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Appendix C

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.

In re Applications of)
)
SPRINT CORPORATION,)
Transferor,)
)
and)
)
MCI WORLDCOM, INC.,) CC Docket No.
Transferee,)
)
for Consent to Transfer Control)
of Corporations Holding Commission)
Licenses and Authorizations Pursuant)
to Sections 214 and 310(d) of the)
Communications Act and Parts 1,)
21, 24, 25, 63, 73, 78, 90, and 101)

AFFIDAVIT OF JOHN G. DONOGHUE

Based on my personal knowledge and on information learned in the course of my duties, I,

John G. Donoghue, declare as follows:

1. My name is John G. Donoghue. I am Senior Vice President of Marketing and Advertising for MCI WorldCom. In that position, I am responsible for the overall marketing strategy for all of MCI WorldCom's consumer- and small business-related products, including local and long distance services, MCI WorldCom's integrated service offering, MCI One, and "unbranded" products like 1-800-COLLECT and 10-10-321. I also oversee all advertising for MCI WorldCom. I have worked for MCI (now MCI WorldCom) in a variety of sales and marketing positions throughout the company since graduating from George Washington University with a degree in economics and international relations.

2. I have been asked to identify the benefits of the proposed merger of MCI WorldCom and Sprint to consumers, businesses and to the merging parties that we anticipate as a result of the increased ability of the merged entity to meet consumer demand for packages of telecommunications services.

3. The proposed merger will enhance the ability of post-merger WorldCom to provide packages of telecommunications services to consumers and businesses in at least two significant respects:

4. First, the merger will substantially enhance WorldCom's ability to provide local telephone service and therefore to market to consumers a package of local and long distance telephone service.

5. Second, the merger will materially improve WorldCom's ability to market additional services such as wireless telephone service and Internet/data services (both broadband and narrowband) to existing customers of WorldCom's local, long distance, or local/long distance bundled services. In both cases, we perceive these benefits will be particularly relevant to sales to residential and small business users.

6. MCI WorldCom is convinced (and I understand that Sprint shares this view) that the ability to provide to customers the "last mile" of the network is important to future success in the rapidly evolving telecommunications business. First, the connection to the home (or business) is potentially shared by all telecommunications services, making that connection an important part of the cost structure for all services. The connection to the home or business is the end user's on-ramp to the world, and therefore is of unique importance to the end user. This is true for all potential services that may be provided using such facilities, but it is particularly important with regard to voice telephone service. Second, as discussed below, many consumers want to

purchase their local service and their long distance service from a single provider. Finally, as the distinction between local and long distance service continues to blur, providing both local and long distance service gives a carrier the flexibility to provide "all distance" services. Gaining the robust, nationwide ability to offer a package of local and long distance service is a first step towards the provision of "all distance" service.

7. Proprietary MCI WorldCom and third party studies of consumer demand indicate that a packaged offering of local and long distance service would be highly attractive to most consumers. There is a substantial affinity between the two services from a consumer's perspective, and MCI WorldCom's experience suggests that purchasing the package will not cost consumers more than purchasing local and long distance service separately.

8. For example, in New York, MCI WorldCom has decided to launch commercial service using Bell Atlantic's UNE-P. A significant majority of new MCI WorldCom residential customers in New York have chosen MCI WorldCom as their carrier for local, local toll, and long distance services. Individual savings vary with usage and customer location, but MCI WorldCom local residential customers who subscribe to a flat rate plan save 5 percent on local line fees, usage and features, and local customers can save up to 18 percent over Bell Atlantic. Customers who choose MCI WorldCom to carry their regional toll as well as interstate long distance receive the same low rates for both, minimizing confusion. In addition to the local savings reported above, they also receive access to the lowest MCI WorldCom long distance rates. This can amount to a 20 percent additional long distance rate savings with "Everyday Plus," featuring day rates of \$.07/minute and evening-night rates of \$.05/minute. And beyond these rate savings, bundled customers receive other discounts, at present amounting to \$5 per month, or \$60 per year.

9. The benefits of such packaging to both customers and carriers are many. The most important benefit to customers is the potentially reduced cost of purchasing the package when compared to the cost of purchasing the services separately. Other important customer benefits include combining services on a single bill, providing a single source for customer service, and allowing for increased accountability of the telecommunications service provider (having one service provider instead of two increases the service provider's ability to assure that service issues are rectified on a consistent and coordinated basis). Having one service provider in multiple locations is also important to many medium and large businesses.

10. Carriers benefit from offering packages as well. They are able to improve customer relations by extending their contact with customers, and customers are more likely to be satisfied and thus to remain customers of a particular carrier for a longer period of time if they purchase more than one service from that carrier. While customers remain free to switch providers, it is generally the case that the more services a customer purchases from one provider, the longer that customer stays with that provider for all services purchased.

11. Additionally, the revenue generated by a single customer of packaged local and long distance service is substantially greater than the revenue generated by a customer of each service individually. This is so because purchasers of packaged services tend to use those services more intensely and tend to purchase more additional features for those services. Because these services share many of the same facilities and infrastructure, the resulting incremental traffic generates network efficiencies. For example, because long distance calls must use the local network to originate and terminate calls, packaging local and long distance increases use of existing network facilities (such as certain transport, trunking and switching functions).

12. Similarly, due to the affinity between local and long distance service, customer acquisition costs for a package are shared, which is an important and substantial source of efficiency because acquisition costs are substantial and the incremental increase in acquisition costs from offering a package of local and long distance service is relatively small. Moreover, as noted above, package customers tend to stay with a carrier longer, resulting in further reductions in overall acquisition costs. In addition, billing costs also are reduced through combined billing; combining local and long distance service also will result in customer service efficiencies by allowing the same customer service representatives to address both local and long distance telephone service issues.

