

TC97-110

KC-103

TC97-110

DOCKET NO.

In the Matter of

IN THE MATTER OF THE
APPLICATION OF WORLD COM
TECHNOLOGIES, INC. FOR A
CERTIFICATE OF AUTHORITY TO
PROVIDE TELECOMMUNICATIONS
SERVICES IN SOUTH DAKOTA

Public Utilities Commission of the State of South Dakota

DATE	MEMORANDA
6/25/97	Filed and Docketed,
6/26/97	TC Fax Filing,
8/25/97	Application,
9/5/97	Received Certificate of Authority from Sec of State,
10/17/97	Siderman & Sons,
10/17/97	Order Granting COA,
10/17/97	Docket Closed

TC97-110

KELLEY DRYE & WARREN LLP

A LIMITED LIABILITY PARTNERSHIP INCLUDING PROFESSIONAL ASSOCIATIONS

1200 19TH STREET, N.W.

SUITE 500

WASHINGTON, D. C. 20036

(202) 955-9600

FACSIMILE

(202) 955-9792

NEW YORK, N.Y.

LOS ANGELES, CA

MIAMI, FL

CHICAGO, IL

STAMFORD, CT

PARSIPPANY, N.J.

BRUSSELS, BELGIUM

HONG KONG

AFFILIATED OFFICES

NEW DELHI, INDIA

TOKYO, JAPAN

June 24, 1997

RECEIVED

JUN 25 1997

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

BY UNITED PARCEL SERVICE

Mr. William Bullard, Jr.
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol Avenue
Pierre, South Dakota 57501-5070

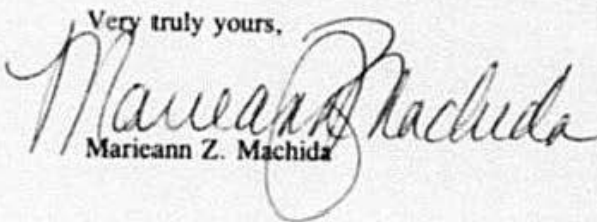
Re: Application of WorldCom, Inc., MFS Intelenet of South Dakota, Inc. and
WorldCom Technologies, Inc.

Dear Mr. Bullard:

Enclosed for filing with the South Dakota Public Utilities Commission please find an original and 10 copies of the Application of WorldCom, Inc., MFS Intelenet of South Dakota, Inc. and WorldCom Technologies, Inc. for authority to reorganize their corporate relationship and operations and to complete a series of transactions related thereto. Enclosed please also find a check in the amount of \$250.00 for the filing fee, a duplicate of this filing and a self-addressed stamped envelope. Please date-stamp the duplicate upon receipt and return it in the envelope provided.

Please do not hesitate to contact me at (202) 955-9883 if you have any questions.

Very truly yours,


Maricann Z. Machida

TC97-110
ORIGINAL

Before the
STATE OF SOUTH DAKOTA
PUBLIC UTILITIES COMMISSION

RECEIVED

JUN 25 1997

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

Application of	)	
	)	
WORLDCom, INC., MFS INTELENET	)	
OF SOUTH DAKOTA, INC. and	)	Docket No.
WORLDCom TECHNOLOGIES, INC.	)	
	)	
For Authority to Reorganize	)	
and For Related Transactions	)	

APPLICATION

WorldCom, Inc. ("WorldCom"), MFS Intelenet of South Dakota, Inc. ("MFS of South Dakota"), MFS Communications Company, Inc. ("MFSCC"), MFS Network Technologies, Inc. ("MFS NT") and WorldCom Technologies, Inc. ("WorldCom Technologies"),¹ by their attorneys and pursuant to the statutes, rules and regulations of the South Dakota Public Utilities Commission ("Commission") respectfully request authority to reorganize their corporate structure and operations and to complete a series of transactions related thereto. As described below, the Applicants specifically seek authority to:

- (1) transfer control of WorldCom Technologies from MFS NT to MFSCC;
- (2) transfer all of WorldCom's operating authority in South Dakota to WorldCom Technologies;
- (3) transfer all of WorldCom's assets related to its regulated operations in South Dakota to WorldCom Technologies;

¹ WorldCom Technologies, the parent company of MFS of South Dakota, was formerly known as MFS Intelenet, Inc. A chart depicting the existing overall organizational structure of the WorldCom companies related to its provision of service in South Dakota is appended hereto as Attachment A.

- 0
1
4
3
•
6
5
•
3
- (4) merge MFS of South Dakota with and into its existing corporate parent, WorldCom Technologies (WorldCom Technologies will be the surviving entity); and
 - (5) transfer all of MFS of South Dakota's operating authority to provide telecommunications services in South Dakota to WorldCom Technologies.

As a result of the Applicants' proposed transactions, MFS of South Dakota will cease to exist and WorldCom will become a holding company. Thus, WorldCom Technologies will be one of the primary operating entities of the WorldCom family of companies in South Dakota.²

In support of their Application, the Applicants provide the following information:

I. THE APPLICANTS

WorldCom, with its subsidiaries, is one of the largest and most innovative telecommunications companies in the United States, providing telecommunications services to business, government, other telecommunications companies and residential customers through its network of fiber optic cables, digital microwave, and fixed and transportable satellite earth stations. As a result of its recent acquisition of MFSCC, of which the Commission was given notice pursuant to letter dated September 6, 1996, WorldCom is the first major telecommunications company with the capability to provide its customers with high-quality local, long distance, Internet, data and international communications services over its own transmission facilities. With service to points around the world, the WorldCom companies' telecommunications products and services include: switched and dedicated long distance and

² Importantly, the Applicants note that only the entities described herein are being consolidated and reorganized at this time. Therefore, after the proposed transactions are completed, other affiliated entities that currently hold Certificates of Authority to provide telecommunications services in South Dakota will continue to operate. See Attachment A.

local products, 800 services, calling cards, domestic and international private lines, broadband data services, debit cards, conference calling, advanced billing systems, enhanced fax and data connections, local access to ATM-based backbone service and interconnection via Network Access Points to Internet service providers.

WorldCom itself is a publicly-held Georgia corporation whose principal offices are located at 515 East Amite Street, Jackson, Mississippi 39201. WorldCom is the ultimate corporate parent of the entire WorldCom family of companies, including MFS of South Dakota and WorldCom Technologies. WorldCom is authorized to provide telecommunications services in 48 states, including South Dakota.

As illustrated by the organizational chart appended hereto as Attachment A, WorldCom Technologies (formerly known as MFS Intelenet, Inc.), a Delaware corporation, is one of two intermediate subsidiaries between MFSCC and MFS of South Dakota. WorldCom Technologies currently functions as a holding company and does not directly provide telecommunications services in any state.³ However, WorldCom Technologies provides interexchange service in 49 states through 49 separate operating subsidiaries, 24 of which are also authorized to provide local exchange service.

MFS of South Dakota is a wholly-owned subsidiary of WorldCom Technologies that provides telecommunications services directly to the public in South Dakota. MFS of South Dakota provides a full range of interexchange services in South Dakota. MFS of South Dakota received its authority to operate as a telecommunications service provider in South

³ WorldCom Technologies is in the process of becoming qualified to transact business in South Dakota as a foreign corporation. A copy of WorldCom Technologies' qualifying document will be forwarded to the Commission as soon as it is available.

Dakota on August 1, 1994 in Docket No. TC94-042 and on April 15, 1997 in Docket No. TC97-019.

II. DESIGNATED CONTACTS

The designated contacts for purposes of this Application are:

Brad E. Mutschelknaus
Marieann Z. Machida
KELLEY DRYE & WARREN LLP
1200 19th Street, N.W.
Suite 500
Washington, D.C. 20036
(202) 955-9600

Copies of all correspondence, notices, inquiries and orders should also be sent to:

Mark Argenbright
Senior Manager, Regulatory Analysis
WORLDCom, INC.
515 East Amite Street
Jackson, Mississippi 39201

Pamela Robinson
Manager, Regulatory Affairs
WORLDCom, INC.
1705 S. Capital of Texas Highway
Suite 100
Austin, Texas 78746

III. REQUEST FOR APPROVAL OF PRO FORMA TRANSFER OF CONTROL

As depicted on the organizational chart appended hereto as Attachment A, WorldCom Technologies is presently a wholly-owned subsidiary of MFS NT. MFS NT is a non-regulated entity that operates as a holding company and service integrator.

Aspect I of the overall corporate reorganization involves removing MFS NT from the chain of corporate ownership of WorldCom Technologies by transferring control of WorldCom Technologies to MFSCC, which is presently MFS NT's corporate parent. Thus, MFS NT will be shifted down one level while WorldCom Technologies will be shifted up

one level.⁴ MFS NT will become an *affiliate* of WorldCom Technologies, and MFSCC will become WorldCom Technologies's direct corporate parent.⁵

To the extent required, the Applicants respectfully request that the Commission approve the pro forma transfer of control of WorldCom Technologies to MFSCC.⁶

IV. REQUEST FOR AUTHORITY TO TRANSFER WORLDCom's CERTIFICATE OF AUTHORITY AND ASSETS TO WORLDCom TECHNOLOGIES

Aspect II of the proposed reorganization involves the transfer of WorldCom's Certificate of Authority and telecommunications-related assets to WorldCom Technologies.⁷ After the transfer, WorldCom will cease to provide telecommunications services to consumers in South Dakota and will function exclusively as a holding company. WorldCom Technologies will assume WorldCom's operations and will provide telecommunications services to WorldCom's customers in South Dakota.

The proposed "roll-down" of WorldCom's operations to WorldCom Technologies will have no adverse impact on consumers in South Dakota. WorldCom Technologies will file a new tariff that will incorporate all of WorldCom's existing services into its tariff at the same rates, terms and conditions as are currently available. The impact of the "roll down" on consumers in South Dakota will be negligible because WorldCom Technologies will serve

⁴ Importantly, the Applicants note that the changes described herein will affect a number of WorldCom companies which are not named herein because they are not regulated by the Commission. One such entity is MFS Transportation Systems, Inc., a construction company that is a wholly-owned subsidiary of MFS NT.

⁵ See Attachments B and C.

⁶ The pro forma transfer of control of WorldCom Technologies is contingent upon receipt of a favorable private letter ruling from the Internal Revenue Service ("IRS"). If the Applicants do not receive a favorable private letter ruling from the IRS, they may withdraw their request for approval of the pro forma transfer of control of WorldCom Technologies to MFSCC. The Applicants will advise the Commission of their final plans as soon as possible.

⁷ See Attachment D.

WorldCom's current customers using the same network, billing systems and customer service operations that WorldCom uses pursuant to identical tariffs. Thus, WorldCom's customers will continue to receive high quality services, at the same rates and under the same terms and conditions.

To the extent required, the Applicants respectfully request that the Commission authorize the transfer of WorldCom's Certificate of Authority and assets to WorldCom Technologies.⁸

V. REQUEST FOR AUTHORITY TO MERGE MFS OF SOUTH DAKOTA AND WORLD COM TECHNOLOGIES

Aspect III of the proposed reorganization entails the merger of MFS of South Dakota with and into WorldCom Technologies.⁹ MFS of South Dakota's Certificate of Authority to provide local and long distance services within the State of South Dakota will be transferred to WorldCom Technologies, as will all of MFS of South Dakota's assets. After the merger, MFS of South Dakota will cease to exist and all of its customers will be served by WorldCom Technologies pursuant to contracts and tariffs that offer all of the services offered by MFS of South Dakota, at the same rates, terms and conditions as are currently available. WorldCom Technologies will file a new tariff that will incorporate such services, rates, terms and conditions.

The merger is strictly pro forma and will have no direct impact on consumers in South Dakota. WorldCom Technologies and MFS of South Dakota are managed by the same

⁸ If the Commission determines that it is not appropriate to transfer WorldCom's Certificate of Authority to WorldCom Technologies, the Applicants respectfully request that the Commission grant a new Certificate of Authority to WorldCom Technologies authorizing it to provide the full range of services that WorldCom currently is authorized to provide and thereafter cancel WorldCom's Certificate of Authority.

⁹ See Attachment E.

team of experienced telecommunications personnel, and day-to-day operations will continue to function as they have in the past. Customer service functions will be provided by the same team of qualified consumer representatives. Affected customers will be given appropriate and adequate notice of the change in the name of their telecommunications service provider.¹⁰ Moreover, other than the pro forma transfer of control of WorldCom Technologies from MFS NT to MFSCC, there will be no change in the ownership or control of WorldCom Technologies and its business plan and operations in South Dakota will not be affected. Thus, service will continue to be provided using the same network, billing systems and customer service operations as are used by MFS of South Dakota.

To the extent required, the Applicants respectfully request that the Commission authorize them to merge MFS of South Dakota with and into WorldCom Technologies and to transfer MFS of South Dakota's Certificate of Authority to WorldCom Technologies.¹¹

VI. TARIFFS

In order to complete the overall transition, WorldCom Technologies will file a new tariff that incorporates all of the services currently offered by both WorldCom and MFS of South Dakota as well as the rates, terms and conditions that are currently available. Upon approval of WorldCom Technologies's tariff, WorldCom and MFS of South Dakota will withdraw their existing tariffs and will cease to offer service to customers in South Dakota.

¹⁰ A copy of the customer notice will be provided to the Commission upon request.

¹¹ If the Commission determines that it is not appropriate to transfer MFS of South Dakota's Certificate of Authority to WorldCom Technologies, the Applicants respectfully request that the Commission grant a new Certificate of Authority to WorldCom Technologies authorizing it to provide the full range of services that MFS of South Dakota currently is authorized to provide and thereafter cancel MFS of South Dakota's Certificate of Authority.

VII. SUMMARY OF TRANSACTIONS

Pursuant to the proposed reorganization, the Applicants will be engaging in a series of transactions all of which are designed to consolidate operations in a way that simplifies regulatory oversight and corporate administration. WorldCom Technologies will become one of the WorldCom companies' primary operating entities, and every transaction proposed herein is designed to set up WorldCom Technologies in that role with all of the necessary operational assets as well as the state and federal authority required to provide intrastate, interstate and international telecommunications services nationwide.

The first aspect of the reorganization as described herein involves a pro forma transfer of control of WorldCom Technologies from MFS NT to MFSCC. MFSCC will become the direct parent company of WorldCom Technologies.

The second aspect involves the "roll down" of WorldCom's telecommunications operations and assets, including relevant operating authority, to WorldCom Technologies. Appropriate tariff filings will be made and WorldCom will cease to provide telecommunications services in South Dakota.

The third aspect of the reorganization involves the "roll up" of MFS of South Dakota by merging MFS of South Dakota with and into WorldCom Technologies. WorldCom Technologies will be the surviving entity, holding all of MFS of South Dakota's assets and operating authority. WorldCom Technologies will incorporate all of MFS of South Dakota's services, rates, terms and conditions into its new tariff and MFS of South Dakota will cease to provide telecommunications services.

WorldCom and MFS of South Dakota will withdraw their existing tariffs upon completion of the reorganization and approval of WorldCom Technologies's tariff.

The corporate structure resulting from this series of transactions is depicted on Attachment F hereto. The Applicants request that the Commission grant any and all authority required to accomplish this reorganization.

VIII. PUBLIC INTEREST ANALYSIS

WorldCom's extraordinary growth has been fueled by the acquisition over time of nearly 100 companies, including more than 75 telecommunications services providers. An already complex corporate structure was further complicated by the acquisition of MFSCC and its operating subsidiaries at the end of 1996, which added over 50 regulated corporations to the WorldCom family of companies. This circumstance has created an unwieldy web of intercorporate relationships, and a confusing patchwork of regulatory authority. The resulting complexity has made administration unnecessarily burdensome for both WorldCom and the regulatory agencies that regulate it. By reorganizing into a single holding company with far fewer regulated subsidiaries, WorldCom hopes to simplify its managerial tasks as well as the burden on regulators. The consolidation also will enable the WorldCom companies to operate more efficiently and effectively by eliminating a number of redundant administrative functions. By becoming more efficient, WorldCom will be positioned to become an even more effective competitor in the market for telecommunications services in South Dakota.

8
2
4
3
.
6
5
.
1
1

WHEREFORE, the Applicants respectfully request that the Commission grant them authority to reorganize as described herein and any other authority that the Commission may deem proper to grant.

Respectfully submitted,

**WORLD COM, INC.,
MFS INTELENET OF SOUTH DAKOTA, INC.
and WORLD COM TECHNOLOGIES, INC.**

By: 

Brad E. Mutschelknaus
Marieann Z. Machida
KELLEY DRYE & WARREN LLP
1200 19th Street, N.W.
Suite 500
Washington, D.C. 20036
(202) 955-9600

Their Attorneys

Dated: June 24, 1997

0143.65.12

VERIFICATION

I am authorized to represent WorldCom, Inc. and each of its subsidiaries, and to make this verification on their behalf. The statements in the foregoing document are true of my own knowledge, except as to matters which are herein stated on information and belief, and as to those matters, I believe them to be true. I declare under penalty of perjury that the foregoing is true and correct.

BY:

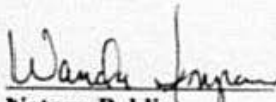


NAME: Scott D. Sullivan

TITLE: Secretary

DATE: June 3, 1997

Sworn and subscribed to
before me this 13th
day of June, 1997.

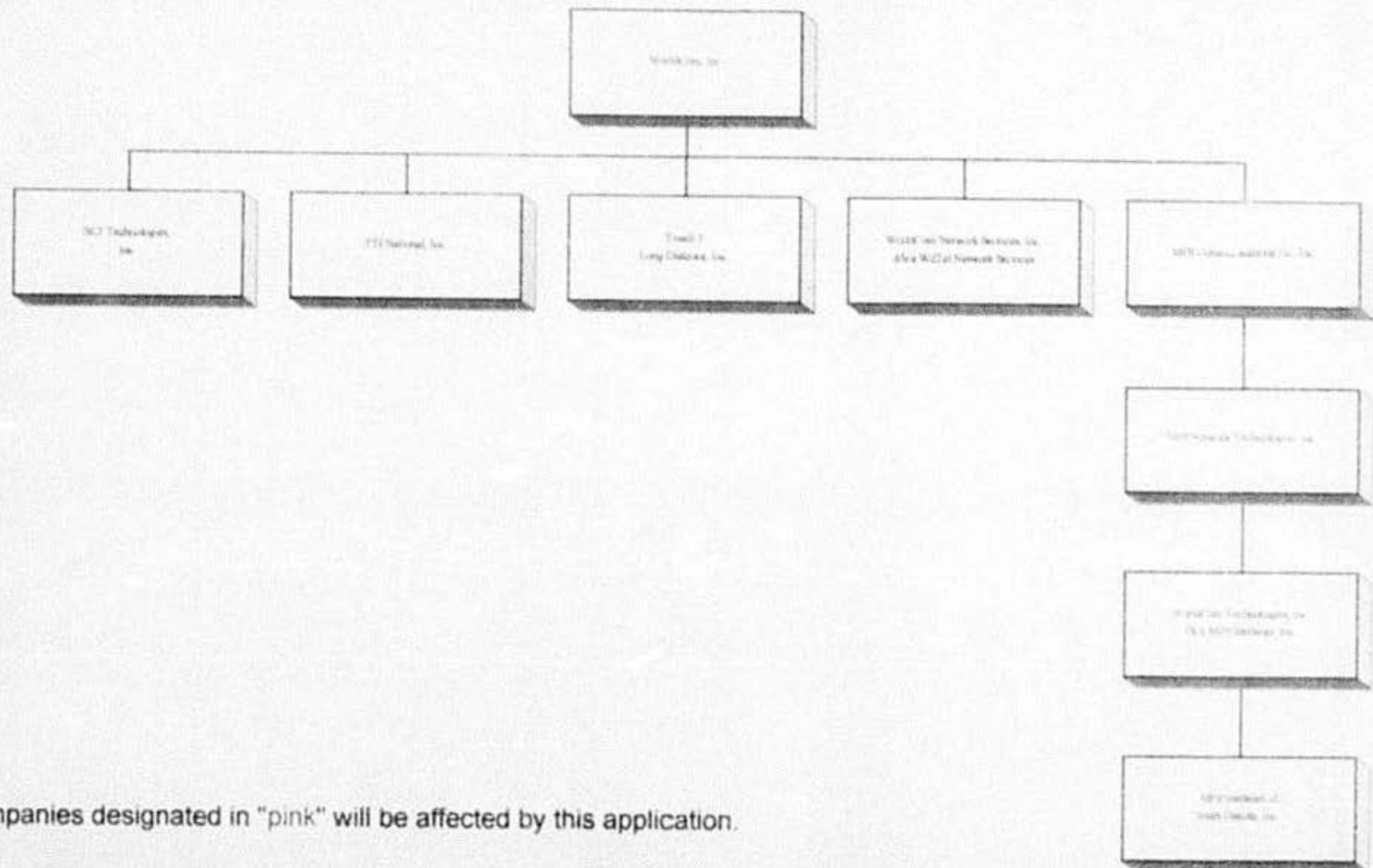

Notary Public

My Commission Expires
July 16, 1999

ATTACHMENT A

South Dakota Corporate Structure

Pre-Reorganization

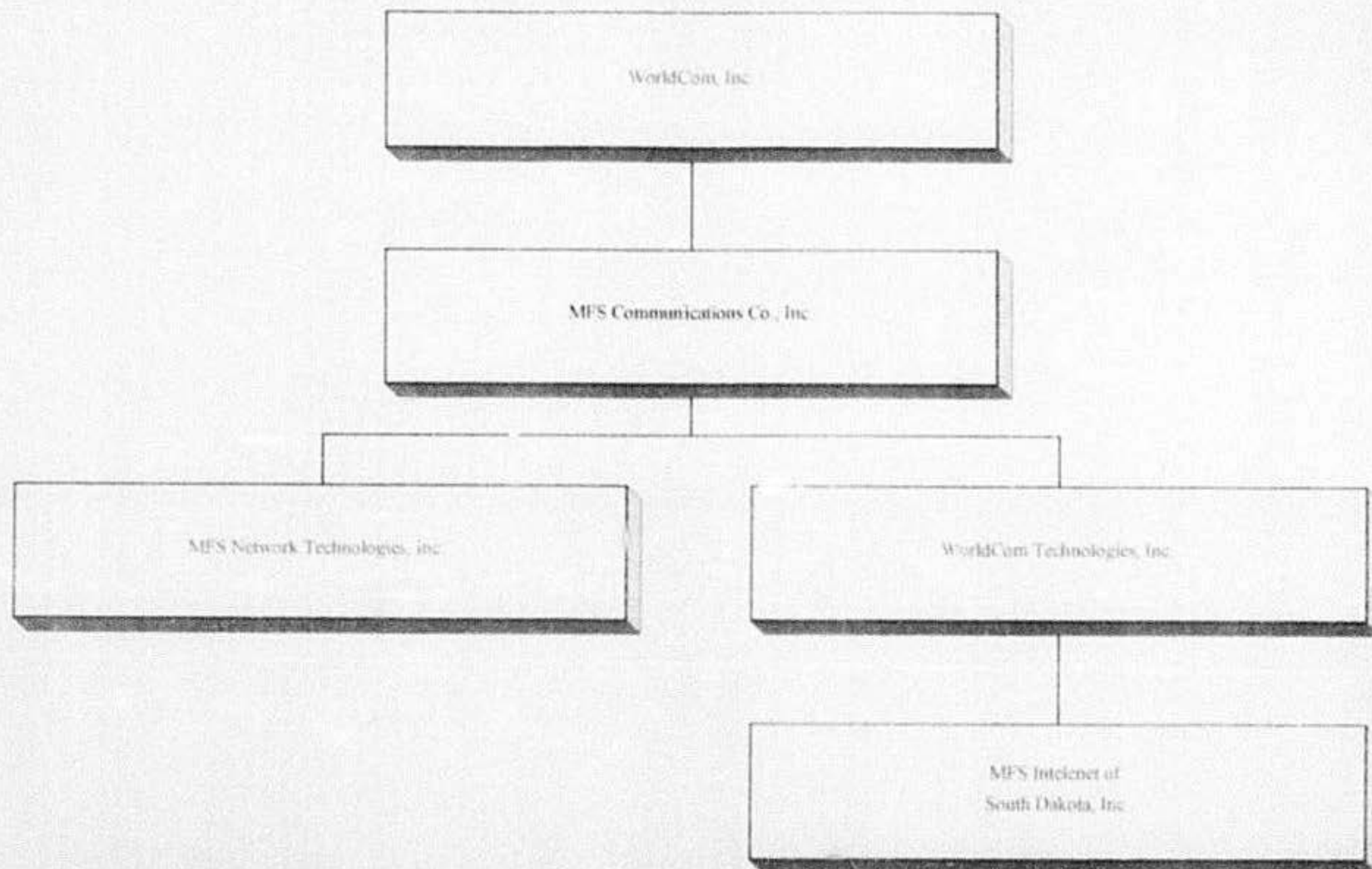


*Companies designated in "pink" will be affected by this application.

ATTACHMENT B

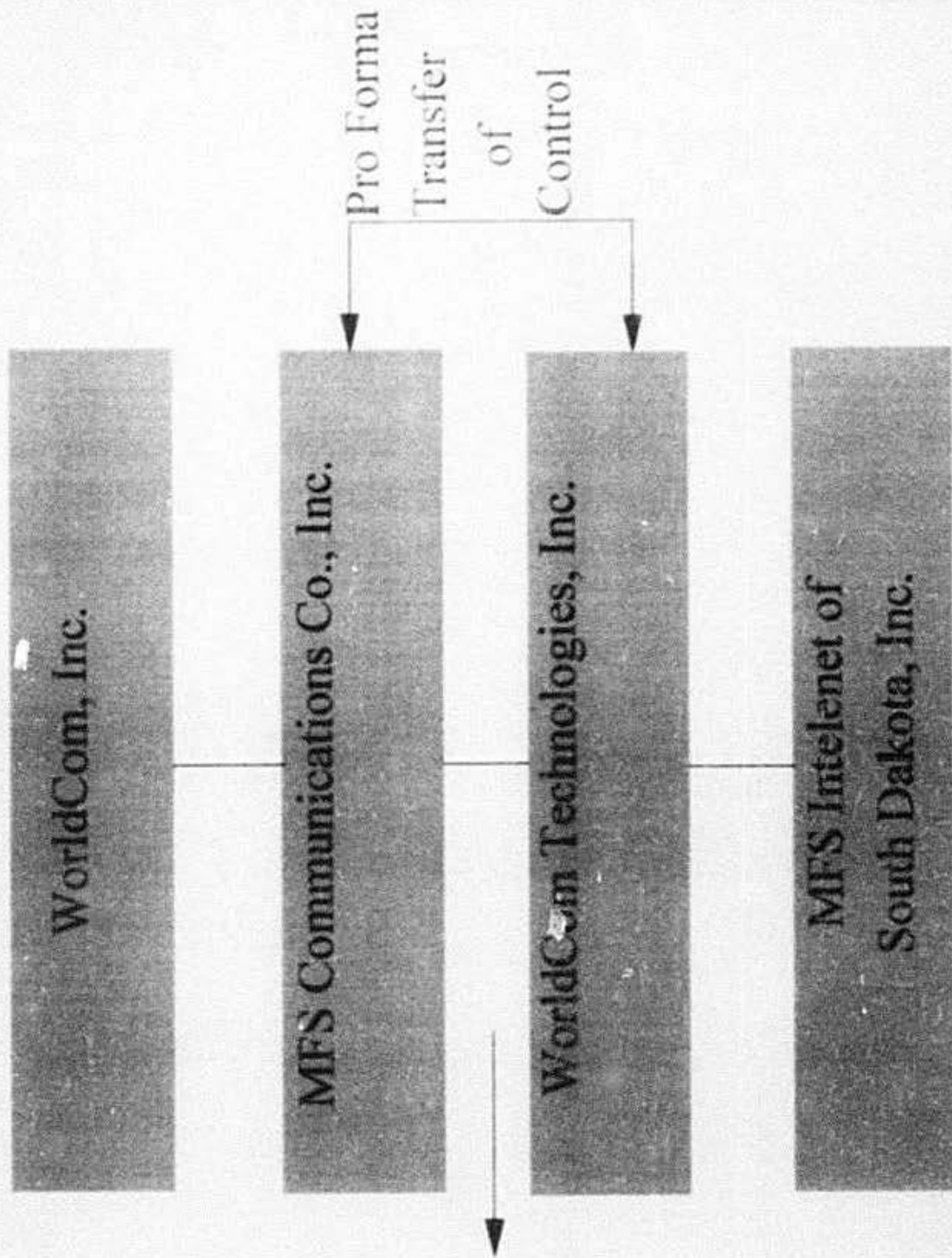
South Dakota Corporate Structure

Post Pro Forma Transfer of Control



ATTACHMENT C

ASPECT I

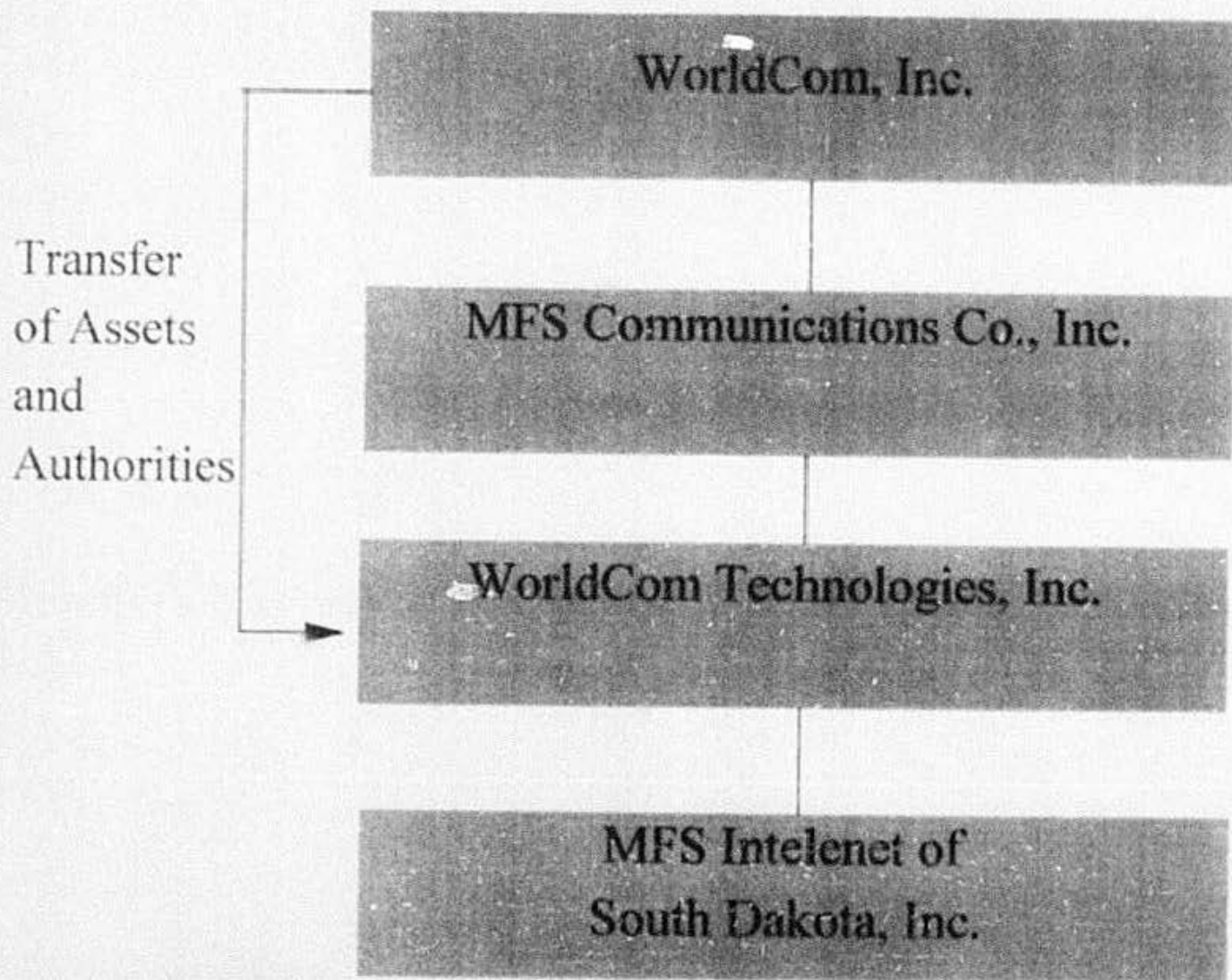


MFS Network
Technologies, Inc.
REMOVED
(See Attachment B)

814335.119

ATTACHMENT D

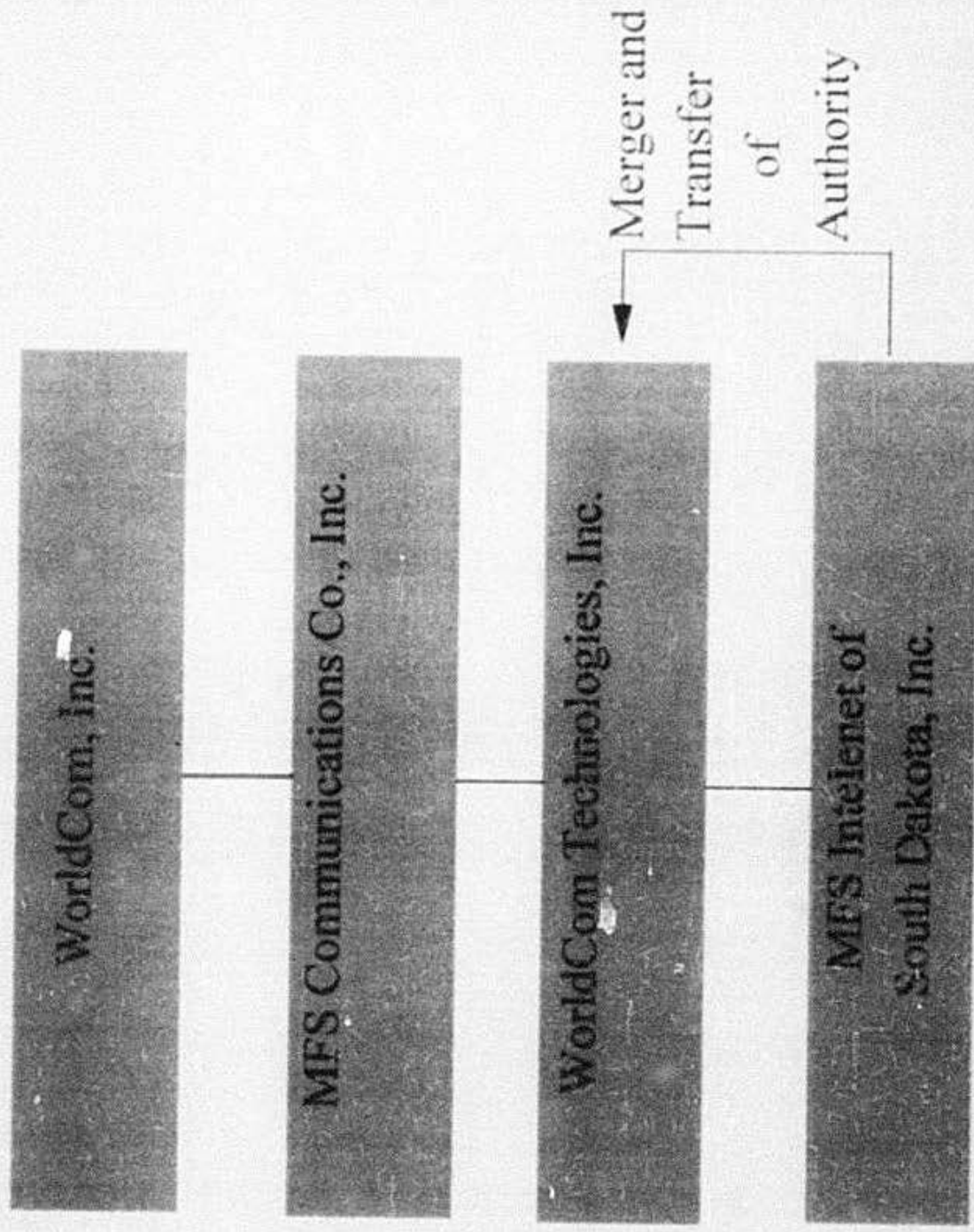
ASPECT II



8143:65:21

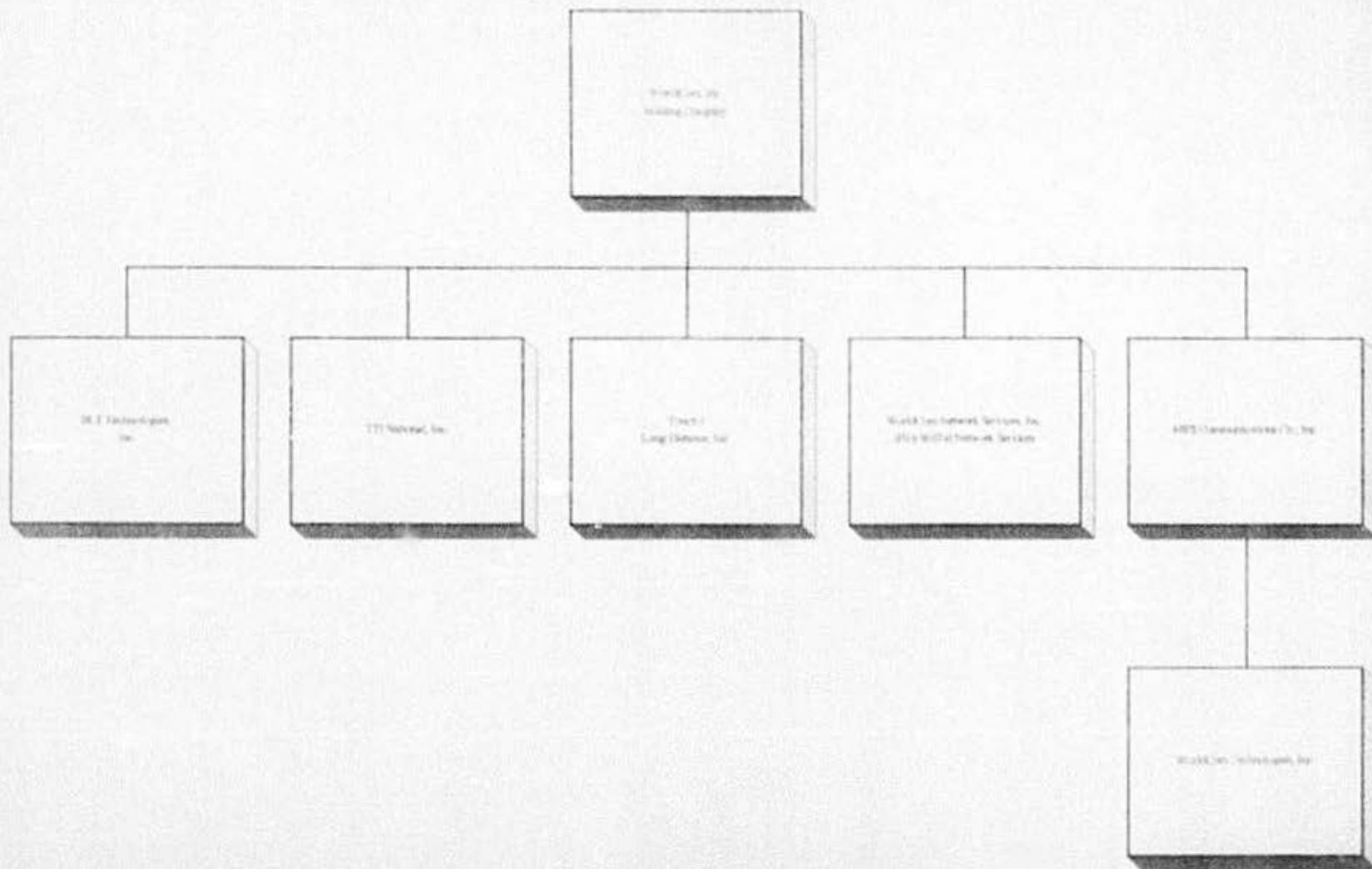
ATTACHMENT E

ASPECT III



ATTACHMENT F

South Dakota Corporate Structure Post Reorganization



KELLEY DRYE & WARREN LLP
1200 19TH STREET, N.W.
WASHINGTON, DC 20036

FIRST UNION NATIONAL BANK
OF WASHINGTON, D.C.
WASHINGTON, DC

04402

15-122/543
00480

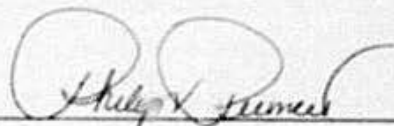
June 24, 1997

PAY TO THE ORDER OF South Dakota Public Utilities Commission

\$ 250.00

Two-Hundred and Fifty-----00/100-----DOLLARS

MEMO Filing fee 36489.3



⑈004402⑈ ⑆054001220⑆ 2000034690853⑈

TC 97-110

South Dakota
Public Utilities Commission
State Capitol 500 E. Capitol
Pierre, SD 57501-5070
Phone: (800) 332-1782
Fax: (605) 773-3809

TELECOMMUNICATIONS SERVICE FILINGS

These are the telecommunications service filings that the Commission has received for the period of:

06/20/97 through 06/26/97

If you need a complete copy of a filing faxed, overnight expressed, or mailed to you, please contact Delaine Kolbo within five days of this filing.

DOCKET NUMBER	TITLE/STAFF/SYNOPSIS	DATE FILED	INTERVENTION DEADLINE
REQUEST FOR CERTIFICATE OF AUTHORITY			
TC97-106	Application by Call Plus, Inc. for a Certificate of Authority to operate as a telecommunications company within the state of South Dakota. (Staff: TS/CH) "Applicant is a switchless reseller which intends to offer 1+ direct dialing, 800 toll free and travel card service (not prepaid calling cards) through the resale of telephone services provided by facilities-based interexchange carriers."	06/20/97	07/11/97
TC97-110	Application by MFS Network Technologies, Inc. for a Certificate of Authority to operate as a telecommunications company within the state of South Dakota. (Staff: DJ/TZ)	06/25/97	07/11/97
TC97-111	Application by Z-Tel, Inc. for a Certificate of Authority to operate as a telecommunications company within the state of South Dakota. (Staff: TS/TZ) Applicant seeks authority to provide MTS, out-WATS, in-WATS, and calling card services. Applicant does not intend to provide operator services, 900 or 700 services.	06/25/97	07/11/97
TC97-112	Application by CapRock Communications Corp. for a Certificate of Authority to operate as a telecommunications company within the state of South Dakota. (Staff: TS/TZ) Applicant seeks authority to provide Message Toll Service, Incoming 800, Travel Card and Prepaid Calling Card services.	06/25/97	07/11/97
REQUEST FOR ELIGIBLE TELECOMMUNICATIONS COMPANY STATUS			
TC97-108	Faith Municipal Telephone Company pursuant to 47 U.S.C. 214(e) and 47 CFR 54.201 hereby seeks designation as an eligible telecommunications carrier within the local exchange areas that constitute its service area in South Dakota. Faith Municipal Telephone Company is the facilities-based local exchange carrier presently providing local exchange telecommunications services in the following exchange: Faith (967). Faith Municipal Telephone Company, to its knowledge, is the only carrier today providing local exchange telecommunications services in the above identified exchange areas. (Staff: HB/KC)	06/23/97	07/11/97
TC97-113	Armour Independent Telephone Company pursuant to 47 U.S.C. 214(e) and 47 CFR 54.201 hereby seeks designation as an eligible telecommunications carrier within the local exchange areas that constitute its service area in South Dakota. Armour Independent Telephone Company is the facilities-based local exchange carrier presently providing local exchange telecommunications services in the following exchange: Armour (724). Armour Independent Telephone Company, to its knowledge, is the only carrier today providing local exchange telecommunications services in the above identified exchange areas. (Staff: HB/CH)	06/25/97	07/11/97

TC97-114	Bridgewater-Canistota Independent Telephone Company pursuant to 47 U.S.C. 214(e) and 47 CFR 54.201 hereby seeks designation as an eligible telecommunications carrier within the local exchange areas that constitute its service area in South Dakota. Bridgewater-Canistota Independent Telephone Company is the facilities-based local exchange carrier presently providing local exchange telecommunications services in the following exchanges: Bridgewater (729) and Canistota (296). Bridgewater-Canistota Independent Telephone Company, to its knowledge, is the only carrier today providing local exchange telecommunications services in the above identified exchange areas. (Staff: HB/CH)	06/25/97	07/11/97
TC97-115	Union Telephone Company pursuant to 47 U.S.C. 214(e) and 47 CFR 54.201 hereby seeks designation as an eligible telecommunications carrier within the local exchange areas that constitute its service area in South Dakota. Union Telephone Company is the facilities-based local exchange carrier presently providing local exchange telecommunications services in the following exchanges: Hartford (528) and South Hartford (526). Union Telephone Company, to its knowledge, is the only carrier today providing local exchange telecommunications services in the above identified exchange areas. (Staff: HB/CH)	06/25/97	07/11/97
FORMAL COMPLAINT			
TC97-107	Kathy Rottenbacher vs. Stateline Telecommunications, Inc. "I specifically requested and insisted on an unpublished address. Stateline furnished and provided U S WEST this information for [the] Northern Hills and Surrounding Areas ... I want proof of written reprimands for all parties, I want proof they made changes to avoid future incidents, I want access to Board of Directors, and I want one thousand dollars for violation of trust, confidence, ... and for emotional and mental anguish and duress, and inconvenience." (LH/TZ)	06/23/97	NA
FILING OF INFORMATIONAL INTRASTATE PAYPHONE TARIFFS			
No	East Plains Telecom, Inc. on June 13, 1997.	NA	NA

Important Notice: The Commission is compiling a list of internet addresses. If you have an internet address please notify the Commission by E-mailing it to Terry Norum at terryn@puc.state.sd.us. Filing the address to the Commission at 605-773-3809

KELLEY DRYE & WARREN LLP

A LIMITED LIABILITY PARTNERSHIP INCLUDING PROFESSIONAL ASSOCIATIONS

1200 19TH STREET, N.W.

