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February 25, 2005

**BY HAND**

Honorable Jaclyn A. Brillling  
Secretary  
New York Public Service Commission  
Three Empire State Plaza  
Albany, New York 12223

**Re: Case 05-C-\_\_\_\_\_**

Dear Secretary Brillling:

Enclosed please find an original and five (5) copies of the Joint Petition of Verizon Communications Inc. and MCI, Inc. for a Declaratory Ruling Disclaiming Jurisdiction Over or, in the Alternative, for Approval of Agreement and Plan of Merger.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Sandra Dilorio Thorn".

Sandra DiIorio Thorn

**STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION**

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In the Matter of the )  
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Joint Petition of )  
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Verizon Communications Inc., and )  
MCI, Inc. ) Case 05-C-\_\_\_\_  
 )  
for a Declaratory Ruling Disclaiming )  
Jurisdiction Over or, in the Alternative, )  
for Approval of Agreement and Plan )  
of Merger. )

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**JOINT PETITION**

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For Verizon Communications Inc.

**Dated: February 25, 2005**

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**JOINT PETITION**

Verizon Communications Inc. (“Verizon”) and MCI, Inc. (“MCI”) (collectively, the “Petitioners”) hereby request a declaratory ruling that the New York Public Service Commission (the “Commission”) lacks jurisdiction under Sections 99 and 100 of the New York Public Service Law (the “PSL”) to investigate and approve a proposed acquisition of MCI by Verizon. In the alternative, Petitioners seek approval of a transaction which will result in MCI becoming a wholly-owned subsidiary of Verizon. Neither Verizon nor its affiliates are currently affiliated with MCI or its affiliates.

As discussed below, the Agreement and Plan of Merger governing this transaction (the “Agreement”) does not call for the sale, transfer or assignment of any of the franchises, permits, operating rights or any other assets or any of the stock of any regulated New York telephone utility or telephone corporation. The legal status of Verizon New York Inc. (“VZ-NY”), MCImetro Access Transmission Services LLC, MCI WORLDCOM Communications, Inc., MCI WORLDCOM Network Services, Inc., TTI National, Inc., Teleconnect Long Distance Services and Systems Co. d/b/a Telecom USA, and Metropolitan Fiber Systems of New York, Inc.

(collectively, the “MCI subsidiaries”) will remain unchanged following the transaction, and these companies will remain subject to the Commission’s authority to the same extent following the acquisition as before it. The Commission should, therefore, declare that the acquisition is not subject to its approval under PSL Section 99 or Section 100.

Should the Commission determine that approval of the transaction is required under either PSL Section 99 or 100, it should issue an order approving the acquisition pursuant to the relevant section expeditiously.<sup>1</sup> The proposed acquisition cannot occur unless and until all required governmental approvals have been obtained. As demonstrated herein, the proposed acquisition is in the public interest, will be beneficial to all relevant stakeholders and should be approved. The transaction will have no adverse effect on the rates or the quality of service of VZ-NY, or the regulated MCI subsidiaries. To the contrary, the greater resources of Verizon following the acquisition will enhance its ability to provide a full array of competitively-priced, facilities-based, high quality services and products in a dynamic telecommunications market in which wireless and broadband services are rapidly replacing the use of traditional wireline services.

The public benefits from the proposed transaction will be enhanced if they are realized quickly. Moreover, as noted, the telecommunications industry is experiencing rapid and radical transformation. Given these circumstances, Petitioners request, pursuant to Section 3.3(c) of 16 New York Codes, Rules and Regulations, an expedited proceeding on this Petition with an order issued by June 30, 2005. For the reasons stated below, the transaction is in the public interest and there is no reason to disapprove or to impose any conditions on the acquisition.

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<sup>1</sup> Verizon respectfully asserts that no express statutory authority appears to delegate to the Commission approval authority over the proposed transaction which involves the acquisition of one Delaware corporation by another Delaware corporation. Accordingly, Verizon reserves all rights and remedies it may have in this regard.

Accordingly, Petitioners request that, absent a declaratory ruling disclaiming jurisdiction over the acquisition, the Commission approve the acquisition based on the Joint Petition and Exhibits as filed without the need for pre-filed or oral testimony.