13. The proposed merger allows the merged company to accomplish local entry and thereby achieve the benefits of offering a package of local and long distance service much more quickly than either company could individually. The assets of the two companies will make the merged entity a significantly more effective local entrant. For example, Sprint has extremely valuable experience as an ILEC providing service in suburban and rural areas in 18 states with approximately 7.3 million switched access lines. Sprint has created customer care processes for the provision of local service that result from more than 100 years of experience in the local telephone business. The customer care required for local service is significantly different than the customer care required for long distance. Therefore, among other benefits, Sprint's experience will speed the merged entity's ability to put in place the customer care processes critical to the successful provision of a robust local service offering.

14. The combined company's ability to expand its local presence into other areas will also be advanced by the existing long distance customer base of the two companies. MCI WorldCom has found that its existing long distance customers are more likely to purchase local service from

MCI WorldCom than are customers of other long distance providers. The combined company will have significantly more long distance customers that are likely to purchase a bundled local offering in any given service area than either company has today. In other words, the addition of the Sprint's long distance customer base to MCI WorldCom's long distance customer base will increase the concentration of potential customers likely to purchase the merged entity's packaged local and long distance offering that are served through a given ILEC central office. By combining the "readily addressable" potential local customer base of the companies, the merger will allow WorldCom to economically justify the installation of collocation and other local facilities more quickly, thereby reducing the merged entity's dependence on the ILEC.

15. Moreover, for a carrier seeking a nationwide entry strategy, the mass market is most efficiently addressed on a national, demographic basis, not a regional, geographic basis. By increasing the areas it can service nationally, a carrier can more quickly and more easily cost justify a national marketing plan. The combined customer base of MCI WorldCom and Sprint substantially increases the number of customers to whom packages of services may be readily marketed, and therefore provides the merged company the ability to market its package of local and long distance service on a national basis more efficiently.

16. Other service packages are important to consumers as well. Following its merger with Sprint, MCI WorldCom believes it will be better able to serve customers as a fully integrated telecommunications provider, able to fulfill all of its customers' telecommunications needs, from local to long-distance, from toll-free service to Internet access, and everything in between. This is due to the fact that a substantial percentage of consumers are interested in packaged services beyond a package of local and long distance telephone. These services primarily include wireless telephone service and Internet/data service, both narrowband and broadband. The packaging

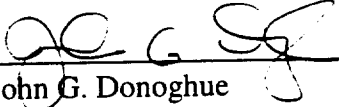
opportunity perceived by MCI WorldCom with regard to these services is an opportunity to market wireless and Internet/data services to customers of the merged entity's other services, whether the first service is local, long distance or a package of both services. The merger allows the combined company to add facilities-based wireless services to the package (a service that MCI WorldCom is able to offer only through resale today); thus the merger promotes MCI WorldCom's ability serve a significant market segment that is interested in purchasing local, long distance, and wireless service from a single provider. The merger also extends the potential MMDS broadband footprint of the merging companies allowing them to add more facilities-based broadband services to the package for more consumers than either company could individually.

17. Packaging wireless and Internet/data services provides potential single source billing and customer service benefits to carriers and consumers (as described above), and adds to customer loyalty for existing services, while substantially improving customer loyalty for the newly packaged services, such as wireless. In the future, MCI WorldCom anticipates that the merged company will be a leader in integrating wireless and wireline services, thereby yielding further synergies and consumer benefits.

18. This concludes this Declaration on behalf of MCI WorldCom.

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

Executed on November 12, 1999.



John G. Donoghue

MCI WorldCom Senior Vice President of Marketing and Advertising

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AFFIDAVIT OF SUNIT PATEL

1. My name is Sunit Patel. I am Treasurer of MCI WorldCom. In that capacity, I am responsible for all treasury functions, financial planning and budgeting, management reporting systems, and capital expenditure reporting and approvals. As such, I enjoy a unique vantage point from which to assess both the market imperatives facing MCI WorldCom and the many benefits that would accrue to MCI WorldCom, Sprint, and the public from the proposed merger.

2. In this affidavit, I will describe how and why the merger of MCI WorldCom and Sprint will bring together a highly complementary set of assets to create a dramatically more effective competitor that will benefit all customers — rural, suburban, and urban; business and residential; small and large. This merger will create a company that can and will be an important force in propelling competition and bringing new, innovative technologies and services to all customers. Some of the synergies from this merger are described and quantified in the joint affidavit of Wayne Rehberger and K. William Grothe, Jr., but these synergies are an important part of the story behind the merger and therefore I will make some qualitative observations about them in this affidavit. Similarly, while the many customer benefits from packaging together bundles of services and products are discussed in the affidavit of John Donoghue, I will touch on certain aspects of bundling here as well.

3. In brief, the merger of MCI WorldCom and Sprint will enhance the combined company's ability to compete in the provision of basic and value-added local services to the home — a business currently dominated by the Bell Companies and GTE — by combining and building on the companies' geographically complementary local service operations and fixed wireless assets to create an effective pathway for the delivery of broadband services. The merger will maximize the utilization of the two companies' existing resources and heighten investment in new and innovative service offerings, to the ultimate benefit of consumers. The merger also will enable the new company to offer a competitive suite of value-added services to customers of all sizes on an owned end-to-end network and on a global basis.
4. The merger also will help create market forces to counter the distortions in the cost structure of the long distance industry from the access charges imposed by the Bell Companies. The imminent entry of the Bell Companies into the long distance business will create powerful new competitors that will enjoy an artificial cost advantage over existing players. The introduction of substantial competitors to the local arena with multiple methods of access therefore is critical.

