprehensive range of communications services designed to meet the needs of the top global bandwidth customers, including large enterprise customers. These service offerings include: Softswitch based services including managed modem for the dial-up access business, business-oriented VoIP services, IP and data services and broadband transport services such as wavelengths, dark fiber, private line services including transoceanic, backhaul, intercity, metro and unprotected private line services, field technical services and collocation services.[76] In addition to being a leading wholesale provider of IP services, Level 3 continues to expand its addressable market by offering communications services to large enterprise customers through distribution partners.[77]

d. Global Crossing also offers IP VPN, VoIP services, managed services, and other IP-based products through its worldwide optical cable network of over 100,000

[73] *Id.*

[74] *Id.*

[75] Level 3 Communications, *The Level 3 Network*, http://www/level3.com/673.html; Level 3 Communications Corp., Form 10-K (SEC filed Mar. 15, 2004).

[76] Level 3 Communications, *Services*, http://www.level3.com/3383.html; Level 3 Communications Corp., Form 10-K (SEC filed Mar. 15, 2004).

[77] Level 3 Communications Corp., Form 10-K (SEC filed Mar. 15, 2004).

route miles connecting more than 300 cities in 30 countries.[78] The network includes 19,000 route miles of fiber in the U.S. and Canada, and 20,000 in Western Europe and the U.K.[79] The network has roughly 800 POPs in 200 cities around the world.[80] Since emerging from bankruptcy in December 2003, Global Crossing has explicitly shifted its strategic emphasis toward enterprise customers.[81] It currently offers a full range of managed data and voice products to more than 40 percent of the Fortune 500 companies.[82]

25. All communications services depend in part on customer premises equipment; one trend for enterprise customers is the development of increasingly sophisticated on-site communications capability to replace services that were previously provided through the network.[83] In part for this reason, a variety of equipment manufacturers are also competing for large business customers. For example:

a. Siemens Communications Group, is one of the largest players in the global telecommunications industry. Siemens's Enterprise Networks division is a strong competitor in the large business telecommunications space. It boasts over 1 million customers globally, including 70% of Fortune 500 and Euro Stoxx 50 companies.[84] Siemens offers a variety of converged communications solutions,

[78] Global Crossing, *Company*, http://www.globalcrossing.com/xml/global/gl_company.xml; Global Crossing Ltd., Schedule 14A (SEC filed Feb. 5, 2005).

[79] Global Crossing Ltd., Form 10-K (SEC filed Mar. 26, 2004).

[80] *See id.*

[81] Global Crossing Ltd., Form 10-K/A (SEC filed Oct. 8, 2004).

[82] Global Crossing Press Release, *Global Crossing Brings Converged IP Solutions to Financial Services Customers* (July 1, 2004).

[83] *See* T. Valovic, *et al.*, IDC Research, *U.S. Hosted IP Voice Forecast and Analysis, 2002–2007* at 1, 19 (Feb. 2003).

[84] Siemens Enterprise Networks, *Corporate* Overview, http://enterprise.usa.siemens.com/company/news/corporate.htm.

including real-time IP systems, security systems, customer interaction solutions, and voice, data, and messaging systems, for enterprise customers.[85]

b. Lucent Technologies has also committed to increasing its presence in converged network services — specifically, mobile high-speed data, VoIP, broadband, and next-generation optical networking.[86] Lucent already provides a host of telecommunications services for business customers, including, among other things, its IP Centrex product, which is a fully managed service that combines the functionality of Centrex with the benefits of VOIP.[87] Lucent also provides managed data services including ATM, Frame Relay, and Ethernet-over-Sonet to business customers. In 2004, Lucent also acquired Telica, a privately held VoIP provider.[88] Lucent is now poised to become a leading provider of multimedia voice, video and data services to large enterprise customers.

26. The nation's major cable operators are now actively pursuing commercial and institutional customers. Cable operators originally focused on small businesses, but they have broadened their reach to offer individualized services to medium-sized businesses and even to large enterprise customers. Cable operators are providing high-capacity services to business

[85] Siemens Enterprise Networks, *Products, Solutions &* Services, http://enterprise.usa.siemens.com/products.html.

[86] *See* Lehman Brothers, *Lucent Technologies Company Update* at 1 (May 25, 2004); *see also* Lucent Technologies, Lehman Brothers, Global Wireless Presentation at 8, 16 (May 24, 2004), available at http://www.lucent.com/investor/presentation.html.

[87] Lucent Technologies, *IP Centrex for Enterprises*, available at http://www.lucent.com/solutions/ip_centrex.html.

[88] Lucent Technologies Press Release, *Lucent Technologies Completes Acquisition of Telica, A Provider of Next-Generation VoIP Systems for Service Providers* (Aug. 23, 2004).

customers both by deploying fiber to office buildings, and by extending their hybrid fiber-coax networks to business districts in order to provide cable modem services to business customers.[89]

a. Time Warner Communications is "delivering cost effective, high capacity access solutions to several Fortune 500 customers," and in the past year has "enjoyed a $60 million gain in business sector revenue . . . boosting their overall commercial take by 70%."[90] Among other products, it now markets Time Warner Cable Business Class Access Solutions, a suite of high-bandwidth connectivity options, including point-to-point and point-to-multipoint connectivity, with or without Internet access.[91] Time Warner Cable has signed on companies such as L.L. Bean and Fairchild Semiconductor International (FCS).[92]

b. Cox Communications has "launched . . . a new integrated marketing campaign to inform and drive demand among Enterprise and Fortune 500 companies"; the company generated $287 million in commercial sales in 2003, and has launched a new marketing effort to "boost commercial revenue by more than 20% this year, a jump of more than $50 million."[93] In 2004, Cox announced that it had signed

[89] *See UNE Fact Report 2004* at III-36 to III-38 & Table 19, WC Docket No. 04-313 & CC Docket No. 01-338 (FCC filed Oct. 4, 2004) ("*2004 Fact Report*").

[90] Time Warner Cable Commercial Services, *High Speed Internet Access*, http://www.twcbroadband.com/products/hsd.php; A. Breznick, *Cable Operators Show They Really Mean Business*, Cable Datacom News (Sept. 2004), http://cabledatacomnews.com/sep04/sep04-2.html.

[91] Time Warner Cable, *Enterprise Technology*, http://www.twcbroadband.com/solutions/enterprise.cfm.

[92] E. Sheng, *Cable-Baby Bell Competition Heats Up in Business Services*, Dow Jones News Service (Mar. 31, 2004), available at http://www.lightpath.net/Interior33-4.html.

[93] Cox Business Services Press Release, *Enterprise Presents Even "Bigger" Opportunity for Cox Business Services in 2004* (Mar. 29, 2004); A. Breznick, *Cable Operators Show They Really Mean Business*, Cable Datacom News (Sept. 2004), http://cabledatacomnews.com/sep04/sep04-2.html.

contracts to provide telecommunications services to business customers including MGM Mirage (MGG) resorts and Chesapeake Energy Corp. (CHK).[94]

c. Cablevision Systems Corp. has been in the business services market longer than most, and boasts 4,800 business customers concentrated in the health-care, financial services and government sectors.[95] The company recently announced that "[d]uring the fourth quarter, we continued our roll-out of Metro Ethernet and optimal transport services to corporations, financial firms and educational institutions. Looking ahead to 2005, we expect commercial data sales will continue to drive revenue growth and Metro Ethernet, our all IP service, will be a key focus for Lightpath's service offering."[96]

d. Charter Cable is also moving "'up-market' to compete in Enterprise RFP environment."[97]

Current Competitive Dynamics

27. As the foregoing survey illustrates, commercial and institutional customers face an increasingly diverse array of potential suppliers. Trying to determine the relative strength of any particular competitor for commercial and institutional customers is complex and subjective. Nevertheless, while available data are inconsistent and sometimes contradictory, a few clear conclusions emerge.

28. *First*, system integrators are capturing a rapidly increasing share of commercial and institutional revenues. For example, one Yankee Group study showed that 10% of surveyed

[94] E. Sheng, *Cable-Baby Bell Competition Heats Up in Business Services*, Dow Jones News Service (Mar. 31, 2004), available at http://www.lightpath.net/Interior33-4.html.

[95] *Id.*

[96] Cablevision Systems Corp., 4Q 2004 Earnings Conference Call (Feb. 23, 2005).

[97] D. Chang, EVP, Finance & Strategy, Charter Communications, presentation before the JP Morgan High Yield Conference, at 23 (Feb. 2, 2004).

businesses reported that a system integrator was its primary communications service provider in 2004.[98] Likewise, in the government sphere, systems integrators have emerged as leading competitors, with General Dynamics and CSC trailing only AT&T and MCI as prime contractors.[99]

29. *Second*, among large enterprise customers, Verizon has made only limited inroads as a primary provider. Verizon did not register among the top providers in the Large Enterprise segment in one 2003 survey.[100] Verizon's own experience has been that Verizon has limited resources to bid as a primary provider for large enterprises with out-of-region headquarters, and even for those with in-region offices.

30. *Third*, competition in this segment remains fluid because of the entry of new carriers and new technologies. As many competitors in this space have warned investors, the emerging telecommunications market is characterized by rapidly changing technology, evolving industry standards, changing customer needs, and frequent new product and service introductions.[101] The introduction of lower cost alternatives both spurs innovation and forces reduction of prices in existing technologies. As a result of rapid technological change, the most significant competitors in the future may be new entrants to the telecommunications industry or existing providers that upgrade equipment with new technologies.

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[98] S. Hackett, The Yankee Group, *The State of the Enterprise* at 28 (Nov. 30, 2004).

[99] Federal Sources, Inc., http://www.fedsources.com/index.asp.

[100] R.D. Lynch, *et al.*, Lehman Brothers, *Enterprise Telecom Services* at 15 (Nov. 11, 2003).

[101] *See, e.g.*, Global Crossing Ltd., Form 10-K (SEC filed Mar. 26, 2004) (warning that "[t]echnological advances and regulatory changes are eroding traditional barriers between formerly distinct telecommunications markets, which could increase the competition we face and put downward pressure on prices"); Savvis Communications Corp., Form 10-K (SEC filed Mar. 4, 2005) (warning investors that Savvis "expect[s] that new competitors will enter the data networking, Internet access and hosting markets," including "computer hardware, software, media and other technology and telecommunications companies, as well as satellite and cable companies," and that "[n]ew technologies or industry standards have the potential to replace or provide lower cost alternatives" to existing products and services).

The Transaction Will Benefit Commercial and Institutional Customers

31. The combination of MCI and Verizon will allow the seamless use of the two companies' complementary assets and product offerings in voice, data, and emerging services. This will result in the availability of a global broadband infrastructure capable of providing end-to-end network management and managed voice, data, and advanced IP solutions to commercial and institutional customers. Furthermore, Verizon brings the financial wherewithal to invest substantially in the MCI's network assets. The transaction will provide an additional benefit to the federal government by bringing financial stability to back MCI's network assets that are critical to national defense and homeland security.

32. At the level of network assets, the two companies' assets are almost entirely complementary. Verizon has substantial local fiber in region. Verizon Wireless has one of the most advanced wireless networks in the country, and a close working relationship with Verizon. MCI, by contrast, has a global fiber optic long-distance network; a global IP backbone capable of providing IP connectivity for next generation VoIP and other IP based services; and global non-IP data capabilities such as private line and packet-switched data services such as ATM and Frame Relay. MCI's global Internet backbone touches more than 2,800 cities and 4,500 POPs, and covers 98,000 route miles.

33. The two companies likewise have different strengths at the level of service provision. Verizon's role in the large enterprise segment has been as a niche player providing local and regional voice service, as a wholesale provider of high-capacity circuits, and, in some cases, as a provider of CPE and professional services, including sale and installation of voice and data equipment. MCI, by contrast, is one of the leading providers of integrated communications solutions to large enterprises, and that experience has made MCI a leader in provision of IP/VPN

services, web hosting, network security, and applications management. Thus, MCI has added to its traditional strength as a provider of long-distance voice and data, including fast packet, capabilities.

34. Because the two companies' capabilities are almost perfectly complementary, the combined entity will be able to reap economies in a number of areas while accelerating the delivery of innovative services to large enterprises and government customers. And Verizon brings the ability to invest additional resources to enhance MCI's already strong nationwide IP network. Large enterprise customers (and in some cases medium-sized businesses as well) will thus benefit from (1) one-stop shopping; (2) enhanced IP-enabled services; (3) enhanced voice and data communications; (4) enhanced management of voice and data services; (5) enhanced investment and financial stability.

35. *One-stop shopping*: Commercial and institutional customers will be able to obtain from Verizon/ MCI a single point of accountability and comprehensive management of a full suite of services, including network & CPE, local and long-distance, wireline and wireless, legacy and IP, both domestic and international.

36. Commercial and institutional customers benefit from the ability to contract with a single communications provider, and development of these capabilities should assist the combined company to retain direct customer relationships with those customers. The need to contract with multiple providers results in inefficient duplication that consumes both human and financial resources. Between MCI's international services and MCI's and Verizon's national and local networks, the combined company will be able to offer a comprehensive, end-to-end, managed solution for large enterprise customers with international reach. Verizon/MCI will be

able to provide these customers with more complete and more robust offerings than either company can achieve on its own.

37. Customers will also benefit because the post-transaction company will be able to offer enhanced wholesale service to other carriers. As noted above, no competitor can provide all of the services and network capabilities that large enterprise customers demand. Competing providers – and, ultimately, commercial and institutional customers – benefit from the availability of an efficient wholesale supplier with a broader reach.[102]

38. *Enhanced IP-Enabled Services:* Although Verizon and MCI have obviously not begun any joint business planning, preliminary assessments of the capabilities of the two companies makes clear that the combined entities will offer opportunities for rapid innovation in emerging IP-based services that promise substantial benefit to consumers across the board.

39. Business customers and government purchasers will benefit from the combination of Verizon and MCI's capabilities in the most rapidly growing segment of the large enterprise sector: converged voice, video, and data services over a common IP infrastructure. As indicated above, large enterprise customers are increasingly demanding from telecommunications providers "a single converged network, capable of carrying both data and voice traffic today, and ready for video traffic in the future."[103] This converged network must provide quality of service, flexible bandwidth, private and public IP, any-to-any access solutions, and complementary CPE.

40. The Verizon – MCI combination will integrate both companies' product offerings in this emerging area and allow the combined entity to provide a stronger, and geographically broader, converged solution for large enterprise customers. Medium-sized businesses may also

[102] *See* Lew/Lataille Decl. ¶ 12 & Lew/Lataille Exhibits 4A-4B.

[103] Converged Access, *Implementing Business Quality VoIP in a Global Enterprise*, http://www.convergedaccess.com/solutions/voice-over-ip/implementing-business-class-voip.htm.

be able to take advantage of some of these solutions. Verizon currently has strong IP-based offerings within its area footprint. Verizon's MPLS IP VPN is the core of its Advanced Services network. Verizon's offerings, however, have limited reach, and Verizon thus is not currently a major provider of IP VPN services. MCI's core strength is its global IP backbone capable of providing IP connectivity for next generation VoIP and other IP based services nationwide and worldwide. The combined company will thus be able to offer converged IP-based solutions to large enterprise customers with nationwide and global needs, as well as to grow its application services on a broad-scale basis.

41. Furthermore, the combination will promote faster innovation, by enabling the combined entity to build on MCI's IP backbone and experience with IP-based services to deliver innovative services to customers. By giving Verizon access to MCI's base of large enterprise customers, the transaction gives Verizon the opportunity to deliver service innovations to large enterprise customers more quickly.

42. One benefit of the transaction will be to make "seamless mobility" closer to realization. The idea behind seamless mobility is that users should have access to all of their communications capabilities anywhere, at any time, with the ability to take advantage of the highest available bandwidth – whether that bandwidth is WiFi or WiMax, cellular, or landline. The combined entity will be able to extend that innovation and make it available to commercial and institutional customers more quickly than Verizon could achieve on its own.

43. *Enhanced Voice and Data Communications:* Large enterprise customers demand highly reliable, ubiquitous, secure, end-to-end voice communications as a core part of their telecommunications needs. Currently, Verizon's product suite includes robust intraLATA product offerings within its franchise area. Because of Verizon's historical franchise, it has

extensive in-franchise assets and coverage, a low in-franchise cost structure, and an existing customer base. By contrast, Verizon has limited national voice coverage, limited international capabilities, and limited 800 and advanced long-distance offerings. These are precisely MCI's strengths. MCI not only has a robust national long-distance and 800 portfolio, but also solid national and international reach. MCI also has significant assets in metropolitan areas outside of Verizon's franchise.