SUITE 500

WASHINGTON, D. C. 20036

(202) 955-9600

NEW YORK, N.Y.
LOS ANGELES, CA
MIAMI, FL
CHICAGO, IL
STAMFORD, CT
PARSIPPANY, N.J.

BRUSSELS, BELGIUM
HONG KONG

AFFILIATED OFFICES
NEW DELHI, INDIA
TOKYO, JAPAN

~~TC97-110~~
ORIGINAL

TC97-110

FACSIMILE

(202) 955-9792

August 22, 1997

RECEIVED
AUG 25 1997
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

BY FEDERAL EXPRESS

Mr. William Bullard, Jr.
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol Avenue
Pierre, South Dakota 57501-5070

Re: Application of WorldCom Technologies, Inc.

Dear Mr. Bullard:

Enclosed for filing with the South Dakota Public Utilities Commission please find an original and 10 copies of the Application of WorldCom Technologies, Inc. for a Certificate of Authority to provide intrastate telecommunications services in the State of South Dakota. Enclosed please also find a check in the amount of \$250.00 for the filing fee, a duplicate of this filing and a self-addressed stamped envelope. Please date-stamp the duplicate upon receipt and return it in the envelope provided.

Please do not hesitate to contact me at (202) 955-9776 if you have any questions.

Very truly yours,



Rebekah J. Kinnett

TC 97-110

ORIGINAL

Before the
STATE OF SOUTH DAKOTA
PUBLIC UTILITIES COMMISSION

Application of	)	
	)	
WORLDCom TECHNOLOGIES, INC.	)	Docket No.
	)	
For a Certificate of Authority	)	
to Provide Intrastate	)	
Telecommunications Services	)	

APPLICATION

WorldCom Technologies, Inc. ("WorldCom Technologies" or "Applicant"), by its attorneys, hereby respectfully requests that the South Dakota Public Utilities Commission ("Commission") grant it a Certificate of Authority to provide facilities-based and resold intrastate local exchange and interexchange telecommunications services in the state of South Dakota. As described in detail below, WorldCom Technologies is requesting a Certificate of Authority that will enable it to provide the exact same services as WorldCom, Inc. ("WorldCom") and MFS Intelenet of South Dakota, Inc. ("MFS of South Dakota") currently provide. WorldCom Technologies is commencing to provide service in South Dakota and elsewhere as a result of a corporate reorganization for which approval was requested from the Commission by Application dated June 24, 1997 in Docket No. TC-97-110, whereby

ORIGINAL

WorldCom Technologies will assume all of the regulated operations of both WorldCom and MFS of South Dakota.¹

In support of its Application, the Applicant provides the following information:

I. THE APPLICANT

WorldCom Technologies (formerly known as MFS Intelenet of South Dakota, Inc.), is a wholly owned subsidiary of MFSCC, which is, in turn, a wholly owned subsidiary of WorldCom. WorldCom Technologies is incorporated under the laws of the state of Delaware and is headquartered at 515 East Amite Street, Jackson, Mississippi 39201.² WorldCom Technologies currently functions as a holding company and does not directly

¹ Specifically, the proposed reorganization involves a series of transactions which are designed to consolidate operations in a way that simplifies regulatory oversight and corporate administration. WorldCom Technologies will become one of the WorldCom companies' primary operating entities, and every transaction proposed is designed to set up WorldCom Technologies in that role with all of the necessary operational assets as well as the state and federal authority required to provide intrastate, interstate and international telecommunications services nationwide. The first aspect of the reorganization involves a pro forma transfer of control of WorldCom Technologies from MFS Network Technologies, Inc. to MFS Communications Company, Inc. ("MFSCC"). MFSCC will become the direct parent company of WorldCom Technologies. The second aspect involves the "roll down" of WorldCom's telecommunications operations and assets, including relevant operating authority, to WorldCom Technologies. WorldCom will cease to provide telecommunications services in South Dakota. The third aspect of the reorganization involves the "roll up" of MFS of South Dakota by merging MFS of South Dakota with and into WorldCom Technologies. WorldCom Technologies will be the surviving entity, holding all of MFS of South Dakota's assets and operating authority. WorldCom Technologies will incorporate all of MFS of South Dakota's services, rates, terms and conditions into its new tariff and MFS of South Dakota will cease to provide telecommunications services.

² A copy of WorldCom Technologies' Amended Certificate of Incorporation is attached hereto as Exhibit A. WorldCom Technologies is in the process of becoming qualified to transact business in South Dakota as a foreign corporation. A copy of WorldCom Technologies' Certificate of Authority to transact business in South Dakota will be forwarded to the Commission as soon as it is available.

8
1
4
3
6
5
3
1

provide telecommunications services in any state. However, WorldCom Technologies provides interexchange service in 49 states through 49 separate operating subsidiaries, 31 of which are also authorized to provide local exchange service. MFS of South Dakota is currently one of those operating subsidiaries. WorldCom Technologies has applications to provide telecommunications services pending in all 50 states.

II. DESIGNATED CONTACTS

The designated contacts for purposes of this Application are:

Brad E. Mutschelknaus
Marieann Z. Machida
Rebekah J. Kinnett
KELLEY DRYE & WARREN LLP
1200 19th Street, N.W.
Suite 500
Washington, D.C. 20036
(202) 955-9600

Copies of all correspondence, notices, inquiries and orders should also be sent to:

Leigh Ann Cox
Manager, Regulatory Analysis
WORLDCom, INC.
515 East Amite Street
Jackson, Mississippi 39201

III. PROPOSED SERVICES

As described in detail in Docket No. TC-97-110, the operations of WorldCom and MFS of South Dakota are being consolidated into WorldCom Technologies. Thus, WorldCom Technologies will provide the same services that both WorldCom and MFS of South Dakota currently provide, including MTS, WATS, 800, calling card and debit card

8145526

services, all at the same rates, terms and conditions as are currently available, statewide. In the near future, WorldCom Technologies will also begin providing local exchange and exchange access services. WorldCom Technologies will provide service to WorldCom's and MFS of South Dakota's current customers using the same network, equipment, billing systems, customer service operations, and the same qualified personnel. Accordingly, construction, maintenance, engineering and financial plans, as well as descriptions of all owned, leased, and optioned facilities within South Dakota pertaining to the services to be provided, are the same as those previously submitted to the Commission by WorldCom and MFS of South Dakota. WorldCom Technologies will acquire capacity as necessary from other qualified carriers, including its affiliate WorldCom Network Services d/b/a WiTel Network Services, to provide resold telecommunications services. WorldCom Technologies will comply with all rules and regulations promulgated by the Commission pertaining to the provision of these services.

IV. DESCRIPTION AND FITNESS OF THE APPLICANT

As a wholly owned subsidiary of WorldCom, WorldCom Technologies is financially, managerially and technically qualified to provide the services it requests authority to provide in this Application. WorldCom Technologies is managed by the same team of qualified personnel as both WorldCom and MFS of South Dakota. Its officers and directors are:

Ronald R. Beaumont
Director
WORLD COM, INC.
515 East Amite Street
Jackson, Mississippi 39201

Bernard J. Ebbers
President
WORLD COM, INC.
515 East Amite Street
Jackson, Mississippi 39201

Ronald J. Beaumont
Chief Executive Officer
WORLD COM, INC.
515 East Amite Street
Jackson, Mississippi 39201

Debra L. Keith
Vice President
WORLD COM, INC.
515 East Amite Street
Jackson, Mississippi 39201

Paul W. McKnight
Chief Financial Officer
WORLD COM, INC.
515 East Amite Street
Jackson, Mississippi 39201

John W. Sidgmore
Director
WORLD COM, INC.
515 East Amite Street
Jackson, Mississippi 39201

Scott D. Sullivan
Secretary
WORLD COM, INC.
515 East Amite Street
Jackson, Mississippi 39201

Alex J. Harris
Assistant Vice President
WORLD COM, INC.
515 East Amite Street
Jackson, Mississippi 39201

Robert J. Ludvik
Vice President
WORLD COM, INC.
515 East Amite Street
Jackson, Mississippi 39201

Further, WorldCom Technologies benefits from the financial strength of its ultimate parent company, WorldCom. In 1996, WorldCom reported revenues of \$5.6 billion (on a pro forma basis as if the MFS acquisition occurred on January 1, 1996) compared to \$4.3 billion on the same basis for 1995.³ In the first quarter of 1997, WorldCom (including MFS) reported revenues of \$1.7 billion (\$6.8 billion on an annualized basis) compared to \$1.2 billion on a pro forma basis (\$4.8 billion on an annualized basis) for the same period of

³ A copy of WorldCom's 1996 SEC Form 10-K is attached hereto as Exhibit B.

1996. Similarly, earnings before depreciation and amortization totaled \$266 million for the first quarter (\$1.1 billion on an annualized basis). On the basis of the foregoing, WorldCom Technologies is qualified to provide telecommunications services in South Dakota.

V. TARIFFS

WorldCom Technologies proposes to provide service in South Dakota as set forth in its proposed tariff, which is attached hereto as Exhibit C. WorldCom Technologies respectfully requests that the Commission approve its tariff effective as of the date of the order granting WorldCom Technologies a Certificate of Authority.

VI. BILLING AND CUSTOMER SERVICE

WorldCom Technologies has access to equipment and software which will distinguish between intrastate and interstate traffic for billing purposes. Customer service will be available 24 hours a day, seven days a week, and will be provided by the same team of qualified consumer representatives as currently provide customer services for WorldCom and MFS of South Dakota. Customers can contact WorldCom Technologies' customer service by calling, toll-free, (800) 821-2001.⁴

VII. PUBLIC INTEREST ANALYSIS

Granting WorldCom Technologies a Certificate of Authority is in the public interest because it will enable WorldCom Technologies to continue to provide high quality

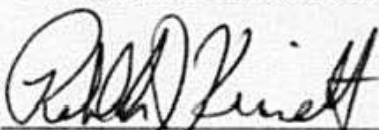
⁴ Copies of brochures used to assist in the sale of services are attached hereto as Exhibit D.

telecommunications services to the existing customers of WorldCom and MFS of South Dakota, as well as to expand operations and offer new and improved products and services to customers in South Dakota. WorldCom Technologies' participation in the South Dakota telecommunications market will enhance competition, thereby improving the quality of telecommunications services provided to customers in South Dakota and ultimately resulting in lower prices.

WHEREFORE, WorldCom Technologies respectfully requests that the Commission grant it a Certificate of Authority to provide local exchange and interexchange services and approve its initial tariff effective as of the date of the order granting authority.

Respectfully submitted,

WORLD COM TECHNOLOGIES, INC.

By: 

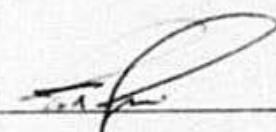
Brad E. Mutschelknaus
Marieann Z. Machida
Rebekah J. Kinnett
KELLEY DRYE & WARREN LLP
1200 19th Street, N.W.
Suite 500
Washington, D.C. 20036
(202) 955-9600

Its Attorneys

Dated: August 22, 1997

VERIFICATION

I am authorized to represent WorldCom, Inc. and each of its subsidiaries, and to make this verification on their behalf. The statements in the foregoing document are true of my own knowledge, except as to matters which are herein stated on information and belief, and as to those matters, I believe them to be true. I declare under penalty of perjury that the foregoing is true and correct.

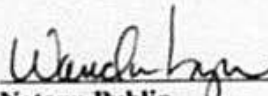
BY: 

NAME: Scott D. Sullivan

TITLE: Secretary

DATE: 8/20/97

Sworn and subscribed to
before me this 20th
day of August, 1997.


Notary Public

My Commission Expires
July 16, 1999

State of Delaware
Office of the Secretary of State

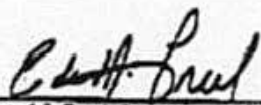
PAGE 1

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF "MFS INTELENET, INC.", CHANGING ITS NAME FROM "MFS INTELENET, INC." TO "WORLDCOM TECHNOLOGIES, INC.", FILED IN THIS OFFICE ON THE TWENTY-THIRD DAY OF JUNE, A.D. 1997, AT 11 O'CLOCK A.M.

A CERTIFIED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS FOR RECORDING.

2283958 8100
971206857




Edward J. Freel, Secretary of State

AUTHENTICATION: 8524848
DATE: 06-23-97

0143-6533

CERTIFICATE OF AMENDMENT OF CERTIFICATE OF INCORPORATION
OF

MFS INTELLNET, INC.

MFS Intelnet, Inc. (hereinafter called the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, does hereby certify:

I. The certificate of Incorporation of the Corporation is hereby amended by striking out Article 1 thereof and by substituting in the lieu of said Article the following new Article:

"1. The name of the corporation is WorldCom Technologies, Inc."

II. The amendment of the certificate of Incorporation herein certified has been duly adopted in accordance with the provisions of Sections 228 and 242 of the General Corporation Law of the State of Delaware.

Executed on the 21st day of June 1997.


Scott D. Elger, Secretary

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 11:00 AM 06/22/1997
971206217 - 2283850

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 1996

OR

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number 0-11258

WorldCom, Inc.

(Exact name of registrant as specified in its charter)

Georgia

(State or other jurisdiction of incorporation or organization)

58-1521612

(I.R.S. Employer Identification No.)

515 East Amite Street, Jackson, Mississippi

(Address of principal executive offices)

39201-2702

(Zip Code)

Registrant's telephone number, including area code: (601) 360-8600

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$0.01 Par Value

Series A 8% Cumulative Convertible Preferred Stock, \$0.01 Par Value

Series B Convertible Preferred Stock, \$0.01 Par Value

Depository Shares (each representing 1/100th interest in a share of

Series A 8% Cumulative Convertible Preferred Stock)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 3, 1997 was:

Common Stock, \$0.01 par value: \$21,804,886,376

Series A 8% Cumulative Convertible Preferred Stock (represented by Depository Shares): \$863,239,800

Series B Convertible Preferred Stock: \$27,192,508

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes ☒ No ☐

There were 891,860,640 shares of the registrant's common stock outstanding as of March 3, 1997.

GLOSSARY

AT&T -- AT&T Corp. -- An IXC which provides interexchange services and facilities on a nationwide and international basis.

AT&T Divestiture Decree -- Entered on August 24, 1982, by the United States District Court for the District of Columbia. The AT&T Divestiture Decree, among other things, ordered AT&T to divest its wholly owned BOCs from its Long Lines Division and manufacturing operations and generally prohibited BOCs from providing long distance telephone service between LATAs.

ATM -- Asynchronous Transfer Mode -- An information transfer standard that is one of a general class of packet technologies that relay traffic by way of an address contained within the first five bytes of a standard 53-byte long packet or cell. The ATM format can be used by many different information systems, including LANs, to deliver traffic at varying rates, permitting a mix of data, voice and video.

Access charges -- Expenses incurred by an IXC and paid to LECs for accessing the local networks of the LECs in order to originate and terminate long distance calls and provide the customer connection for private line services.

BOC -- Bell System Operating Company -- A local exchange carrier owned by any of the seven Regional Bell Operating Companies, which are holding companies established following the AT&T Divestiture Decree to serve as parent companies for the BOCs.

Backbone -- A centralized high-speed network that interconnects smaller, independent networks.

Bandwidth -- The number of bits of information which can move through a communications medium in a given amount of time.

CAP -- Competitive Access Provider -- A company that provides its customers with an alternative to the LEC for local transport of private line and special access telecommunications services.

Central Offices -- The switching centers or central switching facilities of the LECs.

Co-carrier status -- A regulatory scheme under which the incumbent LEC is required to integrate new, competing providers of local exchange service, into the systems of traffic exchange, inter-carrier compensation, and other inter-carrier relationships that already exist among LECs in most jurisdictions.

Collocation -- The ability of a CAP to connect its network to the LEC's central offices. Physical collocation occurs when a CAP places its network connection equipment inside the LEC's central offices. Virtual collocation is an alternative to physical collocation pursuant to which the LEC permits a CAP to connect its network to the LEC's central offices on comparable terms, even though the CAP's network connection equipment is not physically located inside the central offices.

DS-3 -- A data communications circuit capable of transmitting data at 45 megabits per second (sometimes called a T-3).

Dedicated -- Telecommunications lines dedicated or reserved for use by particular customers.

Digital -- A method of storing, processing and transmitting information through the use of distinct electronic or optical pulses that represent the binary digits 0 and 1. Digital transmission and switching technologies employ a sequence of these pulses to represent information as opposed to the continuously variable analog signal. The precise digital numbers minimize distortion (such as graininess or snow in the case of video transmission, or static or other background distortion in the case of audio transmission).

Equal access -- Connection provided by a LEC permitting a customer to be automatically connected to the IXC of the customer's choice when the customer dials "1".

Ethernet -- A local area network technology used for connecting computers, printers, workstations, terminals, etc., within the same building. Ethernet typically operates over twisted wire or coaxial cable at speeds up to 10 megabits per second. Ethernet is the most popular LAN technology.

FCC -- Federal Communications Commission.

FDDI -- Fiber Distributed Data Interface -- Based on fiber optics, FDDI is a 100 megabit per second Local Area Network technology used to connect computers, printers, and workstations at very high speeds. FDDI is also used as backbone technology to interconnect other LANs.

IXC -- Interexchange Carrier -- A long distance carrier providing services between local exchanges.

Inbound "800" service -- A service that assesses long distance telephone charges to the called party.

Interconnection Decisions -- Rulings by the FCC announced in September 1992 and August 1993, which require the BOCs and most other large LECs to provide interconnection in LEC central offices to any CAP, long distance carrier or end user seeking such interconnection for the provision of interstate special access and switched access transport services.

Internet -- A global collection of interconnected computer networks which use TCP/IP, a common communications protocol.

LANs -- Local Area Networks -- The interconnection of computers for the purpose of sharing files, programs and various devices such as printers and high-speed modems. LANs may include dedicated computers or file servers that provide a centralized source of shared files and programs.

LATAs -- Local Access and Transport Areas -- The approximately 200 geographic areas defined pursuant to the AT&T Divestiture Decree. The BOCs are generally prohibited from providing long distance service between the LATA in which they provide local exchange services, and any other LATA.

LEC -- Local Exchange Carrier -- A company providing local telephone services. Each BOC is a LEC.

Line costs -- Primarily includes the sum of access charges and transport charges.

Local exchange -- A geographic area generally determined by a PUC, in which calls generally are transmitted without toll charges to the calling or called party.

Local Number Portability -- The ability of an end user to change Local Exchange Carriers while retaining the same telephone number.

MCI -- MCI Communications Corporation -- An IXC which provides interexchange services and facilities on a nationwide and international basis.

Network switching center -- A location where installed switching equipment routes long distance calls and records information with respect to calls such as the length of the call and the telephone numbers of the calling and called parties.

Network systems integration -- Involves the creation of turnkey telecommunications networks and systems including: (i) route and site selection; (ii) rights of way and legal authorizations and/or acquisition; (iii) design and engineering of the system, including technology and vendor assessment and selection, determining fiber optic circuit capacity, and establishing reliability/flexibility standards; and (iv) project and construction management, including contract negotiations, purchasing and logistics, installation as well as testing.

PUC -- Public Utility Commission -- A state regulatory body empowered to establish and enforce rules and regulations governing public utility companies and others, such as the Company, within the state (sometimes referred to as Public Service Commissions, or PSCs).

Public switched network -- That portion of a LEC's network available to all users generally on a shared basis (i.e., not dedicated to a particular user). Traffic along the public switched network is generally switched at the LEC's central offices.

RBOC -- Regional Bell Operating Company -- Any of seven regional Bell holding companies which the AT&T Divestiture Decree established to serve as parent companies for the BOCs.

Reciprocal Compensation -- The same compensation of a new competitive local exchange carrier for termination of a local call by the BOC on its network, as the new competitor pays the BOC for termination of local calls on the BOC network.

Settlement Rates -- The rates paid to foreign carriers by United States international carriers to terminate outbound (from the United States) switched traffic and by foreign carriers to United States international carriers to terminate inbound (to the United States) switched traffic.

Sprint -- Sprint Corporation -- An IXC which provides interexchange services and facilities on a nationwide and international basis.

TCP/IP -- Transmission Control Protocol/Internet Protocol -- A suite of network protocols that allows computers with different architectures and operating system software to communicate with other computers on the Internet.

T-1 -- A data communications circuit capable of transmitting data at 1.5 megabits per second.

Tariff -- The schedule of rates and regulations set by communications common carriers and filed with the appropriate federal and state regulatory agencies; the published official list of charges, terms and conditions governing provision of a specific communications service or facility, which functions in lieu of a contract between the Subscriber or user and the supplier or carrier.

Token Ring -- A local area network technology used to interconnect personal computers, file servers, printers, and other devices. Token Ring LANs typically operate at either 4 megabits per second or 16 megabits per second.

Transport Charges -- Expenses paid to facilities-based carriers for transmission between or within LATAs.

World Wide Web or Web -- A collection of computer systems supporting a communications protocol that permits multi-media presentation of information over the Internet.

TABLE OF CONTENTS

PART I

		Page
Item 1.	Business	1
Item 2.	Properties	16
Item 3.	Legal Proceedings	16
Item 4.	Submission of Matters to a Vote of Security Holders	17

PART II

Item 5.	Market for Registrant's Common Equity and Related Shareholder Matters	17
Item 6.	Selected Financial Data	19
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Item 8.	Financial Statements and Supplementary Data	27
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	27

PART III

Item 10.	Directors and Executive Officers of the Registrant	27
Item 11.	Executive Compensation	29
Item 12.	Security Ownership of Certain Beneficial Owners and Management	32
Item 13.	Certain Relationships and Related Transactions	34

PART IV

Item 14.	Exhibits, Financial Statement Schedule and Reports on Form 8-K	34
Signatures		37
Index to Financial Statements and Financial Statement Schedule		F-1
Exhibit Index		E-1

PART I

ITEM 1. BUSINESS

General

WorldCom, Inc., a Georgia corporation ("WorldCom" or the "Company"), is one of the four largest long distance telecommunications companies in the United States based on 1995 revenues. The Company provides telecommunications services to business, government, telecommunications companies and consumer customers, through its network of fiber optic cables, digital microwave, and fixed and transportable satellite earth stations, with service to points throughout the nation and the world.

WorldCom is one of the first major facilities-based telecommunications companies with the capability to provide businesses with high quality local, long distance, Internet, data and international communications services over its global networks. With service to points throughout the nation and the world, WorldCom provides telecommunications products and services including: switched and dedicated long distance and local products, 800 services, calling cards, domestic and international private lines, broadband data services, debit cards, conference calling, advanced billing systems, enhanced fax and data connections, high speed data communications, facilities management, local access to long distance companies, local access to ATM-based backbone service and interconnection via Network Access Points ("NAPs") to Internet service providers.

WorldCom was organized in 1983. On September 15, 1993, a three-way merger occurred whereby (i) Metromedia Communications Corporation, a Delaware corporation ("MCC"), merged with and into Resurgens Communications Group, Inc., a Georgia corporation ("Resurgens"), and (ii) LDDS Communications, Inc., a Tennessee corporation ("LDDS-TN"), merged with and into Resurgens (the "Prior Mergers").

At the time of the Prior Mergers, the name of Resurgens, the legal survivor, was changed to LDDS Communications, Inc. and the separate corporate existences of LDDS-TN and MCC terminated. For accounting purposes, however, LDDS-TN was the survivor because the former shareholders of LDDS-TN acquired majority ownership of the Company. Accordingly, unless otherwise indicated, all historical information presented herein reflects the operations of LDDS-TN. At the annual meeting of shareholders held May 25, 1995, shareholders of LDDS Communications, Inc. voted to change the name of the Company to WorldCom, Inc., effective immediately. Information in this document has also been revised to reflect the stock splits in the Company's common stock.

Business Combinations

On December 31, 1996, WorldCom, through a wholly owned subsidiary, merged with MFS Communications Company, Inc. ("MFS"). MFS provides telecommunications services and systems for business and government customers. MFS is a leading provider of alternative local network access facilities via digital fiber optic cable networks that it has installed in and around approximately 41 United States cities, and in several major European cities. MFS also provides domestic and international long distance telecommunications services via its network platform, which consists of MFS-owned transmission and switching facilities, and network capacity leased from other carriers primarily in the United States and Western Europe.

As a result of the merger (the "MFS Merger"), each share of MFS common stock was converted into the right to receive 2.1 shares of WorldCom common stock (the "Common Stock") or approximately 471.0 million WorldCom common shares in the aggregate. Each share of MFS Series A 8% Cumulative Convertible Preferred Stock ("MFS Series A Preferred Stock") was converted into the right to receive one share of Series A 8% Cumulative Convertible Preferred Stock of WorldCom ("WorldCom Series A Preferred Stock") or 94,992 shares of WorldCom Series A Preferred Stock in the aggregate. Each share of MFS Series B Convertible Preferred Stock was converted into the right to receive one share of Series B Convertible Preferred Stock of WorldCom ("WorldCom Series B Preferred Stock") or approximately 12.7 million shares of WorldCom Series B Preferred Stock in the aggregate. In addition, each depositary share representing 1/100th of a share of MFS Series A Preferred Stock was exchanged for a depositary share representing 1/100th of a share of WorldCom Series A Preferred Stock.

Upon effectiveness of the MFS Merger, the then outstanding and unexercised options and warrants exercisable for shares of MFS common stock were converted into options and warrants, respectively, exercisable for shares of Common Stock having substantially the same terms and conditions as the MFS options and warrants, except that (i) the exercise price and the number of shares issuable upon exercise were divided and multiplied, respectively, by 2.1 and (ii) the holders of each then outstanding and unexercised MFS "Shareworks Plus Award" granted under the MFS 1993 Stock Plan instead received the cash value of such award in accordance with the terms of such plan.

On August 12, 1996, MFS acquired UUNET Technologies, Inc. ("UUNET") through a merger of a subsidiary of MFS with and into UUNET (the "UUNET Acquisition"). UUNET is a leading worldwide provider of a comprehensive range of Internet access options, applications, and consulting services to businesses, professionals and on-line services providers. UUNET provides both dedicated and dial-up Internet access, and other applications and services which include Web server hosting and integration services, client software and security products, training, and network integration and consulting services.

On January 5, 1995, WorldCom completed the acquisition of the network services operations of Williams Telecommunications Group, Inc. ("WilTel"), a subsidiary of The Williams Companies, Inc. ("Williams"), for approximately \$2.5 billion in cash (the "WilTel Acquisition"). Through this purchase, the Company acquired a nationwide transmission network of approximately 11,000 miles of fiber optic cable and digital microwave facilities.

On December 30, 1994, WorldCom, through a wholly owned subsidiary, merged with IDB Communications Group, Inc. ("IDB"). IDB operates a domestic and international communications network providing private line and public switched long distance telecommunications services, facsimile and data connections, television and radio transmission services, and mobile satellite communications capabilities. As a result of this merger (the "IDB Merger"), each share of common stock of IDB was converted into the right to receive 0.953758 shares of Common Stock resulting in the issuance of approximately 71.8 million shares of Common Stock. In addition, WorldCom assumed, on a subordinated basis, jointly and severally with IDB, the obligations of IDB to pay the principal of and interest on \$195.5 million 5% convertible subordinated notes due 2003, issued by IDB. On July 15, 1996, WorldCom announced that it had exercised its option to redeem on August 16, 1996 all of the outstanding IDB notes. Prior to such redemption date, a majority of the holders of the IDB notes elected to convert their notes into Common Stock, resulting in the issuance of approximately 10.3 million shares of Common Stock. The IDB Merger was accounted for under the pooling-of-interests method.

In 1993, upon effectiveness of the Prior Mergers, each share of the outstanding common stock of LDDS-TN was converted into the right to receive 3.838 shares of Common Stock. The 500,000 shares of LDDS-TN Series B 6.5% Cumulative Senior Perpetual Convertible Preferred Stock outstanding were converted into 2,000,000 shares of WorldCom Series 2 6.5% Cumulative Senior Perpetual Convertible Preferred Stock (the "Series 2 Preferred Stock"). As a result of the consummation of the Prior Mergers, Metromedia Company ("Metromedia"), the sole stockholder of MCC, received 5,517,240 shares of the Common Stock, 10,896,785 shares of WorldCom Series 1 \$2.25 Cumulative Senior Perpetual Convertible Preferred Stock (the "Series 1 Preferred Stock"), warrants to purchase 10,000,800 shares of the Common Stock at an average price of \$4.18 per share, and \$150.0 million in cash. The common stock of Resurgens was unchanged in the Prior Mergers.

In August 1995, Metromedia converted its Series 1 Preferred Stock into Common Stock and exercised its warrants to acquire Common Stock and immediately sold its position of 61,699,096 shares of Common Stock in a public offering. In connection with the preferred stock conversion, WorldCom made a non-recurring payment of \$15.0 million to Metromedia, representing a discount to the minimum nominal dividends that would have been payable on the Series 1 Preferred Stock prior to the September 15, 1996 optional call date of approximately \$26.6 million (which amount includes an annual dividend requirement of \$24.5 million plus accrued dividends to such call date). The Company did not receive any proceeds from the sale of the shares, but did receive approximately \$33.7 million in proceeds from the exercise of the warrants, which were used to repay certain existing bank debt.

In connection with the announcement in May 1996, that the Company would redeem its Series 2 Preferred Stock on June 5, 1996, all of the remaining outstanding Series 2 Preferred Stock was converted into 5,266,160 shares of Common Stock in the second quarter of 1996.

On December 4, 1992, LDDS-TN, through a wholly owned subsidiary, merged with Advanced Telecommunications Corporation ("ATC"). As a result of this merger (the "ATC Merger"), each share of common stock of ATC was converted into the right to receive 4.778 shares of common stock of LDDS-TN. The ATC Merger was accounted for under the pooling-of-interests method.

The following table sets forth certain data concerning the Company's acquisitions, during the past five years, of companies with annual revenues exceeding \$100.0 million, other than the IDB Merger and the ATC Merger.

Name	Acquisition Date	Revenues for Fiscal Year Preceding Acquisition (In thousands)
Metromedia Communications Corporation	September 1993	\$ 368,532
Resurgens Communications Group, Inc.	September 1993	151,963

Name	Acquisition Date	Revenues for Fiscal Year Preceding Acquisition (In thousands)
TRT Communications, Inc. ("TRT")	September 1993	\$ 175,057
Williams Telecommunications Group, Inc.	January 1995	921,813
MFS/UNET	December 1996	1,238,533

In addition to the acquisitions reflected in the above table, WorldCom and its predecessors have completed other acquisitions involving companies each with annual revenues of less than \$100.0 million.

Company Strategy

The Company's strategy is to become the premier provider of business communications services in the world. The enactment of the Telecommunications Act of 1996 (the "Telecom Act") in February 1996 and the FCC's release of its First Report and Order in the Matter of Implementation of the Local Competition Provisions in the Telecom Act (the "FCC Interconnect Order") in August 1996, have made it possible for WorldCom to compete in both the local and long distance markets. The MFS Merger has allowed the Company to take advantage of the Congressional intent behind the Telecom Act and the FCC Interconnect Order by bringing together the leading growth companies from four key telecom industry segments: long distance, local, Internet and international. Consistent with this strategy, the Company believes that the MFS Merger enhances the combined entity's opportunities for future growth, creates a stronger competitor in the changing telecommunications industry, allows provision of end-to-end bundled service over a global network, and provides the opportunity for significant cost savings for the combined organization.

Services

General. The Company is one of the four largest United States based long distance telecommunications companies in the industry, based on 1995 revenues, and serves its customers domestically and internationally. The products and services provided by the Company include switched and dedicated long distance and local products, 800 services, calling cards, domestic and international private lines, broadband data services, debit cards, conference calling, advanced billing systems, enhanced fax and data connections, high speed data communications, facilities management, local access to long distance companies, local access to ATM-based backbone service and interconnection via NAPs to Internet service providers. Based on FCC statistics as of December 31, 1995 (the most recent statistics available), WorldCom's share of total toll service revenues for 1995 was 4.3%.

Domestic Long Distance and Local Service. A predominant share of the Company's total revenues is derived from commercial customers. Commercial customers typically use higher volumes of telecommunications services than residential customers and concentrate their usage on weekdays during business hours when rates are highest. Consequently, commercial customers, on average, generate higher revenues per account than residential customers. The Company has also become a significant participant in the long distance wholesale market and intends to pursue opportunities, if any, for continued expansion in this area. While total revenues in the wholesale market are less than from commercial customers, expenses are generally lower in servicing these customers as the result of fewer invoices, fewer customer service personnel and a smaller sales force.

Through the MFS Merger, the Company will be able to provide a single source for integrated local and long distance telecommunications services and facilities management services to business, government, other telecommunications companies and consumer customers.

There are several ways in which a customer can access the Company's network for domestic long distance services. In areas where equal access has been made available, a customer who has selected the Company as its IXC can utilize the Company's network for inter-LATA long distance calls through "one plus" dialing of the desired call destination. Equal access customers can access the Company's long distance network only for inter-LATA long distance calls, because under equal access, all intra-LATA calls are routed through the LEC.

Customers in areas without equal access or customers in equal access areas who do not select the Company as their IXC can utilize the Company's network for all their long distance calls through three methods of "dial-up access." They can dial a local telephone number to access the Company's computerized switching equipment and then enter a personal authorization code and the area code and telephone number of the desired call destination. Alternatively, customers can access the Company's network by using its automatic dialers, which eliminate the need for the customer to dial the local access number and personal authorization code.

effectively giving the customer "one plus" dialing. Customers may also access the Company's network by dialing 10 plus the three digit Carrier Identification Number belonging to the Company and the area code and telephone number of the desired call location. Regardless of the method used, dial-up customers can access the Company's network for all of their long distance calls, both intra-LATA and inter-LATA. High volume customers can access the WorldCom network through the use of high-capacity dedicated circuits.

Customer billing is generated internally and through a facilities management agreement under which Electronic Data Systems Corporation ("EDS") performs significant data processing functions. See Note 7 of Notes to Consolidated Financial Statements.

The market for local exchange services consists of a number of distinct service components. These service components are defined by specific regulatory tariff classifications including: (i) local network services, which generally include basic dial tone charges and private line services; (ii) network access services, which consist of access charges received by LECs from long distance carriers for the local portion of long distance telephone calls; (iii) long distance network services, which include the variable portion of charges received by LECs for intra-LATA long distance calls; and (iv) additional value added services such as caller identification, voice mail and call waiting.

Unlike the RBOCs and other large LECs which were organized geographically in response to the regulatory environment that existed before the AT&T Divestiture Decree, the Company, through the MFS Merger, is organized around its customers to take advantage of ongoing technological, competitive and regulatory changes.

International Services. The Company offers international public switched voice, private line and data services to other carriers and to commercial, government and consumer customers. The Company has over 200 operating agreements with foreign carriers to provide switched voice and/or private line services, thereby making the Company a leading participant in the international telecommunications market.

The Company offers public switched international telecommunications services worldwide and provides direct services to approximately 55 foreign countries. The Company sells public switched telecommunications services to corporate and residential customers, and to domestic long distance carriers that lack transmission facilities to locations served by the Company or need more transmission capacity. Customers can access the Company's international switching centers to make international telephone calls via dedicated connections or via dial-up access.

The Company both delivers and receives international traffic pursuant to its operating agreements. The terms of most switched voice operating agreements, as well as established FCC policy, require that inbound switched voice traffic from the foreign carrier to the United States be routed to United States international carriers, like WorldCom, in proportion to the percentage of United States outbound traffic routed by that United States international carrier to the foreign carrier. The Company's revenues and costs of sales are sensitive to changes in international settlement rates and international traffic routing patterns.

The Company also provides permanent and temporary international private line services to customers for a number of applications. These applications generally involve establishing private, international point-to-point communications links for customers with high traffic volumes or special needs, such as greater security or route diversity. The Company has private line operating agreements with approximately 160 foreign correspondents. The Company is the carrier for some of the world's most critical communications links, including the Washington-Moscow hotline, the Nuclear Risk Reduction Committee and the NASA Space Program. The Company provides international private line services for a range of financial, airline, commercial and governmental communications networks.

WorldCom also provides switched voice and private line communications services over its own facilities and leased facilities in the United Kingdom and Sweden. In the fourth quarter of 1996, the Company received a license to provide facilities-based international services to and from the United Kingdom, Germany and France. The Company has also received authority to construct and operate a high capacity digital fiber optic submarine cable between the United States and the United Kingdom. The Company provides private line and closed user group voice and data services over its own facilities and leased facilities in Germany and France. The Company is building local facilities in Belgium and the Netherlands, and already provides services through affiliates in those countries, as well as in Ireland. The Company offers certain international services over leased facilities in Switzerland and other European countries, and in certain Asian markets including Japan and Hong Kong. Such operations are subject to certain risks including licensing requirements, changes in foreign government regulations and telecommunications standards, interconnection and leased line charges, taxes, fluctuating exchange rates, various trade barriers, and political and economic instability.

Internet. As a result of the MFS Merger, the Company now provides through its subsidiary, UUNET, a comprehensive range of Internet access options, applications and consulting services tailored to meet the needs of businesses and professionals. UUNET's solution has been designed to address many of the needs of businesses and professionals relating to Internet use. The UUNET solution

is based upon UUNET's high performance, domestic and international network infrastructure designed specifically to provide reliable Internet connectivity to businesses with demanding throughput requirements.

UUNET makes available to customers a variety of products and services, including dedicated and dial-up Internet access, Web server hosting and content development services, client software and security products and training, all of which can be integrated by UUNET through its network integration and consulting services. UUNET enables Internet users to purchase access, applications and services, including integration services, through a single source. UUNET's products and services are supported by a technical staff that is highly experienced in Internet operations and services. UUNET's network operations center monitors traffic across UUNET's network 24 hours per day, seven days per week.

UUNET's primary Internet access options include (i) dedicated Internet access, with service ranging from high speed services (T-1 and above) for very large businesses with demanding throughput requirements to medium speed service via dedicated lines or frame-relay for small to mid-size businesses, and (ii) dial-up Internet access. These Internet access options are sold in the United States and in many foreign countries, and are also offered under varying names and different prices.

Other Services. The Company offers a broad range of related services which enhance customer convenience, add value and provide additional revenue sources. Advanced "800" service offers features for caller and customer convenience, including a variety of call routing and call blocking options, customer reconfiguration, termination overflow to switched or dedicated lines, Dialed Number Identification Service (DNIS), real-time Automatic Number Identification (ANI), and flexible after-hours call handling services. The Company's travel cards offer worldwide calling services, caller-friendly voice mail with message waiting signal, message storage and delivery, conference calling, personal greetings, speed dialing, customer deactivation and reactivation of cards, customer card, and private-label card options. The Company is also a market leader for the prepaid calling card which allows a purchaser to pay in advance for a specific number of long distance minutes. The prepaid calling card is successful in the collectors' market and continues to be a growing source of revenues for the Company.

The Company outsources the management of its broadcast operations, which provides satellite transmission and distribution of radio and television programming for major network, cable, syndication, pay-per-view, sports and special event programmers.

The Company also designs, installs, and integrates "turnkey" transmission facilities and communications networks primarily for international customers. Services provided include fixed customer premise earth stations, network management systems, system integration consulting and project management.

As a result of the MFS Merger, the Company also provides development, design and engineering, project management, construction and support of networks and systems to a range of third-party customers. It is an industry leader in the creation of advanced communication and transportation systems, through the integration of advanced technologies for telecommunications, transportation and security applications.

Transmission Facilities

Domestically, the Company owns one of four nationwide fiber optic networks in the country, consisting of more than 22,000 miles of fiber optic cable, fiber optic backbone and distribution rings, and microwave equipment with access to over 50,000 miles of additional fiber optic network through lease agreements with other carriers. The Company acquired the majority of this network through the purchase of WilTel, which owned a network of approximately 11,000 miles of fiber optic cable and digital microwave facilities with access to approximately 30,000 miles of additional fiber optic network through lease agreements with other carriers.

For local service, the Company serves over 13,200 buildings in the United States and 928 buildings in six foreign countries are currently serviced either directly or through interconnection.

Deployed in approximately 41 business centers throughout the United States, Europe and the United Kingdom, the Company's local networks are constructed using ring topology. Transmission networks are based on either conventional asynchronous multiplexing or SONET ("Synchronous Optical Network") equipment. European networks are based on Synchronous Digital Hierarchy ("SDH") technology. Network backbones are installed in conduits owned by the Company or leased from third parties such as utilities, railroads, long distance carriers, state highway authorities, local governments and transit authorities. Lease arrangements are generally executed under multi-year terms with renewal options and are non-exclusive.

Buildings are connected to the Company's network using extensions (known as "laterals") which are then connected to a local distribution loop and ultimately to a high speed fiber backbone which originates and terminates at one of the Company's central nodes. To serve customers in buildings that are not located on the network, the Company utilizes leased T-1s or unbundled local loops obtained from the LECs. Transmission signals are generally sent through the network simultaneously on both primary and secondary paths thereby providing route diversity and disaster protection.

Most buildings served have a discrete Company presence (referred to as a "remote hub") located within the building. Company-owned internal building wiring connects the remote hub to the customer premises. Customer terminal equipment is connected to Company-provided electronic equipment generally located in the remote hub where ongoing customer transmission signals are digitized, combined and converted into optical signals for transport to the central node. Signals are then reconfigured and routed to their final destination.

Internationally, the Company owns fiber optic facilities on most major international undersea cable systems in the Pacific and Atlantic Ocean regions, providing fiber optic cable connections between the United States and the Pacific Rim and the United States and Europe. WorldCom also owns fiber optic cable for services to the Commonwealth of Independent States, Central America, South America and the Caribbean. The Company also owns and operates 15 international gateway satellite earth stations, which enable it to provide public switched and private line voice and data communications to and from locations throughout the World. Through the MFS Merger, the Company also provides international service by leasing submarine cable capacity from international carriers as well as taking ownership interests and obtaining indefeasible rights of use capacity on other submarine cables. The Company will continue to consider whether to purchase or lease submarine cable capacity on a case-by-case, site specific basis. In 1996, the Company received authority to construct and operate a high capacity digital fiber optic submarine cable between the United States and the United Kingdom and has begun construction.

The Company's ability to generate profits is largely dependent upon its ability to optimize the different types of transmission facilities used to process and complete calls. These facilities are complemented by a least cost routing plan which is accomplished through digital switching technology and network routing software. Calls can be routed over fixed cost transmission facilities or variable cost transmission facilities. Fixed cost facilities, including the Company's owned networks, are typically most cost effective for routes that carry high volumes of traffic. The Company's expansion has generally been to contiguous geographic areas which has enabled the Company to concentrate a significant portion of its traffic over fixed cost transmission facilities and thereby achieve an overall lower network cost. In addition, a variety of lease agreements for fixed and variable cost (usage sensitive) services ensure diversity in processing calls.

Network Switching

The Company owns or leases computerized network switching equipment that routes its customers' long distance calls. The Company presently maintains approximately 50 digital switching centers. The Company's digital switching equipment is interconnected with digital transmission lines. The Company's entire switching network utilizes SS7 common channel signaling, which increases efficiencies by eliminating connect time delays and provides "look ahead" routing. In addition to networking, the Company's switching equipment verifies customers' pre-assigned authorization codes, records billing data and monitors system quality and performance.

