

InterOffice Memo

To: Kathy Perone
From: F. Scott Yeager
Date: March 8, 1996
Subject: Riser Distribution Strategy for MFS Buildings

MFS is presently spending a great deal of money on an incremental basis to install the inside wiring in a building to deliver the existing services for the Telecom, Data and Switched Voice services. This cost is presently hidden in the budgets of the individual cities and operating companies and is built into the business plan on an incremental basis so it does not show up on any one budget as a real line item. These costs have therefore never been looked at as a significant number by any one group within MFS. This concept has huge implications for the Global Accounts because of the combined nature of the services and the fact that our customers are in need of these newer services in 1996 on a development basis.

I have been working with Tommy Waldrop of MFS GNS to jointly develop a strategy for MFS CC that accomplishes several things. The initial focus is to reduce the total installed cable cost that will be incurred over the next 5 to 10 years. This is also significant because without a complete rethinking of the inside wiring issue MFS is already running into a bottleneck in the riser that will severely impede our ability to install the revenues expected in the strategic plan. We presently have significant revenues in jeopardy because of congestion in our existing buildings.

We have also looked at developing additional incremental revenues for new services inside of the buildings over the new infrastructure that should be installed to reduce this tremendous hidden cost for inside cabling and found that this would not only increase the total revenues from a building it would increase the probability of achieving our revenue numbers for the existing targeted services in the buildings. This kind of infrastructure is "critical path" when MFS considers delivering any Internet or Content related services in our on net or off net buildings.

The study we have conducted indicates very significant numbers in cost for the cabling ranging from \$800 million to well over \$1.1 billion in cost for cabling all the buildings we will deliver services in over the next 10 years. The riser infrastructure cost could be decreased by \$200 million over the same time period using the cable design contemplated by Tommy.

I also created a business model that shows these new service offerings could generate \$3.5 to \$6 billion in net new revenues per year over this same infrastructure since the design allows thousands of connections per buildings. This revenue would generate from \$1 to 2 billion per year in net new EBIT in just 5 years. All numbers include on net and off net buildings and use the strategic plan numbers as the basis for these projections. The incremental costs per connection and the headcount and other costs of delivering these services is considered and recovered in this plan.

This same infrastructure allows MFS to deliver highspeed Internet and Content related services economically in a building at prices that are reduced from today's prices but do not reduce margins for the company. Those revenues are only conservatively estimated in this plan since the reduced market price would explode the demand for the services through price elasticity.

This warrants immediate attention by the company as a major part of the strategic plan for both increasing the likelihood of making our EBITDA numbers and from the perspective of dominating our market in MFS cities and our buildings.

Please review the attached spread sheets and documents and feel free to comment on this information when you return. They show the details behind these numbers and explain the wide range in them.

I would like to have a meeting with you and Ron at some time in March and would request that I spend time with Sunit in Omaha to demonstrate these concepts as well. Once everyone becomes comfortable with the numbers we could present these concepts to the steering committee.

CC: Sunit Patel, Tommy Waldrop.