44. Together, the two companies' assets and product offerings will allow the combined company to offer a comprehensive voice network with global reach. It will also improve the cost structure of its network for commercial and institutional customers. In the future, MCI and Verizon will be able to reduce duplication of transport networks, switching architecture, and eventually operations centers. More efficient management of the companies' network will also result in lower operating costs. Moreover, the customer will gain the simplicity of being able to purchase a single end-to-end offering from a single provider. Customers will thus reap the benefit of an integrated, international voice solution.

45. The combination of Verizon and MCI's data networks will create similar efficiencies for commercial and institutional customers. Verizon's strengths in the data sector are its intraLATA private line and Fast Packet (Frame Relay, ATM, and Metropolitan Ethernet) services. As with voice, Verizon has high in-franchise service reach, and low in-franchise cost basis. Verizon lacks, however, comprehensive national reach, has little international data capabilities, and faces high out-of-franchise access costs. MCI's assets and capabilities directly complement Verizon's. MCI has strong national as well as international capabilities, as well as strong integrated managed services offerings. It also has significant local assets outside of Verizon's franchise.

46. By combining Verizon and MCI's complementary capabilities, the combined company will be able to offer a comprehensive global network. Specifically, the combined company will be able to provide connectivity between its respective Fast Packet networks, and thus create a more robust Fast Packet national and global network. Together, the two companies' private line networks will also position it strongly to better serve the telecommunications needs of large enterprise customers. As with voice, enterprise customers will reap the benefit of a better-managed data network with nationwide and international reach.

47. The international capability of the combined company in particular will strengthen Verizon and MCI's position in an increasingly globalized telecommunications marketplace. Globalization affects both the telecommunications needs of large enterprise customers and the availability of competitors to provide the needed resources. On the customer side, an increasing number of commercial and institutional customers require connectivity across international boundaries, thus increasing market pressure for companies to offer a comprehensive international solution. Moreover, as mentioned above, international telecommunications firms such as Equant, British Telecom, and Deutsche Telecom are expanding their businesses into the United States, in an effort to tap into the lucrative large enterprise market. The joint capabilities of MCI and Verizon will allow the combined company to be a premiere U.S. competitor in the globalized telecommunications market.

48. *Enhanced Management of Voice and Data Services:* The combination of Verizon and MCI's offerings will also lead to efficiencies in the provision of managed voice and data services. Commercial and institutional customers increasingly demand end-to-end managed voice and data solutions that remove management obstacles for customers. In these areas, both Verizon and MCI have significant strengths. Through the combination of Verizon and MCI's

existing strong product offerings, the combined company will be able to achieve a fully integrated managed voice and data solutions on a national and international basis. Combining the two companies' offerings will thus give the combined entity to offer these managed solutions globally, extending the company's ability to compete for the business of large multinational corporations.

49. There will also be benefits at the network level. Although combining together the piece parts of a total service — through a combination of ownership, partnerships, and resale — has been shown to provide a viable basis for competing, one disadvantage of these recombined offerings for the customer is a loss of transparency in network management. Disaggregated ownership of the pieces of the network precludes a carrier from imposing standardized quality of service and other management protocols across the entire network. Verizon's strong in-franchise local network together with MCI's global fiber-optic and broadband networks will allow the post-transaction company not only to provide end-to-end connectivity to the customer, but also to offer comprehensive network management capabilities as well.

50. *Enhanced Investment and Financial Stability*: The combination of Verizon and MCI will also allow Verizon to bring to bear greater financial resources to invest in innovative broadband networks nationwide. MCI's nationwide IP backbone is a critical asset, and the combined entity will have the resources to maintain and build upon that asset to ensure that it remains state-of-the-art. Verizon likewise has the capability of investing in the Operations Support Systems to make innovative services a commercial reality.

51. Verizon has a demonstrated track-record of competition through investment and innovation. In consumer wireline services and wireless networks, Verizon has invested billions of dollars to upgrade networks and services. Verizon intends to bring the same strategy of

investment and innovation to serving commercial and institutional customers. Verizon has already committed to investing $2 billion in MCI's network and information technology platforms. That investment will benefit all institutional and commercial customers.

52. This benefit is particularly significant for government purchasers. MCI provides critical network infrastructure for both civilian agencies and the department of defense. Verizon brings financial stability to back those assets and to ensure continuity in this critical area.

The Transaction Will Not Reduce Competition

53. The combination of Verizon and MCI will not reduce competition for commercial and institutional customers. Although Verizon has begun efforts to compete as a primary communications service provider for large enterprises and the federal government, its success in the area has been limited and it would remain a minor player in this arena for years. By contrast, the areas where Verizon is strongest – local access and CPE/professional services – are those where MCI plays a secondary role. Likewise, while Verizon has a greater share of the medium-sized business segment in-region because of those customers' greater emphasis on local and regional communications needs, MCI has a relatively smaller share of that segment.

54. Furthermore, after the transaction, the commercial and institutional segment will remain extremely competitive. Verizon/MCI would still be a smaller player than present-day AT&T (not to mention SBC/AT&T) in the commercial and institutional space generally and especially in the large enterprise segment. The presence of a variety of carrier and non-carrier competitors in the commercial and institutional segment ensures that those customers will continue to benefit from fierce competition.

55. *Limited Overlap:* Historically, Verizon has not been a major player in the highly competitive large enterprise market, either within Verizon's own region or outside its region.

This was due originally to the fact that Verizon was generally precluded from providing interLATA services. As discussed above, large enterprise customers generally require connectivity among branch offices and satellite locations located across the country, which in most cases requires an interLATA component. Since Verizon could not, until recently, offer interLATA transport between large enterprise customer premises in one area of its serving territory (New York City for example) and other locations in another part of its serving territory (Baltimore, for example), Verizon could not provide the majority of the high capacity services, such as end-to-end high capacity private line, ATM, or Frame Relay services, that large enterprise customers require. Verizon was likewise precluded from providing interLATA services that originated in its region and terminated at points outside its region (Chicago, for example).

56. Moreover, the regulatory limits to which Verizon was historically subjected have meant that Verizon has been late in developing certain network assets that are important to the servicing of medium-sized and large business and government customers. For example, Verizon has been late in developing the facilities necessary to connect customers across local areas, both nationally and internationally. Verizon's Enterprise Advance network reaches 56 metropolitan areas, but it remains small relative to the long-haul networks of other major competitors. Verizon also is not a major provider of IP VPN services, which are one of the fastest growing data services among large enterprise customers.

57. Verizon has competed actively for this business against varied and numerous rivals, in the wake of obtaining authority to provide interLATA services. Because of the degree of competition and regulatory impediments faced by Verizon, however, Verizon has achieved only limited success in serving these customers to date. As one analyst recently commented,

"enterprises, especially at the high end, are only slowly giving the RBOCs more market share."[104]

58. In the medium-sized business segment, while Verizon has made significant competitive strides in its own region, it has not been a significant player out of region. MCI, for its part, has shown less strength serving mid-tier of business. One recent survey of mid-tier businesses – defined as those with between 100 and 1,000 employees – showed that just 3.5 percent of them named MCI has a primary communications provider.[105] By contrast, AT&T was named as a preferred provider by 16.4% of those businesses. And many national and regional CLECs and DLECs compete actively for medium-sized business customers. There will thus be a limited impact on competitive options for medium-sized business as well.

59. This lack of overlap is clearly illustrated in the federal government area. In recent years, during which the federal government has put out a number of large contracts for bid, MCI and Verizon have competed on only a very small number, and never in the role of primary contractor.

60. *Services for Commercial and Institutional Customers Will Remain Highly Competitive:* In all events, no matter how the commercial and institutional segment is analyzed, the combination of Verizon and MCI will not affect competition in this market because the combined entity will continue to face robust competition from a variety of providers. Raw revenue share and concentration data make that conclusion inescapable: large enterprise revenues are divided among a large number of carrier and non-carrier providers. AT&T has a significant lead over any other provider. The combined Verizon/MCI would still trail AT&T in

[104] J. Armstrong, *et al.*, Goldman Sachs, *US Telecom Services* at 1 (Mar. 2, 2005).

[105] K. Burney, InStat/MDR, *Darwin Laughs: Exploring Brand Preferences for Network and Managed Services in the US Business Market; Part Two: US Mid-sized Businesses (100 to 999 Employees)* at Table 27 (Dec. 2004).

its share of large enterprise revenues, and AT&T will continue to be by far the leading primary provider of communications services to large enterprise customers.

61. The success of system integrators helps to illustrate some of the underlying market dynamics that ensure that the enterprise market will remain extremely competitive. System integrators compete as primary providers by assembling network capabilities from multiple wholesale providers and combining them with additional services to create an integrated communications solution for large enterprises and government purchasers. System integrators' success – and they are growing rapidly – is evidence of the robustness of competition in the underlying communications capabilities.

62. Pricing pressure in the large enterprise market provides further evidence of the highly competitive nature of that market segment.[106] As one study put it, "[t]he problem with commercial telecom has primarily been one of overcapacity and price declines, not one of volume growth. . . . [C]ommercial telecom has experienced overall volume growth of 10% to 13% annually, but has seen this offset by price declines of 15% to 18%."[107] Pricing discipline is enhanced by the fact that large enterprise customers are more sophisticated and informed purchasers, often employing bidding techniques such as requests for proposals (RFPs) to obtain favorable volume discounts from carriers.

63. Many of the same competitive dynamics characterize the overall commercial and institutional segment, including medium-sized businesses. Among all commercial and institutional customers, AT&T continues to hold the leading position. A combined Verizon/MCI would be no larger than AT&T by itself. More important, a wide variety of service providers, as

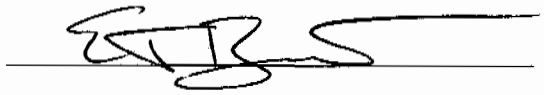
[106] *See, e.g.*, *TeleGeography Releases Annual Report on Voice Traffic*, IP Pulse (Dec. 15, 2003), http://www.iptelephony.org/GIP/pulse/03archives/121503/ (citing Telegeography Research report showing average price declines in international voice traffic of 17.2% per year between 1999 and 2003).

[107] R.D. Lynch, *et al.*, Lehman Brothers, *Commercial Price Declines Still Dominate* at 4 (Mar. 19, 2004).

noted above, compete to provide communication services to commercial and institutional customers. Thus the segment overall remains unconcentrated and dynamic. Commercial and institutional customers generally will continue to enjoy a wide choice among service providers.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed on March 9, 2005



Eric J. Bruno

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed on March 9, 2005

Shelley Murphy

DECLARATION OF ERIC J. BRUNO AND SHELLEY MURPHY

EXHIBIT 1

LEHMAN BROTHERS
EQUITY RESEARCH

November 11, 2003

United States of America
Telecommunications
Enterprise Telecom Serivces

Enterprise Telecom Serivces

Initiation of Coverage

Enterprise Telecom; A Comeback Begins

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Sector View:

New: 2-Neutral

Old: 2-Neutral

Investment conclusion

- We initiate coverage of Enterprise Telecom Services and are optimistic regarding the industry's financial and operational streamlining, the consolidation that has occurred to date (and more to come), and cautiously optimistic regarding improving demand and pricing over the next year.

Summary

- We expect a cyclical up-tick, improving operational efficiencies, and industry consolidation to drive stabilizing revenues, improving margins and 10% EBITDA growth in 2004 for the commercial units of our covered Enterprise Carriers.
- We favor Carriers with greater high-end Enterprise exposure, particularly wholesale, and less SME. While competition remains intense across Enterprise telecom, we believe it is poised to improve in 2004 within the wholesale segment, while it is likely to intensify within SME.
- We believe the supply/demand imbalance has finally begun to stabilize. On the supply side, due to recent consolidation and selected bidder-ineligibility among the financially weaker carriers, we believe the bidding-group on a given contract has been reduced by almost 50% from '01's 8-10 bidders. On the demand side, we are seeing the early signs of improvement in key employment, technology sales (chips), and a proprietary Lehman Brothers Fortune 500 Survey.
- Enterprise coverage group valuations hover near 10-year lows - LVLT is our top recovery pick, while T is our best value pick.

Enterprise Telecom Services Launch:
We initiate specialized coverage of the Enterprise Telecom Services sub-sector of the US Wireline Telecom Services market, with an emphasis on carriers specializing in the high-end of the market (Wholesale/Large Enterprise), companies designated as “Enterprise Carriers”. We are optimistic regarding the industry’s financial and operational streamlining, outlook for 2004 revenue stabilization, margin improvement and EBITDA growth, the consolidation that has occurred to date (and much more to come), and cautiously optimistic regarding improving demand and pricing over the next year. *Please see our companion notes on AT&T, Sprint (FON), and Level (3) for company-specific information, as well as our forthcoming industry report (under the same title as this note) and company reports for extensive details developing the themes outlined in this note. We will be hosting an investor call today at 10:30 a.m. EST; the dial-in numbers: (800) 706-8249 (US), (706) 634-5881 (Intl), and 0(800) 953-0406 (UK toll-free), and the conference ID is 3972920.*

Figure 1: Enterprise Telecom Services Coverage Universe

Company Rating, Target & Enterprise Value

Company	Ticker	Price	LEH Rating	Price Target	Enterprise Value $B	Investment Thesis Synopsis
AT&T	T	$19.08	**1-OW**	$24	$23.5	Dominant Large Enterprise Carrier; Good value & further margin improvement likely; Divs & FCF provide strong value support
Level 3	LVLT	$5.33	**1-OW**	$7	$8.1	A wholesale leader & consolidator; Strong Gwth opps & dilution manageable; No liq. issues
MCI	MCIAV (when issued)	$25.26	**NR**		$11.7	Restructuring opportunity, with growth upside, but a lot to prove; await audited financials
Sprint	FON	$15.22	**2-EW**	$18	$13.8	Local business supports FON-Commercial, gwth limited; Strong value support at $16

Investment Thesis: Enterprise Telecom; A Comeback Begins

- We expect a cyclical up-tick, improved operational/financial efficiencies, and industry consolidation to drive stabilizing revenues, materially improved margins and 10% EBITDA growth in 2004 for the commercial units of the Enterprise Carriers in our coverage group. These factors are expected to drive increasing cashflows to equity holders via dividend increases, share buybacks, and operating free cashflow.

- In general, we favor Carriers with greater exposure to the high-end of Enterprise telecom, particularly Wholesale, and less exposure to SME. While competition is intense across the sector, we believe it is poised to improve in 2004 within the Wholesale market, while it is likely to intensify within SME, as the RBOCs aggressively attack that market. We believe Wholesale/Large Enterprise revenue comparisons and margins will improve throughout 2004, while SME revenues and margins remain weak.

- We believe that the supply/demand imbalance has finally begun to stabilize – on the supply side, we estimate that North American fiber route miles could be reduced by up to 30% within 1-2 years (already about 11% reduced) – on the demand side, we are seeing early signs of improvement in commercial bandwidth requirements (our Enterprise Demand Index and Fortune 500 Survey).

- Enterprise coverage group valuations hover near 10-year lows, as investor sentiment remains uniformly abysmal. High-end carriers with the most efficient networks and improving sequential revenues and margins offer compelling cyclical/recovery investments – Level (3) is our top pick in this regard – while AT&T is our best value pick.

Enterprise Carrier – Coverage Group Highlights:
Within our Enterprise Telecom Services coverage universe, we include telecom carriers that derive more than 50% of their total revenues from commercial users, with an emphasis on carriers that specialize in service delivery to Large Enterprises (Fortune 1,000 enterprises) and Wholesale users. This includes the following coverage stocks:

- AT&T (1-OW, PT=$24): Assumption of coverage with ratings and price target increases from 2-EW and $22 respectively. AT&T is our top value pick in the group as it trades at a low 3.0x '04 EBITDA, has a 5% dividend yield and a massive $3.5 billion in expected '04 FCF. We believe BS margins will expand 100 bps in '04, improving BS EBITDA growth to 1% (up from -12% in 2003). While consolidated revenues and EBITDA will still decline in '04, the CS drag is not as much as originally expected. Combined, these factors are driving a greater discounted value of cashflows, driving our upgrade on the stock. Likely further dividend increases or share buybacks in the next few months should also support the stock.