## **I. THE PETITIONERS AND THEIR AFFILIATES**

### **A. Verizon**

Verizon Communications Inc. is a corporation created and existing under the laws of the State of Delaware. Its principal office is located at 1095 Avenue of the Americas, New York, New York 10036. Verizon's telephone operating company subsidiaries provide telecommunications services on a regulated and unregulated basis in 29 states, Puerto Rico and the District of Columbia, serving 53 million access lines. Although Verizon provides no services and is not a regulated telephone company within New York or elsewhere, Verizon's local telephone subsidiaries are subject to public utility regulation in the jurisdictions in which they operate. They are also subject to regulation by the Federal Communications Commission ("FCC") for the services they provide pursuant to federal tariffs and the federal Communications Act of 1934. VZ-NY provides regulated telecommunications services in New York.

Verizon's domestic telecommunications services include the provision of exchange telecommunications services, including switched local residential and business services, local private line, voice and data services and Centrex services. Verizon also provides intraLATA and interLATA toll and interexchange services, as well as exchange access services, including switched access and special access services. Verizon provides these wireline services to consumers, small and enterprise businesses and to other telecommunications carriers. Verizon's other domestic subsidiaries provide voice and data wireless services, information services

including directory publishing, and electronic commerce. Verizon's international subsidiaries provide wireline and wireless communications operations and investments.

In 2004, Verizon had annual operating revenues of approximately \$71 billion. Stressing diversity and a commitment to the communities in which it operates, Verizon has a highly diverse national workforce of 210,000 employees, including over 35,000 employees in New York State. Verizon has a strong balance sheet and investment-grade credit rating and is a stable, viable enterprise.

## **B. MCI**

MCI, Inc. is a corporation created and existing under the laws of the State of Delaware, with its principal office located at 22001 Loudoun Parkway, Ashburn, Virginia 20147. MCI's subsidiaries provide telecommunications services on a regulated and unregulated basis throughout the United States and in several foreign countries.

MCI's subsidiaries provide services to business and government customers, including 75 federal government agencies. Among the enterprise services MCI provides through its subsidiaries are a comprehensive portfolio of local-to-global business data, Internet and voice services, including IP network technology, Virtual Private Networking, SONET private line, frame relay, ATM and a full range of dedicated, dial and value-added Internet services.

Although MCI, Inc. is not a regulated telephone company within New York or elsewhere, some of MCI's subsidiaries are subject to public utility regulation in the jurisdictions in which they operate. MCI's subsidiaries provide consumer services, including interstate long distance services, intrastate toll services, competitive local exchange services, and other telecommunications services in New York. MCI's subsidiaries are also subject to regulation by the FCC for the interstate services they provide.

In 2004, MCI had annual operating revenues of approximately \$21 billion. MCI has over 42,500 employees nationally and internationally, and provides jobs for approximately 1,380 full-time employees in New York State.

## **II. THE PROPOSED TRANSACTION**

The details of the transaction are set forth in the Agreement, a copy of which is attached as Exhibit 1. As described in greater detail in that exhibit, MCI will merge into ELI Acquisition, LLC, a Delaware limited liability company which is wholly owned by Verizon and was created solely to facilitate the transaction. ELI Acquisition, LLC will be the surviving company in the merger, and Verizon will be its parent corporation after the merger. Verizon intends to rename the company "MCI, LLC."

MCI's shareholders will receive 0.4062 shares of Verizon common stock and \$1.50 cash for every share owned of MCI. In addition to the Verizon shares and cash, MCI shareholders will receive a special dividend in the amount of \$4.10 per share, less any dividend paid by MCI between February 14, 2005 and the consummation of the transaction.

Until the transaction is completed, both corporations will continue to operate as independent entities. The acquisition will not occur until all necessary governmental and regulatory approvals and reviews have been obtained or completed. This process includes a review by the Department of Justice, the FCC, and a number of state commissions. At the time the transaction is completed, MCI's regulated subsidiaries in New York will remain as subsidiaries of MCI, and the authorizations and licenses currently held by MCI's regulated subsidiaries will continue to be held by the respective entities.

After the transaction is completed, all MCI subsidiaries will be second-tier subsidiaries of Verizon. The acquisition will not change the MCI subsidiaries' relationship with the

Commission. The Agreement does not call for the merger of any assets, operations, lines, plants, franchises or permits of MCI's regulated subsidiaries with the assets, operations, lines, plants, franchises or permits of any Verizon entity. To the extent that any such reorganization might be made at a later date, it will be made in the normal course of business and subject to such regulatory approvals as may be required. Similarly, the Agreement does not call for any change in the rates, terms or conditions for the provision of any telecommunications services provided in New York. To the extent that any such changes might be made at a later date, they will be subject to such regulatory approvals as may be required.