The Company currently has 14 domestic switches and 4 international local switches. The local switches are capable of providing both local and long distance call functions while the gateway switches have the specific purpose of transferring domestically originated calls to the rest of the world. It is the intention of the Company to deploy a number of additional switches in 1997 both in existing CAP service areas and in new markets not currently providing facilities-based switched local service.

In addition to the switching centers, the Company has a number of other network facility locations known as points of presence ("POPs"). These POPs allow the Company to concentrate customers' traffic at locations where the Company has not installed switching equipment. The traffic is carried to switching centers from POPs over the Company's digital transmission network.

The Company's ATM network utilizes the Company's intracity fiber connections to customers, Company-owned ATM switches and high capacity intercity fiber connections generally leased from other carriers. ATM is a recently commercialized switching and transmission technology based on encapsulation of information in short (53-byte) fixed-length packets or "cells." ATM switching was specifically developed to allow switching and transmission of mixed voice, data and video (sometimes referred to as "multimedia" information). In addition, certain characteristics of ATM switching allow switching information to be directly encoded in integrated circuitry rather than in software.

Internet Network Infrastructure

UUNET's Internet infrastructure is based on its own 45 Mbps, DS-3 leased line, frame relay-based network. This network infrastructure enables customers to access the Internet through dedicated lines or by placing a local telephone call (dial-up) through a modem to the nearest UUNET POP. Once connected, the customer's traffic is routed through UUNET's network to the desired Internet location, whether on UUNET's network or elsewhere on the Internet. As of December 1996, UUNET's network infrastructure allowed local access to users at 845 UUNET POPs, 516 of them outside of the United States.

In February 1997, WorldCom announced a \$300 million expansion and upgrade plan for the UUNET network infrastructure. The plan involves migrating network backbone segments to support OC12 IP transmission, the highest speed currently available, and will more than quadruple the available capacity in terms of both backbone bandwidth and dial-up capacity.

Rates and Charges

Long Distance and Local Service. The Company charges switched customers on the basis of minutes or partial minutes of usage at rates that vary with the distance, duration and time of day of the call. For local service, customers are billed a fixed charge plus usage. The rates charged are not affected by the particular transmission facilities selected by the Company's network switching centers for transmission of the call. Additional discounts are available to customers who generate higher volumes of monthly usage.

Domestic and international business services are primarily billed in six-second increments; others are billed in partial minutes rounded to the next minute. Switched long distance and local services are billed in arrears, with monthly billing statements itemizing date, time, duration and charges; private line services are billed monthly in advance, with the invoice indicating the number of circuits and applicable rates.

The Company's rates are generally designed to be competitive with those charged by other long distance and local carriers. The rates offered by the Company may be adjusted in the future if other IXC's, LEC's and CAP's continue to adjust their rates. Continued improvement in the domestic and international cost structures allows the Company to offer competitive rates while maintaining acceptable margins.

Internet Access and Services. UUNET's Internet access options are sold in the United States and in many foreign countries for domestic Internet access. Prices vary, based on service type. Due to various factors, such as available telecommunications technology, foreign government regulation, and market demand, the service options offered outside of the United States by UUNET vary as to speed, price and suitability for various purposes.

Marketing and Sales

WorldCom markets its long distance services primarily through a direct sales force targeted at specific geographic markets. With the MFS Merger, the Company believes that it is positioned to offer a unique combination of local, long distance and international calling and Internet-based services sold by a combined sales force of over 2,500 people. WorldCom's sales force also provides advanced sales specialization for the data and international marketplaces, including domestic and international private line services.

In each of its geographic markets, the Company employs full service support teams that provide its customers with prompt and personal attention. With offices nationwide, WorldCom's localized management, sales and customer support are designed to engender a high degree of customer loyalty and service quality.

Competition

Virtually all markets for telecommunications services are extremely competitive, and the Company expects that competition will intensify in the future. In each of the markets in which it offers telecommunications services, the Company faces significant competition from carriers with greater market share and financial resources. The Company competes domestically with incumbent providers which have historically dominated their local telecommunications markets, and long distance carriers, for the provision of long distance services. In certain markets, the incumbent provider offers both local and long distance services. The incumbent LECs presently have numerous advantages as a result of their historic monopoly control of the local exchange market. A continuing trend toward business combinations and alliances in the telecommunications industry may create significant new competitors to the Company. Many of the Company's existing and potential competitors have financial, personnel and other resources significantly greater than those of the Company. The Company also faces competition from one or more competitors in most markets in which it operates, including other CAPs operating fiber optic networks, in some cases in conjunction with the local cable television operator. Each of AT&T, MCI and Sprint has indicated its intention to offer local telecommunications services in major United States markets.

using its own facilities or by resale of the LECs' or other providers' services. Other potential competitors include foreign telephone companies, cable television companies, wireless telephone companies, electric utilities, microwave carriers and private networks of large end users. In addition, the Company competes with equipment vendors and installers and telecommunications management companies with respect to certain portions of its business.

In overseas markets, the Company competes with incumbent providers, many of which still have special regulatory status and the exclusive rights to provide certain services, and virtually all of which have historically dominated their local, domestic long distance and international services markets. These incumbent providers have numerous advantages including existing facilities, customer loyalty, and substantial financial resources. The Company also competes with other service providers in overseas markets, many of which are affiliated with incumbent providers in other countries. Typically, the Company must devote extensive resources to obtaining regulatory approvals necessary to operate in overseas markets, and then to obtaining access to and interconnection with the incumbent's network on a non-discriminatory basis.

For most of the Company's communications services, the factors critical to a customer's choice of a service provider are cost, ease of use, speed of installation, quality, reputation and, in some cases, geography, and network size. WorldCom's objective is to be one of the most responsive service providers, particularly when providing customized communications services. WorldCom's array of communications facilities and international relationships, together with its engineering and operations capability, provide WorldCom with considerable flexibility in tailoring cost-effective communications services to meet its customers' requirements. Ownership of this network allows WorldCom to implement complex permanent and temporary communications circuits to and from virtually any location in the world. WorldCom relies on its decentralized management structure and the local orientation of its operations and personnel to distinguish itself from larger, less personalized operations. In addition, WorldCom's understanding of international telecommunications technical and regulatory issues has often allowed WorldCom to provide prompt solutions to the diverse communications needs of multinational corporations, government entities and other organizations. No assurance can be given, however, that the Company's strategies will be successful.

The Company may also be subject to additional competition due to the development of new technologies and increased availability of domestic and international transmission capacity. For example, even though fiber-optic networks, such as that of the Company, are now widely used for long distance transmission, it is possible that the desirability of such networks could be adversely affected by changing technology. The telecommunications industry is in a period of rapid technological evolution, marked by the introduction of new product and service offerings and increasing satellite and fiber optic transmission capacity for services similar to those provided by the Company. The Company cannot predict which of many possible future product and service offerings will be important to maintain its competitive position or what expenditures will be required to develop and provide such products and services.

Under the Telecom Act and ensuing federal and state regulatory initiatives, barriers to local exchange competition are being removed. The introduction of such competition, however, also establishes the predicate for the BOCs to provide in-region interexchange long distance services. The BOCs are currently allowed to offer certain "incidental" long distance service in-region and to offer out-of-region long distance services. Once the BOCs are allowed to offer in-region long distance services, they could be in a position to offer single source local and long distance service similar to those being offered by the Company. The Company expects that the increased competition made possible by regulatory reform could result in certain pricing and margin pressures in the domestic telecommunications services business.

The Company, through UUNET, also competes in the market for Internet access and on-line services. This market is also extremely competitive. The Company expects that competition will intensify in the future. The Company believes that its ability to compete successfully in this market depends on a number of factors, including: market presence; the ability to execute a rapid expansion strategy; the capacity, reliability and security of its network infrastructure; ease of access to and navigation on the Internet; the pricing policies of its competitors and suppliers; the timing of the introduction of new products and services by the Company and its competitors; UUNET's ability to support industry standards; and industry and general economic trends. The success of the Company in this market will depend heavily upon UUNET's ability to provide high quality Internet connectivity and value-added Internet services at competitive prices.

The Company expects that all of the major on-line services providers and telecommunications companies will expand their current services to compete fully in the Internet access market. The Company believes that new competitors, including large computer hardware, software, media and other technology and telecommunications companies could enter the Internet access market, resulting in even greater competition for the Company. Certain companies, including America Online, AT&T, MCI, BBN Corporation and PSINet, Inc., have obtained or expanded their Internet access products and services as a result of acquisitions and strategic investments. Such acquisitions may permit UUNET's competitors to devote greater resources to the development and marketing of new competitive products and services and the marketing of existing competitive products and services. The Company expects these acquisitions and strategic investments to increase, thus creating significant new competitors for UUNET.

As UUNET continues to expand Internet operations outside of the United States, UUNET will be forced to compete with and buy services from government-owned or subsidized telecommunications providers, some of which may enjoy a monopoly on telecommunications services essential to its business. UUNET will also encounter competition from companies whose operating styles are substantially different from those that it usually experiences. For example, in the United Kingdom, the Company competes directly with: (1) telecommunications companies, such as British Telecommunications plc, Mercury Communications Limited and others; (2) other Internet access providers, such as Demon Internet Limited and EUnet GB Limited; and (3) on-line services providers, such as CompuServe, America Online/Bertelsmann, Microsoft and AT&T. These foreign competitors may also possess a better understanding of their local markets and may have better working relationships with local telecommunications companies. There can be no assurance that UUNET can obtain similar levels of local knowledge, and failure to obtain that knowledge could place UUNET at a competitive disadvantage.

Regulation

General. The Company is subject to varying degrees of federal, state, local and overseas regulation. In the United States, the Company is most heavily regulated by the states, especially for the provision of local exchange services. The Company must be separately certified in each state to offer local exchange and intrastate long distance services. No state, however, subjects the Company to price cap or rate of return regulation, nor is the Company currently required to obtain FCC authorization for installation or operation of its fiber optic network facilities and switches used for domestic services. FCC approval is required, however, for the installation and operation of its international facilities and services. The Company is subject to varying degrees of regulation in the foreign jurisdictions in which it conducts business including authorization for the installation and operation of its network facilities. Although the trend in federal, state and overseas regulation appears to favor increased competition, no assurance can be given that changes in current or future regulations adopted by the FCC, state or foreign regulators or legislative initiatives in the United States or abroad would not have a material adverse effect on the Company.

On February 8, 1996, President Clinton signed the Telecom Act which: permits, without limitation, the BOCs to provide domestic and international long distance services to customers located outside of the BOCs' home regions; permits a petitioning BOC to provide domestic and international long distance service to customers within its home region upon a finding by the FCC that a petitioning BOC has satisfied certain criteria for opening up its local exchange network to competition and that its provision of long distance services would further the public interest; and removes existing barriers to entry into local service markets. Additionally, there are significant changes in the manner in which carrier-to-carrier arrangements are regulated at the federal and state levels; procedures to revise universal service standards; and penalties for unauthorized switching of customers. The FCC has instituted proceedings addressing the implementation of this legislation.

On August 8, 1996, the FCC released its FCC Interconnect Order which established nationwide rules designed to encourage new entrants to participate in the local service markets through interconnection with the incumbent local exchange carriers ("ILECs"), resale of the ILEC's retail services and unbundled network elements. These rules set the groundwork for the statutory criteria governing BOC entry into the long distance market. WorldCom cannot predict the effect such legislation or the implementing regulations will have on it or the industry. Motions to stay implementation of the FCC Interconnect Order were filed with the FCC and federal courts of appeal. Appeals challenging, among other things, the validity of the FCC Interconnect Order were filed in several federal courts of appeal and assigned to the Eighth Circuit Court of Appeals for disposition. The Eighth Circuit Court of Appeals has stayed the pricing provisions of the FCC Interconnect Order. WorldCom cannot predict either the outcome of these challenges and appeals or the eventual effect on its business or the industry in general.

On December 24, 1996, the FCC released a Notice of Proposed Rulemaking ("NPRM") seeking to reform the FCC's current access charge policies and practices to comport with a competitive or potentially competitive local access service market. The NPRM seeks comment on a number of proposals for a series of reforms to the existing switched access charge rate structure rules that are designed to eliminate economic inefficiencies. In addition, the FCC proposes to use, either alternatively or in combination, two approaches for addressing: claims that access charges are excessive; a transition to economic based pricing of access charges; and, deregulation of incumbent local exchange carriers as competition develops. The FCC is evaluating the use of either a market-based approach, a prescriptive approach or a combination of both. Such charges are a principal component of the Company's line cost expense. The Company cannot predict whether or not the result of this proceeding will have a material impact upon its financial position or results of operations.

In the NPRM, the FCC tentatively concluded that information services providers (including among others Internet service providers) should not be subject to existing interstate access charges. However, the FCC recognized that these services and recent technological advances may be constrained by current regulatory practices that have their foundations in traditional services and technologies. The FCC issued on December 24, 1996, a Notice of Inquiry to seek comment on whether it should, in addition to access charge reform, consider actions relating to interstate information services and the Internet. Changes in the regulatory environment relating to the

telecommunications or Internet-related services industry could have an adverse effect on the Company's Internet-related services business. The Telecom Act may permit telecommunications companies, BOCs or others to increase the scope or reduce the cost of their Internet access services. The Company cannot predict the effect that the Notice of Inquiry, the Telecom Act or any future legislation, regulation or regulatory changes may have on its business.

International. In December 1996, the FCC adopted a new policy that will make it easier for United States international carriers to obtain authority to route international public switched voice traffic to and from the United States outside of the traditional settlement rate and proportionate return regimes. In February 1997, the United States entered into a World Trade Organization Agreement (the "WTO Agreement") that should have the effect of liberalizing the provision of switched voice telephone and other telecommunications services in many foreign countries over the next several years. As a result of the WTO Agreement, WorldCom expects the FCC, among other things, to reexamine its policies regarding (i) the services that may be provided by foreign owned United States international common carriers, including carriers owned or controlled by foreign carriers that have market power in their home markets, and (ii) the provision of international switched voice services outside of the traditional settlement rate and proportionate return regimes. Although the FCC's new flexible settlement rate policy, and the WTO Agreement and any ensuing FCC policy changes, may result in lower costs to the Company to terminate international traffic, there is a risk that the revenues that the Company receives from inbound international traffic may decrease to an even greater degree. The implementation of the WTO Agreement may also make it easier for foreign carriers with market power in their home markets to offer United States and foreign customers end-to-end services to the disadvantage of WorldCom, which may face substantial obstacles in obtaining from foreign governments and foreign carriers the authority and facilities to provide such end-to-end services.

The Company is or will be subject to the applicable laws and has obtained or will need to obtain the approval of the regulatory authority of each overseas country in which it provides or proposes to provide telecommunications services. The laws and regulatory requirements vary from country to country. Some countries have substantially deregulated various communications services, while other countries have maintained strict regulatory regimes. The application procedure to enter new markets can be time-consuming and costly, and terms of licenses vary for different countries. There can be no assurance that the Company will receive all authorizations or licenses necessary for new communications services or that delays in the licensing process will not adversely affect its business.

Alien Ownership. The Communications Act of 1934, as amended (the "Communications Act") prohibits any entity in which more than 20% of the capital stock is owned of record or voted by noncitizens or a foreign government or its representative from receiving or holding a common carrier radio transmission license (including microwave). The Communications Act also prohibits subsidiaries of any entity of which more than 25% of the capital stock is owned of record or voted by noncitizens from receiving or holding common carrier radio transmission licenses (including microwave), if the FCC finds that the public interest would be served by the refusal or revocation of the licenses under those circumstances. The Company's charter restricts aggregate beneficial ownership of the Common Stock by certain foreign shareholders to 20% of the total outstanding stock, and subjects excess shares to redemption.

Risk Factors

Prospective investors should carefully consider the following risk factors, together with the other information contained in this Form 10-K, in evaluating the Company and its business before purchasing its securities. In particular, prospective investors should note that this Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and that actual results could differ materially from those contemplated by such statements. The factors listed below represent certain important factors the Company believes could cause such results to differ. These factors are not intended to represent a complete list of the general or specific risks that may affect the Company. It should be recognized that other risks may be significant, presently or in the future, and the risks set forth below may affect the Company to a greater extent than indicated.

Risks of Increased Financial Leverage; Debt Service; Interest Rate Fluctuations; Possible Reduction in Liquidity; Dividend Restrictions and Other Restrictive Covenants. At December 31, 1996, the Company had \$4.80 billion of long-term debt (including capital leases and excluding current maturities) and a long-term debt to equity ratio of 0.37 to 1.0. On June 28, 1996, the Company replaced its then existing \$3.41 billion credit facilities with a new \$3.75 billion five-year revolving credit facility (the "Credit Facility"). The Credit Facility has a five-year term and bears interest, payable in varying periods, depending on the interest period, not to exceed six months, at rates selected by the Company under the terms of the Credit Facility including a Base Rate or the LIBOR, plus applicable margin. The applicable margin for a LIBOR rate borrowing varies from 0.35% to 0.875% based upon a specified financial test. The Credit Facility is unsecured and requires compliance with certain financial and other operating covenants which limit, among other things, the incurrence of additional indebtedness by WorldCom and restricts the payment of cash dividends to WorldCom's shareholders. The Credit Facility is also subject to an annual commitment fee not to exceed 0.25% of any unborrowed portion of the Credit Facility.

Increases in interest rates, economic downturns and other adverse developments, including factors beyond the Company's control, could impair its ability to service its indebtedness under the Credit Facility. In addition, the cash flow required to service the Company's debt may reduce its ability to fund internal growth, additional acquisitions and capital improvements. In addition, the Credit Facility restricts the payment of cash dividends and otherwise limits the Company's financial flexibility. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The Company has historically utilized cash flow from operations to finance capital expenditures and a mixture of cash flow, debt and stock to finance acquisitions. The Company expects to experience increased capital intensity due to network expansions and believes that funding needs in excess of internally generated cash flow will be met by accessing the debt markets. The Company has filed a shelf Registration Statement on Form S-3 with the Securities and Exchange Commission (the "SEC") for the sale, from time to time, of one or more series of unsecured debt securities having an aggregate value of up to \$3.0 billion. The Company expects to draw down a portion of the shelf registration in the first half of 1997 to pay down commercial bank debt but maintain increased credit availability and flexibility for capital spending. No assurance can be given that any public financing will be available on terms acceptable to WorldCom.

Acquisition Integration. A major portion of the Company's growth in recent years has resulted from acquisitions, which involve certain operational and financial risks. Operational risks include the possibility that an acquisition does not ultimately provide the benefits originally anticipated by management of the acquiror, while the acquiror continues to incur operating expenses to provide the services formerly provided by the acquired company. Financial risks involve the incurrence of indebtedness by the acquiror in order to effect the acquisition and the consequent need to service that indebtedness. In addition, the issuance of stock in connection with acquisitions dilutes the voting power and may dilute certain other interests of existing shareholders. In carrying out its acquisition strategy, the Company attempts to minimize the risk of unexpected liabilities and contingencies associated with acquired businesses through planning, investigation and negotiation, but such unexpected liabilities may nevertheless accompany acquisitions. There can be no assurance that the Company will be successful in identifying attractive acquisition candidates or completing additional acquisitions on favorable terms.

Additionally, achieving the expected benefits of the MFS Merger will depend in part upon the integration of the businesses of WorldCom and MFS, together with UUNET, in an efficient manner, and there can be no assurance that this will occur. The transition to a combined company will require substantial attention from management. The diversion of management attention and any difficulties encountered in the transition process could have an adverse effect on the revenues and operating results of the combined company. In addition, the process of combining the three organizations could cause the interruption of, or a disruption in, the activities of any or all of the companies' businesses, which could have a material adverse effect on their combined operations. There can be no assurance that the Company will realize any of the anticipated benefits of the MFS Merger.

Contingent Liabilities. WorldCom is subject to a number of legal and regulatory proceedings. While WorldCom believes that the probable outcome of these matters, or all of them combined, will not have a material adverse effect on WorldCom's consolidated results of operations or financial position, no assurance can be given that a contrary result will not be obtained. See Item 3 - "Legal Proceedings."

Risks of International Business. The Company derives substantial revenues by providing international communications services to United States commercial and carrier customers. Such operations are subject to certain risks such as changes in United States or foreign government regulatory policies, disruption, suspension or termination of operating agreements, and currency fluctuations. In particular, the Company's revenues and costs of sales are sensitive to changes in international settlement rates and international traffic routing patterns. The rates that the Company can charge its customers for international services may decrease in the future due to the entry of new carriers with substantial resources, aggressiveness on the part of new or existing carriers, the widespread resale of international private lines, the provision of international services via non-traditional means including the Internet, the consummation of mergers and joint ventures among large international carriers that facilitate targeted pricing and cost reductions, and the rapid growth of international circuit capacity due to the deployment of new undersea fiber optic cables and new high capacity satellite systems in the Atlantic, Pacific and Indian Ocean Regions.

Risks of Overseas Business Operations. The Company derives substantial revenues from providing services to customers in overseas locations, particularly the United Kingdom and Germany. Such operations are subject to certain risks such as changes in the legal and regulatory policies of the foreign jurisdiction, local political and economic developments, currency fluctuations, exchange controls, royalty and tax increases, retroactive tax claims, expropriation, and import and export regulations and other laws and policies of the United States affecting foreign trade, investment and taxation. In addition, in the event of any dispute arising from foreign operations, the Company may be subject to the exclusive jurisdiction of foreign courts and may not be successful in subjecting foreign persons or entities to the jurisdiction of the courts in the United States. WorldCom may also be hindered or prevented from enforcing its rights with respect to foreign governments because of the doctrine of sovereign immunity.

There can be no assurance that the laws, regulations or administrative practices of foreign countries relating to WorldCom's ability to do business in that country will not change. Any such change could have a material adverse effect on the business and financial condition of WorldCom.

Dependence on Availability of Transmission Facilities. The future profitability of the Company will be dependent in part on its ability to utilize transmission facilities leased from others on a cost-effective basis. The acquisitions of MFS, Witel and IDB have reduced the leasing risk through the ownership of significant domestic and international facilities, however, due to the possibility of unforeseen changes in industry conditions, the continued availability of leased transmission facilities at historical rates cannot be assured. See "Item 1 - Business - Transmission Facilities."

Rapid Technological Change; Dependence Upon Product Development. The telecommunications industry is subject to rapid and significant changes in technology. While WorldCom does not believe that, for the foreseeable future, these changes will either materially or adversely affect the continued use of fiber optic cable or materially hinder its ability to acquire necessary technologies, the effect of technological changes, including changes relating to emerging wireline and wireless transmission and switching technologies, on the businesses of WorldCom cannot be predicted.

The market for the UUNET's Internet-related products and services is characterized by rapidly changing technology, evolving industry standards, emerging competition and frequent new product and service introductions. There can be no assurance that UUNET will successfully identify new product and service opportunities and develop and bring new products and services to market in a timely manner. UUNET is also at risk from fundamental changes in the way Internet access services are marketed and delivered. UUNET's Internet service strategy assumes that the Transmission Control Protocol/Internet Protocol ("TCP/IP"), utilizing fiber optic or copper-based telecommunications infrastructures, will continue to be the primary protocol and transport infrastructure for Internet-related services. Emerging transport alternatives include cable modems and satellite delivery of Internet information; alternative open protocol and proprietary protocol standards have been or are being developed. UUNET's pursuit of necessary technological advances may require substantial time and expense, and there can be no assurance that UUNET will succeed in adapting its Internet services business to alternate access devices, conduits and protocols.

Regulation Risks. The Company is subject to extensive regulation at the federal and state levels, as well as in various foreign countries in connection with certain overseas business activities. The regulatory environment varies substantially by jurisdiction.

The Company is subject to varying degrees of federal, state, local and international regulation. In the United States, the Company is most heavily regulated by the states, especially for the provision of local exchange services. The Company must be separately certified in each state to offer local exchange and intrastate long distance services. No state, however, subjects the Company to price cap or rate of return regulation, nor is the Company currently required to obtain FCC authorization for installation or operation of its network facilities used for domestic services. FCC approval is required, however, for the installation and operation of its international facilities and services. The Company is subject to varying degrees of regulation in the foreign jurisdictions in which it conducts business including authorization for the installation and operation of its network facilities. Although the trend in federal, state, local and international regulation appears to favor increased competition, no assurance can be given that changes in current or future regulations adopted by the FCC, state or foreign regulators or legislative initiatives in the United States and abroad would not have a material adverse effect on the Company.

On February 8, 1996, President Clinton signed the Telecom Act which: permits, without limitation, the BOCs to provide domestic and international long distance services to customers located outside of the BOCs' home regions; permits a petitioning BOC to provide domestic and international long distance service to customers within its home region upon a finding by the FCC that a petitioning BOC has satisfied certain criteria for opening up its local exchange network to competition and that its provision of long distance services would further the public interest; and removes existing barriers to entry into local service markets. Additionally, there are significant changes in the manner in which carrier-to-carrier arrangements are regulated at the federal and state levels; procedures to revise universal service standards; and penalties for unauthorized switching of customers. The FCC has instituted proceedings addressing the implementation of this legislation.

On August 8, 1996, the FCC released its FCC Interconnect Order which established nationwide rules designed to encourage new entrants to participate in the local service markets through interconnection with the ILECs, resale of the ILEC's retail services and unbundled network elements. These rules set the groundwork for the statutory criteria governing BOC entry into the long distance market. WorldCom cannot predict the effect such legislation or the implementing regulations will have on it or the industry. Motions to stay implementation of the FCC Interconnect Order were filed with the FCC and federal courts of appeal. Appeals challenging, among other things, the validity of the FCC Interconnect Order were filed in several federal courts of appeal and assigned to the Eighth Circuit Court of Appeals for disposition. The Eighth Circuit Court of Appeals has stayed the pricing provisions of the FCC

Interconnect Order. WorldCom cannot predict either the outcome of these challenges and appeals or the eventual effect on its business or the industry in general.

On December 24, 1996, the FCC released the NPRM seeking to reform the FCC's current access charge policies and practices to comport with a competitive or potentially competitive local access service market. The NPRM seeks comment on a number of proposals for a series of reforms to the existing switched access charge rate structure rules that are designed to eliminate economic inefficiencies. In addition, the FCC proposes to use, either alternatively or in combination, two approaches for addressing: claims that access charges are excessive; a transition to economic based pricing of access charges; and, for deregulation of incumbent local exchange carriers as competition develops. The FCC is evaluating the use of either a market-based approach, a prescriptive approach or a combination of both. Such charges are a principal component of the Company's line cost expense. The Company cannot predict whether or not the result of this proceeding will have a material impact upon its financial position or results of operations.

In the NPRM, the FCC tentatively concluded that information services providers (including among others Internet service providers) should not be subject to existing interstate access charges. However, the FCC recognized that these services and recent technological advances may be constrained by current regulatory practices that have their foundations in traditional services and technologies. The FCC issued on December 24, 1996, a Notice of Inquiry to seek comment on whether it should, in addition to access charge reform, consider actions relating to interstate information services and the Internet. Changes in the regulatory environment relating to the telecommunications or Internet-related services industry could have an adverse effect on the Company's Internet-related services business. The Telecom Act may permit telecommunications companies, BOCs or others to increase the scope or reduce the cost of their Internet access services. The Company cannot predict the effect that the Notice of Inquiry, the Telecom Act or any future legislation, regulation or regulatory changes may have on its business.

In December 1996, the FCC adopted a new policy that will make it easier for United States international carriers to obtain authority to route international public switched voice traffic to and from the United States outside of the traditional settlement rate and proportionate return regimes. In February 1997, the United States entered into a WTO Agreement that should have the effect of liberalizing the provision of switched voice telephone and other telecommunications services in scores of foreign countries over the next several years. As a result of the WTO Agreement, WorldCom expects the FCC, among other things, to reexamine its policies regarding (i) the services that may be provided by foreign owned United States international common carriers, including carriers owned or controlled by foreign carriers that have market power in their home markets, and (ii) the provision of international switched voice services outside of the traditional settlement rate and proportionate return regimes. Although the FCC's new flexible settlement rate policy, and the WTO Agreement and any ensuing FCC policy changes, may result in lower costs to the Company to terminate international traffic, there is a risk that the revenues that the Company receives from inbound international traffic may decrease to an even greater degree. The implementation of the WTO Agreement may also make it easier for foreign carriers with market power in their home market to offer United States and foreign customers end-to-end services to the disadvantage of WorldCom, which may face substantial obstacles in obtaining from foreign governments and foreign carriers the authority and facilities to provide such end-to-end services.

The Company is or will be subject to the applicable laws and has obtained or will need to obtain the approval of the regulatory authority of each overseas country in which it provides or proposes to provide telecommunications services. The laws and regulatory requirements vary from country to country. Some countries have substantially deregulated various communications services, while other countries have maintained strict regulatory regimes. The application procedure to enter new markets can be time-consuming and costly, and terms of licenses vary for different countries. There can be no assurance that the Company will receive all authorizations or licenses necessary for new communications services or that delays in the licensing process will not adversely affect its business.

Competition. Virtually all markets for telecommunications services are extremely competitive, and the Company expects that competition will intensify in the future. In each of the markets in which it offers telecommunications services, the Company faces significant competition from carriers with greater market share and financial resources. The Company competes domestically with incumbent providers, which have historically dominated their local telecommunications markets, and long distance carriers, for the provision of long distance services. In certain markets the incumbent provider offers both local and long distance services. The incumbent LECs presently have numerous advantages as a result of their historic monopoly control of the local exchange market. A continuing trend toward business combinations and alliances in the telecommunications industry may create significant new competitors to the Company. Many of the Company's existing and potential competitors have financial, personnel and other resources significantly greater than those of the Company. The Company also faces competition from one or more competitors in most markets in which it operates, including CAPs operating fiber optic networks, in some cases in conjunction with the local cable television operator. Each of AT&T, MCI and Sprint has indicated its intention to offer local telecommunications services in major United States markets using its own facilities or by resale of the LECs' or other providers' services. Other potential competitors include foreign telephone companies, cable television companies, wireless telephone companies, electric utilities, microwave carriers and private

networks of large end users. In addition, the Company competes with equipment vendors and installers and telecommunications management companies with respect to certain portions of its business.

In overseas markets, the Company competes with incumbent providers, many of which still have special regulatory status and the exclusive rights to provide certain services, and virtually all of which have historically dominated their local, domestic long distance and international services markets. These incumbent providers have numerous advantages including existing facilities, customer loyalty, and substantial financial resources. The Company also competes with other service providers in overseas markets, many of which are affiliated with incumbent providers in other countries. Typically, the Company must devote extensive resources to obtaining regulatory approvals necessary to operate in overseas markets, and then to obtaining access to and interconnection with the incumbent's network on a non-discriminatory basis.

For most of the Company's communications services, the factors critical to a customer's choice of a service provider are cost, ease of use, speed of installation, quality, reputation and, in some cases, geography, and network size. WorldCom's objective is to be one of the most responsive service providers, particularly when providing customized communications services. WorldCom's array of communications facilities and international relationships, together with its engineering and operations capability, provide WorldCom with considerable flexibility in tailoring cost-effective communications services to meet its customers' requirements. Ownership of this network allows WorldCom to implement complex permanent and temporary communications circuits to and from virtually any location in the world. WorldCom relies on its decentralized management structure and the local orientation of its operations and personnel to distinguish itself from larger, less personalized operations. In addition, WorldCom's understanding of international telecommunications technical and regulatory issues has often allowed WorldCom to provide prompt solutions to the diverse communications needs of multinational corporations, government entities and other organizations. No assurance can be given, however, that the Company's strategies will be successful.

The Company may also be subject to additional competition due to the development of new technologies and increased availability of domestic and international transmission capacity. For example, even though fiber-optic networks, such as that of the Company, are now widely used for long distance transmission, it is possible that the desirability of such networks could be adversely affected by changing technology. The telecommunications industry is in a period of rapid technological evolution, marked by the introduction of new product and service offerings and increasing satellite and fiber optic transmission capacity for services similar to those provided by the Company. The Company cannot predict which of many possible future product and service offerings will be important to maintain its competitive position or what expenditures will be required to develop and provide such products and services.

Under the Telecom Act and ensuing federal and state regulatory initiatives, barriers to local exchange competition are being removed. The introduction of such competition, however, also establishes the predicate for the BOCs to provide in-region interexchange long distance services. The BOCs are currently allowed to offer certain "incidental" long distance service in-region and to offer out-of-region long distance services. Once the BOCs are allowed to offer in-region long distance services, they could be in a position to offer single source local and long distance service similar to that being offered by the Company. The Company expects that the increased competition made possible by regulatory reform will result in certain pricing and margin pressures in the domestic telecommunications services business.

The Company, through UUNET, also competes in the market for data communications services, including Internet access and on-line services. This market is also extremely competitive. The Company expects that competition will intensify in the future. The Company believes that its ability to compete successfully in this market depends on a number of factors, including: market presence; the ability to execute a rapid expansion strategy; the capacity, reliability and security of its network infrastructure; ease of access to and navigation on the Internet; the pricing policies of its competitors and suppliers; the timing of the introduction of new products and services by the Company and its competitors; UUNET's ability to support industry standards; and industry and general economic trends. The success of the Company in this market will depend heavily upon UUNET's ability to provide high quality Internet connectivity and value-added Internet services at competitive prices.

The Company expects that all of the major on-line services providers and telecommunications companies will expand their current services to compete fully in the Internet access market. The Company believes that new competitors, including large computer hardware, software, media and other technology and telecommunications companies will enter the Internet access market, resulting in even greater competition for UUNET. Certain companies, including America Online, AT&T, MCI, BBN Corporation and PSINet, Inc., have obtained or expanded their Internet access products and services as a result of acquisitions and strategic investments. Such acquisitions may permit UUNET's competitors to devote greater resources to the development and marketing of new competitive products and services and the marketing of existing competitive products and services. UUNET expects these acquisitions and strategic investments to increase, thus creating significant new competitors to UUNET.

As UUNET continues to expand Internet operations outside of the United States, UUNET will be forced to compete with and buy services from government-owned or subsidized telecommunications providers, some of which may enjoy an absolute monopoly on telecommunications services essential to its business. UUNET will also encounter competition from companies whose operating styles are substantially different from those that it usually experiences. For example, in the United Kingdom, the Company competes directly with: (1) telecommunications companies, such as British Telecommunications plc, Mercury Communications Limited and others; (2) other Internet access providers, such as Demon Internet Limited and EUnet GB Limited; and (3) on-line services providers, such as CompuServe, America Online/Bertelsmann, Microsoft and AT&T. These foreign competitors may also possess a better understanding of their local markets and may have better working relationships with local telecommunications companies. There can be no assurance that UUNET can obtain similar levels of local knowledge, and failure to obtain that knowledge could place UUNET at a serious competitive disadvantage.

Potential Liability of On-line Service Providers. The law in the United States relating to the liability of on-line service providers and Internet access providers for information carried on, disseminated through or hosted on their systems is currently unsettled. Several private lawsuits seeking to impose such liability are currently pending. In one case brought against an Internet access provider, *Religious Technology Center v. Netcom On-Line Communication Services, Inc.*, the United States District Court for the Northern District of California ruled in a preliminary phase that under certain circumstances Internet access providers could be held liable for copyright infringement. The case has been settled by the parties. The Telecom Act prohibits and imposes criminal penalties and civil liability for using an interactive computer service for transmitting certain types of information and content, such as indecent or obscene communications. On June 12, 1996, however, a panel of three federal judges granted a preliminary injunction barring enforcement of this portion of the Telecom Act to the extent that enforcement is based upon allegations other than obscenity or child pornography as an impermissible restriction on the First Amendment's right of free speech. In addition, the United States Congress in consultation with the United States Patent and Trademark Office and the Administration's National Information Infrastructure Task Force, is currently considering legislation to address the liability of on-line service providers and Internet access providers, and numerous states have adopted or are currently considering similar types of legislation. The imposition upon Internet access providers of potential liability for materials carried on or disseminated through their systems could require UUNET to implement measures to reduce its exposure to such liability, which may require the expenditure of substantial resources or the discontinuation of certain product or service offerings. The Company believes that it is currently unsettled whether the Telecom Act prohibits and imposes liability for any services provided by UUNET should the content or information transmitted be subject to the statute.

The law relating to the liability of on-line service providers and Internet access providers in relation to information carried, disseminated or hosted also is being discussed by the World Intellectual Property Organization in the context of ongoing consideration of updating existing, and adopting new, international copyright treaties. Similar developments are ongoing in the United Kingdom and other jurisdictions. The scope of authority of various regulatory bodies in relation to on-line services is at present uncertain. The Office of Telecommunications in the United Kingdom has recently published a consultative document setting out a number of issues for discussion, including the roles of traditional telecommunications and broadcasting regulators with respect to on-line services. The Securities Investment Board in the United Kingdom is investigating the status of on-line services and the transmission of investment information over networks controlled by access providers. Such transmissions may make an access provider liable for any violation of securities and other financial services legislation and regulations. Decisions regarding regulation, enforcement, content liability and the availability of Internet access in other countries may significantly affect the ability to offer certain services worldwide and the development and profitability of companies offering Internet and on-line services in the future. For example, an Internet access provider that competes with UUNET removed certain content from its services worldwide in reaction to law enforcement activities in Germany, and it has been reported that an Internet access provider in Germany has been advised by prosecutors that it may have liability for disseminating neo-Nazi writings by providing access to the Internet where these materials are available.

The increased attention focused upon liability issues as a result of these lawsuits, legislation and legislative proposals could affect the growth of Internet use. Any costs incurred as a result of liability or asserted liability for information carried on or disseminated through its systems could have a material adverse effect on the business, financial condition and results of operations of UUNET.

Dependence upon Network Infrastructure; Risk of System Failure; Security Risks. The success of the Company in marketing its services to business and government users requires that the Company provide superior reliability, capacity and security via its network infrastructures. These networks are subject to physical damage, power loss, capacity limitations, software defects, breaches of security (by computer virus, break-ins or otherwise) and other factors, certain of which have caused, and will continue to cause, interruptions in service or reduced capacity for the customers of such company. Similarly, UUNET's business relies on the availability of its network infrastructure for the provision of Internet access services. Interruptions in service, capacity limitations or security breaches could have a material adverse effect on the Company's business, financial condition and results of operations.

Anti-Takeover Provisions. The Second Amended and Restated Articles of Incorporation of WorldCom contain provisions (a) requiring a 70% vote for approval of certain business combinations with certain 10% shareholders unless approved by a majority of the

continuing Board of Directors or unless certain minimum price, procedural and other requirements are met; (b) restricting aggregate beneficial ownership of the capital stock of WorldCom by foreign shareholders to 20% of the total outstanding capital stock, and subjecting excess shares to redemption, and (c) authorizing the WorldCom Board of Directors to issue preferred stock in one or more classes without any action on the part of shareholders. In addition, WorldCom has adopted a rights plan (the "WorldCom Rights Plan") and in connection therewith entered into the Rights Agreement between WorldCom and The Bank of New York, as Rights Agent, dated as of August 25, 1996 (the "WorldCom Rights Agreement"), which will cause substantial dilution to a person or group that attempts to acquire WorldCom on terms not approved by the WorldCom Board of Directors. Further, WorldCom's Bylaws (a) contain requirements regarding advance notice of nomination of directors by shareholders and (b) restrict the calling of special meetings by shareholders to those owning shares representing not less than 40% of the votes to be cast. These provisions, including the WorldCom Rights Plan, may have an "anti-takeover" effect.

Employees

As of March 3, 1997, the Company employed approximately 13,000 full-time persons. Substantially all of the Company's employees are not represented by any labor union.

ITEM 2. PROPERTIES

The tangible assets of the Company include a substantial investment in telecommunications equipment. The aggregate value of the Company's transmission equipment and communications equipment was \$2.37 billion and \$1.30 billion, respectively, at December 31, 1996. Approximately \$2.5 billion is currently anticipated for transmission and communications equipment purchases in 1997 without regard to possible future acquisitions, if any.

The Company's rights-of-way for its fiber optic cable and 172 tower microwave transmission network are typically held under leases, easements, licenses or governmental permits. All other major equipment and physical facilities are owned in fee and are operated, constructed and maintained pursuant to rights-of-way, easements, permits, licenses or consents on or across properties owned by others.

WitTel has sold to independent entities and leased back its microwave system and its Kansas City to Los Angeles fiber optic system over primary lease terms ranging from 15 to 20 years. The leases have renewal options permitting WitTel to extend the leases for terms expiring during the years 2012 to 2019 and purchase options based upon the fair market value at the time of purchase.

The Company leases space for sales office and/or administrative facilities, collector node, collocation sites, general storage space, and equipment rooms for switches and other peripheral equipment. Such leased properties do not lend themselves to description by character or location. The Company's fiber optic network includes aerial and underground cable and conduit which is located on public streets and highways or on privately owned land. The Company has permission to use these lands pursuant to governmental consent or lease, permit, easement or other agreement.

The Company attempts to structure its leases of space for its network switching centers and rights-of-way for its fiber optic network with initial terms and renewal options so that the risk of relocation is minimized. The Company anticipates that prior to termination of any of the leases, it will be able to renew such leases or make other suitable arrangements.

WorldCom believes that all of its facilities and equipment are in good condition and are suitable for their intended purposes.

ITEM 3. LEGAL PROCEEDINGS

IDB Related Investigations. On June 9, 1994, the SEC issued a formal order of investigation concerning certain matters, including IDB's financial position, books and records and internal controls and trading in IDB securities on the basis of non-public information. The SEC has issued subpoenas to WorldCom, IDB and others, including certain former officers of IDB, in connection with its investigation. The National Association of Securities Dealers and other self-regulatory bodies have also made inquiries of IDB concerning similar matters.

The United States Attorney's Office for the Central District of California (the "United States Attorney's Office") issued grand jury subpoenas to IDB and WorldCom in 1994 and 1995 seeking documents relating to IDB's first quarter of 1994 results, the resignation of Deloitte & Touche LLP as IDB's auditors, trading in IDB securities and other matters. In October 1996, the United States Attorney's Office entered into an agreement with WorldCom not to criminally prosecute IDB with respect to IDB's financial reporting on or before January 1, 1995 (including but not limited to the resignation of Deloitte & Touche LLP), trading in IDB securities, misuse of IDB's assets, attempts to obstruct the proceedings of the SEC and other matters. The agreement does not cover potential violations of the

federal tax code and is expressly contingent upon the cooperation of IDB and WorldCom with the United States Attorney's Office, the Federal Bureau of Investigation and any other federal law enforcement agency, including the SEC.

Other. The Company is involved in other legal and regulatory proceedings generally incidental to its business. In some instances, rulings by regulatory authorities in some states may result in increased operating costs to the Company. While the results of these various legal and regulatory matters contain an element of uncertainty, the Company believes that the probable outcome of any of the legal or regulatory matters, or all of them combined, should not have a material adverse effect on the Company's consolidated results of operations or financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On December 20, 1996, the Company held a Special Meeting of Shareholders for the purpose of:

1. considering and voting upon a proposal to approve the issuance of WorldCom capital stock to shareholders of MFS in connection with the MFS Merger;
2. considering and voting upon a proposal to amend WorldCom's Amended and Restated Articles of Incorporation, as amended, to increase the number of authorized shares of WorldCom Common Stock from 750,000,000 to 2,500,000,000; and
3. voting upon a proposal to adjourn the Special Meeting to allow for additional solicitation of shareholder proxies or votes in the event that the number of proxies or votes sufficient to obtain a quorum or to approve Proposal 1 and Proposal 2 has not been received by the date of the Special Meeting.

The tabulation of the voting is as follows:

	For	Against	Abstentions and Broker Non-votes
Issuance of capital stock to MFS shareholders	277,852,901	2,436,764	809,100
Increase in Common Stock	281,799,677	4,074,816	831,497
Additional solicitation of shareholder proxies	235,593,385	46,680,392	1,164,801

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

The shares of Common Stock are quoted on the Nasdaq National Market. On May 25, 1995, the Company changed its name to WorldCom, Inc. and the Common Stock trading symbol became WCOM. Prior to the name change, the Company's Common Stock was traded on the Nasdaq National Market under the trading symbol LDDS. The following table sets forth the high and low sales prices per share of Common Stock as reported on the Nasdaq National Market based on published financial sources, for the periods indicated.