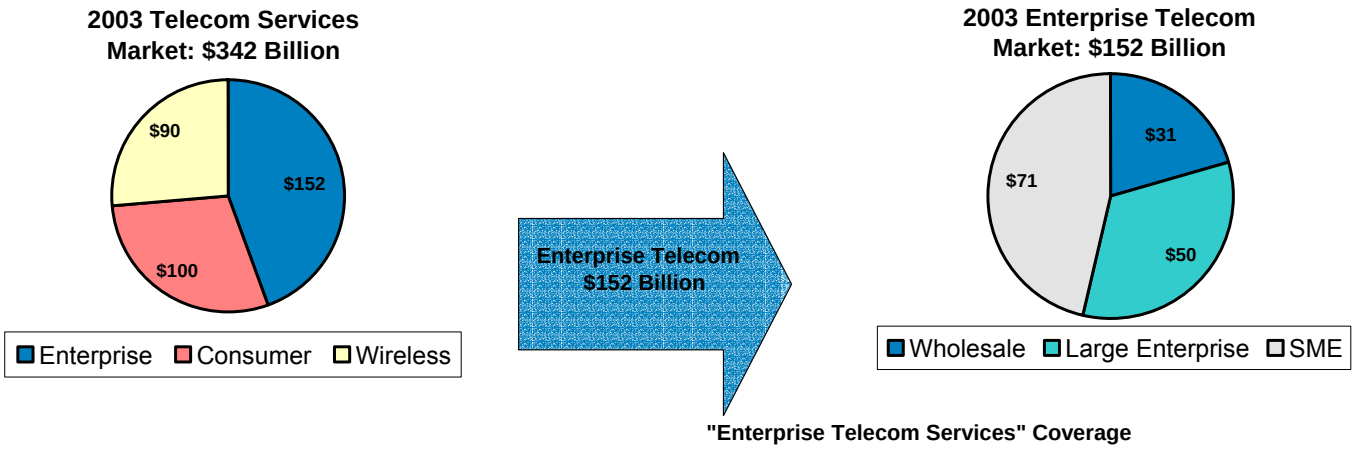
- Level (3) (1-OW, PT=$7): Initiation of coverage as our top pick in the sector, given its pure-play Wholesale position, operating momentum, liquidity, and improving balance sheet. The company is experiencing sequential revenue growth and delivered 380 bps in sequential Communications EBITDA margin improvement in 3Q. We expect Communications revenues to grow 9% in '04, while EBITDA should grow 29%. Leverage and dilution are less of an issue as the company is FCF-positive, has no material debt maturities until '08, is more modestly 55% debt-to-enterprise value leveraged and no convertible strike prices until $7.18.

- Sprint-FON (2-EW, PT=$18): Assumption of joint coverage with its rating maintained at 2-EW, but an increased $18 price target (up from $14). We expect FON to cut costs aggressively in '04, which should drive 3% EBITDA growth, despite nearly 3% revenue declines. By 2006 we expect EBITDA margins to expand by more than 400 bps, driving our increased price target. Company has strong value support at $16, an implied $1,800 per local access line valuation, and a healthy balance sheet. Revenue growth will remain challenging, however, driving our maintained 2-EW rating.

- MCI (Not Rated): We are initiating coverage on the when-issued equity of MCI Communications, but await audited financials, more insight from management, and an exchange--traded equity before issuing a rating and price target. Operationally, we believe the company has significant upside opportunities, as highlighted in the company's bankruptcy disclosure documents, but also a lot to prove. Facilitating this opportunity is the company's increased financial flexibility, resulting from its restructured and lean balance sheet (approximately $3.5 billion in net debt).

Enterprise Telecom Services – Defining the Industry:
In evaluating the overall Enterprise Telecom Services market, we include all the assets, financing, revenues and cashflows associated with the units servicing commercial customers. We have constructed our industry compilation using both bottom-up and top-down methodologies, factoring in data from internal sources, company feedback and FCC reports. Importantly, although we include all relevant information from any carrier selling commercial services in our industry compilation, we specifically define "Enterprise Carriers" within this report as carriers that specialize in service delivery to Large Enterprise and Wholesale customers and that receive more than 50% of their revenues from commercial clients. Therefore, the primary Enterprise Carrier segment is comprised of the incumbent IXC group (AT&T, MCI, Sprint), the emerging Network Carriers (Level (3) and its competitors), and the remaining CLECs. We estimate that the broad Enterprise market totals $152 billion in 2003 revenue, or approximately 45% of the total telecom services market and 60% of the wireline services market. Within Enterprise, we estimate that $31 billion is Wholesale (20% of Enterprise), $50 billion is Large Enterprise (33%), and $71 billion is SME (47%). Our research effort will focus on the Wholesale and Large Enterprise segments, where the Enterprise Carriers are best positioned to create long-term shareholder value. We outline the Enterprise market below.

Figure 22: Enterprise Telecom Services – A Massive Market with Distinct Segments



"Enterprise Telecom Services" Coverage

SME
* Dominated by RBOCs & LECs
* Highly fragmented
* Less sophisticated services
* Local/Regional Infrastructure Required
* Key Products (wireline):
  - Local & LD Voice
  - T-1/fractional, DSL, low-end data

Large Enterprise
* Dominated by AT&T, MCI, Sprint
* '03 Mkt Shrs: T = 26%, MCI = 14%, FON = 8%
* National/Global WAN & customer service/ support infrastructure req. (many POPs)
* Fortune 1,000 focus
* Customized data/voice/network integration
* Key Products (wireline):
  - Private LAN-to-WAN services
  - Dedicated Hi-cap circuits
  - Public IP access & security
  - LD & Local Voice (PBX)

Wholesale
* Currently Dominated by AT&T, MCI
* Sprint, Qwest, Level (3) are next tier
* National/Global WAN & customer service/ support infrastructure req. (fewer POPs)
* Top 300 global users of bandwidth: IXCs, ILECs, CLECs, ISPs, PTTs, Cable, Sat.
* Customized data/voice/network integration (with more real-time provisioning & service)
* Key Products (wireline):
  - Similar to Large Enterprise, only more capacity, faster provisioning

Expected Enterprise Carrier Improvements:
We expect a cyclical up-tick, significant operational/financial improvements, and industry consolidation to drive stabilizing revenues, materially improved margins and 10% EBITDA growth in 2004 for the commercial units of the Enterprise Carriers in our coverage group. These factors are expected to drive increasing cashflows to equity holders via dividend increases, share buybacks, and growing operating free cashflow (OFCF).

- A modest cyclical up-tick, led by estimated 5% growth in 2004 Fortune 500 telecom service budgets (versus 5% declines in 2003), is expected to stabilize 2004 revenues for our Enterprise Carrier coverage group commercial revenues at -1% (versus -6% in 2003).

- A 25% reduction in headcount from 2000 to current has driven an 18% improvement in productivity per employee. Combined with the benefits of other massive network and systems cost/efficiency initiatives, we expect Enterprise Carriers to improve 2004 EBITDA margins 220 bps and grow EBITDA 10%.

- Industry consolidation, and bidding-ineligibility by weaker players, has reduced the number of bidders per contract from 8-10 in 2001 to 4-6 today. We expect increased financial slack resulting from reduced leverage to help drive ongoing consolidation of weaker, cashflow-negative carriers. Industry debt is down 58% from 2001 to 2003 ($224 billion to $95 billion) and debt/EBITDA has declined from 6.8x to 3.1x.

Figure 3: Expected 2004 & 2005 Enterprise Carrier Improvements

	2000	2001	2002	2003f	2004f	2005f
Enterprise Industry:						
Revenue Growth	**13.7%**	**1.6%**	**-7.0%**	**-4.7%**	**2.1%**	**4.6%**
bp Change		-1210 bp	-860 bp	230 bp	680 bp	250 bp
# of Bidders per Contract	**8-10**	**8-10**	**8-10**	**4-6**	**3-5**	**3-4**
Enterprise Carrier Coverage Group: Commercial Metrics						
Revenue Growth	**6.4%**	**0.6%**	**-6.1%**	**-6.3%**	**-0.6%**	**3.6%**
bp Change		-580 bp	-670 bp	-20 bp	570 bp	420 bp
Headcount (000)	**164**	**150**	**129**	**123**	**123**	**123**
% Change		-8.8%	-13.8%	-4.9%	0.0%	0.0%
Rev. Productivity/Employee ($ 000)	**$382**	**$421**	**$459**	**$452**	**$449**	**$466**
% Change		10.3%	9.0%	-1.6%	-0.6%	3.6%
EBITDA Margins	**30.1%**	**25.0%**	**23.8%**	**21.2%**	**23.4%**	**25.5%**
bp Change		-510 bp	-120 bp	-260 bp	220 bp	210 bp
OFCF ($ bil)	**($9.8)**	**($11.2)**	**$6.2**	**$6.2**	**$4.6**	**$5.2**
Leverage (Consolidated Debt/EBITDA)	**5.6x**	**6.8x**	**3.8x**	**3.1x**	**2.7x**	**2.4x**

Favor Exposure to High-End Enterprise:
In general, we favor Enterprise Carriers with greater exposure to the high-end of Enterprise telecom and Wholesale, and less exposure to SME. While competition is intense across the Enterprise market, we believe it is poised to improve in 2004 within the Wholesale market, while it is likely to intensify within SME for Enterprise Carriers, driven by the RBOCs. Early signs of this were evident in Enterprise Carrier 3Q03 earnings reports, as renewed point-of-sale long distance and low-speed private line price declines added a discernable drag to revenues.

- The operational and financial improvements expected for 2004 should flow most directly to the high-end of the Enterprise market, due largely to the core nature of the improvements and to the improving competitive landscape within those segments.

- The 2004 growth and margin outlook is better for Enterprise Carriers within the Wholesale segment, driven ironically by increasing competition within the SME and Consumer market segments by traditional and non-traditional carriers that lack a national backbone and rely on wholesalers to provide the wide area networking.

- Despite the much publicized hyper-competition within the Wholesale market, we believe this segment is the one best positioned to see improving competitive dynamics in 2004, as the number of competitors and network miles are expected to decline.

- While SME has better margins and good long-term growth, to the incumbent Enterprise Carriers it represents the segment expected to most intensify competitively in 2004, as competitive threats emerge from well-funded and aggressive RBOCs. SME revenues are expected to cause 100 bps drags to commercial revenue growth for AT&T and MCI in 2004.

- The following table highlights that AT&T and MCI have the largest long distance SME exposure, while Sprint has materially less and Level (3) has none. Of note, Level (3) derives 100% of its revenues from the portion of the market we expect to perform the best in 2004 (Wholesale).

Figure 4: Enterprise Carrier SME Exposure

	SME		High-End		
Enterprise Carrier	**LD SME**	ILEC SME	**Total High-End**	Wholesale	Large-Enterprise
AT&T Bus. Serv.	**24%**	0%	76%	24%	52%
MCI Commercial	**28%**	0%	72%	33%	39%
FON-Commercial	**14%**	23%	62%	22%	41%
Level (3)	**0%**	0%	100%	100%	0%
Enterprise Carrier Avg.	**23%**	2%	75%	30%	45%

Improving Supply/Demand Balance:
We believe that the supply/demand imbalance that has plagued the industry has finally begun to stabilize. On the supply side, we estimate that North American fiber route miles could be reduced by a cumulative 30% within 1-2 years (already about 11% reduced). Additionally, the number of bidders per contract has fallen from 8-10 in 2001 to 4-6 today (and likely 3-5 by 2004). On the demand side, we are seeing the early signs that commercial bandwidth requirements are beginning to improve, as indicated by our Enterprise Demand Index improvements and our Fortune 500 Survey. Currently, we are forecasting a modest recovery, but if job growth and technology sales continue accelerating at current rates there could be upside to our numbers.

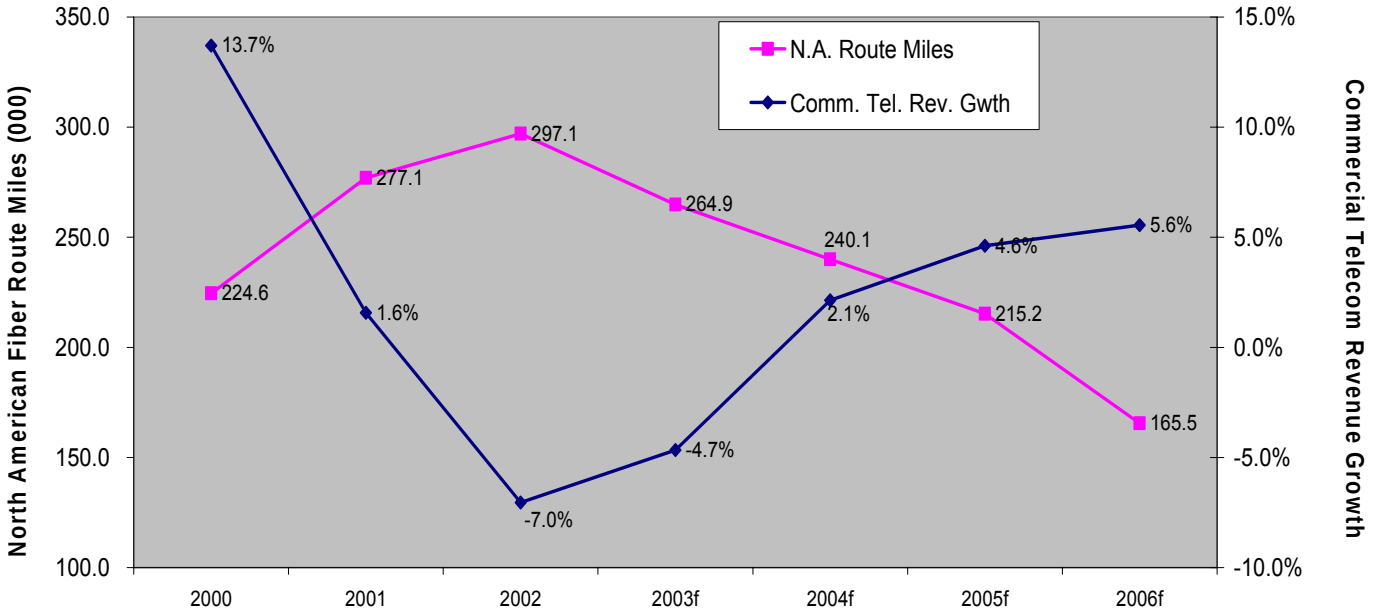
- To date, one US-based network carrier has been consolidated and its network decommissioned (Genuity), and a European carrier is scaling back its US operations.

- Another two carriers will likely consolidate within 1-2 years, as they remain cash-flow-negative and have limited access to capital .

- Enterprise telecom is a cyclical business – we believe we have found two reliable leading indicators in terms of forecasting changes in commercial telecom services revenue growth, namely employment growth and semi-conductor revenue growth, and constructed an Enterprise Demand Index (EDI).

- Our EDI score of 0.5 signals an expected moderate improvement to current 4% Enterprise telecom service revenue declines (to begin by 2Q04), while our Fortune 500 Survey indicates an expected 5% increase in 2004 telecom service spending, up from -5% in 2003.

Figure 5: Decreasing Fiber Route Miles Supports Improving Enterprise Telecom Services Industry Revenue Growth



Diverging 2004 Performance – High-End Turning the Corner

While overall revenues for our Enterprise Carrier coverage group are expected to decline 1% in 2004, this masks two diverging trends that we expect to develop throughout the year – improving quarterly Wholesale/Large Enterprise revenue growth and margins versus continued SME revenue declines and pressured margins.

- Expected 1% declines in 2004 Enterprise Carrier revenue masks important underlying trends that favor the high-end of the market, namely improving revenue growth and margins, driven by improving demand and cost reduction initiatives.

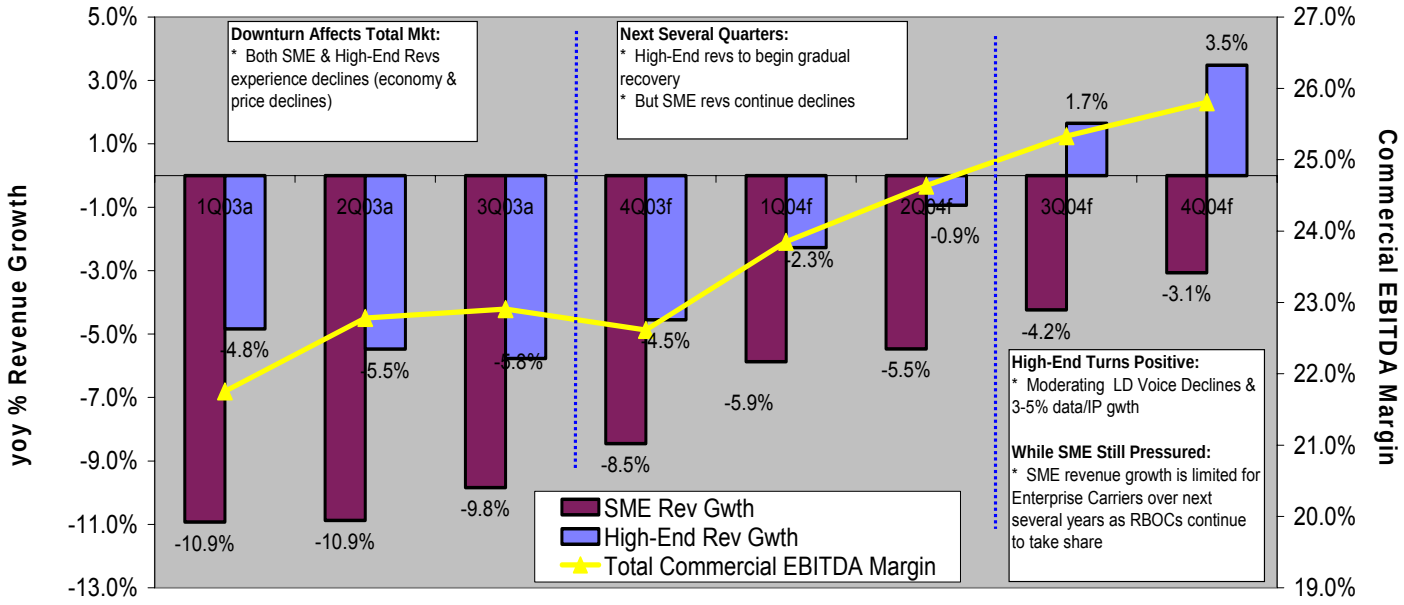
- We expect Wholesale/Large Enterprise revenue growth will see improving quarterly yoy growth rates, driven by improving competitive dynamics, better pricing stability and key growth-product opportunities (VoIP and MPLS-enabled LAN-to-WAN services). By 4Q04, we expect high-end revenues will be growing 3.5% yoy for our Enterprise Carriers, while SME is still expected to be declining 3.1%.