The transaction will not affect the regulatory authority of this Commission over any of Verizon's or MCI's regulated subsidiaries, nor will it have any immediate impact on the services that those subsidiaries provide in New York. Therefore, the acquisition will not interfere with this Commission's jurisdiction nor impede the satisfaction of its public policy goals. VZ-NY and MCI's state-regulated subsidiaries will continue to meet all of their obligations and commitments under the Commission's rules, regulations and orders.

### **III. THE PROPOSED ACQUISITION DOES NOT RAISE ANY ISSUES PURSUANT TO PSL SECTION 99 OR SECTION 100**

Under the proposed transaction, one Delaware holding company – that is, Verizon Communications Inc. – will become the owner of all the outstanding stock of another Delaware holding company – that is, MCI, Inc. In these circumstances, Commission approval of the transaction is not required under either PSL Section 99 or 100.

PSL Section 99(2) requires Commission approval of any assignment, transfer or lease of a franchise to own or operate telephone lines and of any transfer or lease of works or systems of a regulated telephone utility. Section 99(2) also requires Commission approval of any agreement “made with reference to or affecting any such franchise” to own or operate telephone lines

within the state. The subject of the proposed acquisition is neither the franchise held nor the facilities owned by regulated New York entities in which either Verizon or MCI has an interest. The Agreement does not call for the assignment, transfer, or lease of any assets, franchises, licenses, permits, works or systems of the regulated MCI subsidiaries. Rather, it involves the acquisition of stock of MCI, Inc., a holding company, by Verizon Communications Inc., another holding company. Because, MCI, Inc. is not itself a regulated utility within the meaning of the PSL, the transaction is not subject to Commission jurisdiction under PSL Section 99.

Nor is the transaction subject to Commission approval under PSL Section 100. That section requires Commission approval of acquisitions of the capital stock of any “telephone corporation.” MCI, Inc., as noted, is not a telephone corporation and does not fit within the definition of that term in PSL Section 2(17) inasmuch as it does not “own[], operate[], or manage[] any telephone line” in New York State. In *Rochester Telephone Corporation*,<sup>2</sup> the Commission acknowledged its lack of jurisdiction over the acquisition of a holding company that has an interest in a New York telephone corporation, as will occur upon completion of the instant transaction. Therefore, the transaction is not subject to Commission jurisdiction under PSL Section 100.

Accordingly, the Commission should issue a declaratory ruling disclaiming jurisdiction over the proposed acquisition.

#### **IV. THE PROPOSED TRANSACTION IS IN THE PUBLIC INTEREST**

The Commission should expeditiously approve the transaction in the event it determines that it is authorized to review and approve Verizon’s acquisition of MCI. The proposed

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<sup>2</sup> Case 27015, *Rochester Telephone Corporation*, 18 NY PSC 271, 273 (1978) (the “Commission could [not] prevent the holding company from being acquired” by other interests).

acquisition will have no adverse impact on rates or service quality of any regulated New York telephone utility or telephone corporation and is in the public interest. As discussed below, this transaction will greatly enhance the abilities that both Verizon and MCI now possess as stand-alone companies to provide a comprehensive suite of services to consumers, businesses and government customers. It will bring together two companies with complementary strengths in a way that will benefit the existing customers of each company. Finally, it will enhance Verizon's ability to compete for and serve large businesses and government customers in New York and beyond by improving the speed of delivery for competitively priced wireline services, broadband services, wireless services and IP-based services to that vital sector of the U.S. economy.

This transaction is the logical next step in the continuing evolution of the telecommunications industry, an evolution that is driven by customers and technology and not by companies and regulators. The availability of wireline and wireless packages of any time, any distance minutes of use, Internet communication (including instant messaging), text messaging, and voice over Internet protocol ("VoIP") services has blurred the historical lines between local and long distance service. Today, customers rely on an array of communications platforms that include not only traditional and broadband wireline services (providing voice, DSL, Internet connectivity and VoIP), but other platforms, such as wireless mobile (including cell phones, wireless data, wi-fi, wi-max and PDAs) and cable platforms (providing voice, video and data services). Wireline voice traffic no longer comprises a majority of the minutes used on the public switched network, and such traffic is declining as a percentage of overall communications traffic. In light of these changes, a company providing only traditional wireline POTS service would fast become obsolete. Consequently, the industry is rapidly restructuring itself so as to

provide a full array of services using new and emerging technologies in the most economically efficient way.

This industry restructuring will continue irrespective of Verizon's proposed acquisition of MCI. MCI has recognized that – as a result of wireless competition, intense long distance competition from other carriers, restrictions on marketing resulting from “Do Not Call” legislation, competitors exploiting new, unregulated technologies and applications that make possible such services as messaging on the go, high speed data connections, cable telephone, VoIP, e-mail and instant messaging – its consumer business is in a continuing and irreversible decline, and has refocused its strategy accordingly. Verizon's acquisition of MCI positions a strong new competitor to fully leverage the industry's evolution toward more converged products and services to the benefit of all customers.