	High	Low
1995		
First Quarter	\$13.13	\$ 9.56
Second Quarter	13.69	11.56
Third Quarter	17.06	13.38
Fourth Quarter	17.94	14.88

	High	Low
<u>1996</u>		
First Quarter	\$23.31	\$ 16.25
Second Quarter	27.72	21.31
Third Quarter	28.88	18.38
Fourth Quarter	26.13	21.00

As of March 3, 1997, there were 891,860,640 shares of Common Stock issued and outstanding held by 8,754 shareholders of record.

The Company has never paid cash dividends on its Common Stock. The policy of the Company's Board of Directors has been to retain earnings to provide funds for the operation and expansion of its business. Also, the Company's Credit Facility restricts the payment of cash dividends on its Common Stock. See Note 4 of Notes to Consolidated Financial Statements.

Preferred Stock

In connection with the MFS Merger, the Company issued 9,499,200 depositary shares (the "Depositary Shares"), each representing 1/100th interest in a share of WorldCom Series A Preferred Stock. There is no established public trading market for the WorldCom Series A Preferred Stock. The Depositary Shares are traded on the Nasdaq National Market under the trading symbol "WCOMP." As of March 3, 1997, there were 9,499,200 Depositary Shares issued and outstanding held by one shareholder of record.

Each Depositary Share is mandatorily convertible into 4.2 shares of Common Stock on May 31, 1999. The Depositary Shares are also redeemable at the option of the Company in exchange for shares of Common Stock on or after May 31, 1998 at a ratio that will vary depending upon certain factors, including the date of redemption, the market price of the Common Stock at the time of redemption and the amount of accrued and unpaid dividends. The Depositary Shares are also convertible at the option of the holder at any time into 3.44274 shares of Common Stock for each Depositary Share, plus unpaid dividends.

The Depositary Shares are entitled to receive dividends, when, as and if declared by the Board of Directors, accruing at the rate of \$2.68 per share per annum, payable quarterly in arrears on each February 28, May 31, August 31 and November 30. Dividends are payable in cash or in shares of Common Stock, at the election of the Company. The Company paid the initial dividend on February 28, 1997 in cash and expects to continue to pay cash dividends on the WorldCom Series A Preferred Stock.

The Depositary Shares are entitled to vote on the basis of 0.10 of a vote for each Depositary Share held (equivalent to 10 votes for each share of WorldCom Series A Preferred Stock). The Series A Preferred Stock has a liquidation preference equal to the greater of (i) the sum of (a) \$3,350 per share and (b) all accrued and unpaid dividends thereon to the date of liquidation and (ii) the value of the shares of Common Stock into which such Series A Preferred Stock are convertible on the date of liquidation.

The WorldCom Series B Preferred Stock is convertible into shares of Common Stock at any time at a conversion rate of 0.0973912 shares of Common Stock for each share of WorldCom Series B Preferred Stock (an effective initial conversion price of \$10.268 per share of Common Stock). Dividends on the WorldCom Series B Preferred Stock accrue at the rate per share of \$0.0775 per annum and are payable in cash. Dividends will be paid only when, as and if declared by the Board of Directors. The Company anticipates that dividends on the WorldCom Series B Preferred Stock will not be declared but will continue to accrue. Upon conversion, accrued but unpaid dividends are payable in cash or shares of Common Stock at the Company's election.

The WorldCom Series B Preferred Stock is also redeemable at the option of the Company at any time after September 30, 2001 at a redemption price of \$1.00 per share, plus accrued and unpaid dividends. The redemption price will be payable in cash or shares of the Common Stock at the Company's election.

The WorldCom Series B Preferred Stock is entitled to one vote per share with respect to all matters. The WorldCom Series B Preferred Stock has a liquidation preference of \$1.00 per share plus all accrued and unpaid dividends thereon to the date of liquidation. As of March 3, 1997, there were 12,675,598 shares of WorldCom Series B Preferred Stock outstanding held by 1,166 shareholders of record.

Recent Sales of Unregistered Securities

On July 10, 1996, 200,000 shares of Common Stock were issued to Jump, Inc. upon exercise of an option to purchase an aggregate of 2,000,000 shares of Common Stock granted by the Company in July 1995. The exercise price under the option was \$14.8125 per share, which was the price per share of the Common Stock on the date of the grant. Such option was granted pursuant to an agreement

under which an affiliate of Jump, Inc. provided certain marketing and promotional services to the Company. The option has a term of ten years with a vesting schedule of 200,000 per year.

On July 24, 1996, in connection with its acquisition of Choice Communications, Inc. ("Choice"), the Company issued to certain former shareholders and related entities of Choice 1,123,955 shares of Common Stock. The Company also issued to certain of such shareholders, in connection with this acquisition, options to purchase 30,916 shares of Common Stock, in exchange for certain outstanding options to purchase common stock of Choice. The options issued in such exchange, which are currently exercisable, permit the holders to purchase 30,916 shares of Common Stock at an exercise price of \$7.44 per share and expire December 1, 2004. Such options may be exercised in whole or in part at any time during such period.

On August 23, 1996, in connection with its acquisition of certain assets of Target Telecom, Incorporated ("Target"), the Company issued to Target 934,050 shares of Common Stock. Such shares were subsequently distributed by Target to its sole shareholder.

The above-referenced shares of Common stock and options to purchase Common Stock were issued and granted by WorldCom without registration under the Securities Act of 1933 in reliance upon the exemption provided by Section 4(2) thereof and Rule 506 thereunder based on, among other factors, the lack of general solicitation or general advertising in connection with the issuance and grant, the number of the recipients of the Common Stock and options, the level of sophistication and financial resources of these recipients, and the information available to these recipients.

ITEM 6. SELECTED FINANCIAL DATA

The following is a summary of selected financial data of the Company as of and for the five years ended December 31, 1996. The historical financial data as of December 31, 1996 and 1995 and for the years ended December 31, 1996, 1995, and 1994 have been derived from the historical financial statements of the Company, which financial statements have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their report included elsewhere herein. This data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's Consolidated Financial Statements and the notes thereto appearing elsewhere in this document.

	Years Ended December 31,				
	1996	1995	1994	1993	1992
	(In thousands, except ratios and per share data)				
Operating Results:					
Revenues	\$ 4,485,130	\$3,696,345	\$2,245,663	\$1,474,257	\$948,060
Operating income (loss)	(1,844,094)	675,144	66,528	238,833	51,983
Income (loss) before extraordinary item	(2,188,944)	266,271	(124,013)	124,321	8,344
Extraordinary item	(24,434)	-	-	(7,949)	(5,800)
Net income (loss)	(2,213,378)	266,271	(124,013)	116,372	2,544
Preferred dividend requirement	860	33,191	27,766	11,683	2,112
Earnings (loss) per common share:					
Income (loss) before extraordinary item --					
Primary	(5.50)	0.64	(0.48)	0.41	0.03
Fully diluted	(5.50)	0.64	(0.48)	0.40	0.03
Net income (loss)--					
Primary	(5.56)	0.64	(0.48)	0.38	0.00
Fully diluted	(5.56)	0.64	(0.48)	0.37	0.00
Weighted average shares --					
Primary	397,890	386,898	315,610	275,854	225,306
Fully diluted	397,890	402,990	315,610	281,592	226,106
Financial position:					
Total assets	\$ 19,861,977	\$6,656,629	\$ 3,441,474	\$ 3,236,718	\$ 1,241,278
Long-term debt	4,803,581	3,391,598	794,001	730,023	448,496
Shareholders' investment	12,959,976	2,187,681	1,827,410	1,911,800	478,823

	Years Ended December 31,				
	1996	1995	1994	1993	1992
	(In thousands, except ratios and per share data)				
Ratio of earnings to combined fixed charges and preferred stock dividends	N/A	2.31:1	0.10:1	4.14:1	1.40:1
Deficiency of earnings to combined fixed charges and preferred stock dividends	\$ (2,067,851)	\$ -	\$ (80,363)	\$ -	\$ -

Notes to Selected Financial Data:

- (1) On December 31, 1996, WorldCom completed the MFS Merger. The MFS Merger is being accounted for as a purchase; accordingly, the operating results for MFS are not reflected above and will be included from the date of acquisition.

- (2) Results for 1996 include a \$2.14 billion charge for in-process research and development related to the MFS Merger. The charge is based upon a valuation analysis of the technologies of MFS' worldwide information system, the Internet network expansion system of UUNET, and certain other identified research and development projects purchased in the Merger. The expense includes \$1.6 billion associated with UUNET and \$0.54 billion related to MFS.

Additionally, 1996 results include other after-tax charges of \$121.0 million for employee severance, employee compensation charges, alignment charges, and costs to exit unfavorable telecommunications contracts and \$343.5 million after-tax write-down of operating assets within the Company's non-core businesses. On a pre-tax basis, these charges totaled \$600.1 million.

- (3) In 1995, Metromedia converted its Series 1 Preferred Stock into Common Stock, exercised warrants to acquire Common Stock and immediately sold its position of 61,699,096 shares of Common Stock in a public offering. In connection with the preferred stock conversion, WorldCom made a non-recurring payment of \$15.0 million to Metromedia, representing a discount to the minimum nominal dividends that would have been payable on the Series 1 Preferred Stock prior to the September 15, 1996 optional call date of approximately \$26.6 million (which amount includes an annual dividend requirement of \$24.5 million plus accrued dividends to such call date).

- (4) As a result of the IDB Merger and the ATC Merger, the Company initiated plans to reorganize and restructure its management and operational organization and facilities to eliminate duplicate personnel, physical facilities and service capacity, to abandon certain products and marketing activities, and to take further advantage of the synergies available to the combined entities. Also, during the fourth quarter of 1993, plans were approved to reduce IDB's cost structure and to improve productivity. Accordingly, in 1994, 1993 and 1992, the Company charged to operations the estimated costs of such reorganization and restructuring activities, including employee severance, physical facility abandonment and duplicate service capacity. These costs totaled \$43.7 million in 1994, \$5.9 million in 1993 and \$79.8 million in 1992.

Also, during 1994 and 1992, the Company incurred direct merger costs of \$15.0 million and \$7.3 million, respectively, related to the IDB Merger (in 1994) and the ATC Merger (in 1992). These costs include professional fees, proxy solicitation costs, travel and related expenses and certain other direct costs attributable to these mergers.

- (5) In connection with certain debt refinancing, the Company recognized in 1996, 1993 and 1992 extraordinary items of approximately \$4.2 million, \$7.9 million and \$5.8 million, respectively, net of taxes, consisting of unamortized debt discount, unamortized issuance cost and prepayment fees. Additionally, in 1996 the Company recorded an extraordinary item of \$20.2 million, net of taxes, related to a write-off of deferred international costs. See Note 1 and Note 4 of Notes to Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

- (6) Long-term debt as of December 31, 1995 includes \$1.1 billion related to the Company's previous credit facilities which were classified as a current maturity on the December 31, 1995 balance sheet. In June 1996, WorldCom replaced its then existing \$3.41 billion credit facilities with a new \$3.75 billion revolving credit facility with no reduction of principal for five years.

ITEM 7.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis relates to the financial condition and results of operations of the Company for the three years ended December 31, 1996 after giving effect to the IDB Merger, which was accounted for as a pooling-of-interests. This information should be read in conjunction with the "Selected Financial Data" and the Company's Consolidated Financial Statements appearing elsewhere in this document.

General

The Company's emphasis on acquisitions has taken the Company from a small regional long distance carrier to one of the largest long distance telecommunications companies in the industry, serving customers domestically and internationally. The Company's operations have grown significantly in each year of its operations as a result of internal growth, the selective acquisition of smaller long distance companies with limited geographic service areas and market shares, the consolidation of certain third tier long distance carriers with larger market shares, and international expansion.

As a result of the MFS Merger on December 31, 1996, each share of MFS common stock was converted into the right to receive 2.1 shares of WorldCom Common Stock or approximately 471.0 million WorldCom common shares in the aggregate. Each share of MFS Series A Preferred Stock was converted into the right to receive one share of WorldCom Series A Preferred Stock or 94,922 shares in the aggregate. Each share of MFS Series B Convertible Preferred Stock was converted into the right to receive one share of WorldCom Series B Convertible Preferred Stock or approximately 12.7 million shares in the aggregate. In addition, each depositary share representing 1/100th of a share of MFS Series A Preferred Stock was exchanged for a depositary share representing 1/100th of a share of WorldCom Series A Preferred Stock.

Upon effectiveness of the MFS Merger, the then outstanding and unexercised options and warrants exercisable for shares of MFS common stock were converted into options and warrants, respectively, exercisable for shares of Common Stock having substantially the same terms and conditions as the MFS options and warrants, except that (i) the exercise price and the number of shares issuable upon exercise were divided and multiplied, respectively, by 2.1 and (ii) the holders of each then outstanding and unexercised MFS "Shareworks Plus Award" granted under the MFS 1993 Stock Plan instead received the cash value of such option in accordance with the terms of such plan.

MFS provides telecommunications services and systems for business and government customers. MFS is a leading provider of alternative local network access facilities via digital fiber optic cable networks that it has installed in and around approximately 41 United States cities, and in several major European cities. MFS also provides domestic and international long distance telecommunications services via its network platform, which consists of MFS-owned transmission and switching facilities, and network capacity leased from other carriers primarily in the United States and Western Europe. The MFS Merger is being accounted for as a purchase; accordingly, the operating results of MFS are not reflected in the Company's results of operations and will be included from the acquisition date.

On August 12, 1996, MFS completed the UUNET Acquisition. UUNET is a leading worldwide provider of a comprehensive range of Internet access options, applications, and consulting services to businesses, professionals and on-line services providers. UUNET provides both dedicated and dial-up Internet access, and other applications and services which include Web server hosting and integration services, client software and security products, training, and network integration and consulting services.

The MFS Merger has allowed the Company to take advantage of the congressional intent behind the Telecom Act and the FCC Interconnect Order by bringing together the leading growth companies from four key telecom industry segments: long distance, local, Internet and international. The Company believes that the MFS Merger enhances the combined entity's opportunities for future growth, creates a stronger competitor in the changing telecommunications industry, allows provision of end-to-end bundled services over a global network, and provides the opportunity for significant cost savings for the combined organization.

On January 5, 1995, the Company completed the WITel Acquisition for approximately \$2.5 billion in cash. Through this purchase, the Company acquired a nationwide common carrier network of approximately 11,000 miles of fiber optic cable and digital microwave facilities.

The Company's long distance revenues are derived principally from the number of minutes of use billed by the Company. Minutes billed are those conversation minutes during which a call is actually connected at the Company's switch (except for minutes during which the customer receives a busy signal or the call is unanswered at its destination). The Company's profitability is dependent upon, among other things, its ability to achieve line costs that are less than its revenues. The principal components of line costs are access charges and transport charges.

The most significant portion of the Company's line costs is access charges which are highly regulated. Accordingly, the Company cannot predict what effect continued regulation and increased competition between LECs and other IXC's will have on future access charges. However, the Company believes that it will be able to continue to reduce transport costs through effective utilization of its network, favorable contracts with carriers and network efficiencies made possible as a result of expansion of the Company's customer base by acquisitions and internal growth.

On February 8, 1996, President Clinton signed the Telecom Act which permits, without limitations, the BOC's to provide domestic and international long distance services to customers located outside of the BOC's home regions; permits a petitioning BOC to provide domestic and international long distance service to customers within its home region upon a finding by the FCC that a petitioning BOC has satisfied certain criteria for opening up its local exchange network to competition and that its provision of long distance services would further the public interest; and removes existing barriers to entry into local service markets. Additionally, there are significant changes in: the manner in which carrier-to-carrier arrangements are regulated at the federal and state level; procedures to revise universal service standards; and penalties for unauthorized switching of customers. The FCC has instituted proceedings addressing the implementation of this legislation.

In the FCC Interconnect Order, which was released on August 8, 1996, the FCC established nationwide rules designed to encourage new entrants to participate in the local service markets through interconnection with the ILEC, resale of the ILEC's retail services and unbundled network elements. These rules set the groundwork for the statutory criteria governing BOC entry into the long distance market. The Company cannot predict the effect such legislation or the implementing regulations will have on the Company or the industry. Motions to stay implementation of the FCC Interconnect Order have been filed with the FCC and federal courts of appeal. Appeals challenging, among other things, the validity of the FCC Interconnect Order were filed in several federal courts of appeal and assigned to the Eighth Circuit Court of Appeals for disposition. The Eighth Circuit Court of Appeals has stayed the pricing provisions of the FCC Interconnect Order. The Circuit Justice of the Supreme Court has declined to review the propriety of the stay. The Company cannot predict either the outcome of these challenges and appeals or the eventual effect on its business or the industry in general.

On December 24, 1996, the FCC released the NPRM seeking to reform the FCC's current access charge policies and practices to comport with a competitive or potentially competitive local access service market. The NPRM seeks comment on a number of proposals for a series of reforms to the existing switched access charge rate structure rules that are designed to eliminate economic inefficiencies. In addition, the FCC proposes to use, either alternatively or in combination, two approaches for addressing: claims that access charges are excessive; a transition to economic based pricing of access charges; and, for deregulation of incumbent local exchange carriers as competition develops. The FCC is evaluating the use of either a market-based approach, a prescriptive approach or a combination of both. Such charges are a principal component of the Company's line cost expense. The Company cannot predict whether or not the result of this proceeding will have a material impact upon its financial position or results of operations.

In the NPRM, the FCC tentatively concluded that information services providers (including among others Internet service providers) should not be subject to existing interstate access charges. However, the FCC recognized that these services and recent technological advances may be constrained by current regulatory practices that have their foundations in traditional services and technologies. The FCC issued on December 24, 1996, a Notice of Inquiry to seek comment on whether it should, in addition to access charge reform, consider actions relating to interstate information services and the Internet. Changes in the regulatory environment relating to the telecommunications or Internet-related services industry could have an adverse effect on the Company's Internet-related services business. The Telecom Act may permit telecommunications companies, BOCs or others to increase the scope or reduce the cost of their Internet access services. The Company cannot predict the effect that the Notice of Inquiry, the Telecom Act or any future legislation, regulation or regulatory changes may have on its business.

In December 1996, the FCC adopted a new policy that will make it easier for United States international carriers to obtain authority to route international public switched voice traffic to and from the United States outside of the traditional settlement rate and proportionate return regimes. In February 1997, the United States entered into a WTO Agreement that should have the effect of liberalizing the provision of switched voice telephone and other telecommunications services in many foreign countries over the next several years. As a result of the WTO Agreement, WorldCom expects the FCC, among other things, to reexamine its policies regarding (i) the services that may be provided by foreign owned United States international common carriers, including carriers owned or controlled by foreign carriers that have market power in their home markets, and (ii) the provision of international switched voice services outside of the traditional settlement rate and proportionate return regimes. Although the FCC's new flexible settlement rate policy, and the WTO Agreement and any ensuing FCC policy changes, may result in lower costs to the Company to terminate international traffic, there is a risk that the revenues that the Company receives from inbound international traffic may decrease to an even greater degree. The implementation of the WTO Agreement may also make it easier for foreign carriers with market power in their home markets to offer United States and foreign customers end-to-end services to the disadvantage of WorldCom, which may face substantial obstacles in obtaining from foreign governments and foreign carriers the authority and facilities to provide such end-to-end services.

Results of Operations

The following table sets forth for the periods indicated the Company's statement of operations as a percentage of its operating revenues.

	For the Year Ended December 31,		
	1996	1995	1994
Revenues	100.0%	100.0%	100.0%
Line costs	54.8	54.9	65.3
Selling, general and administrative	18.5	18.3	19.7
Depreciation and amortization	6.7	8.5	7.3
Direct merger costs, restructuring and other charges	13.4	-	4.7
Charge for in-process research and development	47.7	-	-
Operating income (loss):	(41.1)	18.3	3.0
Other income (expense):			
Interest expense	(4.9)	(6.7)	(2.1)
Shareholder litigation settlement	-	-	(3.4)
Miscellaneous	0.1	0.3	0.3
Income (loss) before income taxes and extraordinary item	(45.9)	11.9	(2.2)
Provision for income taxes	2.9	4.6	3.3
Net income (loss) before extraordinary item	(48.8)	7.3	(5.5)
Extraordinary item	0.6	-	-
Net income (loss)	(49.4)	7.3	(5.5)
Preferred dividend requirement	-	1.0	1.3
Net income (loss) applicable to common shareholders	(49.4)%	6.3%	(6.8)%

Year Ended December 31, 1996 vs.

Year Ended December 31, 1995:

Revenues for 1996 increased 21% to \$4.49 billion on 24.51 billion revenue minutes as compared to \$3.70 billion on 19.57 billion revenue minutes for 1995. The increase in total revenues and minutes is primarily attributable to internal growth of the Company.

Revenues for 1996 include the acquisitions of Choice and BLT Technologies which were accounted for as poolings of interests. Revenues from these businesses increased 97% over the prior year.

Internally, private line and frame relay revenues increased 28% over the prior year while switched commercial and wholesale revenues increased 23% to \$3.31 billion on a 26% increase in traffic.

Line costs as a percentage of revenues decreased to 54.8% of revenues as compared to 54.9% for 1995. These changes are attributable to changes in the product mix, and synergies and economies of scale resulting from network efficiencies achieved from the assimilation of recent acquisitions into the Company's operations.

Selling, general and administrative expenses for 1996 increased to \$828.7 million or 18.5% of revenues as compared to \$677.9 million or 18.3% of revenues for 1995. The increase in selling, general and administrative expenses results from the Company's expanding operations, primarily through stronger internal growth, offset by changes in the product mix.

Depreciation and amortization expense for 1996 decreased to \$303.3 million or 6.7% of revenues from \$312.7 million or 8.5% of revenues for 1995. This decrease reflects the reduction in depreciation and amortization associated with the second quarter 1996 write-down in the carrying value of certain assets offset by additional depreciation related to capital expenditures. The reduction in percentage is due to a relatively stable amount of amortization on a higher revenue base. In 1997, the Company expects depreciation and amortization expense as a percentage of revenues to increase as a result of the MFS Merger.

In the second quarter of 1996, the Company incurred non-cash charges related to a write-down in the carrying value of certain assets, including goodwill and equipment. Because of events resulting from the passage of the Telecom Act, and changes in circumstances impacting certain non-core operations, management estimates of the Company's fair value of operating assets within its core and non-core businesses resulted in a non-cash charge of \$343.5 million after tax. On a pre-tax basis, the write-down was \$402.0 million and included \$139.1 million for network facilities and \$262.9 million for non-core businesses, primarily operator services goodwill.

8
2
4
3
:
6
5
.
6
7

In the fourth quarter of 1996, the Company recorded other after-tax charges of \$121.0 million for employee severance, employee compensation charges, alignment charges and costs to exit unfavorable telecommunications contracts. On a pre-tax basis, this charge was \$198.1 million and is reflected in operating loss for the 1996 period.

The results for 1996 include a \$2.14 billion, fourth quarter charge for in-process research and development related to the MFS Merger. The charge is based upon a valuation analysis of the technologies of MFS' worldwide information system, the Internet network expansion system of UUNET, and certain other identified research and development projects purchased in the merger. The Company believes that the efforts to complete these projects will consist of internally-staffed engineering costs and further development and construction of the network. These costs are estimated to be approximately \$1.0 billion and will be incurred over the next five years.

Interest expense in 1996 was \$221.8 million or 4.9% of revenues, as compared to \$249.2 million or 6.7% of revenues in 1995. The decrease in interest expense is attributable to lower interest rates in effect on the Company's long-term debt. For the twelve months ended December 31, 1996 and 1995, weighted average annual interest rates on the Company's long-term debt was 6.2% and 7.2%, respectively, while weighted average annual levels of borrowing were \$3.49 billion and \$3.45 billion, respectively.

The Company recorded a tax provision of \$129.5 million on a pretax loss of \$2.1 billion in 1996. Although the Company generated a consolidated pre-tax loss in 1996, permanent items aggregating approximately \$2.4 billion resulted in the recognition of taxable income. Included in the permanent items was the \$2.14 billion charge for in-process research and development related to the MFS Merger.

In the second quarter of 1996, the Company recorded extraordinary items totaling \$24.4 million, net of income tax benefit of \$15.6 million. The items included \$4.2 million in connection with the Company's debt refinancing, and \$20.2 million related to a write-off of deferred international costs. Previously, a portion of the outbound call fee due the foreign carrier was deferred and accounted for as a cost attributable to the revenue associated with the inbound call. Currently, the outbound call fee due the foreign carrier is expensed as incurred.

For the year ended December 31, 1996, net income, before non-recurring charges, increased 67% to \$414.9 million compared with \$248.1 million for the 1995 period. Fully diluted earnings per common share, before the non-recurring charges increased 49% to \$1.01 per share versus \$0.68 per share for the comparable 1995 period.

**Year Ended December 31, 1995 vs.
Year Ended December 31, 1994:**

Revenues for 1995 increased 65% to \$3.70 billion on 19.57 billion revenue minutes as compared to \$2.25 billion on 11.06 billion revenue minutes for 1994.

On a pro forma basis, as though the acquisition of WitTel occurred at the beginning of 1994, revenues and traffic for 1995 increased 20% and 30%, respectively, compared with pro forma revenues of \$3.09 billion on 15.03 billion revenue minutes for 1994. Revenue growth for 1995 was driven by strong performance from the Company's retail and wholesale switched services offset insignificantly by declines in operator services revenue. Switched retail and wholesale revenues and traffic rose 22% and 31%, respectively. Operator services revenues and traffic decreased 6% and 15%, respectively, yet represented less than 5% of total Company revenues for 1995.

Private line revenues for 1995 also reflected positive growth, increasing 21% over 1994 pro forma results due to growth in commercial Internet business and other frame relay applications.

Line costs as a percentage of revenues decreased to 54.9% in 1995 compared to 65.3% for 1994. These decreases are attributable to changes in product mix, rate reductions resulting from favorable contract negotiations and synergies and economies of scale resulting from network efficiencies achieved from the assimilation of the IDB Merger and the WitTel Acquisition into the Company's operations. Additionally, through the WitTel Acquisition, the Company has been able to achieve further network efficiencies associated with owning the WitTel nationwide fiber optic cable network rather than leasing similar capacity from other providers at a higher cost.

Selling, general and administrative expenses for 1995 increased to \$677.9 million or 18.3% of revenues as compared to \$441.9 million or 19.7% of revenues for 1994. The increase in selling, general and administrative expenses results from the Company's expanding operations, primarily through the WitTel Acquisition and internal growth. The decrease in expense as a percentage of revenues reflects the assimilation of recent acquisitions into the Company's strategy of cost control.

Depreciation and amortization expense for 1995 increased to \$312.7 million or 8.5% of revenues from \$164.4 million or 7.3% of revenues for 1994. This increase reflects depreciation and amortization of the additional property and equipment and goodwill from the WitTel Acquisition.

Interest expense in 1995 was \$249.2 million or 6.7% of revenues, as compared to \$47.3 million or 2.1% of revenues in 1994. The increase in interest expense was due primarily to an increase in the average debt outstanding by the Company to finance the WorldCom Acquisition. Also, higher interest rates were in effect on the Company's long-term debt, reflecting higher prevailing interest rates in the market generally.

The effective income tax rate for 1995 was 39% of income before taxes versus a 1994 rate in excess of 100%. The 1995 effective rate of 39% includes the effect of a \$7.0 million decrease in the Company's valuation allowance. The valuation allowance decreased due to the Company's ability to utilize net operating losses that management had previously determined would not be utilized under a "more likely than not" scenario. This is mainly attributable to the profitability of individual operating units in 1995. The unusually high income tax rate in 1994 was due to permanent items not deductible for tax purposes as well as a \$90.0 million valuation allowance placed on the deferred tax asset in connection with IDB net operating losses.

In the third quarter of 1995, Metromedia converted its Series 1 Preferred Stock into Common Stock and exercised its warrants to acquire Common Stock and immediately sold its position of 61.7 million shares of Common Stock in a public offering. In connection with the preferred stock conversion, WorldCom made a non-recurring payment of \$15.0 million to Metromedia, representing a discount to the minimum nominal dividends that would have been payable on the Series 1 Preferred Stock prior to the September 15, 1996 optional call date of approximately \$26.6 million (which amount includes an annual dividend requirement of \$24.5 million plus accrued dividends to such call date).

Net income applicable to common shareholders was \$233.1 million for 1995 versus a \$151.8 million loss in the comparable 1994 period. Operating results for 1995 include the non-recurring payment of \$15.0 million to Metromedia. Excluding this payment, earnings for 1995 would have been \$248.1 million or \$0.68 per common share.

Liquidity and Capital Resources

On June 28, 1996, WorldCom replaced its then existing \$3.41 billion credit facilities (the "Previous Facilities") with a new \$3.75 billion revolving credit facility (the "Credit Facility"). Borrowings under the Credit Facility were used to refinance the Previous Facilities and have been and will be used to finance capital expenditures and provide additional working capital. As a result of the refinancing, WorldCom recorded an extraordinary charge of \$4.2 million, net of \$2.7 million in taxes, related to the charge-off of the unamortized portion of costs associated with the refinanced debt.

The Credit Facility has a five-year term and bears interest, payable in varying periods, depending on the interest periods, not to exceed six months, at rates selected by the Company under the terms of the Credit Facility including a Base Rate or the LIBOR, plus applicable margin. The applicable margin for a LIBOR rate borrowing varies from 0.35% to 0.875% based upon a specified financial test. The Credit Facility is unsecured and requires compliance with certain financial and other operating covenants which limit, among other things, the incurrence of additional indebtedness by WorldCom and restricts the payment of cash dividends to WorldCom's shareholders. The Credit Facility is also subject to an annual commitment fee not to exceed 0.25% of any unborrowed portion of the Credit Facility.

Borrowings under the Credit Facility bear interest at rates that fluctuate with prevailing short-term interest rates. Under the provisions of the Credit Facility, the Company is required to hedge 25% of its debt against adverse interest movements in short-term rates. The Company believes that it can adequately address this requirement through financial hedging measures or increasing the amount of fixed rate debt outstanding.

The Company has historically utilized cash flow from operations to finance capital expenditures and a mixture of cash flow, debt and stock to finance acquisitions. The Company expects to experience increased capital intensity due to network expansions and believes that funding needs in excess of internally generated cash flow will be met by accessing the debt markets. The Company has filed a shelf Registration Statement on Form S-3 with the SEC for the sale, from time to time, of one or more series of unsecured debt securities having an aggregate value of \$3.0 billion. The Company expects to draw down a portion of the shelf registration in the first half of 1997 to pay down the Credit Facility but maintain increased credit availability for capital spending. No assurance can be given that any public financing will be available on terms acceptable to the Company.

In connection with the MFS Merger and pursuant to a change of control provision, WorldCom offered to repurchase the MFS \$924.0 million 8 7/8% Senior Discount Notes due 2006 and the MFS \$788.3 million 9 3/8% Senior Discount Notes due 2004 (collectively the "MFS Notes") at 101% of the accreted value as of February 27, 1997, which was \$670.0 million and \$666.1 million, respectively. The offer to repurchase began January 28, 1997 and ended February 27, 1997. As of the expiration approximately \$14.3 million of the MFS Notes were repurchased. The MFS Notes contain certain covenants which, among other things, restrict MFS' ability to incur additional debt, create liens, enter into sale-leaseback transactions, pay dividends, make certain restricted payments, enter into transactions with affiliates and sell assets or merge with another company.

For the twelve months ended December 31, 1996, the Company's cash flow from operations was \$798.1 million, increasing from \$616.7 million in the comparable period for 1995. Excluding the change in deferred taxes, cash flow increased by approximately \$300 million or 66% over the comparable period for 1995. The increase in cash flow from operations was primarily attributable to internal growth.

During 1996, the Company's existing receivables purchase agreement generated additional proceeds of \$79.6 million, bringing the total amount outstanding to \$375.0 million. The Company used these proceeds to reduce outstanding debt under the Company's Credit Facility. As of December 31, 1996, the purchaser owned an undivided interest in a \$821.7 million pool of receivables which includes the \$375.0 million sold.

Cash used in investing activities in the twelve months ended December 31, 1996 totaled \$752.8 million and included \$427.6 million for normal capital expenditures and an additional \$229.5 million for additional city pair network construction. Primary capital expenditures include purchases of switching, transmission, communication and other equipment. Approximately \$2.5 billion is currently anticipated for transmission and communications equipment purchases in 1997 without regard to possible future acquisitions, if any. This amount includes additional city pair network construction opportunities which could approximate \$500 million to \$700 million.

Cash flows from investing activities for 1996 also includes net cash received from acquisitions of \$116.1 million. The net cash inflow from acquisitions is due to \$209.3 million of cash and cash equivalents received in the MFN Merger.

Included in cash flows from financing activities are payments of \$0.9 million for preferred dividend requirements. In connection with the announcement in May 1996, that the Company would redeem its Series 2 Preferred Stock on June 5, 1996, all of the remaining outstanding Series 2 Preferred Stock was converted into 5.3 million shares of Common Stock in the second quarter of 1996. The fully diluted common shares outstanding were unaffected by the conversion and the Company has no further dividend requirements with respect thereto.

On July 15, 1996, WorldCom announced that it had exercised its option to redeem on August 16, 1996, all of the outstanding IDB WorldCom, Inc. 5% Convertible Subordinated Notes due 2003 (the "Notes"). Prior to the redemption date, substantially all of the holders of the Notes elected to convert their Notes into Common Stock, resulting in the issuance of approximately 10.3 million shares of Common Stock. The fully diluted common shares outstanding were unaffected by the conversion, and the Company has no further cash interest requirement related to the Notes.

The Company has never paid cash dividends on its Common Stock. WorldCom's Credit Facility restricts the payment of cash dividends on WorldCom capital stock without prior consent of the lenders. The Depositary Shares are entitled to receive dividends, when, as, and if they are declared by the Board of Directors, accruing at the rate of \$2.68 per share per annum, payable quarterly in arrears on each February 28, May 31, August 31 and November 30. Dividends are payable in cash or in shares of Common Stock, at the election of the Company. The Company paid the initial dividend on February 28, 1997 in cash and expects to continue to pay cash dividends on the WorldCom Series A Preferred Stock. Dividends on the WorldCom Series B Preferred Stock accrue at the rate per share of \$0.0775 per annum and are payable in cash. Dividends will be paid only when, as and if declared by the Board of Directors of the Company. The Company anticipates that dividends on the WorldCom Series B Preferred Stock will not be declared but will continue to accrue. Upon conversion, accrued but unpaid dividends are payable in cash or shares of Common Stock at the Company's election.

Absent significant capital requirements for other acquisitions, the Company believes that cash flow from operations, funds available under the Credit Facility and funds anticipated to be received from debt to be issued under the shelf Registration Statement will be adequate to meet the Company's capital needs for the remainder of 1997.

Recently Issued Accounting Standards

In June 1996, the FASB issued SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." This Statement establishes accounting and reporting standards for transfers and servicing of financial assets and extinguishment of liabilities. This Statement provides standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. This Statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after December 31, 1996, and is to be applied prospectively. WorldCom believes that the adoption of this standard will not have a material effect on the Company's consolidated results of operations or financial position.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's consolidated financial statements and notes thereto are included elsewhere in this report on Form 10-K as follows:

	Page
Report of independent public accountants	F-2
Consolidated financial statements-	
Consolidated balance sheets - December 31, 1996 and 1995	F-3
Consolidated statements of operations for the three years ended December 31, 1996	F-4
Consolidated statements of shareholders' investment for the three years ended December 31, 1996	F-5
Consolidated statements of cash flows for the three years ended December 31, 1996	F-6
Notes to consolidated financial statements	F-7
Financial statement schedule	F-23
Pro forma financial statements (unaudited)	F-24

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The following states each director and each executive officer's age, principal occupation, present position with the Company and the year in which each director first was elected a director (each serving continuously since first elected except as set forth otherwise). Unless indicated otherwise, each individual has held his present position for at least five years.

Carl J. Aycock, 47, has been a director of the Company since 1983. Mr. Aycock served as Secretary of the Company from 1987 to 1995 and was the Secretary and Chief Financial Officer of Master Corporation, a motel management and ownership company, from 1989 until 1992. Subsequent to 1992, Mr. Aycock has been self employed as a financial administrator.

Max E. Bobbitt, 52, has been a director of the Company since 1992. Mr. Bobbitt was a director of ATC until the ATC Merger. Mr. Bobbitt is currently President and Chief Executive Officer of Metromedia Asia Corporation, a telecommunications company. From 1996 until February 1997, Mr. Bobbitt was President and Chief Executive Officer of Asian American Telecommunications Corporation. Prior to 1996, Mr. Bobbitt held various positions including President and Chief Operating Officer and director of ALLTEL Corporation, a telecommunications company, from 1970 until January 1995.

R. Douglas Bradbury, 46, has been a director of the Company since the MFS Merger. Mr. Bradbury served as Chief Financial Officer of MFS from January 1992 until February 1997, Executive Vice President of MFS from August 1995 to February 1997, Senior Vice President of MFS from September 1992 to August 1995 and a director of MFS from August 1994 to February 1997. From 1990 to 1992, Mr. Bradbury was Senior Vice President - Corporate Affairs for MFS Telecom, Inc. ("MFS Telecom").

James Q. Crowe, 47, serves as Chairman of the Board of the Company. Mr. Crowe has served as a director of the Company since the MFS Merger. Mr. Crowe has served as Chairman of the Board of MFS since 1988 and Chief Executive Officer since November 1991 and was President of MFS (January 1988 - June 1989 and April 1990 - January 1992).

Bernard J. Ebberts, 55, has been President and Chief Executive Officer of the Company since April 1985. Mr. Ebberts has served as a director of the Company since 1983.

Francesco Galesi, 66, has been a director of the Company since 1992. Mr. Galesi was a director of ATC until the ATC Merger. Mr. Galesi is the Chairman and Chief Executive Officer of the Galesi Group, which includes companies engaged in distribution, manufacturing, real estate and telecommunications. Mr. Galesi serves as a director of Amnec, Inc., and Walden Residential Properties, Inc.

Richard R. Jaros, 45, has been a director of the Company since the MFS Merger and has served as a director of MFS since 1992. Mr. Jaros has been President of Kiewit Diversified Group, Inc. ("KDG"), a coal mining and telecommunications company, since July 1996, Executive Vice President and Chief Financial Officer of Peter Kiewit Sons' ("PKS"), a construction and mining company since April 1993, and was a Vice President of PKS from 1990 until 1992. Mr. Jaros was the Chairman of the Board of CalEnergy Company, Inc. ("CEC"), a geothermal energy producer, from January 1994 until May 1995 and the President and Chief Operating Officer of CEC from 1992 until April 1993. Mr. Jaros is a director of PKS, CEC and C-TEC Corporation ("C-TEC"), a telecommunications company.

Stiles A. Kellett, Jr., 53, has served as a director of the Company since 1981. Mr. Kellett has been Chairman of Kellett Investment Corp. since 1995. From 1978 to 1995, Mr. Kellett served as Chairman of the Board of Directors of Convalescent Services, Inc., a long-term health care company in Atlanta, Georgia. Mr. Kellett serves as a director of Frederica Bank & Trust Company, St. Simons Island, Georgia, and Mariner Health Group, Inc., New London, Connecticut.

David C. McCourt, 40, has been a director of the Company since the MFS Merger and has served as a director of MFS since January 1992. Mr. McCourt has served as Chairman of the Board and Chief Executive Officer of C-TEC since October 1993. Mr. McCourt is also the President, as well as a director of Kiewit Telecom Holdings, Inc. Mr. McCourt has served as President of Metropolitan Fiber Systems/McCourt, Inc., a subsidiary of MFS Telecom, since 1988. Mr. McCourt is a director of C-TEC and Mercom, Inc.

John A. Porter, 53, has been a director of the Company since 1988. Mr. Porter served as Vice Chairman of the Board of the Company from September 1993 until the MFS Merger and served as Chairman of the Board of Directors of the Company from 1988 until September 1993. From May 1995 to the present, Mr. Porter has served as Chairman of the Board of Directors and Chief Executive Officer of Industrial Electric Manufacturing, Inc., a manufacturer of electrical power distribution products. Mr. Porter also serves as Chairman of the Board of Directors of Phillips & Brooks/Gladwin, Inc., a manufacturer of pay telephone enclosures and equipment. Mr. Porter was previously President and sole shareholder of P.M. Restaurant Group, Inc. which filed for protection under Chapter 11 of the United States Bankruptcy Code in March 1995. Subsequent to March 1995, Mr. Porter sold all of his shares in P.M. Restaurant Group, Inc. He is also a director of Uniroyal Technology Corporation, Intelligent Electronics, Inc. and XL Connect, Inc.

Walter Scott, Jr., 65, has been a director of the Company since the MFS Merger and has served as a director of MFS since January 1992. Mr. Scott has been the Chairman of the Board and President of PKS for more than the last five years. He also is a director of Berkshire Hathaway, Inc., Burlington Resources, Inc., CEC, ConAgra, Inc., First Bank System, Inc., Valmont Industries, Inc., KDG, RCN Corporation, and C-TEC.

John W. Sidmore, 45, serves as Vice Chairman of the Board and Chief Operations Officer of the Company. Mr. Sidmore has been a director of the Company since the MFS Merger and has served as a director of MFS since August 1996. Mr. Sidmore was President and Chief Operating Officer of MFS from August 1996 until the MFS Merger and has been Chief Executive Officer and a director of UUNET from June 1994 to the present, and also held the position of President of UUNET from June 1994 to August 1996 and from January 1997 to the present. From 1989 to 1994, he was President and Chief Executive Officer of CSC Intelicom, a telecommunications software company. Mr. Sidmore is a director of Saville Systems PLC, and Earthlink Network, Inc.

Scott D. Sullivan, 35, serves as Chief Financial Officer and Secretary of the Company. From the ATC Merger until December 1994, Mr. Sullivan served as Vice President and Assistant Treasurer of the Company. From 1989 until 1992, Mr. Sullivan served as an executive officer of two long-distance companies, including ATC. From 1983 to 1989, Mr. Sullivan served in various capacities with KPMG Peat Marwick LLP. Mr. Sullivan has served as a director of the Company since March 1996.

Lawrence C. Tucker, 54, is a general partner of Brown Brothers Harriman & Co. ("Brown Brothers"), which is the general and managing partner of The 1818 Fund, L.P. and The 1818 Fund II, L.P. (collectively, "The 1818 Funds"). He is also a director of The WellCare Management Group, Inc. and Riverwood International Corporation. Mr. Tucker has served as a director of the Company since May 1995, and previously served as director of the Company from May 28, 1992 until the ATC Merger.

Michael B. Yanney, 63, has been a director of the Company since the MFS Merger and has served as a director of MFS since March 1993. Mr. Yanney has been the President, Chairman and Chief Executive Officer of America First Companies L.L.C., a bank holding company in Omaha, Nebraska, since 1984. He also serves as a director of Burlington Northern Santa Fe Corporation, C-TEC, Forest Oil Corporation and Mid-America Apartment Communities, Inc.

Compliance with Section 16 of the Securities Exchange Act of 1934

Section 16(a) of the Securities Exchange Act of 1934 requires directors, executive officers and 10% or greater shareholders of the Company ("Reporting Persons") to file with the SEC initial reports of ownership and reports of changes in ownership of equity securities of the Company. To the Company's knowledge, based solely on its review of the copies of such reports furnished to the Company and written representations that certain reports were not required, during the year ended December 31, 1996, all Section 16(a) filing requirements applicable to Reporting Persons were complied with, except that Mr. Galesi filed one late report covering four transactions.

Item 11. EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth the compensation of the named executive officers of the Company for the three years ended December 31, 1996. The table also sets forth, for informational purposes, the Compensation paid by MFS and/or UUNET during 1996 to Messrs. Crowe and Sidgmore, who became executive officers of the Company upon completion of the MFS Merger.

Name and Principal Position	Year	Annual Compensation		Long Term Compensation	All Other Compensation(\$)
		Salary (\$)	Bonus(\$)	Awards Securities Underlying Options/ SARs (#)	
Bernard J. Ebbers	1996	935,000	2,337,500 ⁽¹⁾	1,200,000/0	4,500 ⁽²⁾
President and	1995	860,000	2,125,000	900,000/0	4,500
Chief Executive Officer	1994	711,000	750,000	200,000/0	4,500
James Q. Crowe ⁽¹⁾	1996	496,923	1,000,000	-0-	149,692 ⁽⁴⁾
Chief Executive Officer, MFS					
John W. Sidgmore ⁽¹⁾	1996	283,577	494,443	-0-	2,182,654 ⁽⁵⁾
President and Chief Operating Officer, MFS					
Scott D. Sullivan	1996	375,000	500,000	100,000/0	4,500 ⁽²⁾
Chief Financial Officer	1995	294,000	225,000	240,000/0	4,500
and Secretary	1994	147,584	250,000	210,000/0	4,500
Roy A. Wilkens	1996	450,000	450,000	100,000/0	1,004,500 ⁽⁶⁾
President and Chief	1995	427,500	300,000	400,000/0	1,004,500
Executive Officer, WilTel	1994	0	0	0/0	0

⁽¹⁾ Includes \$1,687,500 paid under the Company's Annual Performance Bonus Plan and \$650,000 paid under the Company's Special Performance Bonus Plan. The Compensation and Stock Option Committee awarded to Mr. Ebbers the

\$1,000,000 maximum amount allowed under the Company's Special Performance Bonus Plan for 1996, but Mr. Ebbers accepted only \$650,000 of such award.