Some general observations

5. To understand why the merger of MCI WorldCom and Sprint makes compelling sense from the perspective of the companies and of the public interest, it is essential to explore the primary forces driving the telecommunications market today. There are distinct market forces that, singly and collectively, have driven these two companies to join together. The telecommunications industry is experiencing dynamic change in all dimensions — numerous consequential technological innovations that are fundamentally changing underlying cost structures and service offerings, widescale market entry by firms with creative and consumer-friendly marketing plans that is forcing existing firms to keep pace or lose market share, and seismic changes in the legal and regulatory frameworks. And all of this is occurring in a trillion dollar global industry that is growing at about twice the rate of the general world economy.
6. Markets are most driven to change when there is a convergence of new technology and substantial demand for products or services that can be produced using that technology. There are two such dominant forces driving the telecommunications universe today — IP/data and mobile voice/cellular. These new forces have created revolutionary new customer needs — for more bandwidth and mobility and more value-added services fueled by the rapid growth of the Internet — as well as revolutionary new networks. At the same time, technological developments in optical switching and transport and other enabling technologies in the computer hardware and software industry are driving decreases in unit costs and modifying cost causation. Bandwidth has replaced distance as the primary cost causer. On top of these trends, and partially in response to them, some legal barriers have been removed and there have been some serious deregulatory efforts on the part of regulators that have to some extent rationalized rates by allowing them to reflect underlying costs. As a result of these regulatory and market forces, the cost of

transporting and switching bits and minutes end-to-end is falling and rates are beginning to better reflect the distance insensitive nature of these underlying costs.

7. The technology-induced drop in both input and end-user prices has catalyzed the tremendous demand growth. This growth, especially for data and IP services, has been so astounding and unprecedented that one can safely make the statement that the incremental growth in network capacity is data driven rather than voice driven. What that means is that the industry's underlying cost structure is dramatically shifting from a voice-dominated to a data-dominated infrastructure. Therefore, instead of the data cost structure being a slave to the voice cost structure, the tables are turning and the voice cost structure is becoming slave to the data cost infrastructure.
8. The combination of all these factors has created a vibrant and dynamic industry environment that, *with one exception*, if left to its own devices and progressive regulatory forces, holds the promise of fundamentally improving and enriching the way business and consumers interact and communicate with more choices and lower unit prices.
9. The exception is that technological change has not yet created multiple sources of one essential telecommunications input, access to the end-user, and access charges are still maintained under the current regulatory scheme far above their underlying costs. This distortion is evidenced quite clearly by the sprouting up of voice-over-IP companies that can exploit the massive arbitrage created by these distorting access charges that can only sustain themselves in an environment of monopoly protection.
10. As a result, access continues to be the biggest cost component in delivering end-to-end service. The cost structure for traditional voice products is dominated by the cost of access and the transport of voice minutes between a customer and a long distance point of presence (POP) — that is, the local costs associated with completing (originating and terminating) a call. The second greatest cost component is selling, general, and administrative (SG&A) costs associated with providing a minute of voice. The very distant third cost is the long distance transport cost of a voice minute.

Market Realities and the MCI WorldCom-Sprint Merger

11. I would like now to discuss four market realities that MCI WorldCom and Sprint face that motivated us to pursue this merger and then explain how the merger will help us overcome the access bottleneck and provide an alternative avenue to customer homes.
12. First, as a result of cost-reducing technological innovation and strong competition, long distance transport of voice has become a commoditized business with razor-thin margins. The recent unprecedented drop in retail rates for long distance voice service is merely a continuation of many years of steadily declining long distance prices. This trend will not be reversed, in part because it is based on the inexorable decline in the cost of transporting traffic across considerable geographic distances. At this point, many domestic carriers are seeing only slight growth in their long distance revenues, despite major increases in the

volume of traffic that they carry. This drop in prices can be attributed to declining transport costs, access charge reductions, substantially increased capacity deployed by emerging carriers, and fierce competition from a host of varied new competitors. None of the factors creating this market reality will be affected by the merger; competition and easy entry will continue to discipline the market.

13. The supply of data transport also is highly competitive. The commoditization of data transport (frame relay and ATM) is continuing as new companies (such as Qwest, Level 3, Williams, and Global Crossing) increase their presence by bringing online separate networks comprised of tens of thousands of miles of new fiber. Billions of dollars of capital have been afforded to these new companies and this flow is expected to remain uninterrupted as demand for bandwidth continues to soar. As a result, while the demand for data transport continues to soar, prices are falling. This, too, will be unaffected by the merger.
14. On the other hand, businesses increasingly seek value-added services, such as virtual private networks, integrated network services, applications hosting, network outsourcing, network integration, e-commerce, and web hosting. Thus, companies must be able to offer a full suite of value-added services to supplement data transport. In addition to dozens of carriers, other entities, such as computer hardware suppliers (like IBM, Hewlett Packard, Unisys, and DEC), network equipment suppliers (like Cisco Systems, Lucent, Nortel, and 3Com), systems integrators (like EDS, ISSC, Computer Science Corporation, and Perot Systems), IP network providers (like PSINet and Above-Net), and even manufacturers who bundle Internet access with computers (like Dell and Compaq) compete for this value-added service business. At this point, AT&T is the largest among dozens of competitors in the area of managed network services and network outsourcing.
15. Thus, at the time that long distance margins continue to erode, and voice and data transport become a commodity, there is a corresponding need to provide higher-value services, such as enhanced data, IP, wireless, and global services.
16. Second, a considerable number of customers are beginning to demand a form of one-stop shopping from their service providers. Analysts have long foretold that this day would come, and the evidence strongly suggests that reality is catching up to prediction. This is occurring in part because traditional product boundaries are blurring. Customers can send and receive both data bits and voice minutes over traditional voice lines (voice, FAX, modem) *or* over dedicated data connections (Internet access, voice over IP, voice presentations over the Internet, radio and television broadcasts) *or* even through cellular services (local, long distance, and Internet access). The optimal one-stop shopping package will be different for different customers — and not all customers will choose to utilize packaging arrangements — but in a number of cases the package will include the full gamut of services, wireline and wireless, local and long distance, voice and data. The packaging of these types of service offerings into different suites of services will be one viable strategy for success in the marketplace. There are no technological constraints creating insurmountable entry barriers in the wireline-based markets (though inflated

access charges remain an impediment and the Commission and state regulators must keep pressure on the ILECs to fulfill the interconnection, unbundling, and pricing requirements of the 1996 Telecommunications Act). Only in the wireless area is there limited spectrum, and a finite number of licenses, available to potential new entrants.