As Commission Chairman Flynn remarked:

The New York Public Service Commission recognizes the telecommunications industry is in a period of significant transition as a consequence of emerging technologies, converging markets, and regulatory and legal developments. The announced acquisition of MCI by Verizon reflects many of the new realities within the telecommunications arena.<sup>3</sup>

The Agreement is intended to complement and accelerate Verizon's continuing transformation into a premier wireless and broadband provider. It represents a vital strategic move for Verizon that is focused on growth and continued investment, not just on cost reductions. Thus, the transaction is in keeping with an industry evolution that is trending toward convergence and consolidation. The primary goal of this acquisition is to deliver benefits to customers over the long term.

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<sup>3</sup> Statement from NYPSC Chairman William M. Flynn on Verizon's Proposed Acquisition of MCI (February 14, 2005).

**A. Benefits to Customers**

***1. Enterprise and Government Customers***

As a result of this transaction, Verizon will be able to provide better service to enterprise and government customers than either company could provide alone. For example, Verizon will be able to carry traffic over MCI's Internet backbone, improving efficiency and enhancing the ability to manage complex network assets and applications. Verizon will also be able to utilize MCI's ISP connectivity services (such as email, web hosting, DNS services and others), again enhancing Verizon's capabilities in a market in which it is a small provider at present.

Although Verizon has been working to increase its enterprise business for several years, it still has a relatively small share of this business and does not serve a number of regions of the country at all. This acquisition provides Verizon with an opportunity to expand its small existing presence at a faster pace. In the process, the transaction will create a new competitor that is capable of providing enterprise customers across the nation with a wider array of services, including wireless services, than MCI is currently providing. In the current environment, customers demand a comprehensive solution to their communications needs; MCI's limited ability to offer a wireless product set will be solved by this transaction.

Even after the Verizon-MCI transaction is completed, AT&T will remain the largest single provider of services to enterprise customers, with or without its proposed merger with SBC. But enterprise customers are served by a host of other competitors as well. These competitors include a number of other effective global network service providers, as well as equipment providers, CLECs/DLECs, and systems integrators and IP applications providers. Some of the other global network services providers are: BT (previously British Telecom), which has entered into an agreement to acquire Infonet Services Corp., a communications

company that specializes in services to multinational corporations; Sprint (which is merging with wireless provider Nextel); and NTT Corporation (parent of Nippon Telephone and Telegraph), which through its various subsidiaries (such as NTT DoCoMo) provides broadband and wireless communications as well as IT services primarily in Asia but also to other global markets. Equipment providers serving enterprise customers include Cisco, Avaya, Nortel, Lucent, NEC, Alcatel, Fujitsu, Polycom, 3Com, Juniper Networks, Enterasys Networks, Foundry Networks, and Extreme Networks. CLECs and DLECs providing enterprise services include Time Warner, Cox Communications, PAETEC Communications, Equant, XO Communications, Wiltel, Infonet, McLeodUSA, Corvis/Broadwing Communications, ITC Deltacom, US LEC, ICG Communications and FiberNet Telecom Group. Among the systems integrators and IP application providers serving enterprise customers are IBM, Hewlett-Packard, EDS, Accenture, Unisys, Northrup Grumman, Cap Gemini, Harris Corporation, EMC, Brocade, Network Appliance, and Savvis Communications. With such a vast array of providers, competition for enterprise customers has long been considered intense and will remain intense after Verizon acquires MCI.

Given Verizon's financial strength, this transaction will also ensure that MCI's enterprise customers will continue to be served by a strong provider of telecommunications services that can meet the customers' needs nationally and internationally. Verizon's enterprise line of business remains regionally focused and currently does not even address the top-most portion of the national enterprise market. Through this acquisition, Verizon will become a strong competitor that will be able to challenge the larger incumbents that now serve enterprise customers. Verizon would require years to develop the capabilities to compete effectively for such customers without this transaction. Verizon must reach these enterprise customers

expeditiously in light of the industry convergence and the growing intermodal competition among wireline and wireless and cable providers. Moreover, the bundled wireline, broadband and wireless offering to MCI's and Verizon's current enterprise customers is an added benefit that both companies' customers will receive.