(2) Matching contributions to the Company's 401(k) Plan.

(3) Represents compensation paid to these individuals as executive officers of MFS and/or UUNET.

(4) Matching contributions to MFS' Shareworks Match Plan.

(5) Pursuant to option and stock purchase agreements between Mr. Sidgmore and UUNET, upon consummation of the UUNET Acquisition, the lapse of repurchase rights accelerated with respect to 50% of outstanding shares issued upon option exercise subject to a right of repurchase as of the effective date of the UUNET Acquisition. As a result of such acceleration, Mr. Sidgmore incurred an excise tax pursuant to Section 4999 of the Internal Revenue Code of 1986 and corresponding provisions of applicable state law. UUNET paid an amount (the "Transfer") sufficient to pay (i) the excise tax and (ii) any and all federal, state and local taxes payable with respect to the receipt of the Transfer. The amount that UUNET paid to Mr. Sidgmore in this connection was \$2,182,654.

(6) Includes \$1,000,000 received by Mr. Wilkens in connection with the termination of certain contract rights with Williams Telecommunications Group, Inc. and \$4,500 in matching contributions to the Company's 401(k) Plan. In connection with the WilTel Acquisition, the Company assumed the employment agreement among Mr. Wilkens, Williams and Williams Telecommunications Group, Inc. (the "Agreement"). Mr. Wilkens resigned from the Company in January 1997, at which time the Agreement was terminated.

Option Grants in Last Fiscal Year

The following table sets forth information concerning stock option grants made in the fiscal year ended December 31, 1996, to the individuals named in the Summary Compensation Table. There were no grants of SARs to said individuals during the year.

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term ⁽³⁾	
	Number of Securities Underlying Options Granted (#) ⁽¹⁾	% of Total Options Granted to Employees in FY	Exercise or Base Price (\$/Sh) ⁽²⁾	Expiration Date	5% (\$)	10% (\$)
Bernard J. Ebbers	1,200,000	20.8%	17.875	01/01/06	13,489,790	34,185,776
James Q. Crowe	---	---	---	---	---	---
John W. Sidgmore	---	---	---	---	---	---
Scott D. Sullivan	100,000	1.7%	17.875	01/01/06	1,124,149	2,848,815
Roy A. Wilkens	100,000	1.7%	17.875	01/01/06	1,124,149	2,848,815

(1) The options terminate on the earlier of their expiration date or ten years after grant or, generally, immediately on termination for reasons other than retirement, disability, death or without cause; three months after termination of employment on retirement; 12 months after termination for disability, death or without cause; or upon the consummation of a specified change of control transaction.

Mr. Ebbers' option becomes exercisable in three equal annual installments beginning January 1, 1997 through January 1, 1999. Mr. Sullivan's option becomes exercisable beginning January 1, 1999. Pursuant to Mr. Wilkens' separation agreement with the Company, and assuming his compliance with the terms thereof, 50,000 shares under such option will vest and become exercisable on January 31, 1998. Additionally, Mr. Wilkens' options may be exercised through February 10, 1998.

(2) The exercise price may be paid in cash or, in the discretion of the Company's Compensation and Stock Option Committee, by shares of Common Stock already owned or to be issued pursuant to the exercise, valued at the closing quoted selling price on the date of exercise, or a combination of cash and Common Stock.

(3) The indicated 5% and 10% rates of appreciation are provided to comply with SEC regulations and do not necessarily reflect the views of the Company as to the likely trend in the stock price. Actual gains, if any, on stock option exercises and the sale of Common Stock holdings will be dependent on, among other things, the future performance of the Common

Stock and overall stock market conditions. There can be no assurance that the amounts reflected in this table will be achieved.

Aggregated Option Exercises in Last Fiscal Year and FY-End Option Values

The following table sets forth information concerning the number and value realized as to options exercised during 1996 and options held at December 31, 1996, by the individuals named in the Summary Compensation Table and the value of those options held at such date. The options exercised were not exercised as SARs and no SARs were held at year end. All options had exercise prices lower than the fair market value of the Common Stock on December 31, 1996 ("in-the-money" options).

Name	Shares Acquired on Exercise (#)	Value Realized (\$) ⁽¹⁾	Number of Securities Underlying Unexercised Options at FY-End (#)		Value of Unexercised In-The-Money Options at FY-End (\$) ⁽²⁾	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Bernard J. Ebbers	-	-	1,075,696	1,800,000	18,172,348	17,362,500
James Q. Crowe	1,680,000	34,280,400	937,701 ⁽³⁾	872,562	21,748,568	20,237,767
John W. Sidmore	-	-	35,371	-	734,774	-
Scott D. Sullivan	-	-	273,028 ⁽⁴⁾	300,000	4,497,392	3,331,250
Roy A. Wilkens ⁽⁵⁾	-	-	400,000	50,000	6,287,000	409,375

(1) Based upon the difference between the closing price on the date of exercise and the option exercise price.

(2) Based upon a price of \$26.0625 per share, which was the closing price of Common Stock on December 31, 1996.

(3) Subsequent to December 31, 1996, Mr. Crowe exercised his then exercisable options and sold the underlying shares of Common Stock.

(4) Subsequent to December 31, 1996, Mr. Sullivan exercised his then exercisable options and sold the underlying shares of Common Stock.

(5) Giving effect to the provisions of Mr. Wilkens' separation agreement.

Compensation of Directors. WorldCom's directors are paid fees of \$22,500 per year and \$1,000 per meeting attended of the Board plus certain expenses. Committee members are paid a fee of \$750 for any committee meeting attended on the same day as a Board meeting and \$1,000 for any other committee meeting attended, plus certain expenses. The chairman of each committee receives an additional \$3,000 per year.

Pursuant to WorldCom's Third Amended and Restated 1990 Stock Option Plan, each non-employee director receives annually a non-discretionary grant of options to purchase 5,000 shares of Common Stock at the fair market value of such stock on the date of grant. Such options are immediately exercisable and expire on the earliest to occur of (a) ten years following the date of grant, (b) three months following retirement, (c) 12 months following termination of service due to disability or death, (d) upon cessation of service for reasons other than retirement, death or disability, or (e) the date of consummation of a specified change in control transaction defined generally to include the dissolution or liquidation of the Company, a reorganization, merger or consolidation of the Company in which the Company is not the surviving corporation, or a sale of substantially all of the assets or 80% or more of the outstanding stock of the Company to another entity. The exercise price may be paid in cash or, in the discretion of the Compensation Committee and Stock Option Committee, the Common Stock. In the discretion of the Compensation and Stock Option Committee, shares receivable on exercise may be withheld to pay applicable taxes on the exercise.

Employment Agreements and Termination of Employment Arrangements. Pursuant to an employment arrangement, Mr. Crowe will not have any direct operating responsibility but will continue to serve as a director and Chairman of the Board of the Company for the term of his employment, subject to his nomination and election as such by the Company's shareholders. The term of Mr. Crowe's employment continues until November 23, 1997 and may be extended by mutual agreement. In connection with this arrangement, Mr. Crowe will receive a base salary of \$120,000 per year for certain services provided to and as directed by the Company. In addition, Mr. Crowe's options to purchase an aggregate of 872,562 shares of Common Stock at an exercise price of \$2.869 per share will become fully exercisable at any time after November 24, 1997 and all shares granted under the WorldCom/MFS Employee Stock Bonus Plan and the WorldCom/MFS 1995 Deferred Stock Purchase Plan will vest immediately.

Pursuant to the employment agreement of Mr. Sidmore with UUNET, approximately 420,000 restricted shares of Common Stock vested as a result of the MFS Merger. Pursuant to the terms of Mr. Sidmore's employment agreement with UUNET, Mr. Sidmore's initial base salary was \$220,000 per year, plus a bonus targeted at \$130,000 per year. Mr. Sidmore received a bonus of \$400,000 for 1996 under his employment agreement. If Mr. Sidmore's employment is terminated without cause, he will receive severance payments totaling \$300,000. Under the employment agreement, Mr. Sidmore also received options to purchase at \$0.04 per share 4,644,635 shares of Common Stock (which options were exercised and certain of the shares issued remain subject to a right of repurchase, which right lapses over time). In the event of a change in control of WorldCom or an involuntary termination other than for cause of Mr. Sidmore's employment, WorldCom's right of repurchase lapses with respect to 50 percent of any of the shares subject to a right of repurchase at the time and such right also lapses over time.

Compensation Committee Interlocks and Insider Participation. Prior to the MFS Merger, the Company's Compensation and Stock Option Committee was composed of Stiles A. Kellett, Jr. (Chairman), Silvia Kessel and Lawrence C. Tucker. Subsequent to the MFS Merger, the members of the Company's Compensation and Stock Option Committee have been Stiles A. Kellett, Jr. (Chairman) Walter Scott, Jr., Lawrence C. Tucker and Michael B. Yanney.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Principal Holders of Voting Securities. As of March 3, 1997, the following persons, individually or as a group, were known to the Company to be the beneficial owners of more than five percent of the issued and outstanding Common Stock, each of which persons has sole voting and investment power over such Common Stock, except as set forth in the footnotes hereto:

Name and Address of Beneficial Owner	Amount and Nature of Existing Beneficial Ownership ⁽¹⁾	Percent Of Class ⁽²⁾
FMR Corp. 82 Devonshire Street Boston, Massachusetts 02109	70,566,021 ⁽²⁾	7.9%

⁽¹⁾ Based upon 891,860,640 shares of Common Stock issued and outstanding plus, as to the holder thereof only, exercise or conversion of all derivative securities that are exercisable or convertible currently or within 60 days after March 3, 1997.

⁽²⁾ Based upon shares owned as of March 6, 1997, as provided by FMR Corp., including 60,322,566 shares beneficially owned by Fidelity Management & Research Company ("Fidelity"), as a result of its serving as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940 and serving as investment adviser to certain other funds which are generally offered to limited groups of investors; 9,390,385 shares beneficially owned by Fidelity Management Trust Company, as a result of its serving as trustee or managing agent for various private investment accounts, primarily employee benefit plans, and serving as investment adviser to certain other funds which are generally offered to limited groups of investors; and 853,070 shares beneficially owned by Fidelity International Limited, as a result of its serving as investment adviser to various non-United States investment companies.

The number of shares beneficially owned by Fidelity includes 4,301,357 shares issuable upon conversion of the WorldCom Series A Preferred Stock. The number of shares beneficially owned by Fidelity Management Trust Company includes 267,839 shares issuable upon conversion of WorldCom Series A Preferred Stock.

FMR Corp. has sole voting power with respect to 5,627,963 shares and sole dispositive power with respect to 69,712,951 shares. Fidelity International Limited has sole voting and dispositive power with respect to all the shares it beneficially owns.

To the knowledge of the Company, 7,791 shares, or approximately 8.2% of the 94,992 outstanding shares of WorldCom Series A Preferred Stock are beneficially owned by Salomon Brothers Inc. ("SBI"), a wholly owned subsidiary of Salomon Brothers Holding Company ("SBHC") which is in turn a wholly owned subsidiary of Salomon Inc. The principal address of SBI is Seven World Trade Center, New York, New York 10048. As of March 3, 1997, the 7,791 outstanding shares of WorldCom Series A Preferred Stock owned by SBI were convertible into 2,682,238 shares of Common Stock, representing less than one percent of the outstanding Common Stock.

Security Ownership of Management. The following table sets forth the beneficial ownership of Common Stock, as of March 3, 1997, by each director, the named executive officers and by all persons, as a group, who are currently directors and executive officers of the Company. Each director or executive officer has sole voting and investment power over the shares listed opposite his name except as set forth in the footnotes hereto.

<u>Name of Beneficial Owner</u>	<u>Number of Shares Beneficially Owned⁽¹⁾</u>	<u>Percent of Class⁽¹⁾</u>
Carl J. Aycock	721,706 ⁽²⁾	•
Max E. Bobbitt	151,252 ⁽³⁾	•
R. Douglas Bradbury	49,017 ⁽⁴⁾	•
James Q. Crowe	1,007,417 ⁽⁵⁾	•
Bernard J. Ebbers	14,964,672 ⁽⁶⁾	1.7%
Francesco Galesi	3,517,108 ⁽⁷⁾	•
Richard R. Jaros	784,937 ⁽⁸⁾	•
Stiles A. Kellett, Jr.	3,102,175 ⁽⁹⁾	•
David C. McCourt	7,115 ⁽¹⁰⁾	•
John A. Porter	4,736,392 ⁽¹¹⁾	•
Walter Scott, Jr.	19,833,029 ⁽¹²⁾	2.2%
John W. Sidgmore	3,531,045 ⁽¹³⁾	•
Scott D. Sullivan	376,571 ⁽¹⁴⁾	•
Lawrence C. Tucker	3,165,096 ⁽¹⁵⁾	•
Roy A. Wilkens	456,974 ⁽¹⁶⁾	•
Michael B. Yanney	30,759 ⁽¹⁷⁾	•
All Directors and Current Executive Officers as a Group (15 persons)	55,947,572 ⁽¹⁸⁾	6.3%

• Less than one percent.

- (1) Based upon 891,860,640 shares of Common Stock issued and outstanding plus, as to the holder thereof only, exercise or conversion of all derivative securities that are exercisable or convertible currently or within 60 days after March 3, 1997.
- (2) Includes 5,576 shares owned by Mr. Aycock's spouse; 85,316 shares purchasable upon exercise of options; and 3,312 shares held as custodian for children.
- (3) Includes 33,512 shares purchasable upon exercise of options; and 117,780 shares as to which Mr. Bobbitt shares voting and investment power with his spouse.
- (4) Includes 344 shares issuable upon conversion of WorldCom Series B Preferred Stock; and 7,744 shares issuable pursuant to the WorldCom/MFS 1995 Deferred Stock Purchase Plan. All of the shares beneficially owned by Mr. Bradbury were obtained upon consummation of the MFS Merger.
- (5) Includes 8,511 shares issuable upon conversion of WorldCom Series B Preferred Stock; 16,971 shares issuable pursuant to the WorldCom/MFS 1995 Deferred Stock Purchase Plan; and 349 shares held as custodian for children. All of the shares beneficially owned by Mr. Crowe were obtained upon consummation of the MFS Merger.
- (6) Includes 36,432 shares held as custodian for children; 1,775,696 shares purchasable upon exercise of options; and 855,448 shares owned by Mr. Ebbers' spouse, as to which Mr. Ebbers shares voting and investment power.
- (7) Consists of 3,483,596 shares owned by Rotterdam Ventures, Inc., of which Mr. Galesi is sole shareholder; and 33,512 shares purchasable upon exercise of options.
- (8) Includes 6,449 shares issuable upon conversion of WorldCom Series B Preferred Stock; 8,400 shares held jointly with Mr. Jaros' spouse; and 15,930 shares held as custodian for Mr. Jaros' children as to which Mr. Jaros disclaims beneficial ownership. All of the shares beneficially owned by Mr. Jaros were obtained upon consummation of the MFS Merger.
- (9) Includes 8,000 shares owned by Mr. Kellett's spouse; 860 shares held as custodian for minor daughter; and 85,316 shares purchasable upon exercise of options.
- (10) Includes 95 shares issuable upon conversion of WorldCom Series B Preferred Stock. All of the shares beneficially owned by Mr. McCourt were obtained upon consummation of the MFS Merger.

- (11) Includes 165,560 shares held as custodian or trustee for minor children; 68,048 shares purchasable upon exercise of options; 218,000 shares owned by spouse, as to which beneficial ownership is disclaimed; and 85,812 shares held in trust for son of majority age, as to which beneficial ownership is also disclaimed.
- (12) Includes 172,594 shares issuable upon conversion of WorldCom Series B Preferred Stock; 72,916 shares owned by Mr. Scott's spouse; and 633 shares issuable upon conversion of WorldCom Series B Preferred Stock also owned by Mr. Scott's spouse. All of the shares beneficially owned by Mr. Scott were obtained upon consummation of the MFS Merger.
- (13) Includes 35,371 shares purchasable upon exercise of options. All of the shares beneficially owned by Mr. Sidmore were obtained upon consummation of the MFS Merger.
- (14) Includes 373,028 shares purchasable upon exercise of options.
- (15) A total of 3,131,828 of these shares are beneficially owned by The 1818 Funds. Brown Brothers is the general and managing partner of The 1818 Funds and Mr. Tucker, as a general partner of Brown Brothers, shares voting and investment power with respect to such securities. Also includes 33,268 shares purchasable upon exercise of options.
- (16) Includes 400,000 shares purchasable upon exercise of options.
- (17) Includes 2,956 shares owned by Mr. Yanney's spouse; and 21,000 shares beneficially owned by America First Companies L.L.C. Mr. Yanney is President, Chairman and Chief Executive Officer of America First Companies, L.L.C. All of the shares beneficially owned by Mr. Yanney were obtained upon consummation of the MFS Merger.
- (18) Includes 2,736,408 shares purchasable upon exercise of options or conversion of WorldCom Series B Preferred Stock.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

As of December 31, 1996, Messrs. Bradbury, Crowe and Sidmore held 52,500, 200,000 and 25,000 MFS Shareworks Plus Awards, respectively. Such awards were paid out on January 9, 1997 in connection with the MFS Merger. The value received from such awards was \$6.4 million, \$20.3 million and \$1.0 million, respectively.

Additionally, in accordance with the WorldCom/MFS 1992 Stock Option Plan, upon the termination of Mr. Bradbury as Chief Financial Officer of MFS on February 28, 1997, all of Mr. Bradbury's options to purchase an aggregate of 749,725 shares of Common Stock at an exercise price of \$2.869 per share were immediately vested. Mr. Bradbury subsequently exercised all such options and sold the underlying shares of Common Stock.

Prior to the MFS Merger, WorldCom and MFS were parties to certain interconnection or other service agreements entered into with each other and certain of their affiliates in the ordinary course of their businesses. In fiscal 1996, WorldCom received revenues from MFS and/or UUNET of \$88.4 million. Each of WorldCom, MFS and UUNET believe that the terms and conditions of such interconnection or other services agreements were no less favorable to WorldCom, MFS or UUNET than those that would have been available to WorldCom, MFS or UUNET in comparable, arm's-length transaction at the date of such agreements.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

- (a) 1 and 2

Financial statements, financial statement schedule and unaudited pro forma financial statements

See Index to Consolidated Financial Statements and Financial Statement Schedule.

- (a) 3

Exhibits required by Item 601 of Regulation S-K

See Exhibit Index for the exhibits filed as part of or incorporated by reference into this Report. There are omitted from the exhibits filed with or incorporated by reference into this Annual Report on Form 10-K certain promissory notes and other instruments and agreements with respect to long-term debt of the Company, none of which authorizes securities in a total amount that exceeds 10% of the total assets of the Company on a consolidated basis. Pursuant to Item 601(b)(4)(iii) of Regulation S-K, the Company hereby agrees to furnish to the Securities and Exchange Commission copies of any such omitted promissory notes or other instruments or agreements as the Commission requests.

(b) Reports on Form 8-K

Current Report on Form 8-K dated August 25, 1996 (filed November 4, 1996), reporting information required to be reported under Item 7(a) Financial Statements of Business Acquired and Item 7(b) Pro Forma Financial Information, the following financial statements:

MFS Communications Company, Inc. as of December 31, 1995 and 1994 and for the three years ended December 31, 1995:

- Report of Independent Accountants
- Consolidated Statements of Operations
- Consolidated Balance Sheets
- Consolidated Statements of Changes in Stockholders' Equity
- Consolidated Statements of Cash Flows
- Notes to Consolidated Financial Statements

MFS Communications Company, Inc. for the six month periods ended June 30, 1996 and 1995 (unaudited):

- Consolidated Statements of Operations
- Consolidated Balance Sheets
- Consolidated Statements of Cash Flows
- Notes to Consolidated Financial Statements

UUNET Technologies, Inc. as of December 31, 1995 and 1994 and for the three years ended December 31, 1995:

- Report of Independent Public Accountants
- Consolidated Balance Sheets
- Consolidated Statements of Operations
- Consolidated Statements of Stockholders' Equity
- Consolidated Statements of Cash Flows
- Notes to Consolidated Financial Statements

UUNET Technologies, Inc. for the six month periods ended June 30, 1996 and 1995 (unaudited):

- Consolidated Statements of Operations
- Consolidated Balance Sheets

WorldCom, Inc.:

- Pro Forma Condensed Combined Financial Statements
- Pro Forma Condensed Combined Balance Sheet as of June 30, 1996
- Pro Forma Condensed Combined Income Statement for the six months ended June 30, 1996
- Pro Forma Condensed Combined Income Statement for the fiscal year ended December 31, 1995
- Notes to the Pro Forma Condensed Combined Financial Statements
- MFS Adjusted Historical Financial Statements
- MFS Adjusted Historical Balance Sheets as of June 30, 1996
- MFS Adjusted Historical Income Statement for the six months ended June 30, 1996
- MFS Adjusted Historical Income Statement for the year ended December 31, 1995
- Notes to MFS Adjusted Historical Financial Statements

Current Report on Form 8-K dated August 25, 1996 (filed November 20, 1996), reporting information required to be reported under Item 7(a) Financial Statements of business acquired and Item 7(b) Pro Forma Financial Information, the following financial statements:

MFS Communications Company, Inc. for the nine month period ended September 30, 1996 and 1995 (unaudited):

- Consolidated Statements of Operations
- Consolidated Balance Sheets
- Consolidated Statements of Cash Flows
- Notes to Consolidated Financial Statements

WorldCom, Inc.:

- Pro Forma Condensed Combined Financial Statements
- Pro Forma Condensed Combined Balance Sheet as of September 30, 1996
- Pro Forma Condensed Combined Income Statement for the nine months ended September 30, 1996
- Pro Forma Condensed Combined Income Statement for the fiscal year ended December 31, 1995
- Notes to Pro Forma Condensed Combined Financial Statements
- MFS Adjusted Historical Financial Statements
- MFS Adjusted Historical Income Statement for the nine months ended September 30, 1996
- MFS Adjusted Historical Income Statement for the year ended December 31, 1995
- Notes to MFS Adjusted Historical Financial Statements

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WorldCom, Inc.

Date: March 17, 1997

By: /s/ Scott D. Sullivan

Scott D. Sullivan,
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Title	Date
<u>/s/ Carl J. Aycock</u> Carl J. Aycock	Director	March 17, 1997
<u>/s/ Max E. Bobbitt</u> Max E. Bobbitt	Director	March 17, 1997
<u>/s/ James Q. Crowe</u> James Q. Crowe	Director	March 17, 1997
<u>/s/ Bernard J. Ebbers</u> Bernard J. Ebbers	Director, President and Chief Executive Officer	March 17, 1997
<u>/s/ Francesco Galesi</u> Francesco Galesi	Director	March 17, 1997
<u>/s/ Richard R. Jaros</u> Richard R. Jaros	Director	March 17, 1997
<u>/s/ Stiles A. Kellett, Jr.</u> Stiles A. Kellett, Jr.	Director	March 17, 1997
<u>/s/ David C. McCourt</u> David C. McCourt	Director	March 17, 1997
<u>/s/ John A. Porter</u> John A. Porter	Director	March 17, 1997
<u>/s/ Walter Scott, Jr.</u> Walter Scott, Jr.	Director	March 17, 1997
<u>/s/ John W. Sidmore</u> John W. Sidmore	Director	March 17, 1997

Name	Title	Date
<u>/s/ Scott D. Sullivan</u> Scott D. Sullivan	Director, Principal Financial Officer and Principal Accounting Officer	March 17, 1997
<u>/s/ Lawrence C. Tucker</u> Lawrence C. Tucker	Director	March 17, 1997
<u>/s/ Michael B. Yanney</u> Michael B. Yanney	Director	March 17, 1997
<u>/s/ R. Douglas Bradbury</u> R. Douglas Bradbury	Director	March 17, 1997

0143.65.82

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

	<u>Page</u>
Report of independent public accountants	F-2
Consolidated financial statements-	
Consolidated balance sheets - December 31, 1996 and 1995	F-3
Consolidated statements of operations for the three years ended December 31, 1996	F-4
Consolidated statements of shareholders' investment for the three years ended December 31, 1996	F-5
Consolidated statements of cash flows for the three years ended December 31, 1996	F-6
Notes to consolidated financial statements	F-7
Financial statement schedule:	
II. Valuation and qualifying accounts	F-23
Pro forma financial statements (unaudited):	
WorldCom pro forma condensed combined financial statement	F-24
MFS adjusted historical financial statement	F-27
Schedules other than the schedule listed above have been omitted because of the absence of conditions under which they are required or because the information is included in the financial statements or notes thereto.	

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To WorldCom, Inc.
and Subsidiaries:

We have audited the accompanying consolidated balance sheets of WorldCom, Inc. (a Georgia corporation) and Subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of operations, Shareholders' investment and cash flows for each of the years in the three-year period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WorldCom, Inc. and Subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1996, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the Index to Financial Statements and Financial Statement Schedule is presented for purposes of complying with the Securities and Exchange Commission's rules and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Jackson, Mississippi,
February 26, 1997.

WORLDCOM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands of Dollars, Except Per Share Data)

	December 31,	
	1996	1995
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 222,729	\$ 42,244
Marketable securities	772,510	-
Accounts receivable, net of allowance for bad debts of \$110,041 and \$59,185 at December 31, 1996 and 1995, respectively	999,962	538,442
Income taxes receivable	12,301	17,499
Deferred tax asset	276	17,437
Other current assets	288,314	52,630
Total current assets	2,296,092	668,252
Property and equipment:		
Transmission equipment	2,371,376	1,376,242
Communications equipment	1,296,723	403,414
Furniture, fixtures and other	614,476	287,156
	4,282,575	2,066,812
Less - accumulated depreciation	(385,451)	(488,950)
	3,897,124	1,577,862
Excess of cost over net tangible assets acquired, net of accumulated amortization	12,947,432	4,292,752
Deferred income taxes	392,634	-
Other assets	328,695	117,763
	\$ 19,861,977	\$ 6,656,629
LIABILITIES AND SHAREHOLDERS' INVESTMENT		
Current liabilities:		
Short-term debt and current maturities of long-term debt	\$ 22,424	\$ 1,113,816
Accounts payable	588,738	146,455
Accrued line costs	649,324	391,604
Income taxes payable	1,481	1,249
Other current liabilities	648,070	345,681
Total current liabilities	1,910,037	1,998,805
Long-term liabilities, less current portion:		
Long-term debt	4,803,581	2,280,098
Deferred income taxes payable	-	26,172
Other liabilities	188,383	163,873
Total long-term liabilities	4,991,964	2,470,143
Commitments and contingencies		
Shareholders' investment:		
Series A preferred stock, par value \$.01 per share; authorized, issued and outstanding: 94,992 shares in 1996 and none in 1995 (variable liquidation preference)	1	-
Series B preferred stock, par value \$.01 per share; authorized, issued and outstanding: 12,699,948 shares in 1996 and none in 1995 (liquidation preference of \$1.00 per share plus unpaid dividends)	127	-
Series 2 preferred stock, par value \$.01 per share; authorized, issued and outstanding: none in 1996 and 1,244,048 shares in 1995 (liquidation preference of \$31,101 in 1995)	-	12
Preferred stock, par value \$.01 per share; authorized: 37,205,060 shares in 1996 and 48,755,952 shares in 1995; none issued	-	-
Common stock, par value \$.01 per share; authorized: 2,500,000,000 shares; issued and outstanding: 885,080,264 shares in 1996 and 386,485,278 shares in 1995	8,851	3,865
Additional paid-in capital	14,855,881	1,903,282
Unrealized holding gain on marketable equity securities	28,832	-
Retained earnings (deficit)	(1,933,716)	280,522
Total shareholders' investment	12,959,976	2,187,681
	\$ 19,861,977	\$ 6,656,629

The accompanying notes are an integral part of these statements.

WORLDCOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Data)

	For the Year Ended December 31,		
	1996	1995	1994
Revenues	\$ 4,485,130	\$ 3,696,345	\$ 2,245,663
Operating expenses:			
Line costs	2,457,102	2,030,635	1,465,674
Selling, general and administrative	828,673	677,895	441,893
Depreciation and amortization	303,301	312,671	164,362
Provision to reduce carrying value of certain assets	402,000	-	48,500
Direct merger costs	-	-	15,002
Restructuring and other charges	198,148	-	43,704
Charge for in-process research and development	2,140,000	-	-
Total	6,329,224	3,021,201	2,179,135
Operating income (loss)	(1,844,094)	675,144	66,528
Other income (expense):			
Interest expense	(221,801)	(249,216)	(47,303)
Shareholder litigation settlement	-	-	(76,000)
Miscellaneous	6,479	11,801	6,078
Income (loss) before income taxes and extraordinary item	(2,059,416)	437,729	(50,697)
Provision for income taxes	129,528	171,458	73,316
Net income (loss) before extraordinary item	(2,188,944)	266,271	(124,013)
Extraordinary item (net of income taxes of \$15,621 in 1996)	(24,434)	-	-
Net income (loss)	(2,213,378)	266,271	(124,013)
Preferred dividend requirement	860	18,191	27,768
Special dividend payment to Series 1 preferred shareholder	-	15,000	-
Net income (loss) applicable to common shareholders	\$ (2,214,238)	\$ 233,080	\$ (151,779)
Earnings (loss) per common share -			
Net income (loss) before extraordinary item:			
Primary	\$ (5.50)	\$ 0.64	\$ (0.48)
Fully diluted	(5.50)	0.64	(0.48)
Extraordinary item	(0.06)	-	-
Net income (loss):			
Primary	(5.56)	0.64	(0.48)
Fully diluted	(5.56)	0.64	(0.48)

The accompanying notes are an integral part of these statements.

WORLDWIDE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' INVESTMENT
For the Three Years Ended December 31, 1996
(In Thousands)

	Series A Preferred Stock		Series B Preferred Stock		Series 1 Preferred Stock		Series 2 Preferred Stock		Common Stock		Additional Paid-in Capital	Unrealized Holding Gain	Retained Earnings (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balances, December 31, 1993	-	\$ -	-	\$ -	10,897	\$ 109	2,000	\$ -	306,908	\$ 3,069	\$ 1,706,094	\$ -	\$ 208,156
Exercise of stock options	-	-	-	-	-	-	-	-	6,418	64	15,863	-	-
Common stock issued	-	-	-	-	-	-	-	-	4,300	44	22,949	-	(6,936)
Tax adjustment resulting from exercise of stock options	-	-	-	-	-	-	-	-	-	-	-	-	-
Shares issued for acquisitions	-	-	-	-	-	-	-	-	1,569	15	17,377	-	-
Net loss	-	-	-	-	-	-	-	-	-	-	-	-	(124,013)
Cash dividends on preferred stock	-	-	-	-	-	-	-	-	-	-	-	-	(27,756)
Balances, December 31, 1994	-	-	-	-	10,897	109	2,000	20	319,285	3,192	1,778,191	-	47,442
Exercise of stock options	-	-	-	-	-	-	-	-	18,966	190	90,342	-	-
Conversion of Series 1 Preferred Stock	-	-	-	-	(10,897)	(109)	-	-	43,754	438	(129)	-	-
Conversion of Series 2 Preferred Stock	-	-	-	-	-	-	(756)	(8)	3,200	32	(24)	-	-
Tax adjustment resulting from exercise of stock options	-	-	-	-	-	-	-	-	-	-	22,280	-	-
Cash for fractional shares	-	-	-	-	-	-	-	-	-	-	(115)	-	-
Shares issued for acquisitions	-	-	-	-	-	-	-	-	1,280	13	12,807	-	-
Net income	-	-	-	-	-	-	-	-	-	-	-	-	266,271
Cash dividends on preferred stock	-	-	-	-	-	-	-	-	-	-	-	-	(30,191)
Balances, December 31, 1995	-	-	-	-	-	-	1,244	12	386,485	3,865	1,903,282	-	280,522
Exercise of stock options	-	-	-	-	-	-	-	-	6,416	64	39,696	-	-
Conversion of Series 2 Preferred Stock	-	-	-	-	-	-	(1,244)	(12)	5,266	53	(40)	-	-
Conversion of IDB convertible notes	-	-	-	-	-	-	-	-	10,266	103	190,971	-	-
Tax adjustment resulting from exercise of stock options	-	-	-	-	-	-	-	-	-	-	32,726	-	-
Net change in unrealized holding gain on marketable equity securities	-	-	-	-	-	-	-	-	-	-	-	28,832	-
Shares issued for acquisitions	96	12,700	127	-	-	-	-	-	478,647	4,786	12,688,247	-	-
Net loss	-	-	-	-	-	-	-	-	-	-	-	-	(2,213,378)
Cash dividends on preferred stock	-	-	-	-	-	-	-	-	-	-	-	-	(850)
Balances, December 31, 1996	96	\$ 12,700	127	\$ -	-	\$ -	-	\$ -	885,080	\$ 8,851	\$ 14,855,861	\$ 20,832	\$ (1,933,716)

The accompanying notes are an integral part of these statements.

WORLDCOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	For the Year Ended December 31,		
	1996	1995	1994
Cash flows from operating activities:			
Net income (loss)	\$ (2,213,378)	\$ 266,271	\$ (124,013)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Extraordinary item	24,434	-	-
Provision to reduce carrying value of certain assets	402,000	-	48,500
Restructuring and other charges	198,148	-	-
Charge for in-process research and development	2,140,000	-	-
Depreciation and amortization	303,301	312,671	164,362
Provision for losses on accounts receivable	57,678	40,250	59,202
Provision for shareholder litigation	-	-	76,000
Provision for deferred income taxes	58,449	171,425	24,461
Change in assets and liabilities, net of effect of business combinations:			
Accounts receivable	(206,507)	(83,808)	(150,817)
Income taxes, net	40,831	(6,351)	21,505
Other current assets	(76,568)	1,003	(15,143)
Accrued line costs	(970)	63,830	18,629
Shareholder litigation reserve	-	(75,000)	-
Accounts payable and other current liabilities	79,567	(63,165)	105,188
Other	(8,867)	(10,469)	17,602
Net cash provided by operating activities	798,118	616,657	245,476
Cash flows from investing activities:			
Capital expenditures	(657,061)	(359,281)	(194,340)
Sale of short-term investments, net	-	1,000	11,672
Acquisitions and related costs	116,053	(2,766,355)	(91,750)
Increase in intangible assets	(60,056)	(46,062)	(14,877)
Proceeds from disposition of long-term assets	21,962	34,970	3,080
Increase in other assets	(131,450)	(8,171)	(8,585)
Decrease in other liabilities	(42,284)	(83,553)	(42,018)
Net cash used in investing activities	(752,836)	(3,227,452)	(336,818)
Cash flows from financing activities:			
Borrowings	113,000	2,712,159	78,599
Principal payments on debt	(16,696)	(138,276)	(41,643)
Common stock issuance	39,759	90,532	38,431
Dividends paid on preferred stock	(860)	(33,191)	(27,766)
Other	-	1,828	969
Net cash provided by financing activities	135,203	2,633,052	48,590
Net increase (decrease) in cash and cash equivalents	180,485	22,257	(42,752)
Cash and cash equivalents at beginning of period	42,244	19,987	62,739
Cash and cash equivalents at end of period	\$ 222,729	\$ 42,244	\$ 19,987

The accompanying notes are an integral part of these statements.

WORLDCom, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996

(1) The Company and Significant Accounting Policies -

Description of Business and Organization:

WorldCom, Inc., a Georgia corporation ("WorldCom" or the "Company"), is one of the four largest long distance telecommunications companies in the United States, serving customers domestically and internationally. The Company provides long distance telecommunications services to business, consumer and other carrier customers, through its network of fiber optic cables, digital microwave, and fixed and transportable satellite earth stations, with service to points throughout the nation and the world. The products and services provided by WorldCom include: switched and dedicated long distance and local products, 800 services, calling cards, domestic and international private lines, broadband data service: debit cards, conference calling, advanced billing systems, enhanced fax and data connections, high speed data communications, facilities management, local access to long distance companies, local access ATM-based backbone service and interconnection via network access points ("NAPs") to Internet Service Providers.

The Mergers:

On December 31, 1996, WorldCom, through a wholly owned subsidiary, merged with MFS Communications Company, Inc. ("MFS") in a transaction accounted for as a purchase. The excess purchase price over net tangible assets acquired has been allocated to in-process research and development projects (See Note 3), goodwill, developed technology and assembled workforce. MFS provides telecommunications services and systems for business and government customers. MFS is a leading provider of alternative local network access facilities via digital fiber optic cable networks that it has installed in and around approximately 41 United States cities, and in several major European cities. MFS also provides domestic and international long distance telecommunications services via its network platform, which consists of MFS-owned transmission and switching facilities, and network capacity leased from other carriers primarily in the United States and Western Europe.

As a result of the merger (the "MFS Merger"), each share of MFS common stock was converted into the right to receive 2.1 shares of WorldCom common stock (the "Common Stock") or approximately 471.0 million WorldCom common shares in the aggregate. Each share of MFS Series A 8% Cumulative Convertible Preferred Stock ("MFS Series A Preferred Stock") was converted into the right to receive one share of Series A 8% Cumulative Convertible Preferred Stock of WorldCom ("WorldCom Series A Preferred Stock") or 94,922 shares of WorldCom Series A Preferred Stock in the aggregate. Each share of MFS Series B Convertible Preferred Stock was converted into the right to receive one share of Series B Convertible Preferred Stock of WorldCom ("WorldCom Series B Preferred Stock") or approximately 12.7 million shares of WorldCom Series B Preferred Stock in the aggregate. In addition, each depositary share representing 1/100th of a share of MFS Series A Preferred Stock was exchanged for a depositary share representing 1/100th of a share of WorldCom Series A Preferred Stock.

Upon effectiveness of the MFS Merger, the then outstanding and unexercised options and warrants exercisable for shares of MFS common stock were converted into options and warrants, respectively, exercisable for shares of Common Stock having substantially the same terms and conditions as the MFS options and warrants, except that (i) the exercise price and the number of shares issuable upon exercise were divided and multiplied, respectively, by 2.1 and (ii) the holders of each then outstanding and unexercised MFS Shareworks Plus Award granted under the MFS 1993 Stock Plan instead received the cash value of such option in accordance with the terms of such plan.

On August 12, 1996, MFS acquired UUNET Technologies, Inc. ("UUNET") through a merger of a subsidiary of MFS with and into UUNET (the "UUNET Acquisition"). UUNET is a leading worldwide provider of a comprehensive range of Internet access options, applications, and consulting services to businesses, professionals and on-line services providers. UUNET provides both dedicated and dial-up Internet access, and other applications and services which include Web server hosting and integration services, client software and security products, training, and network integration and consulting services.

On December 30, 1994, WorldCom, through a wholly owned subsidiary, merged with IDB Communications Group, Inc., a Delaware corporation ("IDB"), and in connection therewith issued approximately 71.8 million shares of Common Stock, for all of the outstanding shares of IDB common stock, (the "IDB Merger"). In addition, WorldCom assumed, on a subordinated basis, jointly and severally with IDB, the obligations of IDB to pay the principal of and interest on \$195.5 million 5% convertible subordinated notes due 2003, issued by IDB. On July 15, 1996, WorldCom announced that it had exercised its option to redeem on August 16, 1996 all of the outstanding IDB notes. Prior to such redemption date, a majority of the holders of the IDB notes elected to convert their notes into WorldCom common stock, resulting in the issuance of approximately 10.3 million shares of WorldCom Common Stock. The IDB Merger was accounted for as a pooling-of-interests and, accordingly, the Company's financial statements for periods prior to the IDB Merger have been restated to include the results of IDB for all periods presented.

On September 15, 1993, a three-way merger occurred whereby (i) Metromedia Communications Corporation, a Delaware corporation ("MCC"), merged with and into Resurgens Communications Group, Inc., a Georgia corporation ("Resurgens"), and (ii) LDDS Communications, Inc., a Tennessee corporation ("LDDS-TN"), merged with and into Resurgens (the "Prior Mergers"). The Prior Mergers were accounted for as a purchase.

At the time of the Prior Mergers, the name of Resurgens, the legal survivor, was changed to LDDS Communications, Inc., and the separate corporate existences of LDDS-TN and MCC terminated. For accounting purposes, however, LDDS-TN was the survivor because the former shareholders of LDDS-TN acquired majority ownership of the Company. Accordingly, unless otherwise indicated, all historical information presented herein reflects the operations of LDDS-TN. At the annual meeting of shareholders held May 25, 1995, shareholders of LDDS Communications, Inc. voted to change the name of the Company to WorldCom, Inc., effective immediately. Information in this document has also been revised to reflect the stock splits of the Company's Common Stock.

Principles of Consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. Investments in joint ventures and other equity investments in which the Company owns a 20% to 50% ownership interest, are accounted for by the equity method. Investments of less than 20% ownership are recorded at cost.

Fair Value of Financial Instruments:

The carrying amounts for cash, marketable securities, accounts receivable, notes receivable, accounts payable and accrued liabilities approximate their fair value. The fair value of the long-term debt is determined based on the cash flows from such financial instruments discounted at the Company's estimated current interest rate to enter into similar financial instruments. The recorded amounts for all other long-term debt of the Company approximate fair values.

Cash and Cash Equivalents and Marketable Securities:

The Company considers cash in banks and short-term investments with original maturities of three months or less as cash and cash equivalents. The Company has classified all marketable securities other than cash equivalents as available-for-sale. At December 31, 1996, the amortized cost of the Company's marketable securities equals the estimated fair value. Fair values are estimated based on quoted market prices.

Marketable securities at December 31, 1996 are as follows:

	Estimated Fair Value
United States Treasury and other United States government corporations and agencies debt securities	\$443,175
Corporate debt securities	329,335
	<u>\$772,510</u>

The estimated fair value of marketable securities at December 31, 1996, by contractual maturity are as follows:

	Estimated Fair Value
Due within 1 year	\$567,082
Due after 1 year through 5 years	200,380
Due after 5 years through 10 years	1,012
Due after 10 years	4,036
	<u>\$772,510</u>

These securities were included in the net assets acquired in connection with the MFS Merger. Accordingly, there was no sales activity in available-for-sale securities for the twelve months ended December 31, 1996.

Property and Equipment:

Property and equipment are stated at cost. Depreciation is provided for financial reporting purposes using the straight-line method over the following estimated useful lives:

Transmission equipment	5 to 45 years
Communications equipment	5 to 25 years
Furniture, fixtures and other	5 to 30 years

Maintenance and repairs are expensed as incurred. Replacements and betterments are capitalized. The cost and related reserves of assets sold or retired are removed from the accounts, and any resulting gain or loss is reflected in results of operations.

The Company constructs certain of its own transmission systems and related facilities. All internal costs directly related to the construction of such facilities, including interest and salaries of certain employees, are capitalized. Such costs were \$28.7 million (\$7.6 million in interest), \$14.7 million (\$4.9 million in interest), and \$6.8 million (\$1.2 million in interest), in 1996, 1995, and 1994, respectively.

Excess of Cost over Net Tangible Assets Acquired:

The major classes of intangible assets are summarized below (in thousands):

		December 31,	
	Amortization Period	1996	1995
Goodwill	5 to 40 years	\$12,464,556	\$4,417,964
Software development	5 years	112,702	89,478
Developed technology	5 years	400,000	-
Other intangibles	5 to 10 years	327,876	89,208
		13,305,134	4,596,650
Less accumulated amortization		357,702	303,898
		<u>\$12,947,432</u>	<u>\$4,292,752</u>

Intangible assets are amortized using the straight-line method for the periods noted above.

Goodwill is recognized for the excess of the purchase price of the various business combinations over the value of the identifiable net tangible and intangible assets acquired. See Note 2. Realization of acquisition-related intangibles, including goodwill, is periodically assessed by the management of the Company based on the current and expected future profitability and cash flows of acquired companies and their contribution to the overall operations of WorldCom.

Costs incurred to develop software for internal use are capitalized as incurred. Developed technology represents the allocation of purchase price in the MFS Merger.