Strategic vs Adjusted Cost

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
BLDG OFF-NET										
Strategic Plan	2397	3918	9220	13950	17827	20421	22984	24440	26858	28555
Adjusted Plan	1658	3157	6569	11585	15888	19124	21702	23712	25649	27560
BLDG ON-NET										
Strategic Plan	2660	4441	4661	5239	5533	6233	7054	8061	9318	10420
Adjusted Plan	1931	3550	4551	4950	5386	5883	6643	7557	8689	9765
COST OFF-NET										
Strategic Plan	11,985,000	19,590,000	92,200,000	139,500,000	267,405,000	306,315,000	459,680,000	488,800,000	537,160,000	571,100,000
Adjusted Plan	8,290,000	15,785,000	65,690,000	115,850,000	238,320,000	286,860,000	434,040,000	474,240,000	512,980,000	551,200,000
COST ON-NET										
Strategic Plan	79,800,000	177,640,000	233,050,000	314,340,000	331,980,000	373,980,000	423,240,000	483,660,000	559,080,000	625,200,000
Adjusted Plan	57,930,000	142,000,000	227,550,000	297,000,000	323,160,000	352,980,000	398,580,000	453,420,000	521,340,000	585,900,000
Strat Total ON&OFF	91,785,000	197,230,000	325,250,000	453,840,000	599,385,000	680,295,000	882,920,000	972,460,000	1,096,240,000	1,196,300,000
Actual Total ON&OFF	66,220,000	157,785,000	293,240,000	412,850,000	561,480,000	639,840,000	832,620,000	927,660,000	1,034,320,000	1,137,100,000
EST. COST @										
10% REVENUE	52,035,700	82,906,700	126,469,500	187,224,900	256,748,300	344,134,200	448,334,700	561,866,200	681,881,100	807,175,100
ASSUMPTIONS										
OFF-NET per Bldg										
cabling cost per year	\$ 5,000.00	\$ 5,000.00	\$ 10,000.00	\$ 10,000.00	\$ 15,000.00	\$ 15,000.00	\$ 20,000.00	\$ 20,000.00	\$ 20,000.00	
ON-NET per Bldg										
cabling cost per year	\$ 30,000.00	\$ 40,000.00	\$ 50,000.00	\$ 60,000.00	\$ 60,000.00	\$ 60,000.00	\$ 60,000.00	\$ 60,000.00	\$ 60,000.00	
Actual cabling cost per building per year based on "sample study" is \$60,000.00										

A →
B →

← A
← B

* could be as high as \$150K/Bld

* 2 methods of Estimating Inside Cable Costs
Based on (A) # of Bldgs on Net & off net per Strategic Plan & using (B) Revenue method.

XWU Western Union Building, NY

DATE	PO#	CBL COST	CBL PLCMT	CNDT LGTH	CNDT SIZE	CNDT LABOR \$	TOTAL COST
18-Jan	1963			480	4"	12,000	
18-Jan	2345	2298	3034				
22-Jan	2345	1026	1472				
24-Jan	2345	933	595				
24-Jan	2345	855	1108				
24-Jan	2345	430	290				
TOTAL		\$ 5,542.00	\$ 6,499.00			\$ 12,000.00	\$ 24,041.00
26-Mar	2330			170	4"	7200	
26-Mar	2527	171	285				
26-Mar	2527	3002	6159				
26-Mar	2527	1292	1026				
26-Mar	2527	179	142				
TOTAL		\$ 4,644.00	\$ 7,612.00			\$ 7,200.00	\$ 19,456.00
12-Apr	2568	513	1100				
15-Apr	2685	513	1305				
15-Apr	2685	359	445	40	4"	1226	
TOTAL		\$ 1,385.00	\$ 2,850.00			\$ 1,226.00	\$ 5,461.00
8-May	7	684	3897				
9-May	29	646	3000	110	4"	5000	
TOTAL		\$ 1,330.00	\$ 6,897.00			\$ 5,000.00	\$ 13,227.00
29-Jul	15/12	5130	7500	50	4"	2000	
TOTAL		\$ 5,130.00	\$ 7,500.00			\$ 2,000.00	\$ 14,630.00
13-Aug	55/21	624	1000	275	4"	14000	
24-Aug	233			350	2.5"	15700	
30-Aug	219	1436	2500				
TOTAL		\$ 2,060.00	\$ 3,500.00			\$ 29,700.00	\$ 35,260.00
18-Sep	240			125	4"	9200	
18-Sep	242	801	1700				
TOTAL		\$ 801.00	\$ 1,700.00			\$ 9,200.00	\$ 11,701.00
19-Oct	334			98	4"	4000	
19-Oct	334	534	1000				
19-Oct	350					2000	
19-Oct	350	478	2650				
TOTAL		\$ 1,012.00	\$ 3,650.00			\$ 6,000.00	\$ 10,662.00
GRAND TOT		\$ 21,904.00	\$ 40,208.00			\$ 72,326.00	\$ 134,438.00

* Actual Cost 1 Bld in NY in 1991
 per Jerry Brockhurst.
 Actual Cost is 2X the #6014/used
 in estimating Cost/Bld used in method A.