

MCI to Take \$3.5 Billion Charge in 3rd Quarter

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MCI Inc. reported yesterday that it will take a \$3.5 billion non-cash charge in the third quarter to reflect the severe downturn in its consumer long-distance telephone business.

In a brief statement, the Ashburn-based telecommunications giant said it was required to take the write-down to comply with accounting rules. Under generally accepted accounting practices, a company must take a charge on assets if their value has been significantly reduced.

MCI, AT&T Corp. and Sprint Corp. have lost millions of customers in the past several years to regional phone giants such as Verizon Communications Inc. and SBC Communications Inc., which have been freed by regulators to enter the long-distance industry.

Earlier this year, AT&T took a \$11.4 billion charge because of the reduced value of its long-distance assets. The company said it is no longer going to market a consumer long-distance service and will instead focus on its more lucrative business customers.

MCI and Sprint have made similar moves but have not declared publicly that they are shifting away from the consumer market.

The long-distance companies' decision to reduce their focus on consumers comes after they lost a critical regulatory battle with the regional phone giants earlier this year. At the heart of the dispute are the federally mandated discounts enjoyed by competitors when leasing parts of the local phone network. MCI, AT&T and other competitors used the discounts to offer their own brands of local service.

The FCC plans to begin phasing out the discounts in December, a move that competitors say effectively eliminates their ability to offer local phone service. MCI and AT&T executives have said it is virtually impossible to compete as a stand-alone long-distance service in an era when consumers have grown used to local and long-distance calling packages.

The write-down reduces the value of the company on paper from approximately \$10.9 billion to \$7.4 billion. MCI said \$3.25 billion of the charge reflects the reduced value of tangible property such as its property and equipment. The company took an additional \$260 million write-down related to the value of the MCI brand.

At the end of the second quarter, the company reported tangible assets, including plant and property, worth approximately \$9.1 billion. It reported \$1.8 billion in intangible assets, including its brand name.

The company also said expenses related to the depreciation of its assets will be reduced by \$220 million in the second half of this year.

MCI outlined the write-down after the stock market had closed for the day. Shares of MCI rose 1 cent, or less than 1 percent, to close at \$16.19 during the trading session.

The telecommunications giant also said yesterday that it would pay a dividend of 40 cents a share on Dec. 15 to shareholders of record as of Dec. 1. MCI emerged from bankruptcy reorganization in April. It reported a \$71 million loss in the second quarter, an improvement over the first quarter, when it reported a loss of \$388 million. Second-quarter revenue was \$5.2 billion, a 15 percent decline from the corresponding period a year earlier.