Line Installation Costs:

The Company defers the costs associated with the installation of local access lines and other network facilities. Amortization of these costs is provided over five years using the straight-line method. Accumulated amortization on line installation costs was \$55.1 million and \$41.0 million as of December 31, 1996 and 1995, respectively.

Unrealized Holding Gain on Marketable Equity Securities:

In the second quarter of 1996, one of the Company's equity investments became publicly traded. This investment, previously recorded at cost, has been classified as an available-for-sale security under Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"). Accordingly, this investment is recorded at its fair value of approximately \$49.7 million at December 31, 1996, and is included in other assets in the accompanying consolidated financial statements. The unrealized holding gain on this marketable equity security, net of taxes, is included as a component of shareholders' investment at December 31, 1996.

Other Long-term Liabilities:

At December 31, 1996 and 1995, other long-term liabilities includes \$137.2 million and \$149.3 million, respectively, related to estimated costs of closing duplicate facilities of acquired entities, and other non-recurring costs arising from various acquisitions and mergers. See Note 2.

Recognition of Revenues:

The Company records revenues for long distance telecommunications sales at the time of customer usage. The Company also performs systems integration services consisting of design and installation of transmission equipment and systems for its customers. Revenues and related costs for these services are recorded under the percentage of completion method.

Accounting for International Long Distance Traffic:

The Company enters into operating agreements with telecommunications carriers in foreign countries under which international long distance traffic is both delivered and received. The terms of most switched voice operating agreements, as well as established Federal Communications Commission ("FCC") policy, require that inbound switched voice traffic from the foreign carrier to the United States be routed to United States international carriers, like WorldCom, in proportion to the percentage of United States outbound traffic routed by that United States international carrier to foreign carrier. Mutually exchanged traffic between the Company and foreign carriers is settled in cash through a formal settlement policy that generally extends over a six-month period at an agreed upon settlement rate. Although the Company can estimate the amount of inbound traffic it will receive, under the FCC's proportional share policy, it generally must wait up to six months before it actually receives the inbound traffic.

Extraordinary Items:

In the second quarter of 1996, the Company recorded charges for extraordinary items totaling \$24.4 million, net of income tax benefit of \$15.6 million. The items consisted of \$4.2 million in connection with the Company's debt refinancing, as discussed in Note 4 and \$20.2 million related to a write-off of deferred international costs. Previously, a portion of the outbound call fee due the foreign carrier was deferred and accounted for as a cost attributable to the revenue associated with the inbound call. Currently, the outbound call fee due the foreign carrier is expensed as incurred. This change in accounting for international line costs was immaterial to the results of operations.

Line Costs:

Line costs primarily include all payments to local exchange carriers ("LECs"), interexchange carriers and post telephone and telegraph administrations ("PTTs") primarily for access and transport charges.

Income Taxes:

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." SFAS 109 has as its basic objective the recognition of current and deferred income tax assets and liabilities based upon all events that have been recognized in the consolidated financial statements as measured by the provisions of the enacted tax laws. See Note 10.

Earnings Per Share:

For the year ended December 31, 1995, earnings per share was calculated based on the weighted average number of shares outstanding during the period plus the dilutive effect of stock options and warrants determined using the treasury stock method. For the years ended December 31, 1996 and 1994, earnings per share were calculated based on the weighted average number of shares outstanding during the period. The effect of common stock equivalents was not considered in 1996 and 1994 because the effect of such options and warrants would have been anti-dilutive.

Average common shares and common equivalent shares utilized were 397,890,000; 386,898,000; and 315,610,000, respectively, for primary earnings per share and 397,890,000; 402,990,000; and 315,610,000, respectively, for fully diluted earnings per share, for the years ended December 31, 1996, 1995 and 1994.

Stock Splits:

On May 23, 1996, the Board of Directors authorized a 2-for-1 stock split in the form of a 100% stock dividend which was distributed on July 3, 1996 to shareholders of record on June 6, 1996. On November 18, 1993, the Board of Directors authorized a 2-for-1 stock split in the form of a 100% stock dividend which was distributed on January 6, 1994, to shareholders of record on December 7, 1993. All per share data and numbers of common shares have been retroactively restated to reflect these stock splits.

Concentration of Credit Risk:

A portion of the Company's revenues is derived from services provided to others in the telecommunications industry, mainly resellers of long distance telecommunications service. As a result, the Company has some concentration of credit risk among its customer base. The Company performs ongoing credit evaluations of its larger customers' financial condition and, at times, requires collateral from its customers to support its receivables, usually in the form of assignment of its customers' receivables to the Company in the event of nonpayment. Additionally, marketable securities potentially subject the Company to concentration of credit risks, but is limited due to investments in short-term, investment grade securities.

Recently Issued Accounting Standards:

In June 1996, the FASB issued SFAS No. 125, "Accounting For Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." This Statement establishes accounting and reporting standards for transfers and servicing of financial assets and extinguishment of liabilities. This Statement provides standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. This Statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after December 31, 1996, and is to be applied prospectively. WorldCom believes that the adoption of this standard will not have a material effect on the Company's consolidated results of operations or financial position.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the period reported. Actual results could differ from those estimates. Estimates are used when accounting for long-term contracts, allowance for doubtful accounts, depreciation and amortization, taxes, restructuring reserves and contingencies.

Reclassifications:

Certain consolidated financial statement amounts have been reclassified for consistent presentation.

(2) Business Combinations -

On December 31, 1996, WorldCom completed the MFS Merger. The MFS Merger is being accounted for as a purchase; accordingly, the operating results are not reflected in the consolidated results of operations. On January 5, 1995, WorldCom completed the acquisition of Williams Telecommunications Group, Inc. ("WilTel"), a subsidiary of The Williams Companies, Inc., for approximately \$2.5 billion in cash (the "WilTel Acquisition"). Through this purchase, the Company acquired a nationwide common carrier network of approximately 11,000 miles of fiber optic cable and digital microwave facilities.

The Company has acquired other telecommunications companies offering similar or complementary services to those offered by the Company. Such acquisitions have been accomplished through the purchase of the outstanding stock or assets of the acquired entity for cash, notes, shares of the Company's common stock, or a combination thereof. The cash portion of acquisition costs has generally been financed through the Company's bank loan agreements. See Note 4.

Most of the acquisitions have been accounted for as purchases and resulted in an excess of the purchase costs over the net tangible assets acquired. These costs, composed primarily of goodwill, are amortized over 5 to 40 years using the straight-line method. The results of those purchased businesses have been included since the dates of acquisition. Business combinations which have been accounted for as poolings-of-interests have been included in all periods presented. The table below sets forth information concerning certain other recent acquisitions which were accounted for as purchases.

Acquired Entity	Acquisition Date	Purchase Price			Goodwill
		Cash	Shares Issued		
			Number	Value	
(In thousands)					
WitTel	January 1995	\$2,500,000	-	-	\$2,216,909
MFS	December 1996	-	-	-	8,333,669

• See the third paragraph of Note 1 for a description of the common and preferred shares.

In addition to those acquisitions listed above, the Company or its predecessors completed several smaller acquisitions during 1994 through 1996.

The initial purchase price allocations for the MFS Merger is based on current estimates and the Company will make the final purchase price allocation based upon final values for certain assets and liabilities. As a result, the final purchase price allocations may differ from the presented estimate.

The following unaudited pro forma combined results of operations for the Company assume that the MFS Merger and the UUNET Acquisition were completed on January 1, 1995.

	<u>For the Year Ended December 31,</u>	
	<u>1996</u>	<u>1995</u>
(In thousands, except per share data)		
Revenues	\$5,635,223	\$4,323,777
Loss before extraordinary item	(2,767,906)	(272,665)
Loss applicable to common shareholders	(2,792,340)	(272,665)
Loss per common share:		
Loss before extraordinary item	(\$3.18)	(\$0.37)
Net loss	(\$3.21)	(\$0.37)

These pro forma amounts represent the historical operating results of these acquired entities combined with those of the Company with appropriate adjustments which give effect to interest expense, amortization and the common shares issued. These pro forma amounts are not necessarily indicative of operating results which would have occurred if MFS and UUNET had been operated by current management during the periods presented because these amounts do not reflect full network optimization and the synergistic effect on operating, selling, general and administrative expenses.

(3) Direct Merger Costs, Restructuring and Other Charges -

Restructuring and Other Charges:

In the fourth quarter of 1996, the Company recorded charges for employee severance, employee compensation charges, alignment charges and costs to exit unfavorable telecommunications contracts.

Additionally, during the fourth quarter of 1994, as a result of the IDB Merger, the Company initiated plans to reorganize and restructure its management and operational organization and facilities to eliminate duplicate personnel, physical facilities and service capacity, to abandon certain products and marketing activities, and to take further advantage of the synergies available to the combined entities. Accordingly, the Company charged to operations, the estimated costs of such reorganization and restructuring activities, including employee severance, physical facility abandonment and duplicate service capacity.

The following table reflects the components of the significant items shown as restructuring and other charges in 1996 and 1994 (in thousands):

	<u>For the Year Ended December 31,</u>	
	<u>1996</u>	<u>1994</u>
Severance and other employee related costs	\$ 57,916	\$ 18,702
Duplicate facilities and other restructuring	-	13,990
Provision for settlement of certain legal issues	-	8,000
Reduction in carrying amount of certain assets	-	2,423
Costs to exit unfavorable telecommunications contracts	134,866	-
Other	<u>5,366</u>	<u>589</u>
	<u>\$ 198,148</u>	<u>\$ 43,704</u>

As of December 31, 1996 and 1995, the accompanying consolidated financial statements reflect \$166.4 million and \$5.3 million, respectively, in other current liabilities and \$2.5 million and \$5.6 million, respectively, in other long-term liabilities, in connection with the restructuring and other charges.

Direct Merger Costs:

During 1994, the Company recorded direct merger costs of \$15.0 million related to the IDB Merger. These costs included professional fees, proxy solicitation costs, travel and related expenses and certain other direct costs attributable to this merger.

Provision to Reduce the Carrying Value of Certain Assets:

In the second quarter of 1996, the Company incurred non-cash charges related to a write-down in the carrying value of certain assets, including goodwill and equipment. Because of events resulting from the passage of the Telecommunications Act of 1996 (the "Telecom Act"), and changes in circumstances impacting certain non-core operations, management estimates of the Company's fair value of operating assets within its core and non-core businesses resulted in a non-cash charge of \$344 million after-tax. On a pre-tax basis, the write-down was \$402 million and included \$139 million for network facilities and \$263 million for non-core businesses, primarily operator services goodwill. Fair value of the non-core business was determined by estimating the present value of future cash flows to be generated from those operations while the majority of the network facilities were recorded at net salvage value due to anticipated early disposal.

In connection with the signing of agreements to provide long distance telecommunications services to certain local exchange carriers, and after the successful assimilation of recent facilities-based acquisitions, WorldCom evaluated the impact that the increased traffic volumes would have on the Company's network. This review resulted in the Company's current plans to expand and upgrade its existing network switching, transmission and other communications equipment. This capital project directly affected the estimated useful lives of certain network facilities which will result in replacement of these facilities prior to June 30, 1997.

Additionally, due to the decreasing emphasis on operator services, including non-renewal of existing long-term contracts, management adjusted the fair value of this non-core business based upon its projections of future cash flow. Operator services now comprises less than 3% of WorldCom's consolidated revenues.

During 1994 several events occurred which caused the Company to evaluate the realization of its investment in the assets of IDB Broadcast. These events included a proposed but never consummated sale of IDB Broadcast at amounts significantly below book value, and the continued emergence of telecommunications as the core business of IDB (making IDB Broadcast a non-core operation). These factors, combined with broad economic factors adversely impacting broadcast assets in general, have caused a decline in the value of the Company's investment in these assets. Broadcast services comprise less than 1% of WorldCom's consolidated revenues.

The Company assessed the impact of these factors relative to its ability to recover the recorded values of these broadcast assets, and determined that such values should be reduced. Accordingly, the Company recorded adjustments of \$48.5 million, to reduce the carrying value of these broadcast assets (primarily intangible assets and property and equipment) to the Company's best estimate of the net realizable value. During 1995, the Company sold its simulcasting operations and entered into an agreement to outsource the management of the remaining IDB Broadcast operations.

Charge for In-process Research and Development:

In the fourth quarter of 1996, the Company recorded a \$2.14 billion charge for in-process research and development related to the MFS Merger. The charge is based upon a valuation analysis of the technologies of MFS' worldwide information system, the Internet network expansion system of UUNET, and certain other identified research and development projects purchased in the merger. At the date of the MFS Merger, the technological feasibility of the acquired technology had not yet been established and the technology has no future alternative uses. The expense includes \$1.6 billion associated with UUNET and \$0.54 billion related to MFS.

(4) Long-term Debt -

Long-term debt outstanding consists of the following (in thousands):

	December 31,	
	1996	1995
Revolving credit agreements	\$3,284,500	\$3,171,500
Senior Discount Notes due 2006	674,520	-
Senior Discount Notes due 2004	685,838	-
Convertible subordinated notes	-	195,500
Other debt (maturing through 2001)	181,147	26,914
	4,826,005	3,393,914
Less: Short-term debt and current maturities	22,424	1,113,816
	<u>\$4,803,581</u>	<u>\$2,280,098</u>

On June 28, 1996, WorldCom replaced its then existing \$3.41 billion credit facilities (the "Previous Facilities") with a new \$3.75 billion revolving credit facility (the "Credit Facility"). Borrowings under the Credit Facility were used to refinance the Previous Facilities and will be used to finance capital expenditures and provide additional working capital. As a result of the refinancing, WorldCom recorded an extraordinary charge of \$4.2 million, net of \$2.7 million in taxes, related to the charge-off of the unamortized portion of costs associated with the Previous Facilities.

The Credit Facility has a five-year term and bears interest, payable in varying periods, depending on the interest periods, not to exceed six months, at rates selected by the Company under the terms of the Credit Facility including a Base Rate or the London Interbank Offering Rate ("LIBOR"), plus applicable margin. The applicable margin for LIBOR rate borrowings varies from 0.35% to 0.875% based upon a specified financial test. The Credit Facility is unsecured and requires compliance with certain financial and other operating covenants which limit, among other things, the incurrence of additional indebtedness by WorldCom and restricts the payment of cash dividends to WorldCom's shareholders. The Credit Facility is also subject to an annual commitment fee not to exceed 0.25% of any unborrowed portion of the Credit Facility. For the year ended December 31, 1996, the weighted average interest rate under the Credit Facility was 6.3%.

Borrowings under the Credit Facility bear interest at rates that fluctuate with prevailing short-term interest rates. Under the provisions of the Credit Facility, the Company is required to hedge 25% of its debt against adverse interest movements in short-term rates. The Company believes that it can adequately address this requirement through financial hedging measures or increasing the amount of fixed rate debt outstanding.

In connection with the MFS Merger, the Company acquired the MFS Senior Discount Notes due January 15, 2004 (the "1994 Notes") and the MFS Senior Discount Notes due January 15, 2006 (the "1996 Notes") (collectively, the "MFS Notes").

MFS is accruing to the principal amount of the 1994 Notes of \$788,320,000 through January 1999. Cash interest will not accrue on the 1994 Notes prior to January 15, 1999, however, MFS may elect to commence the accrual of cash interest at any time prior to that date. Commencing July 15, 1999 cash interest will be payable semi-annually.

On or after January 15, 1999, the 1994 Notes will be redeemable at the option of MFS, in whole or in part from time to time, at the following prices (expressed in percentages of the principal amount at the stated maturity), if redeemed during the twelve months beginning January 15 of the years indicated below, in each case together with interest accrued to the redemption date:

<u>Year</u>	<u>Percentage</u>
1999	103.52%
2000	102.34%
2001	101.17%
2002 and thereafter	100.00%

MFS is accruing to the principal amount of the 1996 Notes of \$924,000,000 through January 2001. Cash interest will not accrue on the 1996 Notes prior to January 15, 2001, however, MFS may elect to commence the accrual of cash interest at any time prior to that date. Commencing January 15, 2001, cash interest will be payable semi-annually.

On or after January 15, 2001, the 1996 Notes will be redeemable at the option of MFS, in whole or in part from time to time, at the following prices (expressed in percentages of the principal amount at the stated maturity), if redeemed during the twelve months beginning January 15 of the year indicated below, in each case together with interest accrued to the redemption date:

<u>Year</u>	<u>Percentage</u>
2001	103.32%
2002	102.21%
2003	101.11%
2004 and thereafter	100.00%

In connection with the MFS Merger, WorldCom offered to repurchase the MFS Notes at 101% of the accreted value as of February 27, 1997. The offer to repurchase ended February 27, 1997. As of the expiration of the offer, approximately \$14.3 million of the MFS Notes were repurchased. The MFS Notes are senior unsecured obligations of MFS and are subordinated to all current and future indebtedness of MFS' subsidiaries, including trade accounts payable.

The MFS Notes contain certain covenants which, among other things, restrict MFS' ability to incur additional debt, create liens, enter into sale-leaseback transactions, pay dividends, make certain restricted payments, enter into transactions with affiliates and sell assets or merge with another company.

During 1996, WorldCom exercised its option to redeem on August 16, 1996, all of the outstanding IDB WorldCom, Inc. 5% Convertible Subordinated Notes due 2003 (the "Notes"), at a price equal to 103.5% of the principal amount, plus accrued and unpaid interest. Prior to such redemption date, substantially all of the holders of the Notes elected to convert their notes into Common Stock, resulting in the issuance of approximately 10.3 million shares of Common Stock.

The aggregate principal repayments and reductions required in each of the years ending December 31, 1997 through December 31, 2001 and thereafter for the Company's long-term debt including capital leases is as follows (in thousands):

1997	\$22,424
1998	45,521
1999	43,680
2000	49,605
2001	3,291,031
Thereafter	<u>1,373,744</u>
	<u>\$4,826,005</u>

(5) Preferred Stock -

In connection with the MFS Merger, the Company issued 9,499,200 depositary shares (the "Depositary Shares"), each representing 1/100th interest in a share of WorldCom Series A Preferred Stock. There is an established public trading market for the WorldCom Series A Preferred Stock. The Depositary Shares are traded on the Nasdaq National Market under the trading symbol "WCOMP."

Each Depositary Share is mandatorily convertible into 4.2 shares of Common Stock on May 31, 1999. The Depositary Shares are also redeemable at the option of the Company in exchange for shares of Common Stock on or after May 31, 1998 at a ratio that will vary depending upon certain factors, including the date of redemption, the market price of the Common Stock at the time of redemption and the amount of accrued and unpaid dividends. The Depositary Shares are also convertible at the option of the holder at any time into 3.44274 shares of Common Stock for each Depositary Share, plus unpaid dividends.

The Depositary Shares are entitled to receive dividends, when, as and if declared by the Board of Directors, accruing at the rate of \$2.68 per share per annum, payable quarterly in arrears on each February 28, May 31, August 31 and November 30. Dividends are payable in cash or in shares of Common Stock, at the election of the Company. The Company paid the initial dividend on February 28, 1997 in cash.

The Depositary Shares are entitled to vote on the basis of 0.10 of a vote for each Depositary Share held (equivalent to 10 votes for each share of WorldCom Series A Preferred Stock). The Series A Preferred Stock has a liquidation preference equal to the greater of (i) the sum of (a) \$3,350 per share and (b) all accrued and unpaid dividends thereon to the date of liquidation and (ii) the value of the shares of Common Stock into which such Series A Preferred Stock are convertible on the date of liquidation.

The WorldCom Series B Preferred Stock is convertible into shares of Common Stock at any time at a conversion rate of 0.0973912 shares of Common Stock for each share of WorldCom Series B Preferred Stock (an effective initial conversion price of \$10.268 per share of Common Stock). Dividends on the WorldCom Series B Preferred Stock accrue at the rate per share of \$0.0775 per annum and are payable in cash. Dividends will be paid only when, as and if declared by the Board of Directors. The Company anticipates that dividends on the WorldCom Series B Preferred Stock will not be declared but will continue to accrue. Upon conversion, accrued but unpaid dividends are payable in cash or shares of Common Stock at the Company's election.

The WorldCom Series B Preferred Stock is also redeemable at the option of the Company at any time after September 30, 2001 at a redemption price of \$1.00 per share, plus accrued and unpaid dividends. The redemption price will be payable in cash or shares of Common Stock at the Company's election.

The WorldCom Series B Preferred Stock is entitled to one vote per share with respect to all matters. The WorldCom Series B Preferred Stock has a liquidation preference of \$1.00 per share plus all accrued and unpaid dividends thereon to the date of liquidation.

As a result of the Prior Mergers, 10,896,785 shares of the Series 1 Preferred Stock were issued to Metromedia, the sole stockholder of MCC. Also in 1993, the IDB convertible preferred stock issued in connection with the acquisition of World Communications, Inc. was converted into common stock of IDB.

In connection with the announcement in May 1996, that the Company would redeem its Series 2 Preferred Stock on June 5, 1996, all of the remaining outstanding Series 2 Preferred Stock was converted into 5,266,160 shares of Common Stock in the second quarter of 1996.

In August 1995, Metromedia converted its Series 1 Preferred Stock into 61.7 million shares of WorldCom Common Stock. In connection with the preferred stock conversion, WorldCom made a non-recurring payment of \$15.0 million to Metromedia, representing a discount to the minimum nominal dividends that would have been payable on the Series 1 Preferred Stock prior to the September 15, 1996 optional call date of approximately \$26.6 million (which amount includes an annual dividend requirement of \$24.5 million plus accrued dividends to such call date).

(6) Shareholder Rights Plan -

On August 25, 1996, the Board of Directors of WorldCom declared a dividend of one preferred share purchase right (a "Right") for each outstanding share of Common Stock. Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series 3 Junior Participating Preferred Stock, par value \$.01 per share (the "Junior Preferred Stock") of the Company at a price of \$160.00 per one one-thousandth of a share of Junior Preferred Stock (the "Purchase Price"), subject to adjustment.

The Rights generally will be exercisable only after the close of business on the tenth business day following the date of public announcement or the date on which the Company first has notice or determines that a person or group of affiliated or associated persons (an "Acquiring Person") has acquired, or obtained the right to acquire, 15% or more of the outstanding shares of voting stock of the Company without the prior express written consent of the Company, by a person which, upon consummation, would result in such party's control of 15% or more of the Company's voting stock. The Rights will expire, if not previously exercised, exchanged or redeemed, on September 6, 2006.

If any person or group acquires 15% or more of the Company's outstanding voting stock without prior written consent of the Board of Directors, each Right, except those held by such persons, would entitle each holder of a Right to acquire such number of shares of the Company's Common Stock as shall equal the result obtained by multiplying the then current Purchase Price by the number of one one-thousandths of a share of Junior Preferred Stock for which a Right is then exercisable and dividing that product by 50% of the then current per-share market price of Common Stock.

If any person or group acquires more than 15% of the outstanding Common Stock without prior written consent of the Board of Directors, each Right, except those held by such persons, may be exchanged by the Board of Directors for one share of Common Stock.

If the Company were acquired in a merger or other business combination transaction where the Company is not the surviving corporation or where Common Stock is exchanged or changed or 50% or more of the Company's assets or earnings power is sold in one or several transactions without the prior written consent of the Board of Directors, each Right would entitle the holders thereof (except for the Acquiring Person) to receive such number of shares of the acquiring company's common stock as shall be equal to the result obtained by multiplying the then current Purchase Price by the number one one-thousandths of a share of Junior Preferred Stock for which a Right is then exercisable and dividing that product by 50% of the then current market price per share of the common stock of the acquiring company on the date of such merger or other business combination transaction.

At any time prior to the time an Acquiring Person becomes such, the Board of Directors of the Company may redeem the Rights in whole, but not in part, at a price of \$.01 per Right (the "Redemption Price"). The redemption of the Rights may be made effective at such time, on such basis and with such conditions as the Board of Directors in its sole discretion may establish. Immediately upon any redemption of the Rights, the right to exercise the Rights will terminate and the only right of the holders of the Rights will be to receive the Redemption Price.

(7) Leases and Other Commitments -

The Company leases office facilities and certain equipment under noncancellable operating leases having initial or remaining terms of more than one year. In addition, the Company leases a right-of-way from a railroad company under a fifteen-year lease with three fifteen-year renewal options. The Company is also obligated under rights-of-way and franchise agreements with various entities for the use of their rights-of-way for the installation of its telecommunications systems. Rental expense under these operating leases was \$56.7 million, \$45.1 million, and \$30.9 million, in 1996, 1995 and 1994, respectively.

In prior years, WorldTel sold to independent entities and leased back its microwave system and its Kansas City to Los Angeles fiber optic system over primary lease terms ranging from 15 to 20 years. The leases have renewal options permitting the Company to extend the leases for terms expiring during the years 2012 to 2019 and purchase options based upon the fair market value. The annual lease commitments pursuant to the sale-leaseback are included below under the heading Telecommunication Facilities.

At the end of 1996, minimum lease payments under noncancellable operating leases and commitments were as follows (in thousands):

Minimum Lease Payments			
Year	Office Facilities and Equipment	Telecommunication Facilities	Total
1997	\$60,817	\$185,559	\$246,376
1998	54,529	94,921	149,450
1999	44,291	86,115	130,406
2000	34,185	86,335	120,520
2001	25,894	82,742	108,636

Certain of the Company's facility leases include renewal options, and most leases include provisions for rent escalation to reflect increased operating costs and/or require the Company to pay certain maintenance and utility costs.

Pursuant to an agreement with a joint venture, the Company is obligated to invest up to \$75 million over the next two years in the form of capital contributions and to pay \$60 million over the next four years to purchase an indefeasible right of use for certain undersea capacity that is being constructed by the joint venture between the United States and Europe. WorldCom also has agreements with a company that installs, operates and maintains certain WorldCom data processing, telecommunications and billing systems. The agreements expire in 2000 and are renewable on an annual basis thereafter. The agreements require minimum annual payments of approximately \$17.3 million.

During 1996, the Company's existing receivables purchase agreement generated additional proceeds of \$79.6 million, bringing the total amount outstanding to \$375.0 million. The Company used these proceeds to reduce outstanding debt under the Company's Credit Facility. As of December 31, 1996, the purchaser owned an undivided interest in a \$821.7 million pool of receivables which includes the \$375.0 million sold.

(B) Contingencies -

IDB Related Investigations. On June 9, 1994, the SEC issued a formal order of investigation concerning certain matters, including IDB's financial position, books and records and internal controls and trading in IDB securities on the basis of non-public information. The SEC has issued subpoenas to WorldCom, IDB and others, including certain former officers of IDB, in connection with its investigation. The National Association of Securities Dealers and other self-regulatory bodies have also made inquiries of IDB concerning similar matters.

The United States Attorney's Office for the Central District of California (the "United States Attorney's Office") issued grand jury subpoenas to IDB and WorldCom in 1994 and 1995 seeking documents relating to IDB's first quarter of 1994 results, the resignation of Deloitte & Touche LLP as IDB's auditors, trading in IDB securities and other matters. In October 1996, the United States Attorney's Office entered into an agreement with WorldCom not to criminally prosecute IDB with respect to IDB's financial reporting on or before January 1, 1995 (including but not limited to the resignation of Deloitte & Touche LLP), trading in IDB securities, misuse of IDB's assets, attempts to obstruct the proceedings of the SEC and other matters. The agreement does not cover potential violations of the federal tax code and is expressly contingent upon the cooperation of IDB and WorldCom with the United States Attorney's Office, the Federal Bureau of Investigation and any other federal law enforcement agency, including the SEC.

Federal Regulation. On February 8, 1996, President Clinton signed the Telecom Act, which permits, without limitation, the Bell Operating Companies (the "BOCs") to provide domestic and international long distance services to customers located outside of the BOC's home regions; permits a petitioning BOC to provide domestic and international long distance service to customers within its home region upon a finding by the Federal Communications Commission (the "FCC") that a petitioning BOC has satisfied certain criteria for opening up its local exchange network to competition and that its provision of long distance services would further the public interest; and removes existing barriers to entry into local service markets. Additionally, there are significant changes in: the manner in which carrier-to-carrier arrangements are regulated at the federal and state level; procedures to revise universal service standards; and, penalties for unauthorized switching of customers. The FCC has instituted proceedings addressing the implementation of this legislation.

On August 8, 1996 the FCC released its First Report and Order in the Matter of Implementation of the Local Competition Provisions in the Telecom Act (the "FCC Interconnect Order"). In the FCC Interconnect Order, the FCC established nationwide rules designed to encourage new entrants to participate in the local service markets through interconnection with the incumbent local exchange carriers ("ILECs"), resale

of the ILEC's retail services and unbundled network elements. These rules set the groundwork for the statutory criteria governing BOC entry into the long distance market. The Company cannot predict the effect such legislation or the implementing regulations will have on the Company or the industry. Motions to stay implementation of the FCC Interconnect Order have been filed with the FCC and federal courts of appeal. Appeals challenging, among other things, the validity of the FCC Interconnect Order have been filed in several federal courts of appeal and assigned to the Eighth Circuit Court of Appeals for disposition. The Eighth Circuit Court of Appeals has stayed the pricing provisions of the FCC Interconnect Order. The Circuit Justice of the Supreme Court has declined to review the propriety of the stay. The Company cannot predict either the outcome of these challenges and appeals or the eventual effect on its business or the industry in general.

On December 24, 1996, the FCC released a Notice of Proposed Rulemaking ("NPRM") seeking to reform the FCC's current access charge policies and practices to comport with a competitive or potentially competitive local access service market. The NPRM seeks comment on a number of proposals for a series of reform to the existing switched access charge rate structure rules that are designed to eliminate economic inefficiencies. In addition, the FCC proposes to use, either alternatively or in combination, two approaches for addressing: claims that access charges are excessive; a transition to economic based pricing of access charges; and, for deregulation of incumbent local exchange carriers as competition develops. The FCC is evaluating the use of either a market-based approach, a prescriptive approach or a combination of both. Such charges are a principal component of the Company's line cost expense. The Company cannot predict whether or not the result of this proceeding will have a material impact upon its financial position or results of operations.

In the NPRM, the FCC tentatively concluded that information services providers (including among others Internet service providers) should not be subject to existing interstate access charges. However, the FCC recognized that these services and recent technological advances may be constrained by current regulatory practices that have their foundations in traditional services and technologies. The FCC issued on December 24, 1996, a Notice of Inquiry to seek comment on whether it should, in addition to access charge reform, consider actions relating to interstate information services and the Internet. Changes in the regulatory environment relating to the telecommunications or Internet-related services industry could have an adverse effect on the Company's Internet-related services business. The Telecom Act may permit telecommunications companies, BOCs or others to increase the scope or reduce the cost of their Internet access services. The Company cannot predict the effect that the Notice of Inquiry, the Telecom Act or any future legislation, regulation or regulatory changes may have on its business.

International. In December 1996, the FCC adopted a new policy that will make it easier for United States international carriers to obtain authority to route international public switched voice traffic to and from the United States outside of the traditional settlement rate and proportionate return regimes. In February 1997, the United States entered into a World Trade Organization Agreement (the "WTO Agreement") that will have the effect of liberalizing the provision of switched voice telephone and other telecommunications services in scores of foreign countries over the next several years. As a result of the Agreement, WorldCom expects the FCC, among other things, to reexamine its policies regarding (i) the services that may be provided by foreign owned United States international common carriers, including carriers owned or controlled by foreign carriers that have market power in their home markets, and (ii) the provision of international switched voice services outside of the traditional settlement rate and proportionate return regimes. Although the FCC's new flexible settlement rate policy, and the WTO Agreement and any ensuing FCC policy changes, may result in lower costs to the Company to terminate international traffic, there is a risk that the revenues that the Company receives from inbound international traffic may decrease to an even greater degree. The implementation of the WTO Agreement may also make it easier for foreign carriers with market power in their home markets to offer United States and foreign customers end-to-end services to the disadvantage of WorldCom, which may face substantial obstacles in obtaining from foreign governments and foreign carriers the authority and facilities to provide such end-to-end services.

The Company is involved in other legal and regulatory proceedings generally incidental to its business. In some instances, rulings by regulatory authorities in some states may result in increased operating costs to the Company. While the results of these various legal and regulatory matters contain an element of uncertainty, the Company believes that the probable outcome of any of the legal or regulatory matters, or all of them combined, should not have a material adverse effect on the Company's consolidated results of operations or financial position.

(9) Employee Benefit Plans -

Stock Option Plans

The Company has several stock option plans under which options to acquire up to 164.3 million shares may be granted to directors, officers and certain employees of the Company (including the stock option plans acquired through the MFS Merger). The Company accounts for

these plans under APB Opinion No. 25, under which no compensation cost is recognized. Terms and conditions of the Company's options, including exercise price and the period in which options are exercisable, generally are at the discretion of the Compensation and Stock Option Committee of the Board of Directors; however, no options are exercisable for more than 10 years after date of grant. As of December 31, 1996, 130.0 million options had been granted under these plans, and 25.2 million options were fully exercisable.

Additionally, there are outstanding warrants to acquire shares of Common Stock at \$6.25 per share which were granted by MFS prior to the MFS Merger.

Additional information regarding options and warrants granted and outstanding is summarized below:

	Number of Options	Exercise Price
Balance, December 31, 1993	31,922,890	\$ 0.30 - 15.07
Granted to employees/directors	3,501,420	8.88 - 9.63
Granted in connection with acquisition	123,100	11.01 - 11.50
Exercised	(6,418,466)	0.30 - 8.94
Expired or canceled	(334,834)	0.88 - 4.00
Balance, December 31, 1994	28,794,110	0.30 - 15.07
Granted to employees/directors	12,862,876	10.35 - 16.94
Granted in connection with acquisition	2,304,004	9.20 - 10.96
Exercised	(18,965,034)	0.30 - 15.07
Expired or canceled	(1,791,780)	1.59 - 15.07
Balance, December 31, 1995	23,204,176	0.34 - 16.94
Granted to employees/directors	7,963,412	14.81 - 27.50
Granted in connection with acquisition	52,930,232	6.25 - 11.13
Exercised	(6,215,165)	1.58 - 15.07
Expired or canceled	(864,993)	0.34 - 27.50
Balance, December 31, 1996	<u>77,017,662</u>	\$ 0.34 - 27.50

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS No. 123 requires disclosure of the compensation cost for stock-based incentives granted after January 1, 1995 based on the fair value at grant date for awards. Applying SFAS No. 123 would result in pro forma net income (loss) and earnings (loss) per share ("EPS") amounts as follows:

		Year Ended December 31,	
		1996	1995
Net income (loss)	As reported	\$(2,214,238)	\$ 233,080
	Pro forma	(2,229,841)	226,954
Primary EPS	As reported	(5.56)	0.64
	Pro forma	(5.60)	0.63
Fully diluted EPS	As reported	(5.56)	0.64
	Pro forma	(5.60)	0.62

The fair value of each option or restricted stock grant is estimated on the date of grant using an option-pricing model with the following weighted-average assumptions used for grant:

Date Granted	Expected Volatility	Risk-free Interest Rate	Weighted-Average Grant-Date Fair Value	
			Date	Fair Value
January 1995	25.6%	7.9%		\$4.06
July 1995	24.5%	6.0%		\$4.65
September 1995	23.1%	6.0%		\$5.66
January 1996	21.6%	5.4%		\$5.56
July 1996	21.3%	6.5%		\$9.26

Additionally, for all options, a 15% forfeiture rate was assumed with an expected life of 5 years with no dividend yield.

Because the SFAS No. 123 method of accounting has been applied only to grants after December 31, 1994, the resulting pro forma compensation cost may not be representative of that to be expected in future periods.

Shareworks:

Through the MFS Merger, the Company offers MFS employees a grant plan and a match plan jointly known as Shareworks. The plan is made available to certain MFS employees that choose to be ineligible for future grants under MFS' Stock Option Plans. The grant plan enables the Company to grant shares of Common Stock to eligible MFS employees based upon a percentage of that employee's eligible pay, up to 5%. The original grants vest after three years with any additional grants vesting immediately once the initial three year period has been met.

The match plan allows eligible employees to defer between 1% and 10% of eligible pay to purchase Common Stock at the stock price on each pay period date. The Company will match the shares purchased by the employee on a one-for-one basis. The stock which is credited to each employee's account to match the employee's purchase during any calendar quarter, vests three years after the end of that quarter.

401(k) Plans:

The Company and its subsidiaries offer its qualified employees the opportunity to participate in one of its defined contribution retirement plans qualifying under the provisions of Section 401(k) of the Internal Revenue Code. Each employee may contribute on a tax deferred basis a portion of annual earnings not to exceed \$9,500. The Company matches individual employee contributions in certain plans, up to a maximum level which in no case exceeds 6% of the employee's compensation.

Expenses recorded by the Company relating to its 401(k) plans were \$5.7 million, \$3.6 million and \$3.1 million for the years ended December 31, 1996, 1995, and 1994, respectively.

(10) Income Taxes:

The Company accounts for income taxes in accordance with SFAS No. 109 "Accounting for Income Taxes." When SFAS No. 109 was adopted, the cumulative effect of this change in accounting principle was not material to the Company.

The provision for income taxes is composed of the following (in thousands):

	1996	1995	1994
Current	\$ 71,079	\$ 33	\$48,855
Deferred	<u>\$8,449</u>	<u>\$171,435</u>	<u>\$24,461</u>
Total provision for income taxes	<u>\$79,528</u>	<u>\$171,458</u>	<u>\$73,316</u>

The following is a reconciliation of the provisions for income taxes to the expected amounts using the statutory rate:

	1996	1995	1994
Expected statutory amount	(35.0)%	35.0%	(35.0)%
Nondeductible amortization of excess of cost over net tangible assets acquired	1.0	4.5	37.1
State income taxes	0.4	2.9	5.7
Effect of company owned life insurance	(0.1)	(0.4)	(3.4)
Direct merger, restructuring and other charges	-	-	20.7
Charge for in-process research and development	36.4	-	-
Write-down of assets	4.2	-	26.1
Valuation allowance	(1.7)	(1.6)	96.6
Other	1.1	(1.2)	(3.2)
Actual tax provision	6.3%	39.2%	144.6%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes and the impact of available net operating loss carryforwards.

At December 31, 1996, the Company had unused net operating loss ("NOL") carryforwards for federal income tax purposes of approximately \$1.2 billion which expire in various amounts during the years 2002 through 2010. These NOL carryforwards together with state and other NOL carryforwards result in a deferred tax asset of approximately \$488.9 million at December 31, 1996. A valuation allowance of \$109.9 million has been established related to deferred tax assets due to the uncertainty of realizing the full benefit of the NOL carryforwards. In evaluating the amount of valuation allowance needed, the Company considers the acquired companies' prior operating results and future plans and expectations. The utilization period of the NOL carryforwards and the turnaround period of other temporary differences are also considered.

Approximately \$391.4 million of the Company's deferred tax assets are related to preacquisition NOL carryforwards attributable to entities acquired in transactions accounted for as purchases. Accordingly, any future reductions in the valuation allowance related to such deferred tax assets will result in a corresponding reduction in goodwill. If, however, subsequent events or conditions dictate an increase in the valuation allowance attributable to such deferred tax assets, income tax expense for the period of the increase will be increased accordingly.

The following is a summary of the significant components of the Company's deferred tax assets and liabilities as of December 31, 1996 and 1995 (in thousands):

	December 31			
	1996		1995	
	Assets	Liabilities	Assets	Liabilities
Allowance for bad debts	\$10,644	\$ -	\$ 22,767	\$ -
Fixed assets	-	(50,728)	-	(56,129)
Goodwill	-	(58,906)	-	(30,777)
Software and other intangibles	-	(267,592)	-	-
Investments	-	(17,376)	-	-
Line installation costs	-	(23,427)	-	(13,303)
Accrued liabilities	102,685	-	10,586	-
NOL carryforwards	488,931	-	168,057	-
Stock options	297,135	-	-	-
Other	34,543	(13,075)	3,631	(11,888)
	933,938	(431,104)	205,041	(112,097)
Valuation allowance	(109,924)	-	(101,679)	-
	<u>\$ 824,014</u>	<u>\$ (431,104)</u>	<u>\$ 103,362</u>	<u>\$ (112,097)</u>

The increase in the valuation allowance during 1996 results from the placement of a valuation allowance on certain NOL carryforwards acquired in the acquisition of MFS. Under a "more likely than not" scenario, management determined that statutory restrictions on certain preacquisition NOL carryforwards impair their realizability.

(11) Supplemental Disclosure of Cash Flow Information -

Interest paid by the Company during the years ended December 31, 1996, 1995 and 1994 amounted to \$234.7 million, \$224.3 million, and \$48.5 million, respectively. Income taxes paid, net of refunds, during the years ended December 31, 1996, 1995 and 1994 were \$6.0 million, \$7.3 million and \$12.8 million, respectively.

In conjunction with business combinations during the years ended December 31, 1996, 1995, and 1994 (see Note 2), assets acquired, liabilities assumed and common stock issued were as follows (in thousands):

	December 31,		
	1996	1995	1994
Fair value of assets acquired	\$3,319,514	\$ 805,482	\$ 13,522
Excess of cost over net tangible assets acquired	9,013,060	2,301,567	157,942
Liabilities assumed	(1,894,614)	(327,844)	(62,322)
Common stock issued	(10,554,013)	(12,850)	(17,392)
Net cash paid (acquired)	<u>\$ (116,053)</u>	<u>\$2,766,355</u>	<u>\$ 91,750</u>

(11) Unaudited Quarterly Financial Data -

	Quarter Ended							
	March 31,		June 30,		September 30,		December 31,	
	1996	1995	1996	1995	1996	1995	1996	1995
	(in thousands, except per share data)							
Revenues	\$1,034,060	\$875,286	\$1,073,538	\$906,729	\$1,143,428	\$949,540	\$1,234,104	\$964,790
Operating income (loss)	195,857	149,933	(183,749)	162,166	232,343	177,592	(2,088,545)	185,453
Net income (loss)	86,307	53,357	(267,602)	61,208	109,255	72,139	(2,141,338)	79,567
Preferred dividend requirement	505	6,939	355	6,936	-	3,811	-	505
Special dividend payment to Series 1 preferred shareholder	-	-	-	-	-	15,000	-	-
Earnings (loss) per common share:								
Primary	\$0.21	\$0.14	\$(0.69)	\$0.16	\$0.27	\$0.14	\$(5.22)	\$0.20
Fully diluted	0.21	0.14	(0.69)	0.16	0.27	0.14	(5.22)	0.20

Results for 1996 include a \$2.14 billion, fourth quarter charge for in-process research and development related to the MFS Merger. The charge is based upon a valuation analysis of the technologies of MFS' worldwide information system, the Internet network expansion system of UUNET, and certain other identified research and development projects purchased in the Merger. The expense includes \$1.6 billion associated with UUNET and \$0.54 billion related to MFS.

Additionally, fourth quarter 1996 results include other after-tax charges of \$121 million for employee severance, employee compensation charges, alignment charges, and costs to exit unfavorable telecommunications contracts and \$344 million after-tax write-down of operating assets within its non-core businesses. On a pre-tax basis, these charges totaled \$600.1 million.

In 1995, Metromedia converted its Series 1 Preferred Stock into Common Stock, exercised warrants to acquire Common Stock and immediately sold its position of 61,699,096 shares of Common Stock in a public offering. In connection with the preferred stock conversion, WorldCom made a non-recurring payment of \$15.0 million to Metromedia, representing a discount to the minimum nominal dividends that would have been payable on the Series 1 Preferred Stock prior to the September 15, 1996 optional call date of approximately \$26.6 million (which amount includes an annual dividend requirement of \$24.5 million plus accrued dividends to such call date).

In connection with certain debt refinancing, the Company recognized in 1996, extraordinary items of approximately \$4.2 million, net of income taxes, consisting of unamortized debt discount, unamortized issuance cost and prepayment fees. Additionally, in 1996 the Company recorded an extraordinary item of \$20.2 million, net of income taxes, related to a write-off of deferred international costs. See Note 4.

WORLDCOM, INC.

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS
(In Thousands)

Description	Balance at Beginning of Period	Additions		Deductions and Accounts Written Off	Balance at End of Period
		Charged to Costs and Expenses	From Purchase Transactions		
Allowance for doubtful accounts:					
Accounts Receivable					
1996	\$59,185	\$57,678	\$38,094	\$44,916	\$110,041
1995	53,199	40,250	22,042	56,306	59,185
1994	26,613	59,202	1,090	33,706	53,199

**WORLDCOM PRO FORMA
CONDENSED COMBINED FINANCIAL STATEMENT**

The following unaudited Pro Forma Condensed Combined Income Statement for the year ended December 31, 1996 illustrates the effect of the MFS Merger as if the MFS Merger had occurred on January 1, 1996.