- While VoIP does not represent a net growth opportunity to the incumbent market, it does represent a material Wholesale opportunity given that the retail providers of this new service mostly lack a national backbone and will rely on wholesalers.

- Additionally, MPLS-enabled services marketed to enterprises, by RBOCs in particular, provide another such Wholesale growth opportunity .

- We expect Wholesale/Large Enterprise to benefit most from cost-reduction initiatives. Since most of these center around the network core and related systems, the benefits should flow mostly to services that most intensively utilize the core.

Figure 6: Diverging 2004 Performance within Enterprise – High-End Versus SME



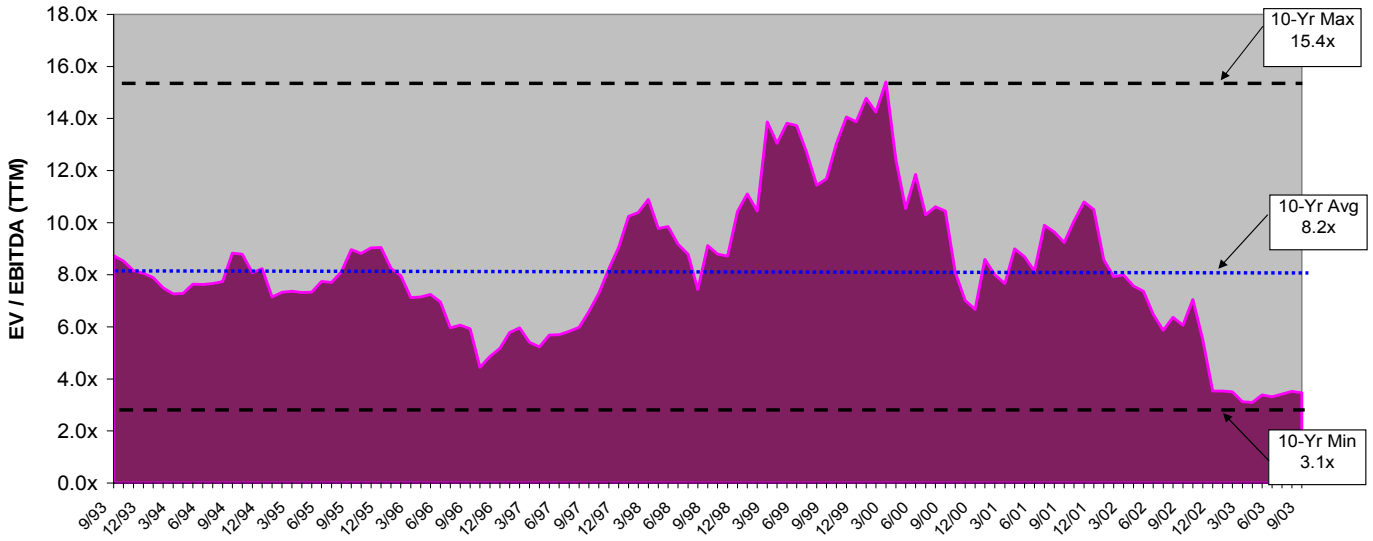
Valuations at 10-Year Lows – Provides Targeted Opportunities:
Enterprise coverage group valuations hover near 10-year lows, creating investment opportunities as the entire sector remains tarred with a broad brush. High-end carriers with the most efficient networks and improving sequential revenues and margins, and less exposure to SME, offer investors the chance to buy at a market-bottom values that do not yet reflect their improving underlying fundamentals.

- Level (3) is our top pick in the space, with its Wholesale pure-play model, its industry leading margins (that continue to improve sharply, up 380 bps in 3Q), its FCF-positive status and improving balance sheet. It is most cleanly positioned to benefit from the improvements we expect in the Enterprise market in 2004. We believe the bear case valuation is $6 and buy aggressively below this level.

- AT&T, while exposed to SME, is our top value pick, given its dominant position within Large Enterprise, improving margins, and very cheap valuation at 3.0x 2004 EBITDA. While revenue and EBITDA growth will remain pressured due to Consumer/SME drags, we believe the discounted value of cashflows is worth more than current market prices. A 5%+ dividend yield and potential for additional dividend increases and/or share buybacks should provide strong support for the stock.

- MCI offers strong potential upside, given its vast opportunity for margin improvement. Based on the current when-issued trading levels, the company is trading modestly above AT&T, at 3.4x 2004 EBITDA. We await audited financials and more insight from management in order to fully develop our thesis.

Figure 7: Enterprise Carrier Coverage Group's Valuation Hovering at 10-Yr Lows – EV / EBITDA Multiple



Valuations – Enterprise Carriers Low Vs. Rest-of-Telecom:
We believe that the operating environment is beginning to improve for the carriers within our Enterprise coverage group and that valuations do not yet reflect this, providing an opportunity for patient investors to enjoy a favorable risk/return relationship.

- Fortunately, cycles proceed. We believe valuations and multiples are poised to expand as operational and financial improvements have positioned the stronger Enterprise carriers to benefit in a leveraged fashion from improvements in the commercial economy.

- This process of value-expansion should be greatly enhanced by industry consolidation, which we believe is ripe to occur and should be seen as a catalyst for valuation appreciation in the sector. Other catalysts will be continued improvements in employment and technology and productivity increases (with semiconductor chip sales being a reasonable proxy).

- The following table summarizes our new Enterprise Carrier sector in relation to the other telecom service sector stocks covered by Lehman Brothers. The Enterprise group stands out as the having the lowest market valuation, at 3.5x EBITDA versus the next-nearest group (the RBOCs) at 4.8x. To highlight the disparity, we estimate that Enterprise Carriers comprise 25% of Lehman Telecom Services coverage revenue, and 17% of EBITDA, but only 12% of the market capitalization. Given that we believe fundamentals are poised to improve, we believe the sector has good value at these levels.

Figure 8: Enterprise Carrier Valuation Low Relative to Lehman Telecom Services Coverage Universe

	RBOCS	National Wireless	RLECs	Enterprise Tel.	Small Wireless
	BellSouth Qwest SBC Communications Verizon	AT&T Wireless Nextel Sprint PCS	Alltel Century Tel. Commonwealth Tel. Citizens Comm. US Cellular TDS	AT&T MCI Sprint Level (3)	
$ Bil					
2003 Revs	$161	$37	$16	$73	$9
% of LEH-Cvg	54%	12%	5%	**25%**	3%
2003 EBITDA	$61	$12	$7	$16	$3
% of LEH-Cvg	61%	12%	7%	**17%**	3%
Market Cap	$225	$46	$27	$42	$15
% of LEH-Cvg	63%	13%	8%	**12%**	4%
EV/EBITDA	4.8x	6.6x	6.6x	**3.5x**	11.8x

Price Target Methodologies:
FON: Our new $18 price target is based on an average of DCF and EV/EBITDA multiple, versus expected growth methodologies, and implies a modest multiple expansion to 3.6x 2004 EBITDA, still low versus historical averages.

T: We value AT&T shares based on DCF and EV/EBITDA multiples relative to growth. Based on these metrics, we find strong price support levels for AT&T at $19 per share, based on the EV/EBITDA multiple versus growth method, with a higher DCF-value, at $32 per share. Our $24 price target represents a weighted average of DCF and EV/EBITDA multiple methods, with a $2 per share haircut to account for variability in valuation driven by different CS assumptions in the out years.

LVLT: Our DCF valuation results in a $7 per-share price target, using a 10.3% WACC and a 4.5% terminal growth assumption. We believe the bear case downside is $6 per share and the bull case upside is $8 per share. Our target is based on the assumption that management does not issue significant incremental equity in the near term.

Enterprise Carrier Coverage Group – Improving Commercial Outlook:
We expect a cyclical up-tick, significant operational/financial improvements, and industry consolidation to drive stabilizing revenues, materially improved margins and 10% EBITDA growth in 2004 for the commercial arms of the Enterprise Carriers in our coverage group. These factors are expected to drive increasing cashflows to equity holders via dividend increases, share buybacks, and growing OFCF.

- Estimated 5% growth in 2004 Fortune 500 telecom service budgets (versus 5% declines in 2003) is expected to stabilize 2004 commercial revenues for our Enterprise Carrier coverage group at -1% (versus -6% in 2003). We expect 2005 Enterprise Carrier commercial revenues to grow nearly 4%, and long-term average annual growth of 4%.

- Enterprise Carriers have significantly pared cash operating expenses and are poised to reap meaningful returns as the commercial economy improves. A 25% reduction in headcount from 2000 to current has driven an 18% improvement in productivity per employee. Combined with the benefits of other massive network and systems cost/efficiency initiatives, we expect Enterprise Carriers to improve 2004 commercial EBITDA margins 220 bps and grow commercial EBITDA 10%.

- We expected continued strong margin gains in 2005, at +210 bps, driving expected EBITDA growth of nearly 13%. Between now and 2010, we expect commercial EBITDA will grow at an average annual rate of nearly 9%.

- Capex has also been reigned in and targeted on core efficiency upgrades and success-based spending. We expect it to normalize at 8-10% of revenues, enabling healthy 3-4% commercial OFCF growth rates from 2003 to 2010.

Figure 9: Enterprise Carrier Coverage Group: Improving Commercial Outlook

($ Bil)	2000	2001	2002	2003	2004f	2005f	'03 to '10 CAGR
Revenue	**$62.7**	**$63.0**	**$59.2**	**$55.4**	**$55.1**	**$57.1**	**3.6%**
% Growth	6.4%	0.6%	-6.1%	-6.3%	-0.6%	3.6%	
Opex	**$43.8**	**$47.3**	**$45.1**	**$43.7**	**$42.2**	**$42.6**	**1.9%**
% Growth	8.0%	8.0%	-4.5%	-3.2%	-3.4%	0.9%	
EBITDA	**$18.9**	**$15.8**	**$14.1**	**$11.8**	**$12.9**	**$14.5**	**8.5%**
% Growth	20.8%	-16.5%	-10.7%	-16.4%	9.8%	12.6%	
Margin	30.1%	25.0%	23.8%	21.2%	23.4%	25.5%	
Capex	**$22.2**	**$17.6**	**$6.5**	**$5.3**	**$5.8**	**$6.1**	**5.9%**
% Growth	19.1%	-20.8%	-62.9%	-18.8%	9.8%	4.5%	
% of Rev	35.5%	27.9%	11.0%	9.6%	10.6%	10.6%	
OFCF[(1)]	**($9.8)**	**($11.2)**	**$6.2**	**$6.2**	**$4.6**	**$5.2**	**3.3%**
% Growth	16.0%	13.9%	-155.6%	-0.6%	-26.6%	14.9%	
Margin	-15.7%	-17.8%	10.5%	11.2%	8.3%	9.2%	
Commercial Telecom Employees (000s)	**164.1**	**149.6**	**129.0**	**122.7**	**122.7**	**122.7**	**n/m**

(1) Operating Free Cash Flow is defined as CFFO - capex.

Enterprise Telecom Services Comparables:

Figure 10: Enterprise Comps

Company & Enterprise Value													
Stock Information				Enterprise Value					Investor Returns				
									Current Yields		Stock Performance: % Return		
Company	Ticker	Price	Shares Out	Mkt.Cap	Net Debt	Non-Con. Assets	Enter. Value	Book Equity	Div Yld	ROA	Week	Month	YTD
AT&T[1]	T	$19.08	789	15.1	8.5	0.0	23.6	13.6	5.0%	7.6%	1%	-5%	-27%
T Bus. Serv.[2]										4.6%			
MCI[1]	MCIAV	$25.26	326	8.2	3.4	0.0	11.7	8.4	0.0%	6.5%	1%	-5%	-27%
MCI Comm.[2]										3.6%			
Sprint[1]	FON	$15.22	903	13.7	0.0	0.0	13.8	13.3	3.3%	8.7%	-6%	-3%	5%
FON Comm.[2]										4.2%			
Level 3[1]	LVLT	$5.33	653	3.5	4.5	0.0	8.0	0.3	0.0%	-1.9%	-4%	-1%	9%
L3 Comm.[3]										-5.1%			
XO Comm.	XOCM	$5.30	95	0.5	0.2	0.0	0.7	0.5	0.0%	-6.6%	-2%	-1%	N/A
Time Warner	TWTC	$10.16	115	1.2	0.8	0.0	2.0	0.5	0.0%	-1.8%	-7%	-13%	382%
Enterprise Avg.(Largecap for Div & ROA)									2.8%	4.2%	-3%	-5%	68%
S&P 500 Avg.	SPX	$1,047									-1%	1%	19%

Operating Statistics												
Stock Information		Revenue				EBITDA				EPS			
	LEH	2003		2004		2003		2004		2003		2004	
Company	Rating	$ Bil	% Gwth	$ Bil	% Gwth	$ Bil	Margin	$ Bil	Margin	$	% Gwth	$	% Gwth
AT&T[1]	1-OW	34.7	-8.1%	32.9	-5.4%	8.7	25.1%	7.9	24.0%	$2.28	-17.2%	$1.73	-24.3%
T Bus. Serv.[2]		25.2	-5.3%	24.5	-2.5%	6.8	26.9%	6.8	27.9%				
MCI[1]	NR	24.5	-16.3%	24.0	-1.7%	2.7	11.2%	3.4	14.3%	N/A	N/A	$2.76	N/A
MCI Comm.[2]		18.2	-11.4%	18.3	0.8%	2.0	11.2%	2.8	15.4%				
Sprint[1]	2-EW	14.1	-7.0%	13.8	-2.6%	4.4	31.1%	4.5	32.9%	$1.45	7.5%	$1.55	6.4%
FON Comm.[2]		9.3	-5.6%	9.3	-0.6%	2.5	26.8%	2.7	28.5%				
Level 3[1]	1-OW	3.6	26.6%	3.6	-1.2%	0.4	12.1%	0.6	16.4%	($1.18)	N/M	($0.98)	N/M
L3 Comm.[3]		1.6	2.9%	1.8	9.0%	0.4	27.3%	0.6	32.2%				
XO Comm.		1.2	-7.2%	1.2	6.7%	0.0	1.1%	0.0	1.8%	($1.28)	N/M	($1.08)	N/M
Time Warner		0.7	-7.0%	N/A	N/A	0.2	28.6%	N/A	N/A	($1.06)	N/M	($0.89)	N/M
Enterprise Ind.		151.6	-4.7%	154.8	2.1%	31.0	20.4%	32.9	21.3%				

Valuation Multiples & Capital Structure												
Stock Information		EV / Revenue		EV / EBITDA		EV / OFCF		P/E Ratio		Leverage Ratios		Coverage Ratios
Company	Price Target	2003	2004	2003	2004	2003	2004	2003	2004	Nt Debt / Capital	Nt Debt / '04 EBITDA	Unlev. '04 OFCF / Int.
AT&T[1]	$24	0.7x	0.7x	2.7x	3.0x	4.0x	6.9x	8.4x	11.1x	38.5%	1.1x	4.6x
T Bus. Serv.[2]		0.9x	1.0x	3.5x	3.4x	5.6x	8.4x					
MCI[1]	NR	0.5x	0.5x	4.3x	3.4x	5.3x	11.5x	N/A	9.2x	29.0%	1.0x	3.4x
MCI Comm.[2]		0.6x	0.6x	5.7x	4.1x	5.3x	11.5x					
Sprint[1]	$18	1.0x	1.0x	3.1x	3.0x	8.0x	6.9x	10.5x	9.8x	0.2%	0.0x	9.0x
FON Comm.[2]		1.5x	1.5x	5.5x	5.2x	12.8x	11.5x					
Level 3[1]	$7	2.2x	2.2x	18.2x	13.6x	N/A	115.1x	N/A	N/A	93.1%	7.7x	1.1x
L3 Comm.[3]		5.0x	4.5x	18.1x	14.1x							
XO Comm.		0.6x	0.5x	53.2x	30.0x	N/A	N/A	N/A	N/A	23.3%	7.4x	No Cash Int.
Time Warner		2.8x	N/A	9.8x	N/A	N/A	N/A	N/A	N/A	61.5%	N/A	N/A
Enterprise Avg.(Largecap)		0.7x	0.7x	3.4x	3.1x	5.8x	8.5x	9.4x	10.0x	22.6%	0.7x	5.7x
S&P 500 Avg.												