17. Third, technological, demand, and regulatory changes have spurred the movement to “all distance” markets for telecommunications and information services. As the cost of delivering voice and data services become increasingly distance insensitive, it is natural for market forces to push prices toward distance insensitivity. If the cost of making a call to the United Kingdom is similar to the cost of making a call within the U.S., those rates will converge — and indeed are beginning to do so. Similarly, Internet access from anywhere essentially guarantees the ability to hit Internet sites around the world at no incremental cost to the customer. As a result, as part of various one-stop shopping packages, many customers are coming to expect that their service provider will be an “all distance” provider. In short, the traditional distinctions between local and long distance service are becoming blurred, and irrelevant, in the minds of customers. This new consumer perspective is fueled in part by the declining per-minute prices for long distance and by the trend toward flat-rate, distance insensitive pricing, which in turn are attributable to declining costs, changes in the underlying cost structure, and fierce competition. Some competitors successfully have introduced plans that no longer charge for long distance on a per-minute basis. The movement to distance insensitive rates clearly has been influenced by the burgeoning success wireless services, with new rate plans that no longer distinguish between local and long distance calls. Moreover, entry by the Bell Companies into the long distance market will further erase the historic boundaries between local and long distance. For the Bell Companies, adding a long distance component to their existing local service arrangements will be a relatively simple and low-cost process — certainly less costly and burdensome than the challenges facing companies like MCI WorldCom attempting to add local service to their existing portfolio of services. Given this imminent competitive threat from the Bell Companies, the telecommunications industry — and public policy makers — increasingly need to look at the voice and data market on an “all distance” basis.

18. Fourth, customers demand bandwidth. This demand is fueled by the enormous promise of the Internet, the desire for greater access speeds and “always-on” capabilities, and the expected explosion of innovative new services that will make full use of broadband capacity. The successful introduction of Internet-friendly ADSL and cable modem services into the consumer marketplace only demonstrates the pent-up demand for something beyond dial-up modems. Unfortunately, access to consumers through ADSL and cable modem services has been restricted by the Bell Companies’ and GTE’s ongoing anticompetitive intransigence in providing nondiscriminatory, cost-based access to customer access lines, as well as the cable companies’ refusal to provide (and regulators’ reluctance to require) nondiscriminatory access to customer homes. It therefore will be difficult for any non-incumbent to make successful inroads into the consumer market for broadband without other local access alternatives.

19. As a result of these and other market realities, MCI WorldCom and Sprint independently concluded that, given their respective positions in the market, the value of their companies would be greatest if they could provide all consumers with a full suite of "all distance" and broadband offerings. In other words, MCI WorldCom and Sprint perceived that they needed to be positioned to serve business and residential customers by providing narrowband and broadband services, over wireline and wireless delivery infrastructure, on a local, national, and global basis. Further, in order to maximize the value of their respective investments, the companies believe it is necessary to maximize their ability to offer these services using owned facilities, end-to-end, rather than to be dependent upon a third party competitor, such as the ILECs, to reach the customer. Reducing reliance on ILECs for a necessary input will translate into additional efficiencies. While opportunities will continue for providers focusing on particular market segments, companies pursuing either a national mass markets or an all-markets business strategy must have sufficient scope and scale or they will face a significant challenge to gain local customers in the face of concerted efforts to the contrary by entrenched telephone and cable incumbents.
20. When I examine the various assets that each company brings to a new merged entity, I conclude that the merger is highly complementary in at least three ways.
21. First, the merger fills in missing pieces in each company's portfolios with unique and critical assets. For example, Sprint brings to the deal, among other things, (1) ILEC facilities in the suburban and rural areas of 18 states as well as invaluable local expertise; (2) a national, state-of-the-art digital mobile wireless network (PCS) as well as invaluable wireless expertise; and (3) fixed wireless assets in geographic areas that complement MCI WorldCom's fixed wireless assets. MCI WorldCom brings to the deal, among other things, (1) a CLEC in approximately 100 urban markets; (2) a paging/messaging wireless presence; (3) fixed wireless assets in geographic areas that complement Sprint's fixed wireless assets; and (4) significant foreign and cross-border investments as well as invaluable international expertise. Thus, to meet the challenges of the new market realities I discussed earlier, each company brings important assets that fit critical gaps in a complete one-stop shopping package.
22. Second, the merger enhances the competitive value of each company's existing facilities and services. For example, Sprint's ION and MCI WorldCom's On-Net platforms both can be built on top of wireline DSL and wireless MMDS infrastructure. Of course, substantial work and capital investment must be undertaken to make MMDS a viable pathway for the delivery of broadband services. That sizeable investment is more likely to be made, and to be successful, if it can be spread over a broader potential customer base represented by a national or near-national footprint. The value of this broadband platform is significantly heightened by the ability to deploy it over a far more robust and diverse base of local facilities. In particular, the scale economies inherent in collocating equipment in ILEC central offices means that a new entrant must capture a high enough percentage of customers in order to justify the expense of collocation.

23. The combined company will be well positioned to provide a unique nationwide broadband alternative to cable and traditional telephony, through a combination of DSL facilities and fixed wireless access using the combined company's nationwide MMDS spectrum. With the various piece-parts provided by each company, the merged company will be able to provide an all-digital nationwide footprint with common technology and spectrum that delivers next-generation capabilities. Additionally, the merger allows MCI WorldCom the scope to create a full range of telecommunications packages, and scale to develop wireless/CLEC broadband networks, while Sprint's existing customers benefit from access to a global end-to-end network.
24. Third, the merger better positions the new company to take advantage of major growth areas — data, digital wireless, broadband access, foreign — and compete in the packaged services marketplace. The two companies have many complementary assets in these growth areas that the new company can utilize to devise a more extensive, diversified, and innovative product portfolio for residential and business customers than either company could on its own. In addition, with a broader range of services in a bundled package per household, and the ability to develop and cross-sell services across a larger customer base, the merged company will be able to compete with AT&T, the Bell Companies, and others in attempting to satisfy the needs of diverse customers. Satisfied customers translate into lower customer acquisition and marketing costs, and less churn.
25. Other enterprise-wide benefits include increased efficiencies and cost savings (for example, with the MMDS properties), increased economies of scale and scope, and a higher return from a larger customer base to share fixed costs. The merger also alters the capital investment and budgeting decisions of the new company by raising the returns of future investments in advanced CLEC and wireless facilities and services, thereby increasing the incentive to invest in those facilities and services. Moreover, the larger combined long distance customer base provides a larger base of existing customers to whom the new company can market local and MMDS services, and who we believe will be more inclined to buy those services from us. This is particularly important when our RBOC competitors start off with a customer base of almost 100 percent and our AT&T/cable competitors also have a huge customer base.
26. In short, the two companies together will be able to do much more for consumers than if they remained separate.