On December 31, 1996, WorldCom through a wholly owned subsidiary merged with MFS. As a result of the MFS Merger, each share of MFS common stock was converted into the right to receive 2.1 shares of WorldCom common stock or approximately 471.0 million WorldCom common shares in the aggregate. Each share of MFS Series A 8% Cumulative Convertible Preferred Stock was converted into the right to receive one share of Series A 8% Cumulative Convertible Preferred Stock of WorldCom or 94,992 shares of WorldCom Series A Preferred Stock. Each share of MFS Series B Convertible Preferred Stock was converted into the right to receive one share of Series B Convertible Preferred Stock of WorldCom or approximately 12.7 million shares of WorldCom Series B Preferred Stock. In addition, each depositary share representing 1/100th of a share of MFS Series A Preferred Stock was exchanged for a depositary share representing 1/100th of a share of WorldCom Series A Preferred Stock.

The Pro Forma Condensed Combined Income Statement should be read in conjunction with the historical financial statements of WorldCom, MFS and UUNET and the MFS Adjusted Historical Financial Statement which is set forth elsewhere herein.

The Pro Forma Condensed Combined Income Statement is presented for comparative purposes only and is not intended to be indicative of actual results had the transactions occurred as of the dates indicated above nor do they purport to indicate results which may be attained in the future.

WORLDCOM PRO FORMA CONDENSED COMBINED INCOME STATEMENT (1)

For the Year Ended December 31, 1996

(In thousands, except per share data)

	WorldCom Historical (2)	MPS Adjusted Historical (3)	Pro Forma Adjustments	WorldCom Pro Forma Combined
Revenues	\$ 4,485,130	\$ 1,238,533	\$ (88,440) (4)	\$ 5,635,223
Operating expenses:				
Cost of sales	2,457,102	752,619	(88,440) (4)	3,121,281
Selling, general and administrative	828,673	558,661	-	1,387,334
Depreciation and amortization	303,301	390,856	144,207 (5)	838,364
Other charges	600,148	-	-	600,148
Operating income (loss)	295,906	(463,603)	(144,207)	(311,904)
Other income (expense):				
Interest expense	(221,801)	(63,081)	-	(284,882)
Other	6,479	(2,310)	-	4,169
Income (loss) before tax	80,584	(528,994)	(144,207)	(592,617)
Provision for income taxes	129,528	594	(125,122) (6)	5,000
Net income (loss) from continuing operations	(48,944)	(529,588)	(19,085)	(597,617)
Preferred dividend requirement	860	29,429	-	30,289
Net income (loss) applicable to common shareholders	\$ (49,804)	\$ (559,017)	\$ (19,085)	\$ (627,906)
Number of shares issued and outstanding:				
Primary	397,890		471,500	869,390
Fully diluted	397,890		471,500	869,390
Earnings (loss) per share (7):				
Primary	\$ (0.13)			\$ (0.72)
Fully diluted	\$ (0.13)			\$ (0.72)

**NOTES TO WORLD COM PRO FORMA
CONDENSED COMBINED FINANCIAL STATEMENT**

1. The pro forma financial data do not give effect to any potential cost savings and synergies that could result from the MFS Merger. The effect of the write-off of intangible assets consisting of in-process research and development ("R&D") projects of \$2.14 billion related to the MFS Merger has not been reflected in the accompanying Pro Forma Condensed Combined Income Statement as it is a non-recurring charge. Additionally, the Pro Forma Condensed Combined Income Statement does not give effect to WorldCom's offer to repurchase the MFS Notes for cash at 101% of the accreted value as of February 27, 1997. The offer to repurchase ended February 27, 1997. An immaterial amount of the MFS Notes were repurchased. Charges related to extraordinary items of \$24.4 million, net of taxes, have also not been included in the accompanying Pro Forma Condensed Combined Income Statement. The pro forma data are not necessarily indicative of the operating results or financial position that would have occurred had the Merger been consummated at the dates indicated, nor necessarily indicative of future operating results or financial position.
2. This column represents WorldCom's historical results of operations.
3. The MFS Adjusted Historical Financial Statements for the year ended December 31, 1996 include the effect of MFS's acquisition of UUNET on August 12, 1996. See "MFS Adjusted Historical Financial Statement" which is set forth elsewhere herein.
4. These adjustments eliminate the revenues and corresponding line costs attributable to the intercompany traffic among WorldCom, MFS and UUNET.
5. This entry reflects the adjustment to amortization for the effect of the intangible assets acquired in the MFS Merger. For purposes of allocating the acquisition costs among the various assets acquired, WorldCom has tentatively considered the carrying value of the acquired assets to approximate their fair value, with all of the excess of such acquisition costs being attributed to R&D in-process (network design and development projects in-process), goodwill, network technology and assembled workforce. It is WorldCom's intention to continue to evaluate the acquired assets and, as a result, the allocation of the acquisition costs among the tangible and intangible assets acquired may change. Goodwill is being amortized over 40 years while network technology and assembled work force are being amortized over 5 years and 10 years, respectively.
6. These entries represent the tax effect of adjustments due to inclusion of the acquired operations.
7. Pro forma per share data is based on the number of WorldCom common shares that would have been outstanding had the MFS Merger occurred on the earliest date presented.

MFS ADJUSTED HISTORICAL FINANCIAL STATEMENT

The following unaudited adjusted historical financial statement for the year ended December 31, 1996 gives pro forma effect to the merger of MFS with UUNET. The adjusted historical statement of operations assumes that the UUNET Acquisition occurred as of January 1, 1996. The adjusted historical financial statement is not necessarily indicative of the results that actually would have been attained if the UUNET Acquisition had been in effect on the dates indicated or which may be attained in the future. Such statements should be read in conjunction with the MFS and UUNET historical consolidated financial statements and notes thereto.

MFS ADJUSTED HISTORICAL INCOME STATEMENT (1)

For the Year Ended December 31, 1996

(In thousands)

	MFS Historical (2)	UUNET January 1, 1996 - August 12, 1996 (2)	Pro Forma Adjustments	MFS Adjusted Historical
Revenues	\$ 1,115,006	\$ 129,047	\$ (5,520) (3)	\$ 1,238,533
Operating expenses:				
Cost of sales	687,034	71,105	(5,520) (3)	752,619
Selling, general and administrative	514,558	44,103	-	558,661
Depreciation and amortization	286,131	11,811	92,914 (4)	390,856
Operating income (loss)	(372,717)	2,028	(92,914)	(463,603)
Other income (expense):				
Interest expense, net	(62,161)	(920)	-	(63,081)
Other	(2,652)	342	-	(2,310)
Income (loss) before tax	(437,530)	1,450	(92,914)	(528,994)
Provision for income taxes	500	94	-	594
Net income (loss) from continuing operations	(438,030)	1,356	(92,914)	(529,588)
Preferred dividend requirement	29,429	-	-	29,429
Net income (loss) applicable to common shareholders	\$ (467,459)	\$ 1,356	\$ (92,914)	\$ (559,017)

Number of shares issued
and outstanding:

Primary	N/M	N/M	N/M
Fully diluted	N/M	N/M	N/M

Earnings (loss) per share (5):

Primary	N/M	N/M	N/M
Fully diluted	N/M	N/M	N/M

(N/M - Not Meaningful)

NOTES TO MFS ADJUSTED HISTORICAL FINANCIAL STATEMENT

1. The unaudited adjusted historical financial data do not give effect to any potential cost savings and synergies that could result from the UUNET Acquisition. The effect of the write-off of intangible assets consisting of in-process research and development ("R&D") projects of \$1.4 billion related to the UUNET Acquisition has not been reflected in the accompanying MFS Adjusted Historical Financial Statement. The adjusted historical data are not necessarily indicative of the operating results that would have occurred had the UUNET Acquisition been consummated on the date indicated nor necessarily indicative of future operating results.
2. This column represents historical results of operations. The UUNET historical column for the year ended December 31, 1996 includes results through the date of acquisition, August 12, 1996. One-time merger related costs of \$15.7 million have not been included in UUNET's results of operations for this period. The results of operations for UUNET since August 12, 1996 are included in the MFS historical column.
3. This adjustment reflects the elimination of intercompany revenues and expenses.
4. This adjustment reflects the amortization of the excess of the purchase price over the net book value (which approximates fair value) of the net tangible assets acquired which was recorded as R&D in process (network design and development projects in-process), goodwill, a customer contract and customer list. The pro forma adjustment to depreciation and amortization represents the amortization of the goodwill and other intangibles and was calculated using the straight-line method over a five year life for goodwill and three to four year lives for other intangibles.
5. Number of shares issued and outstanding and per share data have not been presented as it is not meaningful. At December 31, 1996, there was one share of MFS common stock outstanding which was owned by WorldCom.

EXHIBIT INDEX

Exhibit No.	Description	Page
2.1	Amended and Restated Agreement and Plan of Merger by and among WorldCom, Inc. ("WorldCom"), HU Corp. and MFS Communications Company, Inc. ("MFS") dated as of August 23, 1996 (filed as Appendix I to the Joint Proxy Statement/Prospectus on Form S-4 filed by WorldCom (Registration No. 333-16015) and incorporated herein by reference) *	
4.1	Second Amended and Restated Articles of Incorporation of WorldCom (including preferred stock designations) as of December 31, 1996 (incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K dated December 31, 1996)	
4.2	Restated Bylaws of WorldCom, Inc.	
4.3	Form of Deposit Agreement between WorldCom, The Bank of New York and the holders from time to time of the Depositary Shares representing 1/100 of a share of WorldCom Series A Preferred Stock (the "WorldCom Depositary Shares") (incorporated by reference to Exhibit 4.5 to Registration Statement on Form S-4 filed by WorldCom (Registration No. 333-16015))	
4.4	Form of certificate representing WorldCom Depositary Shares (incorporated by reference to Exhibit A to the Deposit Agreement filed as Exhibit 4.5 to Registration Statement on Form S-4 filed by WorldCom (Registration No. 333-16015))	
4.5	Rights Agreement dated as of August 25, 1996 between WorldCom and The Bank of New York, which includes the form of Certificate of Designations, setting forth the terms of the Series 3 Junior Participating Preferred Stock, par value \$.01 per share, as Exhibit A, the form of Rights Certificate as Exhibit B and the Summary of Preferred Stock Purchase Rights as Exhibit C (incorporated herein by reference to Exhibit 4 to the Current Report on Form 8-K dated August 26, 1996 (as amended) filed by WorldCom on August 26, 1996 (File No. 0-11258))	
4.6	Indenture for the Company's 9 3/8% Senior Discount Notes due 2004, between MFS and IBI Schroeder Bank & Trust Company, as the Trustee (incorporated herein by reference to MFS' Current Report on Form 8-K dated January 31, 1994 (File No. 0-21594))	
4.7	First Supplemental Indenture, dated as of March 31, 1995, amending the Indenture for the Company's 9 3/8% Senior Discount Notes due 2004 (incorporated by reference to Exhibit No. 10.3 to MFS' Current Report on Form 8-K dated April 27, 1995 (File No. 0-21594))	
4.8	Indenture for the Company's 8 7/8% Senior Discount Notes due 2006, between MFS and IBI Schroeder Bank and Trust Company, as trustee (incorporated herein by reference to Exhibit No. 4.1 to MFS's Current Report on Form 8-K dated January 23, 1996 (File No. 0-21594))	
4.9	First Supplemental Indenture, dated as January 15, 1996, between MFS and IBI Schroeder Bank and Trust Company, as trustee, relating to the Company's 8 7/8% Senior Discount Notes due 2006 (incorporated herein by reference to Exhibit No. 4.2 to MFS' Current Report on Form 8-K dated January 23, 1996 (File No. 0-21594))	
10.1	Amended and Restated Credit Agreement among WorldCom, NationsBank of Texas, N.A. (Managing Agent and Administrative Agent), Bank of America Illinois, The Bank of New York, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Chemical Bank, Credit Lyonnais New York Branch, First Union National Bank of North Carolina, The Industrial Bank of Japan, Limited, Atlanta Agency, The First National Bank of Chicago, The Long-Term Credit Bank of Japan, Limited, New York Branch, Toronto Dominion (Texas), Inc., and Wachovia Bank of Georgia N.A. (Agents) and the Lenders named therein (Lenders) dated as of June 28, 1996, (incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed by WorldCom (File No. 0-11258) for the quarter ended June 30, 1996)	
10.2	First Amendment to Amended and Restated Credit Agreement and Consent to MFS Acquisition	
10.3	Agreement between LDDS-TN and MCI Telecommunications Corporation, effective as of September 13, 1991 (incorporated herein by reference to the exhibits to LDDS-TN's Quarterly Report on Form 10-Q for the quarter ended September 30, 1991, as amended under cover of Form 8 on February 3, 1992 (File No. 0-7116))	
10.4	Amendment dated July 29, 1994, to the Agreement between the Company and MCI Telecommunications Corporation (incorporated herein by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q filed by the Company (File No. 1-10415) for the quarter ended June 30, 1994)	

Exhibit No.	Description	Page
10.5	Amended and Restated Agreement for Information Technology Services between the Company and Electronic Data Systems Corporation ("EDS"), dated December 8, 1993 ("EDS Agreement") (incorporated herein by reference to Exhibit 10.5 of the Company's Transition Report on Form 10-K for the period ended June 30, 1993 to December 31, 1993 (File No. 1-10415) (the "Transition Report II")*	
10.6	Amendment No. 1 to the EDS Agreement dated December 8, 1993 (incorporated herein by reference to Exhibit 10.6 of the Transition Report II)	
10.7	Amended and Restated Transfer and Administration Agreement between Enterprise Funding Corporation, WorldCom Funding Corporation as Transferor, WorldCom, individually and as Collection Agent, Sheffield Receivables Corporation and NationsBank, N.A. as Agent and Investor dated as of December 31, 1996 *	_____
10.8	Amendment Number 1 to Amended and Restated Transfer and Administration Agreement	_____
10.9	WorldCom, Inc. Third Amended and Restated 1990 Stock Option Plan (incorporated herein by reference to Exhibit A to WorldCom's Proxy Statement dated April 22, 1996 used in connection with WorldCom's 1996 Annual Meeting of Shareholders) (compensatory plan)	
10.10	LDDS Communications, Inc. 1988 Nonqualified Stock Option Plan (incorporated herein by reference to the exhibits to LDDS-TN's Registration Statement on Form S-4 (File No. 33-29051)) (compensatory plan)	
10.11	LDDS Annual Performance Bonus Plan (incorporated by reference to the Company's Proxy Statement used in connection with the Company's 1994 Annual Meeting of Shareholders (File No. 1-10415)) (compensatory plan)	
10.12	WorldCom, Inc. Special Performance Bonus Plan (incorporated herein by reference to Exhibit B to the Company's Proxy Statement dated April 22, 1996 used in connection with the Company's 1996 Annual Meeting of Shareholders) (compensatory plan)	
10.13	WorldCom/MFS 1995 Deferred Stock Purchase Plan (compensatory plan)	_____
10.14	WorldCom/MFS Employee Stock Bonus Plan (compensatory plan)	_____
10.15	WorldCom/MFS 1992 Stock Plan (compensatory plan)	_____
10.16	WorldCom/MFS 1993 Stock Plan (compensatory plan)	_____
10.17	WorldCom/MFS/UUNET 1995 Performance Option Plan (compensatory plan)	_____
10.18	WorldCom/MFS/UUNET Equity Incentive Plan (compensatory plan)	_____
10.19	WorldCom/MFS/UUNET Incentive Stock Plan (compensatory plan)	_____
10.20	WorldCom/MFS Employee Stock Purchase Plan (compensatory plan)	_____
10.21	Employment Agreement between UUNET and John W. Sidgmore dated May 13, 1994 (incorporated herein by reference to UUNET's Registration Statement on Form S-1 (Registration No. 33-91028)) (compensatory plan)	
10.22	Ongoing Relationship Memorandum between the Company and James Q. Crowe dated February 11, 1997 (compensatory plan)	_____
11.1	Computation of Per Share Earnings	_____
12.1	Statement regarding computation of ratio of earnings to combined fixed charges and preferred stock dividends.	_____
21.1	Subsidiaries of the Company	_____
23.1	Consent of Arthur Andersen LLP	_____
27.1	Financial Data Schedule	_____

* The Registrant hereby agrees to furnish supplementally a copy of any omitted schedules to this Agreement to the Securities and Exchange Commission upon its request.

WORLDCOM, INC. AND SUBSIDIARIES
COMPUTATION OF PER SHARE EARNINGS
(In thousands, except per share data)

	For the Twelve Months Ended December 31,		
	1996	1995	1994
Primary:			
Weighted average shares outstanding	397,890	346,666	315,610
Common stock equivalents	-	9,824	-
Common stock equivalents issuable upon conversion of:			
Series 1 preferred stock	-	28,178	-
Series 2 preferred stock	-	2,230	-
5% convertible notes	-	-	-
	<u>397,890</u>	<u>386,898</u>	<u>315,610</u>
Net income (loss) applicable to common shareholders before extraordinary items	\$ (2,189,804)	\$ 233,080	\$ (151,779)
Extraordinary items	(24,434)	-	-
Add back:			
Dividend paid on series 1 preferred stock conversions	-	15,312	-
Dividend paid on series 2 preferred stock conversions	-	858	-
Interest paid on 5% convertible notes conversions, net of taxes	-	-	-
Net income (loss) applicable to common shareholders	\$ (2,214,238)	\$ 249,250	\$ (151,779)
One-time dividend payment on Series 1 preferred stock conversion	-	15,000	-
Net income (loss) applicable to common shareholders before one-time dividend	<u>\$ (2,214,238)</u>	<u>\$ 264,250</u>	<u>\$ (151,779)</u>
Primary earnings (loss) per share:			
Before one-time dividend payment to Series 1 preferred shareholder	\$ (5.56)	\$ 0.68	\$ (0.48)
Applicable to common shareholders before extraordinary items	\$ (5.50)	\$ 0.64	\$ (0.48)
Extraordinary items	\$ (0.06)	\$ -	\$ -
Applicable to common shareholders	<u>\$ (5.56)</u>	<u>\$ 0.64</u>	<u>\$ (0.48)</u>
Fully diluted:			
Weighted average shares outstanding	397,890	346,666	315,610
Common stock equivalents	-	10,380	-
Common stock issuable upon conversion of:			
5% convertible notes	-	10,270	-
Series 1 preferred stock	-	28,178	-
Series 2 preferred stock	-	7,496	-
	<u>397,890</u>	<u>402,990</u>	<u>315,610</u>
Fully diluted earnings (loss) per share:			
Net income (loss) applicable to common shareholders before extraordinary items	\$ (2,189,804)	\$ 233,080	\$ (151,779)
Extraordinary items	(24,434)	-	-
Add back:			
Interest on 5% convertible notes, net of taxes	-	5,963	-
Series 1 preferred dividend requirement	-	15,312	-
Series 2 preferred dividend requirement	-	2,879	-
Net income (loss) applicable to common shareholders	\$ (2,214,238)	\$ 257,234	\$ (151,779)
One-time dividend payment on Series 1 preferred stock conversion	-	15,000	-
Net income (loss) applicable to common shareholders before one-time dividend	<u>\$ (2,214,238)</u>	<u>\$ 272,234</u>	<u>\$ (151,779)</u>
Fully diluted earnings (loss) per share:			
Before one-time dividend payment to Series 1 preferred shareholder	\$ (5.56)	\$ 0.68	\$ (0.48)
Applicable to common shareholders before extraordinary items	\$ (5.50)	\$ 0.64	\$ (0.48)
Extraordinary items	\$ (0.06)	\$ -	\$ -
Applicable to common shareholders	<u>\$ (5.56)</u>	<u>\$ 0.64</u>	<u>\$ (0.48)</u>

WORLDCOM, INC. AND SUBSIDIARIES
Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
(In Thousands of Dollars)

	Year Ended December 31,							
	Historical						Pro Forma	
	1992	1993	1994	1995	1996	1995	1996	
Earnings:								
Net income (loss) from continuing operations	\$ 20,401	\$ 199,237	\$ (78,463)	\$ 404,538	\$ (2,060,376)	\$ (193,689)	\$ (2,782,906)	
Fixed charges, net of capitalized interest	38,720	58,999	87,435	300,248	342,237	364,742	390,068	
Earnings	\$ 39,121	\$ 257,236	\$ 8,967	\$ 704,786	\$ (1,818,019)	\$ 171,453	\$ (2,372,898)	
Fixed charges:								
Interest cost	\$ 23,813	\$ 28,657	\$ 49,203	\$ 234,099	\$ 229,376	\$ 312,153	\$ 333,083	
Amortization of financing costs	1,404	1,792	2,086	2,811	1,742	2,811	-	
Interest factor of rate expense	4,833	9,967	10,300	15,030	17,824	21,300	28,024	
Preferred dividend requirements	2,112	11,683	27,766	33,191	860	48,335	30,289	
Fixed charges	\$ 42,222	\$ 62,099	\$ 89,355	\$ 305,121	\$ 249,802	\$ 384,421	\$ 411,398	
Deficiency of earnings to cover fixed fixed charges and preferred stock dividends	\$ -	\$ -	\$ (80,388)	\$ -	\$ (2,067,831)	\$ (216,768)	\$ (2,784,296)	
Ratio of earnings to combined fixed charges and preferred stock dividends	1.40:1	4.14:1	0.10:1	2.31:1	N/A	0.44:1	N/A	

See Notes to Computation of Earnings to Combined Fixed Charges and Preferred Stock Dividends

Notes to Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends

- (1) On December 31, 1996, WorldCom completed the MFS Merger. The MFS Merger is being accounted for as a purchase; accordingly, the operating results for MFS are not reflected in the historical amounts above and will be included from the date of acquisition.
- (2) Results for 1996 include a \$2.14 billion charge for in-process research and development related to the MFS Merger. The charge is based upon a valuation analysis of the technologies of MFS' worldwide information system, the Internet network expansion system of UUNET, and certain other identified research and development projects purchased in the Merger. The expense includes \$1.6 billion associated with UUNET and \$0.54 billion related to MFS.

Additionally, 1996 results include other after-tax charges of \$121 million for employee severance, employee compensation charges, alignment charges, and costs to exit unfavorable telecommunications contracts and \$344 million after-tax write-down of operating assets within its non-core businesses. On a pre-tax basis, these charges totaled \$600.1 million.

- (3) In 1995, Metromedia converted its Series 1 Preferred Stock into Common Stock, exercised warrants to acquire Common Stock and immediately sold its position of 61,699,096 shares of Common Stock in a public offering. In connection with the preferred stock conversion, WorldCom made a non-recurring payment of \$15.0 million to Metromedia, representing a discount to the minimum nominal dividends that would have been payable on the Series 1 Preferred Stock prior to the September 15, 1996 optional call date of approximately \$26.6 million (which amount includes an annual dividend requirement of \$24.5 million plus accrued dividends to such call date).
- (4) As a result of the IDB Merger and the ATC Merger, the Company initiated plans to reorganize and restructure its management and operational organization and facilities to eliminate duplicate personnel, physical facilities and service capacity, to abandon certain products and marketing activities, and to take further advantage of the synergies available to the combined entities. Also, during the fourth quarter of 1993, plans were approved to reduce IDB's cost structure and to improve productivity. Accordingly, in 1994, 1993 and 1992, the Company charged to operations the estimated costs of such reorganization and restructuring activities, including employee severance, physical facility abandonment and duplicate service capacity. These costs totaled \$43.7 million in 1994, \$5.9 million in 1993 and \$79.8 million in 1992.

Also, during 1994 and 1992, the Company incurred direct merger costs of \$15.0 million and \$7.3 million, respectively, related to the IDB Merger (in 1994) and the ATC Merger (in 1992). These costs include professional fees, proxy solicitation costs, travel and related expenses and certain other direct costs attributable to these mergers.

- (5) In connection with certain debt refinancing, the Company recognized in 1996, 1993 and 1992 extraordinary items of approximately \$4.2 million, \$7.9 million and \$5.8 million, respectively, net of income taxes, consisting of unamortized debt discount, unamortized issuance cost and prepayment fees. Additionally, in 1996 the Company recorded an extraordinary item of \$20.2 million, net of income taxes, related to a write-off of deferred international costs.

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included in the Form 10-K, into the Company's previously filed Registration Statements on Form S-8 (File Nos. 33-52168, 33-69322, 33-71450, 33-89072, 333-02115, 333-10349, 333-16015 and 333-16531) and Form S-3 (File Nos. 33-63810, 33-87514, 33-77964, 33-87516, 33-58719, 333-10455, 333-10459 and 333-20911).

ARTHUR ANDERSEN LLP

Jackson, Mississippi
March 14, 1997.

WORLDWIDE TECHNOLOGIES, INC.
515 East Amite Street
Jackson, MS 39201-2702

SOUTH DAKOTA TARIFF
ORIGINAL TITLE PAGE

TARIFF APPLICABLE TO
SPECIALISED SWITCHING SERVICES
OF
WORLDWIDE TECHNOLOGIES, INC.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

CHECK SHEET

Original and revised pages, as indicated below, comprise all effective pages of this tariff.

<u>PAGE</u>	<u>REVISION</u>
TITLE SHEET	ORIGINAL*
CHECK SHEET	ORIGINAL*
CHECK SHEET-2	ORIGINAL*
CHECK SHEET-3	ORIGINAL*
1	ORIGINAL*
2	ORIGINAL*
3	ORIGINAL*
4	ORIGINAL*
5	ORIGINAL*
6	ORIGINAL*
7	ORIGINAL*
8	ORIGINAL*
9	ORIGINAL*
10	ORIGINAL*
11	ORIGINAL*
12	ORIGINAL*
13	ORIGINAL*
14	ORIGINAL*
15	ORIGINAL*
16	ORIGINAL*
17	ORIGINAL*
18	ORIGINAL*
19	ORIGINAL*
20	ORIGINAL*
21	ORIGINAL*
22	ORIGINAL*
23	ORIGINAL*
24	ORIGINAL*
25	ORIGINAL*
26	ORIGINAL*
27	ORIGINAL*
28	ORIGINAL*
29	ORIGINAL*
30	ORIGINAL*
31	ORIGINAL*
32	ORIGINAL*
33	ORIGINAL*
34	ORIGINAL*
35	ORIGINAL*
36	ORIGINAL*
37	ORIGINAL*
38	ORIGINAL*
39	ORIGINAL*
40	ORIGINAL*

* These tariff pages are included in this filing.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

CHECK SHEET
(cont'd)

Original and revised pages, as indicated below, comprise all effective pages of this tariff.

<u>PAGE</u>	<u>REVISION</u>
41	ORIGINAL*
42	ORIGINAL*
43	ORIGINAL*
44	ORIGINAL*
45	ORIGINAL*
46	ORIGINAL*
47	ORIGINAL*
48	ORIGINAL*
49	ORIGINAL*
50	ORIGINAL*
51	ORIGINAL*
52	ORIGINAL*
53	ORIGINAL*
54	ORIGINAL*
55	ORIGINAL*
56	ORIGINAL*
57	ORIGINAL*
58	ORIGINAL*
59	ORIGINAL*
60	ORIGINAL*
61	ORIGINAL*
62	ORIGINAL*
63	ORIGINAL*
64	ORIGINAL*
65	ORIGINAL*
66	ORIGINAL*
67	ORIGINAL*
68	ORIGINAL*
69	ORIGINAL*
70	ORIGINAL*
71	ORIGINAL*
72	ORIGINAL*
73	ORIGINAL*
74	ORIGINAL*
75	ORIGINAL*
76	ORIGINAL*
77	ORIGINAL*
78	ORIGINAL*
79	ORIGINAL*
80	ORIGINAL*

* These tariff pages are included in this filing.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

CHECK SHEET
(cont'd)

Original and revised pages, as indicated below, comprise all effective pages of this tariff.

<u>PAGE</u>	<u>REVISION</u>
81	ORIGINAL*
82	ORIGINAL*
83	ORIGINAL*
84	ORIGINAL*
85	ORIGINAL*
86	ORIGINAL*
87	ORIGINAL*
88	ORIGINAL*
89	ORIGINAL*
90	ORIGINAL*
91	ORIGINAL*
92	ORIGINAL*
93	ORIGINAL*
94	ORIGINAL*
95	ORIGINAL*
96	ORIGINAL*

* These tariff pages are included in this filing.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

TABLE OF CONTENTS

Section	PAGE
Title Page	
Check Sheet	
Check Sheet-2	
Table of Contents	1
Explanation of Symbols	2
1. Application of Tariff	3
2. Definitions	4
3. General Rules and Regulations	12
3.1 Undertaking of the Company	12
3.2 Use of Service	12
3.3 Obligations of the Company	13
3.4 Obligations of the Customer	15
3.5 Payment Regulations	17
3.6 Credit Allowances	19
3.7 Interconnection	20
3.8 Equipment	21
3.9 Cancellation of Service	25
3.10 Determination and Rendering of Charges	26
3.11 Timing of Calls	27
3.12 Special Services	28
3.13 Fractional Charges	28
3.14 Telecommunications Relay Service (TRS)	29
4. Service Descriptions and Charges	30
4.1 Message Telecommunications Service	30
4.2 Operator Services	32
4.3 Toll Free Service	34
4.4 Other Service Arrangements	39
4.5 Complementary Services	74
4.6 Promotional Offerings	75
5. Grandfathered Services	78

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

EXPLANATION OF SYMBOLS

- (C) Changed regulation
- (D) Discontinued rate or regulation
- (I) Increase in rate
- (M) Material moved without change
- (N) New rate or regulation
- (R) Reduction in rate
- (S) Reissued material
- (T) Change in text only

CONCURRING CARRIERS

None

CONNECTING CARRIERS

None

OTHER PARTICIPATING CARRIERS

None

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

1. APPLICATION OF TARIFF

1.1 This tariff applies to specialized switching services furnished by WorldCom Technologies, Inc. hereinafter referred to as WorldCom, and/or the "Company", with its principle address at 515 East Amite Street, Jackson, Mississippi 39201-2702, for communications within the State of South Dakota. The local South Dakota office address is 2600 West 49th Street, Sioux Falls, South Dakota 57105. Service is furnished by wire, cable, radio and/or a combination thereof.

1.2 From time to time, Company offers special promotional offerings allowing special discounts or modifications of its regular service offerings to its Customers. Such offerings may be limited to certain dates, times, and locations.

1.3 When services and facilities are provided in part by the Company and in part by other companies, the regulations of the Company apply to that portion of the service or facilities furnished by it.

1.4 Service/trademarks of the Company are indicated by "™", registered service/trademark are indicated by "®", and copyrights are indicated by "©". In addition, the Company logo is a registered servicemark of the Company.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

2. DEFINITIONS

The following definitions apply for certain terms used generally throughout this tariff:

AT&T: American Telephone and Telegraph Company.

Access Code: A sequence of numbers that, when dialed, connect the caller to the Provider of Operator Services associated with that sequence.

Access Line: A communications channel which is used for access to a Company service point.

Access Line Group: An access line or a number of access lines from a single Customer or authorized user location which have the same termination characteristics and which are arranged in a hunting sequence.

Accounting Code: A multi-digit code which enables a Customer to allocate long distance charges to internal accounts.

Additional Minute: The rate element used to bill for the chargeable time when a call continues beyond the initial minute.

Advance Payment: Part or all of a payment required before the start of service.

After-Hours Toll Free Message Referral: This feature enables the Toll free service Customer to route toll free calls to the Company Message Centre after-hours for either an announcement only, announcement and message recording capability, or both with Message Centre outdial notification.

1. Option A (Message Announcement only)

This option enables the toll free service Customer to play prerecorded voice information referring callers to other numbers, explaining service conditions, or other general information that a Customer desires to provide to callers.

2. Option B (Announcement with Message Recording)

This option enables the toll free service Customer to play customized voice announcements and if the caller desires, leave a message. The Customer may call the Company Message Centre to retrieve messages.

3. Option C (Announcement, Message Capability & Message Notification)

This option consists of both message announcement and message recording, plus the ability for the Message Centre to outdial and notify the Company Toll Free Customer of messages.

Aggregator: Any person that, in the ordinary course of its operations, makes telephones available to the public or to transient users of its premises, for intrastate telephone calls using a Provider of Operator Services.

Analog Transmissions: Denotes information transmitted in the form of continuously varying signal current and/or voltage.

Answer Supervision: An electrical signal fed back up the line by the local telco at the distant end of a long distance call to indicate positively the call has been answered by the called phone.

Application for Service - A standard order form which includes all pertinent billing, technical, and other descriptive information which will enable the carrier to provide the communication service as required.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

2. **DEFINITIONS** (Cont'd)

Area Code Blocking: This feature allows the toll free service Customer to block originating calls from one or more specific area codes. Customers can tailor their toll free service to their geographic service area and block unwanted calls from out of their area.

Area Code Routing: This feature allows the toll free service Customer to route calls to multiple answering locations using one toll free number. The Customer can define two or more originating routing groups and to arrange that calls to a single toll free service number placed from different routing groups will terminate at different locations.

Authorization Code: A multi-digit code which enables a Customer to access Company's network and enables the Company to identify the use for proper billing.

Authorized User: A person, firm, corporation, or other legal entity which is authorized by the Customer to be connected to the service of the Customer. An authorized user(s) must be named in the application for service.

Autodialer: A device which allows the Customer to dial pre-programmed telephone numbers, such as the Company access number or authorization codes, by pushing one or two buttons. Dialers can be bought as a separate device and added to a phone.

Automatic Numbering Identification (ANI): A type of signalling provided by a local exchange telephone Company which automatically identifies the local exchange line from which a call originates.

Billed Party: The person or entity responsible for payment of the Company's service as follows:

For an Operator Assisted Call:

- a. in the case of a Calling Card or Credit Card call, the holder of the calling card or credit card used by the Consumer;
- b. in the case of a Collect or Third Party call, the person responsible for the local telephone service at the telephone number that agrees to accept charges for the call; and
- c. in the case of a Room Charge call, the Subscriber.

For a Direct Dial Call:

Direct dial calls are billed to the originating live number or the party assigned the Company's authorization code used to complete the call.

Billing Code: Customer-defined, non-verified codes which can be used to identify a project or an account for allocating the cost of the long distance call.

Billing Period: The period of time between Customer invoice to Customer invoice consisting of approximately 30 days.

Calling Card Call: A call for which charges are billed, not to the originating telephone number, but to a telephone calling card issued either by a local exchange or long distance telephone Company for this purpose.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

2. DEFINITIONS (Cont'd)

Cancellation of Order: A Customer initiated request to discontinue processing a service order, either in part or in its entirety, prior to its completion.

Channel: The path for electrical transmission between two or more points.

Collect Call: A billing arrangement which bills the charge for a long distance call to the called station's telephone number. The person agreeing to accept the call, whether they are Company's Customer or not, is responsible for all charges related to the call. Regardless of whether the person is a Customer of Company or not, he or she is subject to the provisions of this tariff which are applicable to the call accepted.

Command Routing: This feature allows the toll free service Customer to have toll free calls rerouted by the Company's network in the event of access blockage to an ANI or T1 circuit ID previously defined by the Customer.

Commercial Credit Card Billing: A billing arrangement by which a call may be charged to an authorized credit card number, such as MasterCard, VISA, or American Express. Company accepts commercial credit cards and charges cards (e.g., MasterCard, VISA, or American Express) for "0+" calls. However, to the extent necessary to control fraud, Company may decline to accept such cards from certain originating (e.g., pay telephone) locations.

Commission: The South Dakota Public Utilities Commission.

Communications Services: The Company's intrastate telephone services offered pursuant to this tariff.

Company: WorldCom Technologies, Inc.

Connecting Carrier: A telecommunications company, which may be either an interexchange or a local exchange carrier, that supplies the Company with facilities to originate or terminate the Company's long distance services.

Consumer: The term consumer means a person initiating any telephone call using operator services.

Credit Card: A Credit Card is an accepted credit card, which is defined as a credit card that the cardholder has requested or applied for and received, or has signed, used or authorized another person to use to obtain credit. Any credit card issued as a renewal or substitute in accordance with this paragraph is an accepted credit card when received by the cardholder.

Customer: The Customer is the person, firm, corporation or other entity which uses, caused the use of, or allows the use of the Carrier's communication network and/or services and is thereby responsible for the payment of charges and for compliance with the Carrier's tariff regulations.

Customer Dialed Calling Card Call: A Calling Card Call which does not require intervention by an attended operator position to complete.

Customer-Provided Facilities: All facilities, including those obtained from other communications common carriers, provided by the Customer and/or authorized user, other than those provided by the Company.

Day of Week Routing: This feature allows the toll free service Customer to arrange for calls to a single toll free service number to be routed to different locations based on the particular day of the week.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

2. **DEFINITIONS** (Cont'd)

Dedicated Access Service: The generic term for a Company service in which the Customer's traffic passes over an access line, connecting the Customer's premise to a Company switch, which is used solely for that Customer's traffic.

Designated Service Date: Denotes the Customer specified installation date requested at the time the order for service is initiated. If the Company finds it cannot provide service by that date, the designated service date becomes that date specified by the Company on which the installation of service can be performed.

Designated Service Point: The Customer designated point of termination of a local distribution channel. The designated service point may be a Customer or authorized user premise or a local exchange Company central office or centrex station.

Dedicated Termination Overflow: This feature enables the toll free service Customer to control potential congestion of toll free calls by sending the overflow calls from one dedicated line to a switched line, allowing for maximum completion of incoming toll free calls.

Dialed Number Identification Service (DNIS): This feature allows a Customer with multiple toll free service numbers terminating in the same location to identify the specific toll free service number which was dialed by the calling party and to route the call to the appropriate location. DNIS is only available with dedicated toll free service.

Disconnection: The disconnection of a circuit, dedicated access line or port connection being used for existing service.

EAS: Extended Area Service.

End User: An individual or entity designated by the consumer to be responsible for the payment of calls placed using the Company's Operator Services.

Equal Access Code: An access code that allows the public to obtain an equal access connection to the Company associated with that code.

FCC: Federal Communications Commission.

Hertz: Is a unit of frequency equal to one cycle per second.

Holiday: One of the following Company recognized Holidays: Independence Day, Memorial Day, Labor Day, Thanksgiving Day, Christmas Day, New Year's Day.

Initial Minute: The rate element used to bill for the first chargeable minute, or fraction thereof, of a call.

Interexchange Service: Any of the Company's service offerings which provide switched communications between Local Exchange Carrier defined exchange service areas. Interexchange Services include, but are not limited to MTS, Toll Free and Other Service Arrangements.

Joint User: A person, firm or corporation which is designated by the Customer as a user of services furnished to the Customer by the Company, and to whom a portion of the charges for service will be billed under a joint user arrangement as specified herein.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

2. DEFINITIONS (Cont'd)

LATA - (Local Access and Transport Area): A geographical area established as required by the Modified Final Judgment in the government's antitrust suit against the Bell System for the provision and administration of communications services.

Line Haul Mileage: Denotes mileage distance between the Company Terminal Office Cites.

Local Access Line or Local Distribution Channel: The facility consisting of the necessary equipment and local telephone company lines which are required to interconnect the Customer's or authorized user's premises to a Company Service Point within the same local exchange area.

Local Calling Area: Denotes a geographical area in which a Local Exchange Company end user may complete a call without incurring long distance charges.

Local Exchange Area: The term "Local Exchange Area" denotes a unit established by the Company for the administration of communications services in a specified area which usually embraces a city, town, or village and its environs. Specific definitions of the Company local exchange areas are available upon request.

Local Exchange Carrier (LEC): A company which provides telecommunications service within a local exchange or LATA.

Local Service Management Systems (LSMS): An intermediate database system which receives downloads of Customer records from the SMS/800 and further downloads them to the appropriate SCPs in its network.

Local Time: The time observed, standard or daylight savings, at the point where the call originates.

Measured Charge: A charge assessed on a per minute basis in calculating a portion of the charges due for a completed Operator Assisted or Direct Dial Call.

Measured Service: The provision of intrastate long distance measured time communications telephone service to Customers who access the Company's service at its switching and call processing equipment by means of access facilities obtained from a local exchange carrier. The Company is responsible for arranging for the access lines.

Message: A telephone call.

Mileage Rate Band: Mileage interval used to establish rates for Company services.

Minimum Average Time Requirement (MATR): A generic term indicating a specified period of time, used in the determination of usage charges, which represents the minimum average duration of calls completed during a billing period.

Multiple Channel Service: Is a service offering whereby a Customer may order more than one leased channel where the line haul mileage of the channels falls within the same mileage rate band.

Network: Refers to the Company's facilities, equipment, and services provided under this Tariff.

Normal Business Hours: Normal business hours is the time between 8 a.m. and 5 p.m., Monday through Friday, excluding holidays.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

2. DEFINITIONS (Cont'd)

Operator Assisted Call: An intrastate telephone connection completed through the use of the Company's Operator Services.

Operator Service Charge: A non-measured (fixed) charge which is added to a measured charge in calculating the total tariff charges due for a completed Operator Assisted Call.

Operator Services: Any intrastate telecommunications service initiated from an Aggregator location that includes, as a component, any automatic or live assistance to a Consumer to arrange for billing or completion, or both, of an intrastate telephone call through a method other than

- a. automatic completion with billing to the telephone from which the call originated; or
- b. completion through an access code used by the Consumer, with billing to an account previously established with the Company by the Consumer.

Other Common Carrier: A government regulated entity offering communications services to the public.

Percent Allocation: This feature allows the Customer to route various percentage of calls to two or more answering locations. The Customer must establish a call allocation pattern where each percentage is a whole number and the total allocation equals 100 percent. The Customer must have at least two different locations for this routing feature to be available.

Point of Presence: Locations where the Company maintains an operations center for purposes of providing long distance services.

Port: A communications interface provided by the Company through which the Customer or authorized user obtains access to the Company network via access lines.

Presubscribed Provider of Operator Services: The interstate Provider of Operator Services to which the Consumer is connected when the Consumer places a call using a Provider of Operator Services without dialing an access code.

Real Time ANI: Real Time Automatic Number Identification (ANI) Service identifies the calling party's telephone number to the toll free service Customer if the call originates from an equal access end office. If the call originates from a non-equal access end office, only the NPA will be delivered to the toll free service Customer. Real Time ANI is available with or without DNIS and is available only with dedicated toll free service.

Recurring Charges: The monthly charges to the Customer for services, facilities and equipment which continue for the agreed upon duration of the service.

Responsible Organization (Resp. Org.): The carrier entity that has responsibility for the management of toll free numbers in the Service Management System (SMS/800) including maintaining Customer records in the SMS/800 system. Also, the entity which accesses the SMS/800 to: (a) search for and reserve toll free numbers; (b) create and maintain toll free number Customer records, including call processing records; and (c) provide a single point of contact for trouble reporting. The SMS/800 recognizes one Resp. Org. for each toll free number.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

2. DEFINITIONS (Cont'd)

Room Charge Call: A call placed with the assistance of an operator, for which charges are collected by the Subscriber, normally a hotel or motel, from the guest or occupant of the room from which the call originated. A call of this type requires that the Company communicate the call detail and charges back to the originating Subscriber location following completion of the call.

Service: Service means any or all service(s) provided pursuant to this tariff.

Service Commencement Date: The first date on which the Company notifies the Customer that the requested service or facility is available for use, unless extended by the Customer's refusal to accept service which does not conform to standards set forth in the Service Order or this tariff, in which case the Service Commencement Date is the date of the Customer's acceptance. The Company and the Customer may mutually agree on a substitute Service Commencement Date.

Service Control Point (SCP): The real-time data base system in the toll free Data Base Service network that contains instructions on how Customers wish their calls to be routed, terminated or otherwise processed.

Service Management System (SMS/800): The main administrative support system of Toll Free Data Base Service. It is used to create and update Customer Toll Free Service records that are then down loaded to Service Control Points (SCPs) for handling Customer's Toll Service Service calls and to Local Management Systems (LSMSs) for subsequent downloading to SCPs. The system is also used by Resp. Orgs. to reserve and assign toll free numbers.

Service Order: The written request for communications services executed by the Customer and the Company in the format devised by the Company. The signing of a Service Order by the Customer and acceptance by the Company initiates the respective obligations of the parties as set forth therein and pursuant to this tariff, but the duration of the service is calculated from the Service Commencement Date.

Service Points: Those cities from which the Company makes its services available to its Customers.

Shared: A facility or equipment system or subsystem that can be used simultaneously by several Customers.

Special Access Line (SAL): A Dedicated Analog DAL or Digital T-1 Access Lines directly connecting Customers telephone equipment to the Long Distance Provider without using the Local Exchange Carrier's switching equipment.