(1) Represents consolidated, total company information (for Level 3, reflects recurring items only - excludes any dark fiber, settlement & termination)
(2) Reflects operating statistics for the commercial portion of the company; valuation statistics reflect total company market valuation as a multiple of the commercial operating unit's cashflows.
(3) Refflects recurring Communications Group items only

MCI Company Report on When-Issued Equity:
We are initiating coverage on the when-issued equity of MCI Communications, but await audited financials, more insight from management, and an exchange--traded equity before issuing a rating and price target. Operationally, we believe the company has significant upside opportunities, as highlighted in the company's bankruptcy disclosure documents, but also a lot to prove. Facilitating this opportunity is the company's increased financial flexibility, resulting from its restructured and lean balance sheet. We include our full company report within this industry report since MCI does not yet have an eligible ticker under which to publish research for its new equity. The most important contributor to MCI's value proposition over the next 12 months should be its ability to shed costs while at least stemming market share losses. It is undertaking a massive network and infrastructure overhaul in order to drive more than 500 bps of margin improvement by 2005. We believe these efforts, assuming disciplined pricing, will be successful in driving significant EBITDA improvements over the next two years. If continuing margin improvement can be sustained, driving margins toward industry levels, EBITDA growth could easily exceed 15% annually, materially outperforming the sector. However, we await audited financials and more insight from management in order to fully develop our view on the stock.

Investment Thesis:

- 2004 Outlook: We believe MCI margins will expand 300 bps in 2004, improving EBITDA growth to positive 26% (up from an estimated 46% decline in 2003), despite forecasted 1.7% revenue declines (improved from a 16.0% decline in 2003). OFCF is estimated to be $1.1 billion in 2004.

- Productivity & Efficiency: MCI currently lags the Enterprise industry in most operational metrics, but particularly in EBITDA per employee. At a 2004 forecast of $68k EBITDA/employee, MCI lags the Enterprise industry average of $105k by 35% and the AT&T level of $141k by more than 50%. This is largely due to a redundant cost structure, accumulated through multiple acquisitions and a lack of infrastructure grooming. However, management is keenly focused on achieving 500 bps+ of margin improvement by 2005 (MCI lags the industry by as much as 1,000 bps).

- Streamlining the Model: We believe MCI's lower margins are driven by a combination of low pricing and the myriad networks, systems and hierarchical infrastructure built up from its acquisition roll-up/holding-company model over the years. To address this, management is converging its network to a single IP core and eliminating redundant systems. Given the magnitude of the opportunity for improvement, we believe management can achieve its goal of 500 bps+ improvement by 2005, and 50-100 bps per year for some time thereafter.

- Pricing: MCI has historically been among the most aggressive in terms of pricing, partially explaining its low margins. However, with 2003 EBITDA margins at a forecast of 10.9%, and approximately $1 billion in OFCF per year thereafter, there is not much room to cut prices further, giving us some comfort against fears of an all-out price war, although some cuts at re-emergence are likely.

- Capital Structure & Dilution: At an estimated 326-366 million outstanding shares at re-emergence and $4.7-$5.7 billion in debt, MCI will boast one of the best balance sheets in the business. Even at $5.7 billion in total debt, net debt would only be $3.5 billion, leaving net debt/EBITDA at a low 1.3x (similar to AT&T). With expected improvements in 2004 EBITDA, we expect leverage to fall to 0.7x and interest coverage to be 3.4x.

- Consumer: We expect ongoing revenue and EBITDA losses within Consumer (-5% annually for revenues and -16% annually for EBITDA over next 7 years), but believe a lower proportion of fixed costs within its Consumer unit will allow MCI to maintain positive FCF over time.

- SME Exposure: MCI maintains the second-largest SME revenue base, estimated at $5 billion in 2003, but has the largest relative exposure as a percent of commercial revenues of any of the Enterprise Carriers. We estimate that MCI will lose approximately 25 bps of share annually to the RBOCs in this segment (similar to AT&T), causing an estimated 100 bp drag to commercial revenue growth.

- Valuation: Bankruptcy documents value the restructured equity at $25 per share, however arguments could be made for a range of values, from price support at $22 per share, to premium-multiple values approaching $28, for the stock. Fundamental to determining where the stock should trend are assumptions on cost-reduction, pricing and margin-improvement potential over the next 12 months. We await audited financials and more insight from management prior to establishing a price target.

Core Business Model:
MCI is a leading provider of voice and data telecom services to 20 million residential and commercial customers worldwide. The company is structured along customer segment lines, dividing itself primarily into Business, International, and Mass Markets segments. For purposes of this report and our modeling, we have attempted to group revenues and expenses into just two buckets, Commercial ($18 billion in revenue) and Consumer ($6 billion in revenue). In this regard, we include International within Commercial since the vast majority of its business involves multinational corporations. While the new corporate structure is not yet totally evident, we believe the Commercial unit will own and operate the fiber network and related POPs and lease capacity to the Consumer unit on a volume basis (we believe that Consumer will own a number of Class 5 voice switches and related network interface devices).

MCI's Commercial unit is second-largest Enterprise telecom services provider in the US and offers a full suite of facilities-based long distance voice and data network services – it maintains a relationship with most of the Fortune 1000 companies and has historically maintained the largest Wholesale business in the US, although estimated share loss due to the bankruptcy process in 2003 has likely driven MCI to a number two Wholesale share spot (below AT&T). As the company re-emerges from bankruptcy, we believe MCI will be particularly focused on regaining share losses within its historic Top 500 accounts (similar to AT&T's increasing focus) and is reconfiguring its network, support and client-facing infrastructure to accommodate this. In this regard, significant network, systems, headcount and bankruptcy-driven restructuring changes are underway in efforts to bring MCI's profitability up to industry levels. This is clearly the number one challenge for management, and without question the central item in MCI's value proposition over the next several years.

Where there is much challenge, there is much opportunity, but the path won't be easy. MCI has historically operated as a holding company that overseas the myriad autonomous companies it has acquired since the 1980s. This has helped lead to the lower margins it maintains versus it peers, due to the layers of inefficient legacy systems, redundancies and parallel network protocols inherent in this structure. By some estimates, MCI maintained at one point more than 400 internal systems (versus AT&T with 140+ at its peak). To address these inefficiencies, MCI announced in April an initiative to overhaul its network, migrate traffic to a single IP core, and streamline its systems. It plans to have 25% of its voice traffic running over its IP core by year-end 2004, but these leaves it somewhat behind the incumbent peers, who are aggressively building out migration paths to a single core in 2003. Nonetheless, success in these areas could lead to significantly faster-than-industry cashflow growth, due to degree of MCI's current margin lag (AT&T Business Services 26.5% 2003 EBITDA margin versus MCI Commercial at an estimated 10.9%).

The Consumer unit is the second-largest provider of residential long distance services in the US and counts an estimated 18 million customers as its client base. The unit is aggressively deploying a non-facilities-based UNE-P local strategy in order to offer a bundled local/long distance, fixed-rate service in efforts to reduce the severity of secular competitive and substitution declines in the mature Consumer long distance voice product. While the local service itself has limited profit potential, its bundled offering with long distance is proving to be effective at reducing competitive losses to RBOCs and substitution to wireless. And while the local/long distance bundle is slowing the rate of customer defection, MCI's smaller overall share within Consumer (versus AT&T), combined with its broader UNE-P scope (48 states versus 35 states for AT&T) is likely to make a thin-margin product even less profitable, making us wonder how long MCI will maintain such a broad deployment. According to our forecasts, MCI's stand-alone UNE-P product will not reach breakeven until 2006 (versus AT&T in 2005), due to its higher costs of service (UNE-P rates), resulting from deployment into less urban areas, and lower effective ARPUs (for similar reasons). Nonetheless, if the product's deployment helps stabilize the overall business in the near-term, we believe it is the best course of action. And if the Consumer infrastructure can be dynamically scaled to match decreasing volumes over time, the current local/long distance strategy may prove the most effective way of maximizing cashflows and harvesting a declining, mature product.

The following table summarizes the relative size of the MCI's Commercial and Consumer units. The table highlights that Commercial revenues (including International) are estimated to be 74% of 2003 MCI total revenues and are expected to grow to 84% of revenues by 2010. Commercial revenues are expected to grow 4% annually over this period, while Consumer revenues are expected to decline approximately 5% annually.

Figure 11: MCI Commercial & Consumer Revenues

	2001		2003f		2005f		2010f	
Revenue ($ Bil)	Revs	% of Total	Revs	% of Total	Revs	% of Total	Revs	% of Total
Commercial (Inc. Intl)	$22.7	67%	$18.2	74%	$19.1	78%	$24.1	84%
% Growth	4.8%		-11.4%		4.6%		4.2%	
Consumer	$11.2	33%	$6.3	26%	$5.3	22%	$4.5	16%
% Growth	-13.6%		-27.9%		-7.2%		-2.1%	
MCI Consolidated	$33.9	100%	$24.5	100%	$24.5	100%	$28.6	100%
% Growth	-2.1%		-16.3%		1.8%		3.2%	

A Brief Bankruptcy History:
On June 25, 2002, the Company announced that as a result of an internal audit, it was determined that transfers from line cost expenses to capital accounts in the amount of $3.9 billion were not made according to GAAP. Subsequent announcements over the course of the summer 2002 indicated that additional improperly recorded transfers and accounting we identified and that the ultimate size of the eventual restatements could exceed $9 billion and involve 1999, 2000, 2001 and 1Q02.

KPMG is the Company's new auditor and conducted this review and restatement process. It also conducted an internal controls audit, which is being relied upon by the Federal government as the guideline as to when MCI may have its current suspension from new GSA business lifted. It has been alleged that the improper transfers at the core of this matter were intentional and done at the direction of various senior management personnel. As such, the entire senior management team of MCI has essentially been removed and replaced, as has the Board of Directors.

There remain outstanding criminal and civil legal challenges to MCI and some of its former senior management related to these matters, as well as other alleged improper access-charge and call-routing practices. Resolution of these matters are uncertain, but they have not impeded the Bankruptcy Court's decision to approve the restructuring transaction, or the creditors agreement to this restructuring, indicating that that outcome of such legal matters is not perceived by the concerned parties as likely to be catastrophic in nature.

On July 21, 2002 WorldCom, Inc. (the "Company") and most of its direct and indirect domestic subsidiaries filed voluntary petitions for relief in the United States Bankruptcy Court for the Southern District of New York under Chapter 11. On November 8, 2002 43 additional, but mostly inactive, subsidiaries filed Chapter 11 and the cases were all consolidated, while the company continued to operate its business as debtors-in-possession. On April 14, 2003 the Company filed a Plan of Reorganization and on May 28, 203 the Bankruptcy Court approved the Disclosure Statement, allowing solicitation of creditors' approval. Solicitation began on June 13, 2003, but on July 31, 2003 the Bankruptcy Court postponed the expected August 13, 2003 Confirmation Hearing until September 8, 2003 in order to permit the Company to file an additional Disclosure Statement addressing issues relating to the investigation of its call-routing practices by the US Attorney's Office and the impact of the July decision by the GSA to propose debarment of the Company for the purposes of soliciting and contracting new government business.

There remains a current suspension of MCI's ability to gain new government contracts pending on ongoing review of the Company's internal controls improvements and related items. The Company filed this updated Disclosure Statement on August 4, 2003, which was approved by the Court on August 6, 2003. The final Confirmation Hearing began on September 8, 2003 and on September 9, 2003 agreement was reached with the last major group of creditors, clearing the way for a final agreement.

On September 11, 2003, the Company filed a final Disclosure Statement reflecting this agreement. The final creditor vote was completed on October 7, 2003 and the final Confirmation Hearing reinitiated on October 15, 2003, where it was once again delayed until October 30. The Court gave verbal approval for the deal on October 31, and MCI's when-issued stock began trading under the ticker MCIAV on November 3. Re-emergence will become effective at some point just after the beginning of the 2004, when the Company is expected to complete and file its financial restatements and other documents and distribute its new securities. At this point the new equity will begin trading under its official ticker on an exchange to be determined.

Core Markets and Competitors:
MCI is estimated to hold the #3 market share position in terms of total Enterprise revenues, although among carriers that we designate "Enterprise Carriers" (i.e. – carriers that derive more than 50% of their revenues from commercial customers) it is the second largest (behind AT&T). We estimate MCI's 2004 overall Enterprise market share to be 11.8%, down from an estimated 13.3% in 2001, prior to bankruptcy being filed. We estimate that MCI has lost approximately $2.6 billion in annual market share over the course of its bankruptcy. However, MCI is re-emerging largely intact, with continued strong competitive positions across the Enterprise market, and particularly so within Large Enterprise, where we believe a patient approach to profitable re-acquisition of market share will lead net share gains over the next 7 years. For example, while we expect MCI as an incumbent to experience overall Enterprise share loss of 10 bps annually (through 2010), we expect the company to experience net share gains of 15 bps per year within the Large Enterprise segment of the market. The most intense competition for MCI will come at the upper and lower ends of the market, with strong emerging competition from Level (3) within the Wholesale segment and RBOC long distance entry within SME, driving estimated 10 bps and 25 bps of annual share loss respectively.

Figure 12: The Enterprise Market

Top 10 Enterprise Market Share Carriers(1) - Total Market

		2004f		2005f		2010f		
Rank	Carrier(2)	Rev ($ bil)	Mkt. Share	Rev ($ bil)	Mkt. Share	7-Yr Rev CAGR	Market Share	Avg. Annual Share Chg.
1	AT&T Bus. Serv.	$24.5	15.8%	$25.1	15.5%	2.6%	14.2%	-30 bp
2	SBC	$20.2	13.1%	$21.1	13.1%	4.7%	13.1%	00 bp
3	**MCI**	**$18.3**	**11.8%**	**$19.1**	**11.8%**	**4.1%**	**11.4%**	**-10 bp**
4	Verizon	$15.2	9.8%	$16.3	10.1%	5.5%	10.7%	10 bp
5	Sprint	$9.3	6.0%	$9.5	5.9%	2.5%	5.2%	-15 bp
6	Qwest	$8.7	5.6%	$9.2	5.7%	5.4%	5.8%	05 bp
7	BellSouth	$8.5	5.5%	$8.9	5.5%	5.4%	5.7%	05 bp
8	Level 3	$1.8	1.1%	$1.9	1.2%	10.3%	1.5%	05 bp
9	XO Communications	$1.2	0.8%	$1.4	0.9%	9.7%	1.1%	05 bp
10	Rest of Industry	$47.1	30.4%	$49.3	30.4%	6.2%	31.3%	15 bp
	Enterprise Industry	**$154.8**	100.0%	**$162.0**	100.0%	4.9%	100.0%	

(1) Represents commercial local and long distance, voice and data revenues.

Figure 13: The Large Enterprise Market

Top 5 Large Enterprise Market Share Carriers(1)

		2004f		2005f		2010f		
Rank	Carrier(2)	Rev ($ bil)	Mkt. Share	Rev ($ bil)	Mkt. Share	7-Yr Rev CAGR	Market Share	Avg. Annual Share Chg.
1	AT&T Bus. Serv.	$13.1	25.7%	$13.5	25.6%	3.5%	25.1%	-10 bp
2	**MCI**	**$7.5**	**14.8%**	**$8.1**	**15.3%**	**5.6%**	**15.8%**	**15 bp**
3	Sprint	$3.9	7.7%	$4.0	7.6%	3.0%	7.0%	-10 bp
4	Qwest	$2.2	4.4%	$2.4	4.5%	6.6%	5.1%	10 bp
5	XO Communications	$0.5	1.1%	$0.6	1.1%	9.6%	1.5%	05 bp
	Rest of LE	$23.6	46.4%	$24.1	45.8%	3.8%	45.5%	-15 bp
	Large Enterprise	**$50.9**	100.0%	**$52.7**	100.0%	**4.1%**	100.0%	

(1) "Large Enterprise" is defined as the "Fortune 1,000" Enterprises; these users generate $25 million or more annually, with average over $50 million.

(2) Represents wholesale local and long distance, voice and data revenues.