Specific Service Areas

27. The merger of MCI WorldCom and Sprint will create a telecommunications company capable of bringing market-disciplining competitive pressure to local and long distance markets and to emerging "all distance" markets," with benefits redounding to consumers. To better understand how that will occur, it is instructive to examine several key assets in the respective portfolios of the two companies to see how the merger will maximize the utilization of existing resources, and heighten investment in new and innovative service offerings, to the ultimate benefit of consumers.

A. Wireline

1. Sprint ILEC Assets and Expertise

28. Sprint's local exchange carrier has approximately 7.9 million switched access lines, most of which serve residential customers. These customers are spread across suburban and rural areas in 18 states. The ILEC assets and expertise bring many important benefits to the new company. The Sprint ILEC adds to the geographic reach of the MCI WorldCom local facilities. Moreover, Sprint has decades of experience providing local service. The new company will derive important benefits from Sprint's local expertise. This provides a powerful complement to the entrepreneurial spirit and drive of the MCI WorldCom CLEC operations. Further, because Sprint sat on the ILEC side of the table in interconnection negotiations, it will be better able to assess, and credibly challenge, other ILECs' claims of technical and economic infeasibility, and thus secure reasonable access to those ILECs' facilities.

2. MCI WorldCom CLEC Assets

29. MCI WorldCom's local networks, including MFS, Brooks Fiber, and MCImetro, operate in nearly 100 cities. The company's CLEC fiber ring facilities provide a key distribution medium for local data and voice services. MCI WorldCom also has extensive collocation rates for the provision of DSL. There currently are MCI WorldCom-owned collocations in service in almost 500 ILEC central offices, with 125 additional in-service collocations planned by year-end 2000. Including data CLEC collocations to which MCI WorldCom has contractual access, MCI WorldCom will have collocation rights for the provision of DSL in approximately 1,500 POPs by the end of 1999. As a largely rural and suburban ILEC, Sprint currently lacks its own local exchange and access facilities in most large metropolitan areas, and does not have a significant CLEC presence anywhere. Adding Sprint to MCI WorldCom makes more efficient utilization of the latter's access capabilities, and adds important new local markets in which to roll out ION-type platforms.

3. Sprint ION and MCI WorldCom On-Net

30. While based on a similar principle and approach, the Sprint ION platform and the MCI WorldCom On-Net platform are not the same service under different names. The ION platform addresses the needs of large businesses, small businesses, and residential users by allowing each type of user to communicate between and among one another with broadband and narrowband capabilities. It supports such applications as e-commerce, video conferencing, and distance learning for the needs of large businesses (e.g., wide area networks), between large businesses and their smaller business partners (e.g., Radio Shack and all of its hundreds of retail stores), businesses and their residential customers (e.g., catalog sales vendors and Internet shoppers), and between residential customers (e.g., on-line games, multiple phone lines, etc.). The On-Net platform is aimed at delivering a

wholly-owned, end-to-end ("local-to-global-to-local") network capability primarily to larger corporate customers. When combined, these two platforms will enable the merged company to provide end-to-end integrated broadband services for both the home and business markets. This platform would integrate all services (voice and data) on one access facility (the customer loop), and would carry all traffic in ATM mode throughout the network. The network increases functionality to the end user through increased bandwidth; in particular, the customer can customize the amounts of bandwidth dedicated to a particular use and change that configuration to match changing needs. This new broadband platform will allow the merged company to compete against the Bell Companies' DSL services and AT&T's cable modem services.

4. Long Distance

31. As the new company attempts to fashion a powerful package of consumer-friendly "all distance" offerings, a viable long distance product offering obviously will be a key element. By combining forces, the two companies will be able to achieve a more robust, redundant network. The efficiencies inherent in combining two highly innovative marketing organizations also will enable the new company to continue to competitively challenge the deals that AT&T, Qwest, Level 3, Frontier, Excel, and numerous other long distance providers offer today and that the Bell Companies say they will offer when they get long distance authority within their regions. Even with the combination of MCI WorldCom and Sprint long distance assets, the combined company still will be much smaller than AT&T in the provision of stand-alone voice long distance services and will have a customer base that is much smaller than that of the imminent new entrants — SBC-Ameritech and Bell Atlantic-GTE. Additional competitive pressure will be provided by "all distance" cellular offerings. Moreover, the shift to a data-driven network cost structure will drive down prices for voice. As I explained earlier, long distance transport of both voice and data is rapidly becoming commoditized. The greater opportunity is in value-added services supplied not only by traditional telecommunications carriers, but also by systems integrators, equipment vendors, and IP network providers.

5. Global

32. MCI WorldCom brings to the merger its new pan-European network and transoceanic cable systems, as well as operations in Asia, Mexico, and Brazil; these investments cover about 65 countries. MCI WorldCom long has adhered to a "build or buy" strategy in order to fulfill its "local-to-global-to-local" vision. By providing all elements of the service offering, MCI WorldCom is positioned to bring competition to foreign markets based on its experience in the United States. Currently, Sprint's future participation in its Global One joint venture is unresolved. Whatever the final disposition of Global One, the merged company will benefit by bringing Sprint's customer base and domestic assets to MCI WorldCom's global asset base.

