**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<br>Qwest<br>SBC Communications<br>Verizon | AT&T Wireless<br>Nextel<br>Sprint PCS | Alltel<br>Century Tel.<br>Commonwealth Tel.<br>Citizens Comm.<br>US Cellular<br>TDS | AT&T<br>MCI<br>Sprint<br>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 | | | |
| | | 2003 | | 2004 | | 2003 | | 2004 | | 2003 | | 2004 | |
| Company | LEH 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 | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | 7-Yr Rev | Market | Avg. Annual |
| Rank | Carrier(2) | Rev ($ bil) | Mkt. Share | Rev ($ bil) | Mkt. Share | CAGR | Share | 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 | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | 7-Yr Rev | Market | Avg. Annual |
| Rank | Carrier(2) | Rev ($ bil) | Mkt. Share | Rev ($ bil) | Mkt. Share | CAGR | Share | 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]

| | | 2004f | | 2005f | | 2010f | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | 7-Yr Rev | Market | Avg. Annual |
| Rank | Carrier[2] | Rev ($ bil) | Mkt. Share | Rev ($ bil) | Mkt. Share | CAGR | Share | 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 |
|---|---|
| **1** | **AT&T** |
| **2** | **MCI** |
| **3** | **Qwest** |
| **4** | **Sprint** |
| 5 | RBOCs |

| | DIA - $3.6 b |
|---|---|
| **1** | **Sprint** |
| **2** | **Level 3** |
| **3** | **MCI** |
| 4 | AT&T |
| 5 | Qwest |

| | Dial & DSL Wholesale - $2.0 b |
|---|---|
| **1** | **Level 3** |
| **2** | **MCI** |
| **3** | **Sprint** |
| 4 | Qwest |
| 5 | Regional Players |

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

| | Voice - $55.7 b |
|---|---|
| **1** | **SBC** |
| **2** | **AT&T** |
| **3** | **Verizon** |
| **4** | **Sprint** |
| **5** | **BellSouth** |
| **6** | **MCI** |
| **7** | **Qwest** |

| | Packet Svcs(1) - $26.0 b |
|---|---|
| **1** | **AT&T** |
| **2** | **MCI** |
| 3 | Sprint |
| 4 | Qwest |
| 5 | RBOCs (in-region) |

(1) FR, ATM & IP LANs, WANs and VPNs

| | Private Line: Retail(2) - $16.0 b |
|---|---|
| **1** | **AT&T** |
| **2** | **MCI** |
| **3** | **RBOCs** |
| 4 | Sprint |
| 5 | Network Carriers |

(2) DS-3 & below; market includes ILEC/IXC last-mile links since most end-users are retail-based

| | DIA - $4.6 b |
|---|---|
| **1** | **AT&T** |
| **2** | **MCI** |
| 3 | Qwest |
| 4 | Network Carriers |
| 5 | Regional Players |

| | Managed Svcs(3) - $9.0 b |
|---|---|
| **1** | **AT&T** |
| **2** | **Network Integrators(4)** |
| 3 | Qwest |
| 4 | MCI |
| 5 | RBOCs |

(3) Includes network management outsourcing fees, hosting, e-services & colocation revenue.
(4) The large network design integrators such as IBM, EDS & others.

| | Network Integration(5) - $18.5 b |
|---|---|
| **1** | **Network Integrators(6)** |
| **2** | **AT&T** |
| 3 | Regional/Other Consultants |
| 4 | RBOCs |

(5) Includes outsourced network design and integration
(6) 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