Figure 14: The Wholesale Market

Top 5 Wholesale Market Share Carriers[1]

Rank	Carrier[2]	2004f Rev ($ bil)	2004f Mkt. Share	2005f Rev ($ bil)	2005f Mkt. Share	2010f 7-Yr Rev CAGR	2010f Market Share	2010f Avg. Annual Share Chg.
1	AT&T Bus. Serv.	$5.9	18.6%	$6.2	18.4%	3.6%	16.8%	-30 bp
2	**MCI**	**$6.0**	**18.7%**	**$6.2**	**18.6%**	**4.9%**	**18.3%**	**-10 bp**
3	Qwest	$2.6	8.0%	$2.6	7.9%	3.4%	6.9%	-20 bp
4	Sprint	$1.8	5.8%	$1.9	5.7%	2.3%	5.2%	-10 bp
5	Level 3	$1.8	5.5%	$1.9	5.7%	10.3%	7.0%	30 bp
	Rest of Wholesale	$13.8	43.3%	$14.6	43.6%	7.0%	45.7%	40 bp
	Wholesale Market	**$31.9**	100.0%	**$33.5**	100.0%	**5.6%**	100.0%	

(1) "Wholesale" is defined as the "Top 300 Telco Users" worldwide; these users generate at least $75 million annually in telecom revenues

(2) Represents wholesale local and long distance, voice and data revenues.

Segment Exposure and highlights:
Approximately 26% of consolidated 2003 revenues are Consumer, which are expected to decline 9% in 2004, with EBITDA margins expected to remain steady at 11%, resulting in 9% EBITDA declines. Approximately 21% of 2003 revenues are SME, which are expected to decline 4% in 2004. However, an estimated 260 bp improvement in SME margins, due to the massive cost reduction efforts being undertaken as part of the bankruptcy restructuring, is expected to drive 12% SME EBITDA growth in 2004. We estimate that MCI will lose approximately 25 bps of share annually to the RBOCs in this segment, causing an estimated 100 bp drag to commercial revenue growth. Collectively, the "Drag Revenues" comprise 46% of 2003 revenues and are expected to decline 2% over time, while the "Growth Revenues" comprise 54% and grow 5%.

Figure 15: MCI Segment Exposure & Outlook Highlights

Revenue: $ Bil	2003	2004	2005	2006	2010	'03 to '10 CAGR
"Drag Segments"						
Consumer	**$6.3**	**$5.7**	**$5.3**	**$5.1**	**$4.5**	**-4.7%**
% Growth	-27.9%	-9.1%	-7.2%	-4.4%	-2.1%	
% of Consolidated Revs	26%	24%	22%	20%	16%	
SME	**$5.0**	**$4.8**	**$4.8**	**$4.9**	**$5.3**	**0.7%**
% Growth	-10.1%	-3.9%	0.3%	1.5%	1.8%	
% of Consolidated Revs	21%	20%	20%	20%	19%	
Total "Drag Segments" (Cons+SME)	**$11.3**	**$10.6**	**$10.2**	**$10.0**	**$9.8**	**-2.1%**
% Growth	-20.9%	-6.8%	-3.8%	-1.6%	0.0%	
% of Consolidated Revs	46%	44%	42%	40%	34%	
"Growth Segments"						
Wholesale & Large Enterprise	**$13.1**	**$13.5**	**$14.3**	**$15.2**	**$18.8**	**5.3%**
% Growth	-11.8%	2.7%	6.1%	6.2%	4.9%	
% of Consolidated Revs	54%	56%	58%	60%	66%	
MCI Consolidated Revenue	**$24.5**	**$24.0**	**$24.5**	**$25.2**	**$28.6**	**2.3%**
% Growth	-16.3%	-1.7%	1.8%	3.0%	3.2%	

EBITDA: $ Bil	2003	2004	2005	2006	2010	'03 to '10 CAGR
"Drag Segments"						
Consumer	**$0.7**	**$0.6**	**$0.5**	**$0.4**	**$0.2**	**-16.1%**
% Growth	-53.1%	-9.4%	-18.5%	-15.5%	-15.9%	
% of Consolidated EBITDA	25%	18%	13%	10%	4%	
Margin	11.0%	11.0%	9.7%	8.5%	4.5%	
SME	**$0.8**	**$0.9**	**$1.0**	**$1.0**	**$1.2**	**6.1%**
% Growth		12.1%	8.6%	5.2%	4.0%	
% of Consolidated EBITDA	30%	26%	25%	24%	22%	
Margin	16.2%	18.8%	20.4%	21.2%	23.3%	
Total "Drag Segments" (Cons+SME)	**$1.5**	**$1.5**	**$1.5**	**$1.5**	**$1.4**	**-0.7%**
% Growth		2.2%	-2.5%	-1.9%	0.6%	
% of Consolidated EBITDA	55%	45%	38%	34%	25%	
Margin	13.3%	14.6%	14.8%	14.7%	14.7%	
"Growth Segments"						
Wholesale & Large Enterprise	**$1.2**	**$1.9**	**$2.5**	**$2.9**	**$4.3**	**19.6%**
% Growth		55.9%	28.8%	16.9%	8.3%	
% of Consolidated EBITDA	45%	55%	62%	66%	75%	
Margin	9.3%	14.1%	17.2%	18.9%	22.8%	
MCI Consolidated EBITDA	**$2.7**	**$3.4**	**$4.0**	**$4.3**	**$5.7**	**11.1%**
% Growth	-45.6%	26.2%	14.8%	9.8%	6.2%	

Core Products and Competitors:
As shown in the following table, MCI maintains strong product positions across the Enterprise space, but particularly strong positions within the retail Large Enterprise market, a market totaling an estimated $50 billion in 2003 and representing about 33% of the total Enterprise market. In long distance voice, MCI is the second-largest US carrier, behind AT&T; when including local voice revenues, MCI's estimated share position is 6th. Across the legacy data products such as private line, FR, and ATM, MCI generally maintains the second market share position. Historically, MCI held a lead in Large Enterprise DIA, but we believe the disruption of the past few years, both in terms of its client base being particularly hard hit from the Internet crash, as well as the company's own bankruptcy filing, has pushed AT&T into the lead spot in this product. Conversely, this decline leads to opportunity going forward. We believe network overhauls to migrate toward a single IP core as well as intense sales focus within Large Enterprise will drive faster-than-industry growth for MCI in these core products, with IP-LAN/WAN driven products such as IP-VPNs and MPLS-enable services leading the way

Figure 16: The Core MCI Products and Competitors

Core MCI Wholesale-Focused Markets & 2003 Estimated Sizes - $31.0 b

Voice - $13.8 b		DIA - $3.6 b		Dial & DSL Wholesale - $2.0 b	
1	**AT&T**	**1**	**Sprint**	**1**	**Level 3**
2	**MCI**	**2**	**Level 3**	**2**	**MCI**
3	**Qwest**	**3**	**MCI**	**3**	**Sprint**
4	**Sprint**	4	AT&T	4	Qwest
5	RBOCs	5	Qwest	5	Regional Players

Core MCI Retail-Focused Markets & 2003 Estimated Sizes - 121.0 b*

Voice - $55.7 b		Packet Svcs(1) - $26.0 b		Private Line: Retail(2) - $16.0 b	
1	**SBC**	**1**	**AT&T**	**1**	**AT&T**
2	**AT&T**	**2**	**MCI**	**2**	**MCI**
3	**Verizon**	3	Sprint	**3**	**RBOCs**
4	**Sprint**	4	Qwest	4	Sprint
5	**BellSouth**	5	RBOCs (in-region)	5	Network Carriers
6	**MCI**	(1) FR, ATM & IP LANs, WANs and VPNs		(2) DS-3 & below; market includes ILEC/IXC last-mile links since most end-users are retail-based	
7	**Qwest**				

DIA - $4.6 b		Managed Svcs(3) - $9.0 b		Network Integration(5) - $18.5 b	
1	**AT&T**	**1**	**AT&T**	**1**	**Network Integrators(6)**
2	**MCI**	**2**	**Network Integrators(4)**	**2**	**AT&T**
3	Qwest	3	Qwest	3	Regional/Other Consultants
4	Network Carriers	4	MCI	4	RBOCs
5	Regional Players	5	RBOCs	(5) Includes outsourced network design and integration	
		(3) Includes network management outsourcing fees, hosting, e-services & colocation revenue.		(6) The large network design integrators such as IBM, EDS & others.	
		(4) The large network design integrators such as IBM, EDS & others.			

* $130 b of gross Retail Large Enterprise & SME revenues less $9 b of intercarrier eliminations

Bold = A dominant market share position

Competitive Advantages:
MCI's core competencies are anchored by its top-tier market share position and reputation within Large Enterprise, its rejuvenated balance sheet and its product mix, which has the heaviest weighting in favor of data revenues of any incumbent carrier. MCI has established itself, in conjunction with AT&T, as one half of the dominant "duopoly" in terms of the retail Large Enterprise telecom services market. The merging of WorldCom and its leading Internet business, UUNet, with MCI's corporate customer list pushed the company to years of accelerated growth, as it was successful in penetrating the old MCI commercial customers with increasing amounts of IP-centric products. While the Internet downturn was particularly impactful to UUNet, which had a heavier than average exposure Internet-centric companies, we believe MCI's established reputation and corporate customer list will continue to be its number one competitive advantage, with the share loss of the last two years ironically providing upside opportunity over the next several years. Additionally, thanks to the fresh-start procedures of bankruptcy, MCI is eliminating more than $28 billion in term debt, leaving it with only $4.7-$5.7 billion of total debt at re-emergence, and only $2.5-$3.5 billion of net debt. This leaves its estimated 2004 leverage at only 0.7x net debt/EBITDA and its interest coverage at 3.4x (somewhat lower than AT&T's due to MCI's lower margins). This increased slack should give the company more flexibility to invest capital in efficiency-improving areas. Finally, MCI maintains a revenue mix that is easily the most data-weighted among the incumbent carriers. We estimate that 53% of its 2004 revenues will be data/IP, versus an industry average of 45%, and AT&T's weighting of 40%. We believe this weighting differential alone gives MCI an average 100 bp total revenue growth advantage versus AT&T.

Figure 17: Competitive Advantage – Product Mix Favors Data

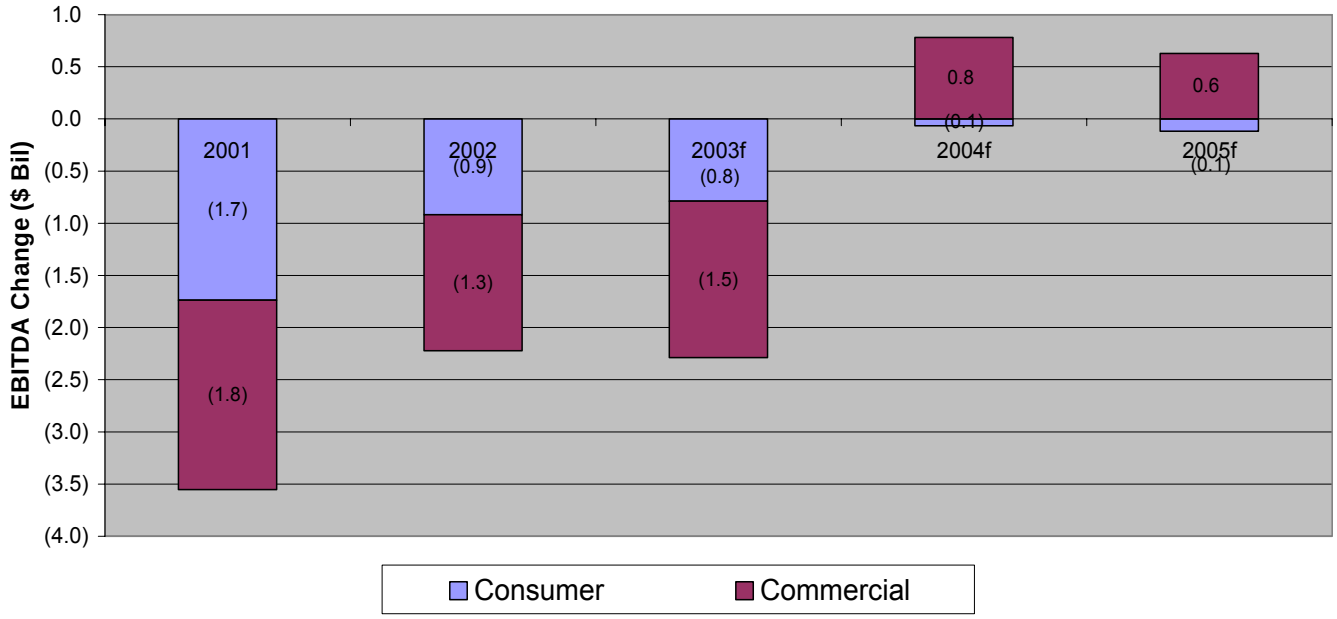
Mix Weighted in Favor of Data

2004f Revenues ($ Bil):	MCI Commercial Serv.	Enterprise Coverage Group Average	MCI Mix Vs. Enterprise Group Average
Voice	**$5.3**	**$24.3**	
Growth	-5.3%	-3.9%	
% of Total	**29%**	**44%**	**-1500 bp**
Data	**$9.7**	**$24.8**	
Growth	3.8%	3.2%	
% of Total	**53%**	**45%**	**800 bp**
Other (Inc. Intl)	$3.3	$6.0	
Growth	2.9%	-1.3%	
% of Total	18%	11%	
Total	**$18.3**	**$55.1**	
Growth	0.8%	-0.6%	

Competitive Challenges:
MCI is facing a number of challenges as it re-emerges from bankruptcy, including low margins (large cost structure and low pricing), continuing drag from its Consumer unit and some technical volatility that is likely to impact the stock upon initial trading. We believe MCI's low margins are driven by a combination of lower pricing and the myriad networks, systems and hierarchical infrastructure built up from its acquisition process over the years. MCI has historically operated as a holding company that overseas the numerous autonomous companies it has acquired since the 1980s. This has helped lead to the lower margins it maintains versus it peers, due to the layers of inefficient legacy systems, redundancies and parallel network protocols inherent in this structure. Additionally, MCI faces ongoing drag from its Consumer unit as it suffers under technological substitution losses to wireless and Internet, as well as competitive losses to RBOCs. Over the past two years, despite the fact that Consumer is only approximately 25% of revenues, it has accounted for approximately 45% of total EBITDA declines (shown in the following figure). We expect ongoing declines in this unit, estimated at 5% annual revenue declines over the long run, and 16% annual EBITDA declines. Additionally, we estimate that due to its broader deployment of UNE-P, the margins on its local product are lower, and will take longer to reach breakeven than AT&T's.

Finally, we expect there to be technical volatility in both the when-issued share price, as well as the initial exchange trading of the stock due to issues of dilution-concern and ownership redistribution from restructuring (credit) investors into new equity investors.