Verizon and MCI have complementary assets to devote to serving the largest government agencies. The transaction brings together Verizon's local and wireless networks and MCI's national, international and Internet backbone networks. Consequently, Verizon will be able to provide nationwide service to customers it currently serves on a regional basis only. The transaction will also bring together the excellent sales forces of both companies. Verizon's local and regional presence, coupled with MCI's innovative enterprise and government sales expertise, will allow the merged company to provide government customers – as well as enterprise customers – with a suite of products and services that addresses the full range of these customers' needs.

The transaction will also result in a more efficient operating structure, allowing for faster and more robust network deployment. It will strengthen MCI's national and international network, which is a critical component of government communications systems, including those used by national defense and homeland security.

## ***2. Consumers and Small Business Customers***

The transaction continues Verizon's own transformation into a national broadband company and will greatly enhance its advanced broadband and wireless networks. Ultimately, MCI's Internet backbone network, together with Verizon's ongoing deployment of fiber directly to customers, will create a platform that can support a broad array of multimedia communications services and applications for all customers.

American consumers and small businesses will benefit from the enhanced deployment of wireline and wireless broadband services that this transaction will promote. This transaction will ensure that Internet users in the United States will continue to have a robust, state-of-the-art backbone platform for their traffic; and the transaction will allow for higher quality of service and a greater investment in that backbone than MCI could achieve as a stand-alone company going forward. After the acquisition, consumers will continue to have a choice of competitive communications services, including wireline competitors, cable telephony providers, wireless services and VoIP providers operating throughout the state. Similarly, small business customers will continue to be served by a host of telecommunications services providers including, in particular, cable companies that have recently stepped up their efforts to serve this segment of the business market.

**B. Benefits to the American Economy**

The transaction between Verizon and MCI will allow each to benefit from the strength of the other using complementary competencies and networks. It will thus ensure that key domestic communications networks are robust and technologically advanced, , thus enhancing the economic viability and security of America's homeland.

This acquisition will create a global industry leader by strengthening simultaneously America's premier telecommunications network builder and its leading service provider. Utilizing MCI's powerful networking assets, the transaction will give Verizon greater ability to lead the telecommunications industry's revitalization through new investment in world-class networks and services.

**C. Benefits to Investors in Both Companies**

This acquisition will provide MCI investors with a security that has the best prospect for long-term viability, stability and prospect for growth. The transaction is expected to eliminate duplicative expenses and create operational efficiencies, thus enabling additional investment in and deployment of new services for all customers.

**D. Benefits to Employees of Both Companies**

The transaction between Verizon and MCI will create a far stronger company with the ability to thrive and grow in the intensely competitive telecommunications industry, both nationally and internationally, thus providing a higher degree of stability and certainty for employees and their dependents than could be provided by either company standing alone.

While it is anticipated that the transaction will lead to some reduction in the number of employees in duplicative jobs, the new Verizon and its subsidiary MCI will be stronger as a result and more likely to maintain higher levels of overall employment than either company would have been able to do on its own.

**E. Benefits to the State's Economy**

Verizon has a long history of corporate responsibility and good citizenship in the communities that it serves and it will continue that tradition after this transaction is concluded, including in this state. MCI has a practice of providing good jobs and cutting-edge network technology and this acquisition will only enhance that capability. Thus, the communities served by the combined company will benefit from this transaction.

In addition, there will be no anti-competitive effect of this acquisition in New York or nationally. As discussed above, Verizon does not currently address the upper end of the enterprise market with a wide array of services, nor has it been equipped to address customers

with nationwide interests in that market. MCI, on the other hand, is an acknowledged leader in the market for enterprise telecommunications services. For its part, Verizon is a recognized leader in services to consumers and small businesses and is committed to building out a broadband network to improve those services. Competition, including increasingly important intermodal competition, will continue unimpaired.

The new competition of the 21<sup>st</sup> century is between and among those carriers with a comprehensive network – such as cable and wireline. Thus, MCI and Verizon will each benefit from the strengths of the other, to the long-term benefit of the enterprises, businesses, government entities and consumers in this state.

#### **V. CORRESPONDENCE AND COMMUNICATIONS**

All communications and correspondence concerning this Petition should be addressed or directed to the following parties:

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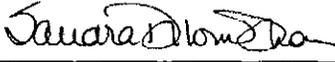
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**VI. CONCLUSION**

For the foregoing reasons, Verizon and MCI respectfully request that the Commission disclaim jurisdiction over the proposed transaction or, in the alternative, expeditiously approve the Petition and grant any other relief deemed necessary and appropriate to effect the transfer of control of MCI to Verizon.

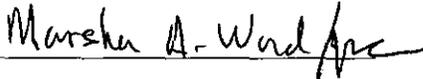
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Dated: February 25, 2005