B. Wireless

33. The new company will be especially well positioned to offer a full gamut of wireless services and products.

1. Sprint PCS and MCI WorldCom Paging

34. Sprint PCS currently has almost five million PCS subscribers and leads the industry in growth. The Sprint PCS network is currently the only all-digital, nationwide PCS wireless systems being built, serving more than 280 metropolitan areas. By year end, it will cover 75 percent of the U.S. population, and will be marketed by significant in-house and third party retailing capacity. Industry observers generally praise the Sprint PCS system as offering the newest technology and a platform for complete interoperability and robustness for data — in short, the best wireless system in North America.
35. The Sprint PCS network will help facilitate a nationwide presence for MCI WorldCom, especially in the residential market. It offers yet another way to meet the diverse needs of customers and compete head-on with AT&T's "Family Plan" and "Digital One Rate." Despite its rapid growth, Sprint PCS has only four to six percent of all wireless subscribers in the U.S., which leaves lots of room for significant growth in market share. Sprint PCS adds an important wireless element to MCI WorldCom's Metricom (wireless data) and SkyTel (messaging) investments, with their combined 1.7 million paging and advanced messaging customers. The merger also will bring the PCS offering into a larger, aggressive marketing organization.

2. MCI WorldCom and Sprint MMDS

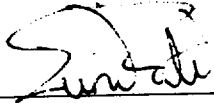
36. MMDS spectrum originally was set aside by the FCC for "wireless cable" use, but it has been underutilized and widely considered a commercial failure. MCI WorldCom and Sprint independently recognized the potential of the MMDS spectrum to provide fixed wireless services, including broadband access, to small business and residential locations. In particular, MMDS appears to be an attractive alternative, in some cases, to the two dominant forms of wireline broadband access — DSL and cable modems — especially given the reality of practical closed access (on the DSL front resulting from ILEC failure to provide nondiscriminatory access to new entrants seeking to provide broadband services) and absolute closed access (on the cable modem front).
37. Within the past year, MCI WorldCom and Sprint each purchased four companies holding MMDS licenses. When combined, these companies collectively will be capable of reaching households in about half the country, many in rural and underserved areas. The geographic footprint of the two companies' MMDS properties is very complementary, and the largely rural coverage blends well with MCI WorldCom's existing fiber presence in urban and suburban centers. When deployed, MMDS can help expand the realistic addressable markets, especially the residential and small business markets, as a potential platform for ION-like broadband service offerings.

Conclusion

38. Thus, given telecommunications market realities — fierce competition leading to the commoditization of long distance transport, customer demand for “all distance,” one-stop shopping packages including broadband services, and the considerable competitive challenge posed by AT&T and the Bell Companies — the merger of MCI WorldCom and Sprint will create a new and dramatically more effective competitor for the future. In particular, the new company will be well-placed and well-motivated to compete in the provision of all forms of basic and broadband services to homes and businesses across the country. The merger will make this untapped potential a reality by maximizing the utilization of existing MCI WorldCom and Sprint assets and resources and heightening investment in new and innovative service offerings, all to the ultimate benefit of consumers.

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

Executed on November ____, 1999.

A handwritten signature in cursive script, appearing to read "Sunit Patel", written over a horizontal line.

Sunit Patel

Treasurer, MCI WorldCom, Inc.

E

Appendix E

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.

In re Applications of)
)
SPRINT CORPORATION,)
Transferor,)
)
and)
)
MCI WORLDCOM, INC.,) CC Docket No.
Transferee,)
)
for Consent to Transfer Control)
of Corporations Holding Commission)
Licenses and Authorizations Pursuant)
to Sections 214 and 310(d) of the)
Communications Act and Parts 1,)
21, 24, 25, 63, 73, 78, 90, and 101)

**JOINT AFFIDAVIT OF WAYNE REHBERGER
AND K. WILLIAM GROTHE, JR.**

1. My name is Wayne Rehberger. I am vice president for network operations at MCI WorldCom. In that capacity, I am responsible for managing the domestic access costs for MCI WorldCom. Based on my experience, I helped estimate the network operations synergies of both the announced MCI WorldCom-Sprint merger and the consummated MCI-WorldCom merger.
2. My name is K. William Grothe, Jr. I am vice president for Corporate Development at MCI WorldCom. In that capacity, I am responsible for evaluating and executing merger and acquisition transactions. Based on my experience, I helped estimate the sales, general, and administrative (SG&A) synergies and capital deployment synergies of both the announced MCI WorldCom-Sprint merger and the consummated MCI-WorldCom merger.
3. The purpose of this affidavit is to describe the major cost synergies that will be created by the merger of MCI WorldCom and Sprint and to provide an estimate of the associated cost savings. These synergies will stem from a number of sources, including more efficient utilization of the existing MCI WorldCom and Sprint

networks, and reconfiguration of those networks for optimization at a larger scale; consolidation of sales, general, and administrative expenses; elimination of certain duplicate overseas initiatives; and more efficient capital purchasing and deployment.