Figure 18: Competitive Challenge – Consumer Drag

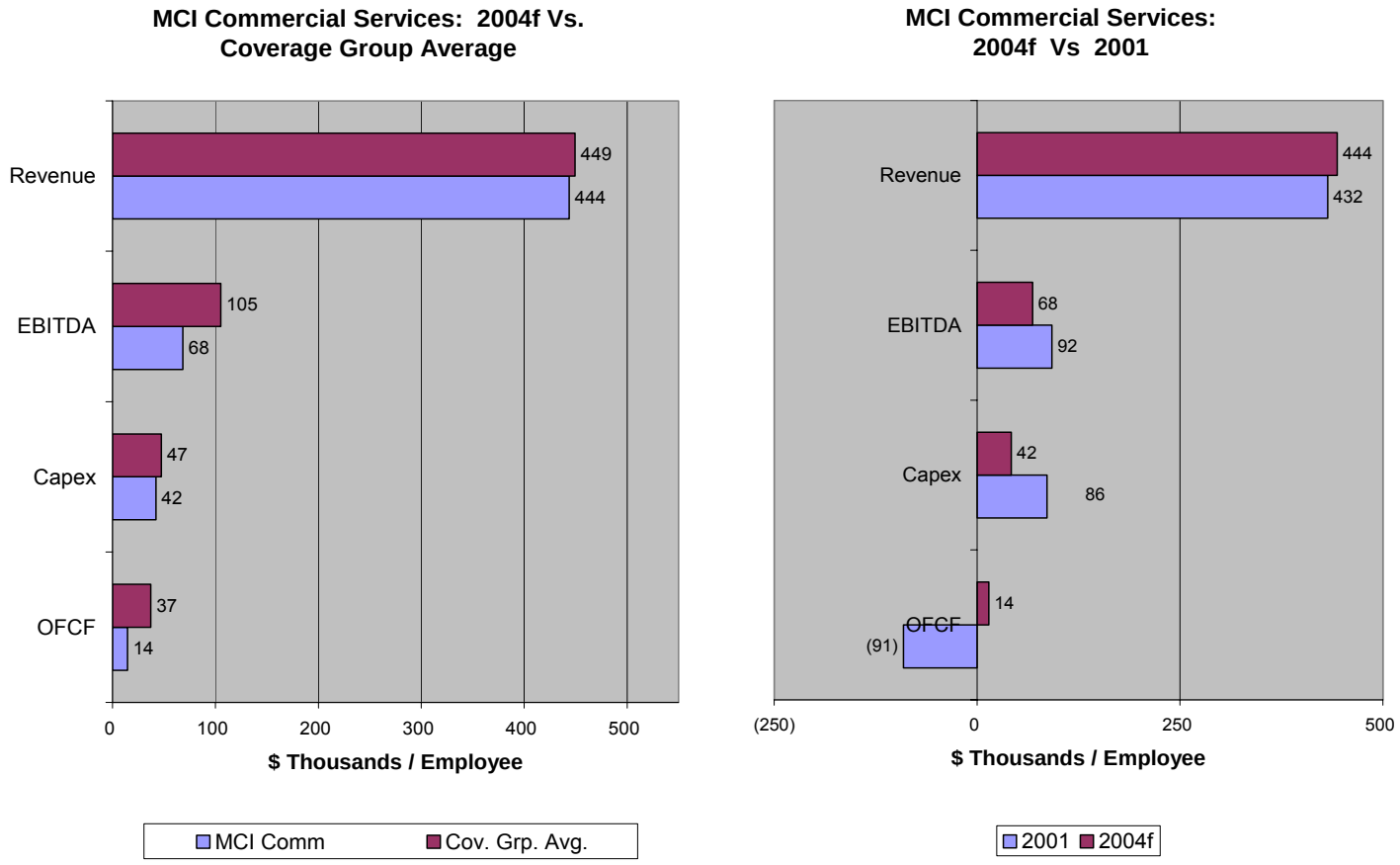


While MCI's low margins represent a current disadvantage, costs are one thing that management can truly control. Therefore, we believe this actually represents tremendous upside for the company – the key will be management's dedication to *ongoing* margin improvements. The drag from Consumer revenue declines is more problematic, but we believe MCI benefits from a lower proportion of fixed costs within its Consumer unit, which should allow the company to better eliminate expenses as volumes decline, allowing cashflows to remain positive strategically, albeit at very low margins. This is highlighted by the fact that we estimate that SG&A as a percent of revenues in 2003 is 33% for MCI, but 43% at AT&T.

Network:
MCI owns and operates an estimated 75,000 global route-mile (ex-undersea), IP-MPLS over DWDM at the core fiber backbone reaching an estimated 4,500 IP POPs in 130 markets in 65 countries worldwide. It represents one of the most extensive networks in the US and claims the most dial IP modems of any US carrier (3.2 million). Management is aggressively overhauling the legacy components of this network, consolidating its protocols to a single IP core and deploying MPLS switching throughout as part of its initiative to improve network efficiency and performance, and lower costs. This initiative will allow MCI to significantly reduce its estimated 400+ total systems as well as eliminate redundant overlay networks and consolidate all traffic (including voice) to a single IP core. Management intends to migrate approximately 25% of its voice traffic to this core by the end of 2004, leaving it somewhat behind incumbent competition, which spending the bulk of their 2003 capital budget to begin a migration of traffic to a single packet-switched core this year. We believe this "lost year" in terms of capital spending as a result of the bankruptcy process is the likely to be the largest friction to the company as it recovers from its financial distress. Having said that, MCI's market share, reputation and scale provide strong assets to carry it while such efficiencies are achieved, and we believe there are material opportunities for improved cashflows deriving from such improvements.

Productivity and Efficiency:
MCI is estimated to lag the Enterprise industry in most operating metrics, but particularly in EBITDA per employee. At a 2004 forecast of $68k EBITDA/employee, MCI lags the industry average of $105k by 35% and the AT&T level of $141k by more than 50%. We believe this is driven by a combination of lower pricing and a redundant cost structure accumulated through multiple acquisitions. However management is keenly focused on achieving 500 bps+ of margin improvement by 2005 (MCI lags the industry by as much as 1,000 bps), which we believe is achievable given the magnitude of opportunity for improvement, the network and systems overhaul and hierarchical restructuring taking place.

Figure 89: Operating Metrics Per Employee



OFCF is defined as CFFO - Capex; All metrics reflect commercial telecom services operating information divided by estimated commercial telecom services employees.

Capital Structure and Financial Strength:
MCI should re-emerge from bankruptcy with 326-366 million shares of new equity and $4.5-$5.5 billion in new senior term debt (plus $275 million in capitalized leases). Of the 15 classes of claimants to MCI's assets, five can or will be receiving equity in the newly reorganized company, including the following classes:

	Est. Claim Amount ($ bil)
■ Class 5 WorldCom Senior Debt Claims	$27.3
■ Class 6 WorldCom General Unsecured Claims	n/a
■ Class 11 Intermedia Senior Debt Claims	$0.9
■ Class 12 Intermedia General Unsecured Claims	n/a
■ Class 13 Intermedia Subordinated Debt Claims	$0.3

Of these classes, we estimate that Class 5, the WorldCom Senior Debt Claims, will receive nearly 90% of the new stock, with Class 11 receiving approximately 8%, with the balance spread among the rest, representing 100% equity ownership of the company at the moment of reorganization. However, management has established a restricted stock and options program through which shares and options on shares will be distributed, diluting the re-emergence owners over time. Our analysis makes no assumptions or estimations regarding such dilution from restricted stock or options. We have assumed the bankruptcy plan capital structure of 326 million in new equity shares, valued at $25 per share, to yield an initial $7.2 billion market cap, and $5.7 billion of total debt ($3.5 billion in net debt), resulting in an initial enterprise value of $11.6 billion. This represents a 4.4x multiple of our 2003 MCI EBITDA forecast and 3.4x multiple of our 2004 forecast, which is in-line with current trading levels of AT&T). The following table highlights various potential prices and implied EV/EBITDA multiples.

Figure 20: MCI Stock Price & Implied EBITDA Multiples

		EBITDA & Multiples			
Assumed NewCo	**NewCo Total**	**2003**	**2004**		
Share Price	**Enterprise Value**	**$2,731**	**$3,250**	**$3,448**	**$3,690**
$22.50	10,772.7	3.9x	3.3x	3.1x	2.9x
$23.00	10,935.7	4.0x	3.4x	3.2x	3.0x
$23.50	11,098.7	4.1x	3.4x	3.2x	3.0x
$24.00	11,261.7	4.1x	3.5x	3.3x	3.1x
$24.50	11,424.7	4.2x	3.5x	3.3x	3.1x
$25.00	**11,587.7**	**4.2x**	**3.6x**	**3.4x**	**3.1x**
$25.50	11,750.7	4.3x	3.6x	3.4x	3.2x
$26.00	11,913.7	4.4x	3.7x	3.5x	3.2x
$26.50	12,076.7	4.4x	3.7x	3.5x	3.3x
$27.00	12,239.7	4.5x	3.8x	3.5x	3.3x
$27.50	12,402.7	4.5x	3.8x	3.6x	3.4x
$28.00	12,565.7	4.6x	3.9x	3.6x	3.4x

At our base case assumptions of the maximum debt and minimum equity ($5.7 billion in debt and 326 million equity shares), MCI will still boast one of the best balance sheets in the business. The following table highlights this strength. At re-emergence, we expect MCI to have leverage of 1.3x (net debt/EBITDA). With expected improvements in 2004 EBITDA, we expect leverage to fall to 0.7x and interest coverage to be 3.4x. This financial slack should give MCI the flexibility to invest capital in efficiency-improving areas.

Figure 21: MCI Capital Structure Outlook – Pre & Post Restructuring

MCI Capital Structure & Cashflow Outlook: 2003 Pre & Post Reorg. & Forecasts

	2003		Proforma Projections - Reorganized Company					
($ bil):	Pre-Reorg.	Reorganized Company	2004	2005	2006	2007	2008	2009
Cash Balance	$4.7	$2.3	$3.1	$4.2	$5.1	$6.1	$7.2	$8.3
Total Assets	$20.0	$20.9	$21.8	$23.1	$24.5	$26.2	$28.0	$30.0
Total Debt	$34.2	$5.7	$5.6	$5.5	$5.5	$5.5	$5.5	$5.5
Net Debt (Net of Adjustments)	$29.4	$3.4	$2.5	$1.3	$0.4	($0.6)	($1.7)	($2.8)
Debt Mat./Paid-down this Period[1]		$28.4	$0.1	$0.1	$0.0	$0.0	$0.0	$0.0
OFCF[2]		$2.2	$1.0	$1.2	$0.9	$1.0	$1.1	$1.1
Total Incremental Financing Required		$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Portion Assumed as Debt		$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Portion Assumed as Equity		$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Leverage (Net Debt / EBITDA)	10.3x	1.3x	0.7x	0.3x	0.1x	-0.1x	-0.3x	-0.5x
Coverage (Unlev. OFCF /Cash Int.)	not paying coupons in '03		3.4x	4.0x	3.5x	3.8x	4.1x	4.3x

Comments — Represents the least levered, large-cap telecom services company

(1) 2003 debt reduction represents the debt forgiven as part of fresh start accounting under Chapter 11.

(2) Operating Free Cash Flow is defined as CFFO - capex.

MCI as a Consolidation Play?

Upon re-emergence from bankruptcy, MCI will present itself as an extremely attractive commercial telecom services company, with minimal debt, strong coverage ratios and the second-leading market share among the Enterprise carriers, but slowed by a high cost structure and a consumer unit that is in sharp decline. If a potential suitor could solve the consumer overhang by somehow selling off the consumers that are out of the suitor's local footprint (if it has any), and get comfortable with its ability to materially rationalize MCI's commercial cost structure, MCI could be attractive at its estimated $10-$12 billion valuation upon re-emergence. There is significant execution risk however in such a transaction, as paring off the unwanted portions of the consumer arm could be highly complex, require extensive regulatory approvals, receive very low valuations and take a long time.

Additionally, the only deal structures that are likely to receive regulatory approval are the ones that are the most economically unattractive. For example, in order for an RBOC to win regulatory approval for an MCI acquisition, it would likely have to divest the consumer business in-region (which would be the only customers the RBOC would want to keep to begin with) and agree to do one of the following: (1) operate MCI's consumer long distance and local UNE-P business out of region, or (2) sell it intact to another company that would. All of this makes for an especially messy transaction with unattractive economics. The only consumers that are efficient for an RBOC to keep would be the in-region ones, which they'd have to divest. And the out of region ones, served with low-margin UNE-P would be extremely unattractive and dilutive. Additionally, we do not see many other buyers out there that would be interested in owning and operating the consumer business – there simply aren't enough local customers for it to make sense for a cable company to buy (and the cable companies would likely have the same incentives to divest the out-of-footprint consumers and keep the in-footprint ones, again flying exactly in the opposite direction of what would likely gain regulatory approval). In our opinion, all of this makes an acquisition unlikely in the near term.

Business Units and Forecasts:
As the following table shows, we believe that 2004 will mark the last consolidated revenue decline for MCI as it pulls itself out of bankruptcy and the economy stabilizes and begins to improve. We expect total revenues to decline approximately 1.7% in 2004, but EBITDA to grow a material 26%+, driven by the significant cost reduction efforts discussed previously and the forecast 310 bp improvement in EBITDA margins. Operating free cashflow declines are also expected to bottom out in 2004 at around $1 billion, and then grow approximately $100-200 million per year. As the Commercial unit refocuses its efforts on regaining profitable market share, and demand begins at least a modest recovery, we expect consolidated revenue growth to approach the 2-3% range. However, we believe EBITDA can grow at more healthy rates due to the significant cost reduction opportunities and management's intense focus in this area – we expect to see consolidated EBITDA grow approximately 11% annually through 2010.

Figure 22: MCI Consolidated Summary Forecasts

($ Bil)	2001	2002	2003f	2004f	2005f	2010	'03 to '10 CAGR
Commercial (Inc. Intl)	$22.7	$20.5	$18.2	$18.3	$19.1	$24.1	4.1%
% Growth	4.8%	-9.7%	-11.4%	0.8%	4.6%	4.2%	
Consumer	$11.2	$8.7	$6.3	$5.7	$5.3	$4.5	-4.7%
% Growth	-13.6%	-21.8%	-27.9%	-9.1%	-7.2%	-2.1%	
Corp.	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	#DIV/0!
Total Revenue	**$33.9**	**$29.2**	**$24.5**	**$24.0**	**$24.5**	**$28.6**	**2.3%**
% Growth	-2.1%	-13.7%	-16.3%	-1.7%	1.8%	2.4%	
EBITDA	**$7.2**	**$5.0**	**$2.7**	**$3.4**	**$4.0**	**$5.7**	**11.1%**
% Growth	-32.9%	-30.7%	-45.6%	26.2%	14.8%	6.2%	
Margin	21.4%	17.2%	11.2%	14.3%	16.2%	20.0%	
Operating Income	**$5.5**	**$3.4**	**$1.3**	**$1.8**	**$2.1**	**$3.5**	**15.8%**
% Growth	-41.8%	-38.2%	-62.9%	40.8%	18.3%	8.6%	
Margin	16.4%	11.7%	5.2%	7.4%	8.7%	12.4%	
Net Income	**$2.7**	**$1.5**	**$1.2**	**$0.9**	**$1.1**	**$2.0**	**7.9%**
% Growth	-49.3%	-42.2%	-25.0%	-24.6%	24.6%	10.2%	
Margin	7.9%	5.3%	4.7%	3.6%	4.4%	6.9%	
Capex	**$4.8**	**$1.5**	**$1.2**	**$1.8**	**$2.0**	**$2.8**	**13.1%**
% Growth	-30.3%	-69.5%	-18.6%	48.9%	13.7%	5.1%	
% of Rev	14.1%	5.0%	4.9%	7.4%	8.2%	9.8%	
OFCF[(1)]	**($5.3)**	**$3.4**	**$2.2**	**$1.0**	**$1.2**	**$1.1**	**-9.3%**
% Growth		-163.7%	-35.0%	-53.7%	17.0%	1.9%	
Margin	-15.6%	11.5%	9.0%	4.2%	4.9%	3.9%	

(1) Operating Free Cash Flow is defined as CFFO - capex.

Commercial:
We believe the ability for MCI management to strip away significant cost structure is the most important value driver for the company over the next 1-2 years. In this regard, given its importance, the vast opportunity (MCI Commercial's estimated margins lag the industry by 1,000 bps and AT&T's by as much as 1,500 bps), and management's focus and current initiatives, we believe MCI - Commercial will be successful in driving more than 680 bps of EBITDA margin improvement over the next 2 years, with approximately 420 bps of this coming in 2004 and 260 bps in 2005. This would still leave MCI Commercial's estimated EBITDA margins at only 18% in 2005, which would still represent a 450 bp disadvantage versus the industry forecast and a 1,000 bp discount to AT&T Business Services' margins. A key question in forecasting margin improvements of this magnitude is pricing. As we've discussed earlier, given the already slim margins at the company, we believe aggressive across-the-board price cuts are not in store, but would clearly wipe out forecasted margin improvements if they were to occur.

The following table summarizes our Commercial forecasts, which are characterized by recovering but still-moderate revenue growth and but sharply improving margins and EBITDA. Commercial revenues are expected grow 0.8% in 2004, driven by 4% growth in data revenues, moderated by a 3% decline in voice revenues. We expect EBITDA to grow 38% in 2004 as margins are expected to improve by approximately 420 bps. We believe 2004 should also mark the low-mark in terms of OFCF at approximately $0.6 billion, which should begin healthy growth from that point forward. Strategically, we expect the Commercial unit will grow revenues 4% annually, due to a greater weighting of data revenues (53% of 2003 MCI Commercial revenues versus an industry average of 45%) and market share recapture-opportunities within Large Enterprise. With ongoing improvements in margins, back toward the low end of industry averages, we believe EBITDA will grow 15% annually, on average, through 2010.