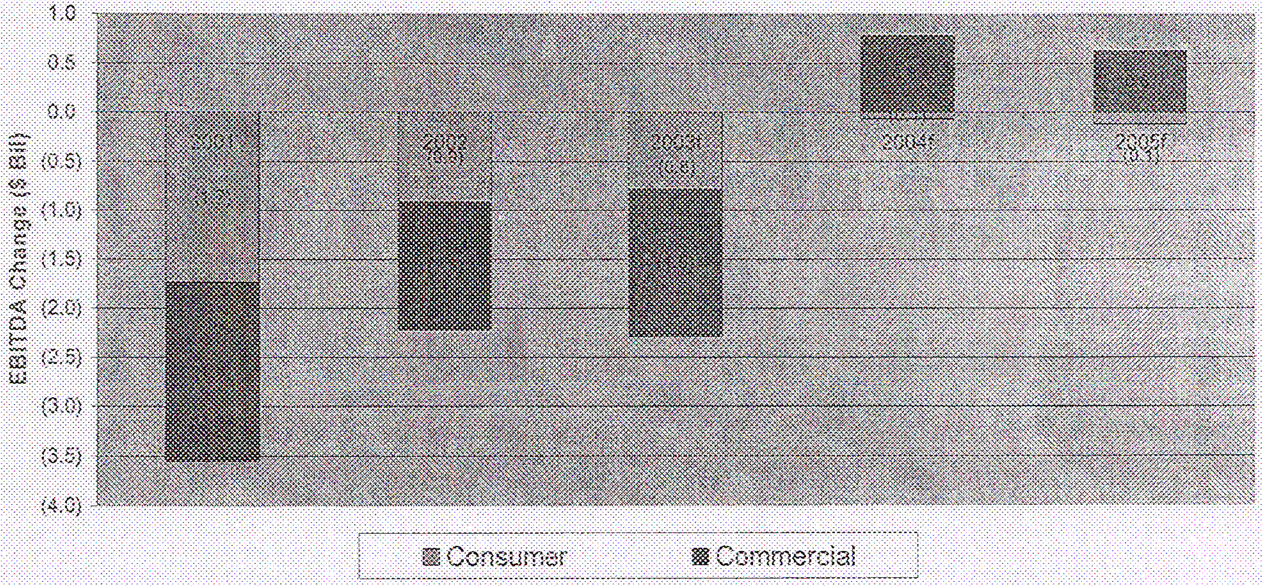
**Mix Weighted in Favor of Data**

| 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

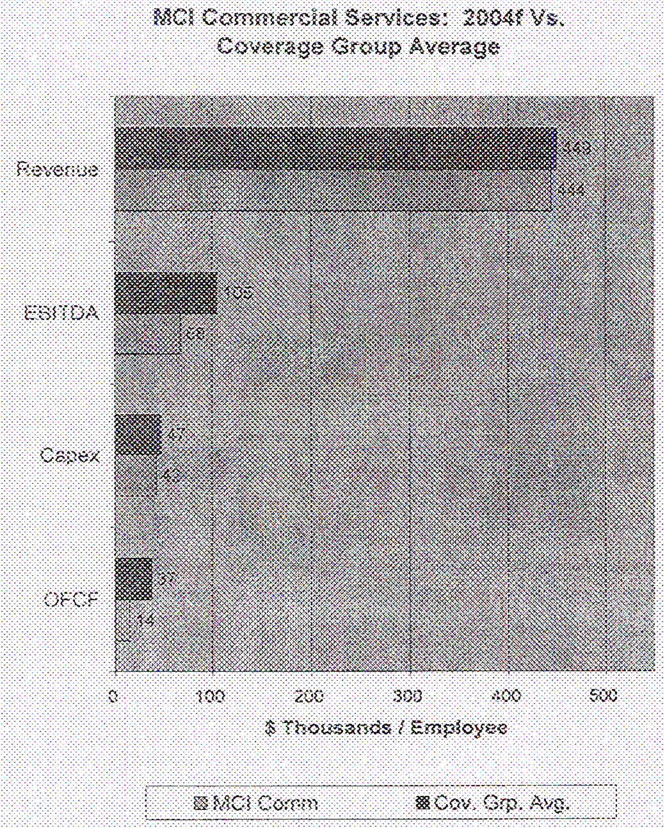


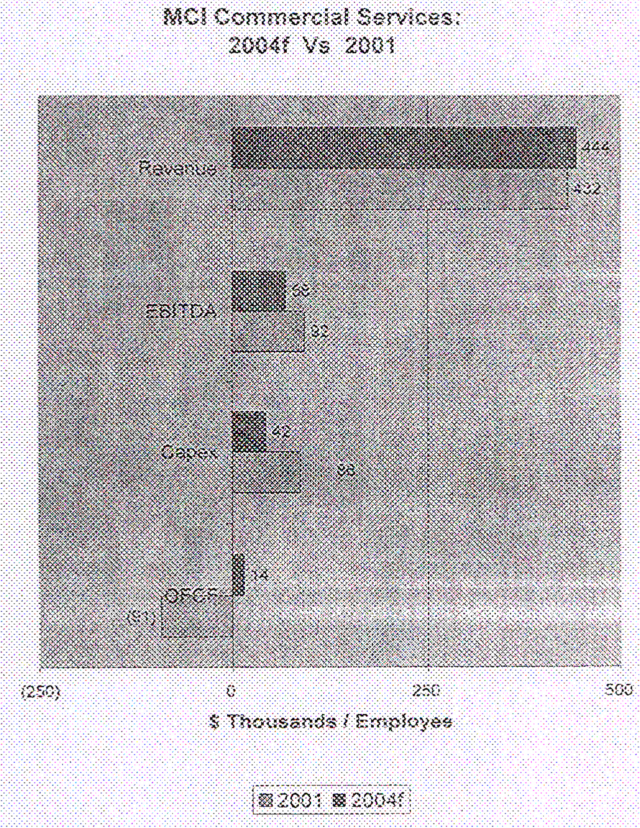

While MCI's low margins represent a current disadvantage, costs are one thing that management can truly control. Therefore, we believe this actually represents tremendous upside for the company – the key will be management's dedication to *ongoing* margin improvements. The drag from Consumer revenue 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** **($ bil):** | **Maximum of Possible Debt** | **Mid-Range of Possible Debt** | **Lowest-End of Possible Debt** | **Mid-Range Vs. Base Case** | **Lowest-End Vs. Base 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.

## 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 | | | |
| | | 2003 | | 2004 | | 2003 | | 2004 | | 2003 | | 2004 | |
| Company | LEH 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

# Attachment 3

## Verizon's Internal Share Estimates for Fast-Packet Services, ATM, Frame Relay, IP-VPN, and Ethernet

The attached revenue share estimates were prepared by the Market Strategy & Intelligence group within Verizon Business. These results are obtained by first sizing total revenues for the services at issue using both "tops down" and "bottoms up" methods. The "tops down" method forecasts total business revenue for enterprise customers, and then breaks the total business down into service-specific segments. In contrast, the "bottoms up" method forecasts specific products and services and uses the individual forecasts to build the total business size.

Each method uses a combination of primary research and financial or industry analyst secondary research. For the tops-up method, Verizon assesses total business forecasts from all relevant sources that have been recently published, such as broker analyst reports that provide company specific forecasts for industry players as well as overall industry reviews. Verizon also uses information from secondary research vendors, such as the Gartner Group and the Yankee Group. Verizon then constructs a weighted-average growth rate forecast for the large enterprise and mid-sized business in total based on broker analyst views of approximately 40 major industry players (carriers, equipment providers, systems integrators, and IP applications providers). This growth rate forecast provides a check to the "bottoms up" approach.

For the "bottoms up" method, Verizon builds product-specific forecasts. Verizon uses at least three information sources to triangulate an industry-consensus estimate. Verizon then checks the results from this "bottoms up" sizing against the results from the overall business total and growth forecast from the "tops down" method and from our internal modeling and analysis of the actual performance of major industry players.

The sizing work described above forms the "denominator" for determining share calculations. The "numerator" for non-affiliated carriers is Verizon's estimate of revenue for relevant industry participants. This estimate is derived by running a company's publicly available data through an analysis developed for MS&I in 2002 by the Yankee Group. Those revenue calculations, as stated above, are then compared to the total sizing to determine each company's national revenue share.

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