4. The synergy estimates that we present in this affidavit are the same estimates that we developed for the Boards of Directors of both MCI WorldCom and Sprint for their consideration of the likely benefits from the merger. (We also have submitted these estimates to the Securities and Exchange Commission as part of our S-4 filing.) Since both Boards have fiduciary responsibilities to their shareholders, it was necessary to construct these synergy estimates based on conservative assumptions. For example, because it is far more difficult to project revenue synergies than cost synergies, by and large these estimates are limited to cost synergies. We have not focused on the synergies associated with PCS, MMDS, and local service markets, though we do expect there to be some synergies in those areas. A discussion of how the merged company will better be able to enter the local market by avoiding the bottlenecks of the Bell companies and other incumbent local monopolists like GTE to reach end user customers directly — and thus enjoy revenue synergies — is included in the accompanying affidavit of Sunit Patel.
5. It is noteworthy that, slightly more than one year after the consummation of the MCI-WorldCom merger, the cost synergies that we estimated for that merger have indeed proven to be conservatively accurate. We projected 1999 synergies of \$2.505 billion. As of the third quarter of 1999, we had experienced \$1.791 billion in synergies, and at the current run rate we will exceed the \$2.505 billion projection. Moreover, because the efficiencies gained from that merger have allowed MCI WorldCom to grow its sales revenues, its total workforce is both larger and more efficient. MCI WorldCom now has 77,521 employees, compared to a total of 73,558 employees for the two companies prior to the merger (both these figures exclude SHL employees, since SHL was sold off during the year). The accuracy of our previous projections indicates that, although it is inherently difficult to project each individual synergy with great accuracy, our conservative methodology assures that we do not overstate total synergies.
6. We do not expect the current merger to create synergies in the form of reductions in expenditures by Sprint's incumbent local exchange carrier (ILEC) operations. Sprint's local expertise, however, will be a valuable resource that the combined company can use in entering "out-of-region" markets.
7. Using our conservative construction of synergies, we estimate that the merger will create synergies of approximately \$2 billion in the year 2001. This consists of approximately \$0.5 billion in network operations savings, \$1.3 billion in SG&A savings, \$0.1 billion in depreciation and interest savings associated with capital expenditure savings of \$1.3 billion, plus \$0.1 billion in other savings. We project that these savings will increase over time to about \$4 billion in 2004, due to

projected traffic growth and cumulative depreciation and interest savings from more efficient capital deployment.

Network Operations Synergies

8. Switched access savings, approximately \$75 million: Once a minimum scale has been achieved on a particular access route, it is more efficient to terminate traffic directly to ILEC end offices (using direct end office trunking or DEOTS) than to use the ILECs' tandem network. For example, under tariffed rates prevailing earlier in 1999, once traffic on a particular route reached approximately 4,000 minutes a month it became cheaper to use DEOTS — and those savings become greater as the level of traffic on that route increases. (Recent tariff changes probably bring that crossover level of traffic slightly below 4,000 minutes.) Thus, the weighted average rate per conversation minute for a call originating and terminating in Bell Atlantic territory is 2.26 cents for tandem routing and only 1.72 cents for direct routing. Although MCI WorldCom and Sprint currently terminate traffic over DEOTS, a significant portion of both Sprint and MCI WorldCom traffic currently is on routes that are too thin to justify DEOTS. The merger creates two major savings opportunities — (1) on routes where MCI WorldCom has sufficient traffic to use DEOTS but Sprint does not and therefore continues to use tandem routing, the Sprint traffic can be put on the MCI WorldCom DEOT, and (2) on many routes where neither MCI WorldCom nor Sprint currently has sufficient traffic to justify DEOTS, the combined traffic will be sufficient to justify DEOTS. (There also will be small savings on those very few routes where Sprint generates enough traffic to support direct trunking but MCI WorldCom currently relies on tandem routing.) As combined traffic grows over time, the switched access savings from combining MCI WorldCom and Sprint traffic on DEOTS also will grow.
9. Special access savings, approximately \$200 million: Access consists of three links — the “entrance facilities” between the interexchange carrier’s point of presence (POP) and the ILEC’s serving wire center, the “interoffice mileage” between the ILEC’s serving wire center and the ILEC central office nearest the customer (the “end office”), and the “tail circuit” or “channel termination” between the end office and the customer. Sprint has no fiber rings of its own in place outside its ILEC serving areas and therefore relies heavily on ILECs for the provision of special access links. In many cities, MCI WorldCom has deployed fiber ring networks that connect to many ILEC central offices. Since Sprint POPs are located near large ILEC central offices, many of these POPs are located near the MCI WorldCom fiber rings and easily could be connected to those fiber rings. Thus the MCI WorldCom facilities readily could be used to connect many ILEC central offices to Sprint POPs, and as such could replace Sprint’s current reliance on ILEC special access for the entrance facilities and interoffice mileage links. This would impose minimal incremental costs on the network because most of the associated costs are fixed and the fiber rings have extra capacity or their capacity

can be easily expanded at low cost. These savings will increase over time with projected traffic growth.

10. International interconnections, approximately \$50 million: Currently, Sprint terminates all of its international data traffic onto private line (and to a lesser extent, onto switched) facilities provided by the dominant carriers in the foreign country. The charges borne by Sprint for the dominant carriers' private line and switched services exceed the underlying network costs. MCI WorldCom has substantial overseas network facilities in place that can carry the Sprint traffic with minimal incremental cost because most of the associated costs are fixed and the MCI WorldCom facilities have extra capacity or their capacity can be easily expanded at low cost. These savings also will increase over time with projected traffic growth.
11. Operator products, approximately \$45 million: The merger will allow the combined company to take advantage of economies of scale in the provision of telecommunications relay (TRS), operator (OS), and directory assistance (DA) services. Currently, MCI WorldCom and Sprint spend approximately \$900 million a year providing these services for their long distance customers. MCI WorldCom primarily uses its own facilities; Sprint relies on a combination of purchases from other parties (primarily ILECs) and internal provisioning. Moving these Sprint services to MCI WorldCom's in-house facilities would significantly reduce Sprint costs as well as improve the efficient utilization of MCI WorldCom facilities, creating savings conservatively projected at five percent of current expenditures.
12. DSL collocation expenses, approximately \$15 million: Sprint's ION network requires wide scale collocation at ILEC central offices. Sprint currently has relatively few collocations; MCI WorldCom already has collocations in service in almost 500 ILEC central offices and, independent of the merger, planned to have more than 125 additional in-service collocations by year-end 2000. Placing Sprint's equipment in the MCI WorldCom collocation spaces would yield substantial savings in recurring space rental and power charges. (It also would reduce up-front construction costs; these synergies are included in the depreciation and interest synergy estimates described below.) Placing Sprint equipment in MCI WorldCom collocation spaces also would provide a means around ILEC delays (though we have not tried to quantify this significant risk reduction).
13. ION DSL backhaul, approximately \$35 million: Sprint's ION network requires backhaul (DS-3 access) from all the central office collocations to the Sprint network. Currently, Sprint purchases DS-3s from the ILECs. Typically, when MCI WorldCom has collocated at an ILEC central office, that CO is on the MCI WorldCom fiber network and therefore MCI WorldCom can provide backhaul as well as the collocation space to Sprint. While Sprint will still have to purchase some DS-3 access from ILECs, use of the MCI WorldCom network provides the

opportunity for substantial savings. Given our projections of substantial growth in ION traffic, these savings will grow significantly over time.