Figure 23: MCI Commercial Summary Forecasts

($ Bil)	2001	2002	2003f	2004f	2005f	2010	'03 to '10 CAGR
Total Voice	$7.9	$6.6	$5.6	$5.3	$5.3	$5.7	0.3%
% Growth	-16.0%	-17.1%	-15.0%	-5.3%	-0.8%	1.9%	
Data & IP	$11.8	$10.4	$9.4	$9.7	$10.4	$14.3	6.2%
	19.6%	-11.6%	-10.1%	3.8%	7.6%	5.4%	
Other	$3.0	$3.5	$3.2	$3.3	$3.4	$4.1	3.7%
Total Revenue	**$22.7**	**$20.5**	**$18.2**	**$18.3**	**$19.1**	**$24.1**	**4.1%**
% Growth	4.8%	-9.7%	-11.4%	0.8%	4.6%	4.2%	
EBITDA	**$4.8**	**$3.5**	**$2.0**	**$2.8**	**$3.4**	**$5.5**	**15.3%**
% Growth	-27.3%	-26.9%	-42.4%	38.4%	22.3%	7.3%	
Margin	21.3%	17.3%	11.2%	15.4%	18.0%	22.9%	
Capex	**$4.5**	**$1.4**	**$1.1**	**$1.7**	**$1.9**	**$2.7**	**13.3%**
% Growth	-27.9%	-69.9%	-18.5%	57.1%	10.1%	9.2%	
% of Rev	19.9%	6.6%	6.1%	9.5%	10.0%	11.0%	
OFCF(1)	**($4.8)**	**$1.7**	**$1.3**	**$0.6**	**$0.9**	**$1.2**	**-1.5%**
% Growth	129.8%	-136.7%	-26.4%	-53.5%	50.9%	-2.8%	
Margin	-21.0%	8.5%	7.1%	3.3%	4.7%	4.8%	

(1) Operating Free Cash Flow is defined as CFFO - capex.

Consumer:
MCI faces ongoing drag from its Consumer unit as it faces technological substitution losses to wireless and Internet, as well as competitive losses to RBOCs. Over the past two years, despite the fact that Consumer is only approximately 25% of revenues, it has accounted for approximately 45% of total EBITDA declines. We expect ongoing declines in this unit, estimated at 5% annual revenue declines over the long run, and 16% annual EBITDA declines. Additionally, we estimate that due to its broader deployment of UNE-P, the margins on its local product are lower, and will take longer to reach breakeven than AT&T's. For example, we believe MCI's 2003 local UNE-P EBITDA margins are -30%, while AT&T's are -26%. This should improve over the next several years, but at slow rates and with limited profit potential. On the plus side, we believe MCI benefits from a lower proportion of fixed costs within its Consumer unit, which should allow the company to better eliminate expenses as volumes decline, allowing cashflows to remain positive strategically, albeit at very low margins. This is highlighted by the fact that we estimate that SG&A as a percent of Consumer revenues in 2003 is 33% for MCI, but 43% at AT&T. We summarize our MCI local UNE-P forecasts in a subsequent table.

The following table summarizes our Consumer forecast, which is characterized by 7-9% annual revenue declines losses through 2005, easing to mid-single single digit declines longer-term as wireless substitution matures, RBOC penetration slows, voice-rate declines ease, and UNE-P local bundling helps boost customer retention. On average, we are expecting revenues to decline nearly 5% annually through 2010, with EBITDA staying positive throughout. Ultimately, the Consumer unit should shrink to a size that is small relative to the Commercial arm, such that its ultimate resolution would not have dramatic effects. The challenge for MCI in the interim is to build wholesale replacements for the network volume that Consumer currently uses, which should be aided by a gradual migration of voice to VoIP.

Figure 24: MCI Consumer Summary Forecasts

($ Bil)	2001	2002	2003f	2004f	2005f	2010	'03 to '10 CAGR
Stand-Alone LD Voice	$7.1	$5.0	$2.8	$1.5	$0.7	$0.1	-37.9%
% Growth	2.1%	-29.3%	-43.2%	-46.4%	-55.9%	n/m	
Bundled Voice	$0.2	$1.0	$2.4	$3.2	$3.9	$4.0	7.9%
	n/m	576.1%	125.6%	37.4%	18.5%	-1.8%	
Other	$4.0	$2.7	$1.1	$1.0	$0.8	$0.4	-14.5%
Total Revenue	**$11.2**	**$8.7**	**$6.3**	**$5.7**	**$5.3**	**$4.5**	**-4.7%**
% Growth	-13.6%	-21.8%	-27.9%	-9.1%	-7.2%	-2.1%	
EBITDA	**$2.4**	**$1.5**	**$0.7**	**$0.6**	**$0.5**	**$0.2**	**-16.1%**
% Growth	-42.0%	-38.2%	-53.1%	-9.4%	-18.5%	-15.9%	
Margin	21.5%	17.0%	11.0%	11.0%	9.7%	4.5%	
Capex	**$0.3**	**$0.1**	**$0.1**	**$0.0**	**$0.1**	**$0.2**	**10.1%**
% Growth							
% of Rev	2.4%	1.1%	1.3%	0.5%	1.8%	3.5%	
OFCF[(1)]	**($0.5)**	**$1.6**	**$0.9**	**$0.4**	**$0.3**	**($0.0)**	**-165.7%**
% Growth		-402.6%	-44.2%	-53.8%	-31.3%	n/m	
Margin	-4.8%	18.6%	14.4%	7.3%	5.4%	-1.1%	

(1) Operating Free Cash Flow is defined as CFFO - capex.

Figure 25: MCI Consumer Local UNE-P Forecasts

MCI Consumer - Stand-Alone Local UNE-P Forecasts				
Subscribers: (000)	**2003f**	**2004f**	**2005f**	**2006f**
Eligible Consumer HHs	**96,513**	**93,394**	**92,221**	**91,396**
% of US	78.0%	85.0%	85.0%	85.0%
Gross Adds	3,496	3,829	3,704	3,574
- Churn (Annual)	50.2%	47.2%	39.6%	37.4%
Net Adds	**2,041**	**1,496**	**1,153**	**733**
Year-End Subs	**4,941**	**6,437**	**7,590**	**8,322**
Penetration of Eligible HHs	5.1%	6.9%	8.2%	9.1%
Revenue:				
Effective ARPU/Mo.	**$29.6**	**$28.2**	**$27.6**	**$27.6**
Local UNE-P Revenue ($mil)	**$1,411**	**$1,941**	**$2,333**	**$2,646**
% Growth	115%	38%	20%	13%
Expenses:				
CGS: UNE-P Rate/Sub/Mo.	$18.2	$19.0	$19.3	$19.3
Gross Margin	38%	32%	30%	30%
SG&A (Inc. Acq. Costs)/Sub/Mo.	$20.7	$13.4	$9.7	$8.0
EBITDA ($mil)	**($419)**	**($273)**	**($107)**	**$36**
Margin	-30%	-14%	-5%	1%

Valuation – Bankruptcy Plan Capital Structure:
We have assumed the bankruptcy plan base-case capital structure of 326 million in new equity shares and $5.7 billion of total debt ($3.5 billion of 2003 net debt). The following table summarizes our estimation of the impact of higher amounts of equity (and thus lower amounts of debt) in the initial capital structure. We estimate that for each incremental 20 million shares of equity issued at the time of reorganization, the dilution per share is estimated to be $0.50 Therefore, if the maximum amount of 366 million shares is issued, we believe the equity value whould be $1.0 less than if the minimum 326 million shares are issued. The table also shows that no matter what the ultimate blend of debt and equity are under the reorganized capital structure, the leverage of the company is extremely modest. Additionally, even under the maximum 366 million share scenario, the implied P/E on estimated 2004 EPS is still a modest 10.0x, below the 2004 industry average of 11.5x.

Figure 26: Capital Structure & Value Implications

MCI - Valuation & Balance Sheet Effects of Different Re-emergence Capital Structures

	Bankruptcy Base Plan	Range of Bankruptcy Plan Debt Scenarios		Versus Bankruptcy Plan Base Case	
Debt Scenario	**Maximum of Possible**	**Mid-Range of Possible**	**Lowest-End of Possible**	**Mid-Range Vs. Base**	**Lowest-End Vs. Base**
($ bil):	**Debt**	**Debt**	**Debt**	**Case**	**Case**
Total Assets	**$20.9**	**$20.9**	**$20.9**		
Total Debt	$5.7	$5.2	$4.7	($0.5)	($1.0)
Debt / Assets	**27.5%**	**25.1%**	**22.7%**	**-240 bp**	**-479 bp**
Book Equity	$8.4	$8.9	$9.4	$0.5	$1.0
Debt / Equity	**0.7x**	**0.6x**	**0.5x**	**-0.1x**	**-0.2x**
"New-Co." Shares (mil)	326	346	366	20.0	40.0
"New-Co." 2004 EPS	**$2.76**	**$2.64**	**$2.50**	**($0.12)**	**($0.26)**
Implied P/E (on Assumed $25 Price)	9.1x	9.5x	10.0x	0.4x	0.9x
Unlevered FCF / Share	$4.41	$4.15	$3.93	($0.25)	($0.48)
Implied $25 Share Price / FCF	5.7x	6.0x	6.4x	0.3x	0.7x
DCF- Value / "New-Co."Share	**$25.1**	**$24.6**	**$24.1**	**($0.5)**	**($1.0)**

(1) Consolidated tracking stock information reflecting the current capital structure for Sprint. Corp.

Potential Trading Range:
The following table outlines what we believe to be a potential trading range for the new stock, given three views on the company. Our Base Case assumes that the stock's value is viewed on a discounted cashflow, as well as on relative EV/EBITDA multiple basis, and that management is reasonably successful in achieving its stated EBITDA goals for 2004. At an assumed maximum number of 366 million new shares, we believe a Bull-Case premium valuation could be $27-$28. Our Bear Case analysis assumes that only a EV/EBITDA multiple valuation gets applied and that the 10-year industry low multiple value is assigned to a 2004 MCI EBITDA amount that is only 50% as improved as management forecasts. This results in a $22 value per share. We believe the near-term equilibrium range should be between these two points, roughly in the $24-$26 range.

Figure 27: Potential Trading Range

MCI Potential Trading Range Arguments

New MCI Equity Valuation:	**Bear Case**	**Base Case**	**Bull Case**
Market Assumptions	Stock gets valued at the10-yr low-tick of industry EV/EBITDA multiples and market believe 2004 MCI EBITDA will only improve 50% of mgmt's forecasted $1 billion amount. No intrinsic value (DCF) credit is given.	Stock gets valued both intrinsically and by peer EV/EBITDA target multiples. Market believes 2004 MCI EBITDA will achieve 80% of mgmt's fore-casted improvement, reaching $3.5 b.	Stock gets valued both intrinsically and by peer EV/EBITDA target multiples. Market believes 2004 MCI EBITDA will achieve 100% of mgmt's fore-casted improvement, reaching $3.7 b.
Valuation Metrics: $ Bil			
Intrinsic Value:			
DCF - Public Equity Value	**No Credit**	**$8.2**	**$8.2**
EV / EBITDA Valuations:			
10-yr Low Industry Multiple	3.0x		
Industry Target Multiple		3.4x	3.4x
2004 EBITDA	$3.2	$3.4	$3.7
Enterprise Value	$9.5	$11.8	$12.6
- Net Debt	$2.5	$2.5	$2.5
Equity Value	**$7.1**	**$9.3**	**$10.2**
Equity Value Per Share[(1)] at…			
326 million shares (lowest)	$22	$27	$28
346 million shares (mid-range)	$22	$27	$28
366 million shares (max)	**$22**	**$26**	**$27**

Assumes 366 million Shares:	Price Support	Mid-Range Equilibrium	Premium Multiples
Potential Trading Range:	**$22**	**$24 - $26**	**$27 - $28**

(1) Equity Value per Share represents an equal weighted average of the DCF and EV/EBITDA multiple values for the Base Case and the Bull Case. For the Bear Case it only represents the EV/EBITDA multiple value.

Enterprise Telecom Services Comparables:

Figure 28: Enterprise Carrier Comparables

Company & Enterprise Value													
Stock Information				Enterprise Value					Investor Returns				
									Current Yields		Stock Performance: % Return		
Company	Ticker	Price	Shares Out	Mkt.Cap	Net Debt	Non-Con. Assets	Enter. Value	Book Equity	Div Yld	ROA	Week	Month	YTD
AT&T[1]	T	$19.08	789	15.1	8.5	0.0	23.6	13.6	5.0%	7.6%	1%	-5%	-27%
T Bus. Serv.[2]										4.6%			
MCI[1]	MCIAV	$25.26	326	8.2	3.4	0.0	11.7	8.4	0.0%	6.5%	1%	-5%	-27%
MCI Comm.[2]										3.6%			
Sprint[1]	FON	$15.22	903	13.7	0.0	0.0	13.8	13.3	3.3%	8.7%	-6%	-3%	5%
FON Comm.[2]										4.2%			
Level 3[1]	LVLT	$5.33	653	3.5	4.5	0.0	8.0	0.3	0.0%	-1.9%	-4%	-1%	9%
L3 Comm.[3]										-5.1%			
XO Comm.	XOCM	$5.30	95	0.5	0.2	0.0	0.7	0.5	0.0%	-6.6%	-2%	-1%	N/A
Time Warner	TWTC	$10.16	115	1.2	0.8	0.0	2.0	0.5	0.0%	-1.8%	-7%	-13%	382%
Enterprise Avg.(Largecap for Div & ROA)									2.8%	4.2%	-3%	-5%	68%
S&P 500 Avg.	SPX	$1,047									-1%	1%	19%

Operating Statistics												
Stock Information		Revenue				EBITDA				EPS			
	LEH	2003		2004		2003		2004		2003		2004	
Company	Rating	$ Bil	% Gwth	$ Bil	% Gwth	$ Bil	Margin	$ Bil	Margin	$	% Gwth	$	% Gwth
AT&T[1]	1-OW	34.7	-8.1%	32.9	-5.4%	8.7	25.1%	7.9	24.0%	$2.28	-17.2%	$1.73	-24.3%
T Bus. Serv.[2]		25.2	-5.3%	24.5	-2.5%	6.8	26.9%	6.8	27.9%				
MCI[1]	NR	24.5	-16.3%	24.0	-1.7%	2.7	11.2%	3.4	14.3%	N/A	N/A	$2.76	N/A
MCI Comm.[2]		18.2	-11.4%	18.3	0.8%	2.0	11.2%	2.8	15.4%				
Sprint[1]	2-EW	14.1	-7.0%	13.8	-2.6%	4.4	31.1%	4.5	32.9%	$1.45	7.5%	$1.55	6.4%
FON Comm.[2]		9.3	-5.6%	9.3	-0.6%	2.5	26.8%	2.7	28.5%				
Level 3[1]	1-OW	3.6	26.6%	3.6	-1.2%	0.4	12.1%	0.6	16.4%	($1.18)	N/M	($0.98)	N/M
L3 Comm.[3]		1.6	2.9%	1.8	9.0%	0.4	27.3%	0.6	32.2%				
XO Comm.		1.2	-7.2%	1.2	6.7%	0.0	1.1%	0.0	1.8%	($1.28)	N/M	($1.08)	N/M
Time Warner		0.7	-7.0%	N/A	N/A	0.2	28.6%	N/A	N/A	($1.06)	N/M	($0.89)	N/M
Enterprise Ind.		151.6	-4.7%	154.8	2.1%	31.0	20.4%	32.9	21.3%				

Valuation Multiples & Capital Structure												
Stock Information		EV / Revenue		EV / EBITDA		EV / OFCF		P/E Ratio		Leverage Ratios		Coverage Ratios
Company	Price Target	2003	2004	2003	2004	2003	2004	2003	2004	Nt Debt / Capital	Nt Debt / '04 EBITDA	Unlev. '04 OFCF / Int.
AT&T[1]	$24	0.7x	0.7x	2.7x	3.0x	4.0x	6.9x	8.4x	11.1x	38.5%	1.1x	4.6x
T Bus. Serv.[2]		0.9x	1.0x	3.5x	3.4x	5.6x	8.4x					
MCI[1]	NR	0.5x	0.5x	4.3x	3.4x	5.3x	11.5x	N/A	9.2x	29.0%	1.0x	3.4x
MCI Comm.[2]		0.6x	0.6x	5.7x	4.1x	5.3x	11.5x					
Sprint[1]	$18	1.0x	1.0x	3.1x	3.0x	8.0x	6.9x	10.5x	9.8x	0.2%	0.0x	9.0x
FON Comm.[2]		1.5x	1.5x	5.5x	5.2x	12.8x	11.5x					
Level 3[1]	$7	2.2x	2.2x	18.2x	13.6x	N/A	115.1x	N/A	N/A	93.1%	7.7x	1.1x
L3 Comm.[3]		5.0x	4.5x	18.1x	14.1x							
XO Comm.		0.6x	0.5x	53.2x	30.0x	N/A	N/A	N/A	N/A	23.3%	7.4x	No Cash Int.
Time Warner		2.8x	N/A	9.8x	N/A	N/A	N/A	N/A	N/A	61.5%	N/A	N/A
Enterprise Avg.(Largecap)		0.7x	0.7x	3.4x	3.1x	5.8x	8.5x	9.4x	10.0x	22.6%	0.7x	5.7x
S&P 500 Avg.												

(1) Represents consolidated, total company information (for Level 3, reflects recurring items only - excludes any dark fiber, settlement & termination)
(2) Reflects operating statistics for the commercial portion of the company; valuation statistics reflect total company market valuation as a multiple of the commercial operating unit's cashflows.
(3) Refflects recurring Communications Group items only