14. Interim contracts, approximately \$120 million: MCI WorldCom and Sprint intend to gain the full synergies from day one of the merger. The estimates above of special access, switched access, international interconnection, and ION savings are based on the assumption that no planning or network modifications could take place until the closing date in the second half of 2000, thus substantially reducing the potential savings in 2001. In fact, two factors make it possible for MCI WorldCom and Sprint to enter into arms length contracts in the interim period that would allow the network modifications and traffic migration to occur substantially on the day the merger is consummated, or even earlier. First, MCI WorldCom already offers access and private line services both in the U.S. and overseas and shares space in its collocation cages, and therefore can provide these cost-savings options to Sprint today. Second, while in the absence of the proposed merger Sprint would be reluctant to enter into an extensive contractual relationship with (and corresponding dependence upon) a competitor even when that contract had clear efficiency benefits, the downside risk of such an arrangement is significantly reduced by the merger agreement. For example, there is reduced risk that Sprint will bear upfront costs to rearrange its network only to have to bear such costs again in the future if the contract is ended.

SG&A Synergies

15. SG&A expense savings, approximately \$1.3 billion: Although many sales, general, and administrative expenses increase with increases in company scale or scope, few of these expenses increase proportionately with scale or scope and some are fixed overheads that do not vary at all with firm size. As a result, there are substantial scale and scope economies in SG&A expenses. (Since Sprint's ILEC operations will continue to be run largely independently of other operations, however, ILEC-related SG&A expense savings will be minimal.) The merger can be expected to yield at least small cost savings in some SG&A accounts and very substantial savings in others. Corporate overhead can be substantially reduced. Other functions, such as finance, accounting, government relations, recruitment, human resources, advertising and promotions, and marketing, are likely to yield significant absolute, though somewhat lesser relative, savings. Given the commitment of a combined MCI WorldCom-Sprint to very actively pursue all market segments in order to drive as much traffic as possible over the combined network, we expect to have some, but more limited, opportunities for savings in such SG&A functions as sales, sales tech support, customer service, and quality control.
16. For example, in the business and government long distance markets, while we project relatively minor reductions in sales, sales tech support, and customer service expenses, we do expect to attain major savings in expenditures on advertising/promotions, business marketing, government marketing, financial support, and recruitment, since there are substantial scale economies in all these

activities. Similarly, for the consumer long distance market, post-merger, the largest source of savings will be more efficient advertising and promotional activities — television advertising, popular tie-ins with other products such as airline affinity programs, event marketing, direct mail. There also will be substantial savings in financial support and recruitment and some savings in sales and sales tech support expenses. Also, whether Sprint sells its equity share in the Global One international partnership or assumes 100 percent ownership, the merger will provide the opportunity to eliminate high expenses currently associated with that partnership. Marketing expenses will be sharply reduced and the costs associated with international product development, carrier relations, and executive support eliminated.

17. Once the initial systems integration tasks have been completed, we project the merged company will enjoy substantial on-going cost savings from rationalization of information systems. There will be significant synergies in the areas of business information technical support, enterprise information services, and systems integration costs. Integration of the MCI WorldCom and Sprint networks also will allow for a headcount reduction in network personnel. (Of course, experience from the MCI-WorldCom merger strongly suggests that initial headcount reductions will later turn to employment increases thanks to substantial revenue growth.). None of the projected headcount savings is associated with Sprint's ILEC operations.
18. The two companies have substantial corporate overhead costs that will be redundant post-merger. These include costs associated with the strategic/business development, public relations, international, finance, human resources, and treasury functions.

Other synergies

19. Other cost savings, approximately \$100 million: Other cost savings and operating efficiencies are expected to be realized as a result of the elimination of certain duplicated overseas initiatives and the ability to route a greater proportion of long distance and local traffic from the Sprint PCS group's activities on the combined company's network.
20. Sprint currently purchases T-1 access for its PCS from ILECs at rates that are above cost. Purchasing T-1 access off of MCI WorldCom rings where available will yield substantial cost savings for Sprint PCS while generating additional revenues for MCI WorldCom.

Capital expenditure savings

21. Capital expenditure savings of approximately \$1.3 billion that yield depreciation and interest synergies of approximately \$130 million: Capital expenditure savings are expected to be realized primarily in domestic long distance network activities.

Capital expenditures relating to the combined company's long distance activities will be reduced as a result of avoided duplicative fixed capital expenses and the cost savings realized from greater purchasing efficiencies. These savings will be reflected in significant reductions in depreciation and interest costs. Capital savings are projected to be about \$1.3 billion each year, which would yield cumulative depreciation and interest cost savings of more than \$900 million in 2004. It is important to note that the merger simultaneously will create these capital expenditure savings from more efficient use of our capital *and* greater capital spending on investment opportunities that would not be available to the individual companies.

22. There also will be synergies from reduced interest on cash savings of pre-taxed synergies and dividends avoided totaling about \$50 million in 2001 and more than \$400 million in 2004.
23. To recap, we conservatively project the merger will yield pre-tax synergies in excess of \$2 billion in 2001 and \$4 billion in 2004.

I, Wayne Rehberger, hereby declare under penalty of perjury under the laws of the United States that the above is true and correct to the best of my knowledge and belief.

Dated: 11/15/99



I, K. William Grothe, hereby declare under penalty of perjury under the laws of the United States that the above is true and correct to the best of my knowledge and belief.

Dated: _____

I, Wayne Rehberger, hereby declare under penalty of perjury under the laws of the United States that the above is true and correct to the best of my knowledge and belief.

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