Special Promotional Offering: Special discounts or modifications of its regular service offerings which the Company may, from time to time, offer to its Customers for a particular service. Such offerings may be limited to certain dates, times, and locations.

Special Services: Denotes service provided and performed by the Company involving special engineering, design, programming, development or production activities to provide services requested by a Customer to meet special needs not otherwise provided under this tariff.

Station: Any location from which a call can be originated or received.

Station-to-Station Call: A call placed to a telephone number, with the understanding that the caller will speak to any person who answers the called number.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

2. DEFINITIONS (Cont'd)

Subscriber: A person or other entity that selects a telecommunications Company to be the Presubscribed Provider of Operator Services for one or more locations within that person or entity's control.

Subscription Agreement: A standard form which includes all pertinent billing, technical and other descriptive information which will enable the Company to provide the long distance service required.

Switch: An electronic device which is used to provide circuit routing and control.

Switched Access Service: The generic term for a service in which a call is transmitted over facilities shared by other Customers before it reaches the Company switch.

Telecommunications: The transmission of voice communications or, subject to the transmission capabilities of the service, the transmission capabilities of the service, the transmission of data, facsimile, signalling, metering, or any other form of intelligence.

Terminal Equipment - Devices, apparatus, and their associated wiring such as teleprinters, telephone hand sets, or data sets.

Third Party Call: A call for which charges are billed, not to the originating telephone number, but to a third party telephone number which is neither the originating nor the terminating telephone number.

Time of Day Routing: This feature allows the toll free service Customer to arrange for calls to a single toll free service number to be routed to different locations based on the time of day.

User or End User: Any person or entity that obtains the Company's service provided under this Tariff, regardless of whether such person or entity is so authorized by the Customer.

Vertical Features - Services such as call validation, "Plain Old Telephone Service" (POTS) number translation, and provision of statistical information on the Customer's toll free traffic, which may be obtained by the Company from Local Exchange Company access tariffs on behalf of a Company Toll Free Service Customer for which Company serves as Resp. Org.

Voice Grade Channel: Denotes a communications channel with a nominal bandwidth of 4,000 hertz.

WATS: Wide Area Telecommunications Service

3. GENERAL RULES AND REGULATIONS

3.1 UNDERTAKING OF THE COMPANY

3.1.1 General

3.1.1.1 The services furnished herein are for the transmission and reception of voice, data and other types of communications. Services provided pursuant to this tariff may be utilized only for the transmission of communications by Customers consistent with the terms of this tariff, the rules and regulations of the State of South Dakota.

3.1.1.2 The Company's services and facilities are available 24 hours a day, 7 days a week.

3.1.2 Availability

3.1.2.1 Service is offered subject to the availability of the necessary facilities and /or equipment. The Company reserves the right to provide services to and from locations where the necessary facilities and/or equipment are available.

3.1.2.2 The Company reserves the right to suspend service or delay service installation until sufficient network facilities are available to meet the anticipated traffic demand or terminate a service request with a full refund of any charges billed to the Customer if satisfactory arrangements cannot be concluded within what the Company determines to be a reasonable amount of time.

3.2 USE OF SERVICE

3.2.1 Services furnished by the Company may not be used for any unlawful purpose.

3.2.2 No restrictions apply on sharing or resale of services. The Customer remains liable for all obligations under this tariff notwithstanding such sharing or resale and regardless of the Company's knowledge of same.

3.2.3 Use of the services herein in a manner that could interfere with the services provided to other Customers, harm the facilities of the Company or others is prohibited.

3.2.4 In the event that the Company determines, based upon its sole judgement, that there is fraudulent use of either the services furnished by the Company or the Company's network, the Company will without liability to the Customer discontinue service and/or seek legal recourse to recover from the Customer all costs involved in enforcement of this provision.

3.2.4.1 Service may be discontinued by the Company, without notice to the Customer, by blocking traffic to or from certain cities, or NXX exchanges, or by blocking calls using certain Customer authorization codes, such as calling card codes, when the Company deems, in its sole judgement, it necessary to take such action to prevent unlawful use of its service. The Company will restore service as soon as it can be provided without undue risk.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

3. GENERAL RULES AND REGULATIONS (Cont'd)

3.2 USE OF SERVICE (Cont'd)

3.2.4 (Cont'd)

3.2.4.2 Without incurring any liability, the Company may discontinue the furnishing of service(s) to a Customer immediately and without notice if the Company deems, in its sole judgement, that such action is necessary to prevent or protect against fraud or to otherwise protect its personnel, agents, facilities or services.

3.2.5 The Company may, but is not required to, advise the Customer of abnormal calling patterns or other possible unauthorized use of facilities or calling cards assigned to the Customer. Additionally, the Company may, but is not required to, block calls on authorization codes which the Company believes to be unauthorized or fraudulent. In the event the Customer advises the Company that the traffic is normal and there is no material unauthorized usage and/or no request is made by the Customer to the Company to mitigate the abnormal calling patterns or other possible unauthorized use.

3.2.6 If a Customer utilizes a dedicated access line between the Customer's premises and the Company's service office for the origination or termination of calls, the Customer is responsible for payment of all charges for usage over that access line, including any usage which may be fraudulent or unauthorized.

3.2.7 The use and restoration of service shall be in accordance with Part 64, Subpart D of the Federal Communications Commission's Rules.

3.2.8 With the use of the Company authorization codes, the Customer agrees to pay the Company all charges incurred as a result of any delegation of authority whether authorized or unauthorized resulting in the use of its Company authorization code.

3.3 OBLIGATIONS OF THE COMPANY

3.3.1 Liability

Except as provided in this Section, the Company's sole liability for any claim, loss, expense or damages of any kind, whether direct, indirect, special or consequential, arising from or in any way attributable to acts or omissions of the Company relating to the installation, provision, termination, maintenance, repair, restoration, or billing of any service, feature or option available under this tariff shall not exceed an amount equal to the monthly recurring charge to the Customer for one (1) month, if any, or as otherwise set forth in the outage credit provisions of this tariff provided, however, that:

3.3.1.1 The Company's liability for its willful misconduct is not limited by this tariff.

3.3.1.2 The Company is not liable for any failure of facilities or performance of services due to causes beyond its control, including, but not limited to, civil disorder, fire, flood, storm or other natural or man-made disasters or elements, labor problems or regulations issued by or action taken by any government agency having jurisdiction over the Company or its services or equipment.

3.3.1.3 The Company shall have no liability to any person or entity other than its Customer.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

3. GENERAL RULES AND REGULATIONS (Cont'd)

3.3 OBLIGATIONS OF THE COMPANY (Cont'd)

3.3.1 Liability (Cont'd)

3.3.1.4 The Company shall not be liable for, and shall be fully indemnified and held harmless by the Customer against the following:

.1 Any claim, loss, expense or damage (including, but not limited to, reasonable attorney's fees and expenses) for engaging in a criminal enterprise, defamation, libel, slander, invasion of privacy, infringement of copyright or patent, arising from or in connection with the material, data, information, or other content transmitted over the services or facilities furnished by the Company;

.2 Any claim, loss, expense or damage (including, but not limited to, reasonable attorney's fees and expenses) for any act or omission of the Customer or its agents and contractors, or due to the failure of Customer-provided equipment, facilities, systems or services;

.3 Any claim, loss, expense or damage (including, but not limited to, reasonable attorney's fees and expenses) for personal injury or death of any person caused directly or indirectly by the installation, maintenance, location, condition, operation, failure, presence, use or removal of equipment or wiring provided by the Company, if not caused by negligence of the Company; and/or

.4 Any use by the Customer of the Company's products or services which use has been restricted or limited by action of a government agency having jurisdiction over the Customer, the Company or its products or services;

3.3.1.5 All or a portion of the service may be provided over facilities of third parties, and the Company shall not be liable to the Customer or any other person, firm or entity in any respect whatsoever arising out of defects caused by such third parties.

3.3.1.6 Where any claim arises out of the Company's acting as a Resp. Org. or where the Company's Toll Free Service is not made available on the date committed to the Customer, or cannot otherwise be made available after the Company's acceptance of the Customer's order, or is provided with a number(s) other than the one(s) committed by the Company to the Customer, or the number(s) is not included in the Toll Free Service Directory Assistance or is included in an incorrect form, or Vertical Features are not obtained or are obtained in error, and any such failure(s) is due solely to the negligence of the Company, in such case the Company's liability, if any, is limited to the lesser of (a) the actual monetary damages incurred and proved by the Customer as the direct result of such failure(s), or (b) the sum of \$1,000.00.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

3. GENERAL RULES AND REGULATIONS (Cont'd)

3.3 OBLIGATIONS OF THE COMPANY (Cont'd)

3.3.1 Liability (Cont'd)

3.3.1.7 The Company shall not be liable for the use, misuse or abuse of a Customer's Toll Free Service by third parties, including, without limitation, the Customer's employees or members of the public who dial the Customer's toll free number by mistake. Compensation for any injury the Customer may suffer due to the fault of others must be sought from such other parties.

3.3.1.8 In the event that the Company causes the misrouting of calls, the Company's sole liability shall be to provide a credit equal to the charges for the affected calls.

3.3.1.9 The Company reserves the right to immediately suspend or cancel without advance written notice and without any liability whatsoever, the provision of Toll Free Service to any Toll Free Service Customer if the Company determines in its sole discretion that the Customer is using the Toll Free Service to make or permit any telephone facility under such Customer's control to be used for any purpose or activity, including, but not limited to, any obscene, indecent or harassing purpose or activity, prohibited by Section 223 of the Communications Act of 1934, as amended, and toll free calls placed with the intent of gaining access to a Customer's outbound calling services without authorization from the Customer.

3.3.1.10 The Company is not liable for any damages, including toll usage charges, the Customer may incur as a result of the unauthorized use of its telephone facilities. This unauthorized use of the Customer's facilities includes, but is not limited to, the placement of calls from the Customer's premises, and the placement of calls through Customer-provided equipment which are transmitted or carried on the Company network. The Company Corporate Security Department may work with Customers to recommend possible solutions to reduce unauthorized use of their facilities. However, Company does not warrant or guarantee that its recommendations will prevent all unauthorized use, and the Customer is responsible for controlling access to, and use of, its own telephone facilities.

3.4 OBLIGATIONS OF THE CUSTOMER

3.4.1 The Customer shall be responsible for damages to the Company's facilities caused by the act or omission of the Customer, its authorized users, officers, directors, employees, agents, contractors, licensees or invitees.

3.4.2 The Customer shall provide access to the Customer's or authorized user's premises by the Company personnel for inspection, repair and/or removal of any facilities or equipment of the Company on an unrestricted basis, 24 hours a day, 7 days a week.

3.4.3 The Customer will guarantee the performance by his authorized user(s) of all provisions of this tariff and contractual obligations between the Customer and the Company. The Customer will be liable for the acts or omissions of its authorized user(s) relative to the compliance with the provision of this tariff.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

3. GENERAL RULES AND REGULATIONS (Cont'd)

3.4 OBLIGATIONS OF THE CUSTOMER (Cont'd)

3.4.4 The Customer may not assign or transfer to a third party, whether by operation of law or otherwise, the right to use the services provided under this tariff, provided however, that where there is not interruption of use or relocation of the services, such assignment or transfer may be made to the following:

(a) Another Customer of the Company, provided that the assignee or transferee assumes all accrued and unpaid obligations of the transferring Customer including, but not limited to, all indebtedness for such services, and the unexpired portion of the minimum period and the termination liability applicable to such services if any, or

(b) A court-appointed receiver, trustee or other person acting pursuant to the laws of bankruptcy, receivership, reorganization, insolvency, liquidation or other similar proceedings, provided that the assignee or transferee assumes all accrued and unpaid obligations of the transferring Customer including, but not limited to, all indebtedness for such services, and the unexpired portion of the minimum period and the termination liability applicable to such services, if any.

If the Customer wishes to assign or transfer the right to use services provided under this tariff, written consent of the Company is required prior to such assignment or transfer which consent may be granted or withheld in the sole discretion of the Company. All regulations and conditions contained in this tariff shall apply to such assignee or transferee.

The assignment or transfer of services does not relieve or discharge the assignor or transferor from remaining jointly and severally liable with the assignee or transferee for any obligations existing at the time of the assignment or transfer.

3.4.5 The Customer of the Company's 1+, 0+ (sent paid) and/or Toll Free Service is responsible for payment for all calls placed:

- (a) via the Customer's local telephone service number(s);
- (b) via dedicated access lines to the Company facilities and/or network;
- (c) via the Customer's Toll Free Service number(s) either intentionally or mistakenly placed;
- (d) originated at the Customer's number(s);
- (e) accepted at the Customer's number(s) (e.g. collect calls); and
- (f) billed to the Customer's number via third number billing.

This responsibility is not changed by virtue of any use, misuse, or abuse of the Customer's service, Customer provided systems, equipment, facilities, services interconnected to the Customer's local telephone service, 0+ (sent paid), dedicated lines or Toll Free Service; which use, misuse or abuse may be occasioned by third parties, including, without limitation, the Customer's employees and members of the public.

3. GENERAL RULES AND REGULATIONS (Cont'd)

3.4 OBLIGATIONS OF THE CUSTOMER (Cont'd)

3.4.6 The Customer must obtain an adequate number of access lines for Toll Free Service to handle its expected demand in order to prevent interference or impairment of the service or any other service provided by the Company. The Company will have the right to determine such adequacy giving due consideration to (1) the total call volume; (2) average call duration; (3) time-of-day characteristics; and (4) peak calling period.

The Company, without incurring any liability, may disconnect or refuse to furnish Toll Free Service to any Customer that fails to obtain an adequate number of lines. In the case of disconnections, the Customer will be notified in writing in advance of the termination of service.

3.4.7 Any mistakes, accidents, omissions, interruptions, delays, errors or defects in transmission or service which are caused or contributed to, directly or indirectly, by an act or omission of the Customer, by others, through the use of Customer-provided facilities or equipment, or through the use of facilities or equipment furnished by any other person using the Customer's facilities shall not result in the imposition of any liability upon the Company. The Customer shall pay to the Company any reasonable costs, expenses, damages, fees or penalties incurred by the Company as a result thereof, including the costs of any local exchange company labor and materials. The Company shall be indemnified, defended and held harmless by the Customer against any and all claims, demands, causes of action and liability relating to services provided pursuant to this agreement, including payment to the Company's reasonable attorney's fees.

3.5 PAYMENT REGULATIONS

3.5.1 Service is provided and billed on a monthly basis. Service continues to be provided until 30 days after the Company's receipt of a written request from the Customer for the disconnection of service, unless other restrictions apply. Payment is to be made to the address designated on the invoice or such other location as the Company may direct in writing from time to time. In addition to the charges for the Company's services, the Customer shall pay any applicable federal, state or local use, excise, sales or privileges taxes resulting from the services furnished by the Company. Such taxes shall not be counted toward the attainment of any volume or revenue commitment and will not be discounted.

3.5.2 The Customer is responsible for payment of all charges for service furnished by the Company. This includes payment for calls or services (a) originated at the Customer's number(s) whether authorized or not; (b) accepted at the Customer's number(s) (e.g. Toll Free Service and collect calls); (c) billed to the Customer's number via third number billing, a calling card, a company-assigned authorization code, travel card number, or other special billing number; and/or (d) incurred at the specific request of the Customer.

3.5.3 A Customer of Toll Free Service is responsible for payment for all calls placed to or via the Customer's Toll Free Service number(s). This responsibility is not changed by virtue of any use, misuse, or abuse of the Customer's service or Customer provided systems, equipment, facilities or services interconnected to the Customer's Toll Free Service, which use, misuse or abuse may be occasioned by third parties, including, without limitation, the Customer's employees and members of the public who dial the Customer's toll free number by mistake.

3. GENERAL RULES AND REGULATIONS (Cont'd)

3.5 PAYMENT REGULATIONS (Cont'd)

3.5.4 If notice of a dispute with respect to charge is not received, in writing, within 30 days after an invoice is rendered, such invoice shall be deemed to be correct and binding upon the Customer. In instances of a dispute, the Customer is required to pay the undisputed portion of the bill in its entirety. Accounts not paid within 30 days from the due date stated on the bill will be considered delinquent. Delinquent payments may result in the imposition of a late fee at the rate of 1.5% of the unpaid balance per month or the maximum allowable rate under applicable state law.

3.5.5 If a Customer accumulates more than \$1,000 of undisputed delinquent Toll Free Service charges, the Company's Resp Org reserves the right not to honor that Customer's request for a Resp Org change and the Company reserves the right not to honor that Customer's request for a carrier change until such undisputed charges are paid in full.

3.5.5.1 In the case of a billing dispute between the Customer and the Company for service furnished to the Customer, which cannot be settled to the mutual satisfaction to the Customer and the Company, the Customer has up to 30 days (commencing 5 days after such bills have been mailed or otherwise rendered per the Company's normal course of business) to take the following course of action:

.1 First, the Customer may request and the Company will provide an in-depth review of the disputed amount.

.2 Second, if after investigation and review by the Company, a disagreement remains as to the disputed amount, the Customer may file an appropriate complaint with the South Dakota Public Utilities Commission.

3.5.6 The Company may require applicants or Customers to provide information pertaining to their financial ability to pay for service.

3.5.6.1 Applicants or Customers whose credit worthiness is not acceptable to the Company or is not a matter of general knowledge, may be denied service or may be required to make, at any time, a deposit in an amount equaling up to three months, actual or estimated charges for the services provided. The Company may increase the amount of any deposit previously required if, in the Company's sole discretion, it is reasonably necessary under the circumstances.

3.5.6.2 In the case of a cash deposit, interest will be paid for the period during which the deposit is held by the Company. If the Company, in its sole discretion, determines that the Customer is not capable of satisfying its payment obligations, services may be cancelled by the Company upon written notice.

3.5.6.3 At the Company's option, such deposit may be refunded or credited to the Customer at, or any time prior to, termination of service. The Customer may elect to apply the deposit to future invoices or receive a payment of the deposit amount. However, if any balance is outstanding on the Customer's account at the time of cancellation, the Company reserves the right to apply the Customer's deposit and accumulated interest against the Customer's unpaid balance.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

3. GENERAL RULES AND REGULATIONS (Cont'd)

3.5 PAYMENT REGULATIONS (Cont'd)

3.5.7 In the event the Company incurs fees or expenses, including attorney's fees, court costs, costs of investigation and related expenses in collecting, or attempting to collect, any charges owed to the Company, the Customer will be liable to the Company for the payment of all such fees and expenses reasonably incurred.

3.5.8 In the event that a check or draft tendered by a Customer is returned, a fee of \$15 will apply. The fee will be assessed when a check or instrument issued by a Customer is returned without payment for any reason whatsoever, unless the return is a bank error, in which case documentary evidence is required to waive the fee.

3.5.9 All stated charges in this tariff are computed by the Company exclusive of any federal, state, or local use, excise, gross receipts, sales, or privilege taxes, duties, fees, or similar liabilities (other than general income or property taxes) whether charged to or against the Company or its Customer. Such taxes, fees, etc. shall be paid by the Customer in addition to the charges stated in this tariff. All such taxes, duties and fees shall each be shown as a separate line item on the Customer's monthly invoice.

3.5.10 The Company will bill previously unbilled charges for service to the Customer, provided the associated service was furnished not more than one hundred eighty (180) days preceding the date of the Customer's bill, including the following:

- collect calls
- credit card and calling card calls
- third party calls
- "error file" calls (calls which can not be billed due to the unavailability of complete billing information to the Company)

3.5.10.1 In cases involving toll fraud, the Company may backbill for one and one-half (1 1/2) years.

3.6 CREDIT ALLOWANCES

3.6.1 Interruption of Service

3.6.1.1 No credit will be allowed for relinquishing facilities in order to perform routine maintenance.

3.6.1.2 Credit for failure of service or equipment will be allowed only when such failure is caused by or occurs in facilities or equipment provided by the Company. As used in this tariff, all equipment, facilities and/or services for which the Company renders a bill for payment are considered provided by the Company whether or not the equipment, facilities and/or services are owned and operated by the Company.

3.6.1.3 No credit will be allowed for failures of service or equipment due to Customer user-provided facilities or any act or omission of the Customer or its authorized user(s).

3.6.1.4 Credit allowance time for failure of service or equipment starts when the Customer notifies the Company of the failure or when the Company has actual knowledge of the failure, and ceases when the service has been restored and an attempt has been made to notify the Customer.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

3. GENERAL RULES AND REGULATIONS (Cont'd)

3.6 CREDIT ALLOWANCES (Cont'd)

3.6.1 Interruption of Service (Cont'd)

3.6.1.5 The Customer shall notify the Company of failures of service or equipment and make reasonable attempts to ascertain whether the failure is caused by Customer-provided equipment.

3.6.1.6 Only those portions of the service or equipment operation materially interfered with will be credited.

3.6.2 Outage Credit

3.6.2.1 No credit shall be given for an interruption of less than 2 hours.

3.6.2.2 The Customer shall be credited for an interruption of 2 hours or more at the rate of 1/360th of the monthly charge for the facilities affected for each period of 2 hours or major fraction thereof that the interruption continues. (A billing period has 30 days and service is provided 24 hours a day, 7 days a week. Every month will have 720 hours.)

3.6.2.3 Where a minimum usage charge is applicable and the Customer fails to meet a usage minimum, credit for the outage shall be applied against that minimum equal to 1/360th of the monthly minimum charges associated with the portion of service disabled for each period of 2 hours or major fraction thereof that the interruption continues.

3.7 INTERCONNECTION

3.7.1 When the services or equipment of the Company are interconnected with and/or terminated in any service and/or equipment of another communications common carrier, the Customer shall comply with any applicable tariff regulations of and/or contractual obligations it has to the other communications common carrier.

3.7.2 The Company shall be appointed agent of the Customer to arrange interconnection from the Company's point of presence (POP) to the Customer's facilities unless otherwise specified. The Customer shall be responsible for payment of local access line charges for such interconnections secured on its behalf. The rates charged for local access service are subject to change by the local telephone company or other third parties utilized by the Company in arranging local access service. The Customer acknowledges that the Company may rely on the telephone companies for installation and testing of local access lines. The Company is not liable for untimely installation, facilities not operating or equipment that is not provided by the Company.

3.7.3 Interconnection of the Company's services or equipment with the services of other communications common carriers is permitted as well as Customer provided communications facilities so long as the facilities and services provided by others do not interfere with the proper functioning of the facilities and services provided by the Company.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

3. GENERAL RULES AND REGULATIONS (Cont'd)

3.8 EQUIPMENT

3.8.1 Customer Obligations

3.8.1.1 The Customer shall assume all responsibility for obtaining all necessary permits, authorization or consents for interconnecting Customer-provided equipment or facilities with the Company's services or facilities as well as ensuring that the Customer-provided equipment or facilities are properly interfaced with the Company's services or equipment.

3.8.1.2 Access to and release of Company provided facilities located on the Customer's premises for testing and repair will be required for failures of equipment or service and/or routine maintenance. The Company will notify the Customer in advance of such necessary access or release and will attempt to schedule the access or release at a mutually convenient time. For charges contemplated in the tariff, such testing and repair and/or routine maintenance will be performed during regular business hours. When, at the specific request of the Customer, such routine maintenance, testing and/or repair is performed outside of regular business hours, additional special service charges may apply.

3.8.1.3 The Customer shall operate its equipment and facilities in such a manner that its use of the Company's facilities shall not interfere with any other Customer's use of the Company's services or equipment.

3.8.1.4 The Customer shall provide adequate space, electrical power, wiring, HVAC and electrical outlets necessary for the proper operation of the Company's equipment on the Customer's and/or authorized user's premises.

3.8.1.5 The Customer shall be responsible for all loss regardless of cause (other than directly resulting from an act or omission of the Company) to the Company's equipment on the Customer's or its authorized user's premises.

3.8.1.6 The Customer is responsible for ensuring that, except for Customer authorized and qualified personnel, no one attempt to adjust, modify, move or otherwise interfere in any way with the continuous operation of the Company's equipment located at the Customer's or authorized user premises.

3.8.1.7 The Customer shall comply with the minimum protective criteria generally accepted in the telephone industry and other appropriate criteria as may be prescribed by the Company to protect the integrity of service or for safety reasons.

3.8.1.8 The Customer shall be responsible for the installation, operation or maintenance of any Customer-provided equipment. Where such equipment is connected to service furnished pursuant to this tariff, the responsibility of the Company shall be limited to the furnishing of services under this tariff and to the maintenance and operation of such services in the proper manner. Subject to this responsibility, the Company shall not be responsible for the following:

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

3. GENERAL RULES AND REGULATIONS (Cont'd)

3.8 EQUIPMENT (Cont'd)

3.8.1 Customer Obligations (Cont'd)

3.8.1.8 (Cont'd)

- .1 the through transmission of signals generated by Customer-provided equipment or for the quality of, or defects in, such transmission;
- .2 the reception of signals by Customer-provided equipment; or
- .3 network control signalling where such signalling is performed by Customer-provided network control signalling equipment.

3.8.2 Terminal Equipment

3.8.2.1 The Company's facilities and service may be used with or terminated in Customer-provided terminal equipment or Customer-provided communications systems. Such terminal equipment shall be furnished and maintained at the expense of the Customer, except as otherwise provided in this tariff. The Customer is responsible for all costs at his premises, including Customer personnel, wiring, electrical power, and the like, incurred in the use of the Company's service.

3.8.2.2 When such terminal equipment is used, the equipment shall comply with the minimum protective criteria set forth below and shall not interfere with service furnished to other Customers. Additional protective equipment, if needed, shall be employed at the Customer's expense.

3.8.2.3 When service using voice grade facilities is terminated in Customer-provided terminal equipment, channel derivation devices, or communications systems, the Customer shall comply with the following minimum protective criteria:

- .1 When the facilities furnished under this tariff are used in common with local telephone company services, it is necessary in order to prevent excessive noise and cross talk, that the power of the signal applied to the local lines be limited. A single valued limit for all application cannot be specified. Therefore, the power of the signal in the band over 300 hertz which may be applied by the Customer-provided equipment at the point of termination will be specified by the carrier for each application, to be consistent with the signal power allowed on the telecommunications network.
- .2 To protect the telecommunications services from interference at frequencies which are above the band of service provided, the carrier will specify the acceptable signal power in the following bands to be applied by the Customer provided equipment or communications system at the point of termination to insure that the input to Bell's facilities does not exceed the limits indicated.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

3. GENERAL RULES AND REGULATIONS (Cont'd)

3.8 EQUIPMENT (Cont'd)

3.8.2 Terminal Equipment (Cont'd)

3.8.2.3 (Cont'd)

.2 (Cont'd)

- a. The power in the band from 3,995 hertz to 4,000 hertz shall be at least 18 dB below the power of the signal as specified in Subsection .1 preceding.
- b. The power in the band from 4,000 hertz to 10,000 hertz shall not exceed 24 dB below one milliwatt.
- c. The power in the band from 10,000 hertz to 25,000 hertz shall not exceed 24dB below one milliwatt.
- d. The power in the band from 25,000 hertz to 40,000 hertz shall not exceed 36 dB below one milliwatt.
- e. The power in the band above 40,000 hertz shall not exceed 50 dB below one milliwatt.

.3 Where there is connection via Customer-provided terminal equipment or communications systems to a Message Telecommunications Service to prevent the interruption or disconnection of calls or interference with network control signaling, it is necessary that the signal applied by the Customer-provided equipment to the interface at no time has energy solely in the 2450 to 2740 hertz band. If signal power is in the 2450 to 2750 hertz band, it must not exceed the power present at the same time in the 800 to 2450 hertz band.

.4 Where such Customer-provided equipment or communications system applies, signals having components in the frequency spectrum below 300 hertz, excluding ringing signals, the currents and voltages (including all harmonics and spurious signals) at the interface shall not exceed the limits indicated in a. through d. following:

- a. The maximum rms (root-mean-square) value, including dc and ac components of the current per conductor shall not exceed 0.35 ampere.
- b. The magnitude of the peak of the conductor or ground voltage shall not exceed 70 volts.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

3. GENERAL RULES AND REGULATIONS (Cont'd)

3.8 EQUIPMENT (Cont'd)

3.8.2 Terminal Equipment (Cont'd)

3.8.2.3 (Cont'd)

.4 (Cont'd)

- c. The conductor voltage shall be such that the conductor-to-ground voltage limit in .2 preceding is not exceeded. If the signal source is not grounded, the voltage limit in .2 preceding applies to the conductor-to-conductor voltage.
- d. The total weighted rms voltage within the band from 50 hertz shall not exceed 100 volts. The total weighted rms voltage is the square root of the sum of the products times the square of the rms voltage of the individual frequency components. The weighting factors indicated.

<u>For Frequencies Between</u>	<u>Weighting Factor</u>
50 Hertz and 100 Hertz	$f^2/10^4$
100 Hertz and 300 Hertz	$f^3/10^{14}$

Where f is the numerical value of the frequency, in hertz, of the frequency component being weighted.

3.8.2.4 If the Customer fails to maintain and operate his terminal equipment properly, resulting in the occurrence or possibility of harm to the Company's equipment, personnel, or the quality of service to other Customers, the Company may, upon written notice, require repair, maintenance or the use of protective equipment at the Customer's expense. If such repair, maintenance or use of protective equipment fails to produce satisfactory results, the Company may, upon written notice terminate the Customer's service immediately.

3.8.2.5 The Customer shall also comply with the minimum protective criteria generally accepted in the telephone industry and other appropriate criteria as may be prescribed by the Company. The Customer shall ensure that his terminal facilities are of the proper mode, band-width, power, data, speed, and signal level for the intended use of the Customer, and that the signals do not damage the Company's equipment, injure personnel or degrade service to other Customers.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

3. GENERAL RULES AND REGULATIONS (Cont'd)

3.9 CANCELLATION OF SERVICE

3.9.1 For any of the following reasons, the Company may discontinue service upon at least 10 days' notice or cancel an application for all services without incurring any liability. Separate accounts for the same Customer are also subject to this provision.

3.9.1.1 In the event that a Customer's bill remains unpaid after more than thirty days following rendition of the bill.

3.9.1.2 In the event of a violation of any regulation governing the service under this tariff, when necessitated by conditions beyond the Company's control, a violation of any law, rule, or regulation of any government authority having jurisdiction over the service.

3.9.1.3 Where the Company is prohibited from furnishing services by order of a court or other government authority having jurisdiction.

3.9.2 The Company, by written notice to the Customer, may, without incurring any liability, cancel or suspend the provision of service or equipment for non-payment of any sum due to the Company from the Customer, whether pursuant to service offered under this tariff or otherwise, or as a result of actions of a government agency which forces discontinuance of the provision of service or equipment, or for violation or threatened violation of any of the terms or conditions of this tariff by the Customer or authorized user, or if the Customer becomes insolvent or bankrupt, or makes a general assignment for the benefit of creditors or as otherwise permitted by this tariff. Cancellation will be effective on the date specified on the notice.

3.9.3 If a Customer of Toll Free Service is found to be non-compliant in passing back appropriate answer supervision, the Company reserves the right to suspend service temporarily and/or deny requests for additional service. In case of disconnection, the Customer will be notified in writing by fax or U.S. Postal Service in advance of the disconnect.

3.9.4 Service may be canceled by the Customer only on not less than 30 days written notice to the Company. In the event the Company is unable to disconnect the Customer's access line by the requested cancellation date, the Customer will be responsible for any usage over the line.

3.9.5 The discontinuance of service by the Company pursuant to the Section does not relieve the Customer of any obligations to pay the Company for charges due and owed for service(s) furnished up to the time of discontinuance.

3.9.6 The remedies set forth herein shall not be exclusive and the Company shall at all times be entitled to all rights available to it under either law or equity.

3.9.7 Except as otherwise provided in this tariff or as specified in writing by the party entitled to receive service, notices may be given orally or in writing to the person(s) whose name(s) and business address(es) appear on the executed service order.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

3. GENERAL RULES AND REGULATIONS (Cont'd)

3.9 CANCELLATION OF SERVICE (Cont'd)

3.9.8 Where Company cancels a service and the final service period is less than the monthly billing period, a credit will be issued for any amounts billed in advance, prorated at 1/30th of the monthly recurring charge for each day after the service was discontinued. This credit will be issued to the Customer or applied against the balance remaining on the Customer's account.

3.9.9 The Customer shall pay a cancellation charge for services that require special facilities dedicated to its use when the Customer cancels the order before service begins or prior to the expiration of the service term or if service is cancelled for nonpayment or failure to make a requested deposit. The charge will be equal to the non-recoverable portion of expenditures or liabilities incurred expressly for the Customer and the sum of the monthly recurring or minimum usage amount remaining through the end of the term. The Customer is liable for any charges assessed by the interconnecting telephone company providing the dedicated local access line.

3.10 DETERMINATION AND RENDERING OF CHARGES

3.10.1 For the purpose of billing, service will be deemed to be started on the day the service and its associated equipment, if any, is installed. Where billing is based upon Customer usage, Customers will be billed for all usage commencing on the date usage begins.

3.10.2 Subject to the Company's right to cancel or suspend services as otherwise provided in this tariff, the minimum service period for services is 30 days. Termination by Customer is effective 30 days after receipt by the Company of a written notice of cancellation. Termination by the Company is effective 30 days after delivery of written notice or as otherwise set forth in this tariff or other agreement of the Customer and the Company.

3.10.3 In situations where a Special Service is requested, the minimum service period and charges will be determined on a case-by-case basis.

3.10.4 All monthly recurring charges are billed one month in advance. Initial and final month's billing, when the service period is less than a month, will be prorated at 1/30th of the month's recurring charge for each day the service was rendered or equipment was provided.

3.10.5 Usage charges are billed monthly for the preceding billing period. For periods less than the monthly billing period, minimum usage charges are prorated at 1/30th of the monthly minimum amount for each day the service was rendered.

3.10.6 The duration of a call is rated in intervals of the billing increments described for each service provided in this tariff. If the final interval of a call is less than the applicable billing increment, it will be rounded up to a full increment for purposes of billing.

3.10.7 Computed usage charges or credits for each call are rounded to the nearest cent.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

3. GENERAL RULES AND REGULATIONS (Cont'd)

3.10 DETERMINATION AND RENDERING OF CHARGES (Cont'd)

3.10.8 The applicable usage rates for the billing of a distance sensitive call will depend on the distance in airline mileage between the originating and terminating points of the call. For the purpose of determining the airline mileage of a call, the Company will utilize the vertical ("V") and horizontal ("H") coordinates of the rate centers of the originating and terminating points of the call. For purposes of billing, the Company references "V" and "H" coordinates provided by Bell Communications Research.

Calls originated by dialing a local exchange number or a 950-type number using an authorization code, the originating point will be the rate center in which the switched access facilities are located. For calls originated via equal access connections, WATS access lines or dedicated access lines, the originating point will be the rate center in which the Customer is located. The terminating point will be determined by the rate center of the called number.

The formula is as follows:

$$\sqrt{\frac{(V1-V2)^2 + (H1-H2)^2}{10}}$$

3.10.9 Rate periods apply, unless noted otherwise, as indicated below and are based on the time in which a call is established. In cases where a call begins in one rate period and continues into another, the rate in effect in each period will apply to the portion of the call occurring within the applicable rate period.

Day rates apply from 8 a.m. to, but not including, 5 p.m. Monday through Friday

Evening rates apply from 5 p.m. to, but not including, 11 p.m. Sunday through Friday

Night rates apply from 11 p.m. to, but not including, 8 a.m. seven days a week.

Weekend rates apply from 8 a.m. to, but not including, 11 p.m. Saturday and from 8 a.m. to, but not including, 5 p.m. on Sunday.

On holidays, evening rates apply throughout the day on which the holiday is observed unless a lower rate would normally apply.

3.11 TIMING OF CALLS

3.11.1 Billable time for service is the duration of time between the called station answering and the called or calling station disconnecting, provided duration may be rounded in accordance with specific descriptions in this tariff.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

3. GENERAL RULES AND REGULATIONS (Cont'd)

3.12 SPECIAL SERVICES

For the purpose of this tariff, a Special Service is deemed to be any service requested by the Customer for which there is no prescribed rate in this tariff. Special Services charges will be developed on an individual case basis and filed in this tariff.

3.12.1 Special Service charges will be based on the estimated cost of furnishing such services including the cost of operating and maintaining such a service, the cost of equipment and materials used in providing such a service, the cost of installation including engineering, labor supervision, transportation, and the cost of any other specific item associated with the particular Special Service request.

3.12.1.1 If at the request of the Customer, Company obtains facilities not normally used to provide service to its Customers, the cost incurred will be billed as a Special Service.

3.12.1.2 If at the request of the Customer, Company provides technical assistance not normally required to provide service, the costs involved will be billed as a Special Service.

3.12.1.3 Where special signaling, conditioning, equipment, or other features are required to make Customer-provided equipment compatible with Company service, the cost of providing these features will be billed as a Special Service.

3.13 FRACTIONAL CHARGES

3.13.1 Charges for a fractional part of a month are calculated by counting the number of days remaining in the billing period after service is furnished. Divide that number of days figure by thirty days (billing period). The result is then multiplied by the applicable monthly service charge to arrive at the appropriate fractional monthly service charge.

3.13.2 For each call the minimum charge shall be the applicable charge for the initial billing increment of use with use in excess of the initial billing increment during a call charged at the applicable rate per minute with the fractional billing increments, if any, of each call rounded up to the next highest whole billing increment.

3.13.3 All per call charges of fractional cents shall be rounded to the next full cent unless otherwise stated in the specific product description (Section 4).

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

3. GENERAL RULES AND REGULATIONS (Cont'd)

3.14 TELECOMMUNICATIONS RELAY SERVICE (TRS)

3.14.1 TRS is a service which permits hearing or speech impaired Customers who have been certified, in writing, by a licensed physician, audiologist, speech pathologist, or appropriate state or federal agency, as having a hearing or speech impairment which precludes oral communications and who use a Telecommunications Device for the Deaf (TDD), to complete calls to Customers who do not use TDD. Customers originating a call, either by voice or TDD, reach the TRS center for their respective state via a toll free telephone number.

3.14.2 Company is not liable for errors in translation, receiving or delivering messages by telephone, TDD, or any other instrument over Company facilities, connecting carriers or through any of the TRS Centers operated by Company in absence of gross negligence or willful misconduct.

3.14.3 The completed call is rated as a call from the originating telephone number to the terminating telephone number. This service will apply to intrastate calls that originate and terminate in South Dakota. The usage rates for Dial USA listed in Section 4.1.2.3.a. will apply to all intrastate TRS calls, except that a discount of 50 percent will be credited to all intrastate TRS calls. All TRS calls are confidential and may not be placed to 900 or 976 numbers. All TRS calls are not eligible for any discounts associated with any other Calling Plans.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTIONS AND CHARGES

4.1 MESSAGE TELECOMMUNICATIONS SERVICE

4.1.1 MTS - This service arrangement provided in conjunction with the Company's Interstate Message Telephone Service allows the Customer to originate calls in areas with equal access capabilities by presubscribing to the service. Customers may terminate calls at any point in the state.

The applicable usage rate depends upon the distance between originating and terminating rate centers and on the time of day the call originated. The minimum call length is one minute, with additional call time being charged in increments of one minute. Discounts are given based on the Customer's usage volume.

4.1.2 Product Types

4.1.2.1 Basic MTS

.1 Usage Charges

a. Per Minute Rates

Mileage Range	Day		Eve		N/W.E.	
	1st Minute	Add'l Minute	1st Minute	Add'l Minute	1st Minute	Add'l Minute
0 - 17	\$.0537	\$.0537	\$.0386	\$.0386	\$.0310	\$.0310
18 - 22	.0915	.0915	.0678	.0678	.0543	.0543
23 - 28	.1393	.1393	.1045	.1045	.0836	.0836
29 - 34	.1791	.1791	.1343	.1343	.1075	.1075
35 - 41	.2300	.2101	.1730	.1730	.1384	.1384
42 - 51	.2400	.2400	.1940	.1940	.1552	.1552
52 - 66	.2997	.2897	.2039	.1964	.1856	.1856
67 - 81	.3096	.3096	.2113	.2113	.1910	.1910
82 - 105	.3096	.3096	.2113	.2113	.1950	.1950
106 +	.3395	.3295	.2337	.2263	.1950	.1950

b. Rate Periods - Refer to the Determination and Rendering of Charges in Section 3.10 for the Company's standard rate period.

c. Usage Volume Discounts - Discounts will be applied to a Customer's total interstate, intrastate and directory assistance MTS usage charges for the account for the billing period. Discount percentages increase as total usage charges increase, and vary by rate period. The discount percentage corresponding to a given rate period and total usage level will be applied to all usage in that rate period. The discount schedule in effect on a Customer's bill date will apply to all usage appearing on that bill. Usage volume discounts will not apply to usage billed through a LEC.

Day Usage	Day	Evening	N/W
\$ 0 - 24.99	0%	0%	0%
25 - 49.99	1%	0%	0%
50 - 99.99	2%	1%	0%
100 - 199.99	4%	1%	0%
200 +	5%	2%	0%

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.1 MESSAGE TELECOMMUNICATIONS SERVICE (Cont'd)

4.1.2 Product Types (Cont'd)

4.1.2.1 Basic MTS (Cont'd)

.2 LEC Billed Measured Service

LEC Billed Measured Service calling includes calls made by customers without an established account dialed:

- 1) Using an accepted company access code (e.g., 10XXX) from a line not presubscribed to the company; or
- 2) From a line presubscribed to the company (i.e., when the customer does not have an established account and billing relationship with Company or another carrier using the Company network.)

Such LEC Billed Measured Service calls may be routed to the Company network when placed within the 48 contiguous United States. LEC Billed Measured Service calls accepted by the Company will be billed at the basic MTS per minute rates listed above and will be billed a \$0.80 surcharge on each call.

4.1.2.2 MTS - Dial USA Service

.1 Description - Dial USA Service is a one-way direct dial service utilizing 1+ or dial-up access, making use of common switched access lines connecting the Customer with Company facilities. The current rates for MTS - Dial USA Service are shown in Section 4.1.2.3.a. following.

.2 Usage Charges - Usage Charges are determined by the time of day rate periods and minutes of use within each rate period. The rate period is determined by the time and day of call origination at the Customer's location.

a. Rates

<u>Mileage</u>	<u>Day</u>		<u>* Evening</u>		<u>Night/Weekend</u>	
	<u>1st</u> <u>Minute</u>	<u>Add'l</u> <u>Minute</u>	<u>1st</u> <u>Minute</u>	<u>Add'l</u> <u>Minute</u>	<u>1st</u> <u>Minute</u>	<u>Add'l</u> <u>Minute</u>
0-10	\$0.2925	\$0.1765	\$0.2340	\$0.1404	\$0.1755	\$0.1053
11-16	\$0.3705	\$0.1950	\$0.2964	\$0.1560	\$0.2223	\$0.1170
17-22	\$0.3803	\$0.2145	\$0.3042	\$0.1716	\$0.2282	\$0.1287
23-30	\$0.4193	\$0.2340	\$0.3354	\$0.1872	\$0.2516	\$0.1404
31-40	\$0.4388	\$0.2535	\$0.3510	\$0.2028	\$0.2633	\$0.1521
41-55	\$0.4680	\$0.2828	\$0.3744	\$0.2262	\$0.2808	\$0.1697
56-85	\$0.4973	\$0.3120	\$0.3978	\$0.2496	\$0.2984	\$0.1872
86-124	\$0.5168	\$0.3315	\$0.4134	\$0.2652	\$0.3101	\$0.1989
125-244	\$0.5265	\$0.3510	\$0.4212	\$0.2808	\$0.3159	\$0.2106
245-475	\$0.5363	\$0.3705	\$0.4290	\$0.2964	\$0.3218	\$0.2223

* Evening rates include Sunday 5 p.m. - 11 p.m.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.1 MESSAGE TELECOMMUNICATIONS SERVICE (Cont'd)

4.1.2 Product Types (Cont'd)

4.1.2.2 MTS - Dial USA Service (Cont'd)

.2 Usage Charges (Cont'd)

b. Billing Increments - Usage is billed in one (1) minute increments.

c. Volume Discounts - A volume discount is applied to the Day usage based on the total usage (all time frames) of the monthly statement.

Total Monthly Usage	Day Discount
\$100.00 and Over	2%

4.2 OPERATOR SERVICES

4.2.1 Description - Operator Services will be offered to Company Switched Access subscribers served from equal access offices, and to users accessing the Company's services through pay phones or Customer-provided stations. Charges for Operator Services may be billed to a Customer's commercial credit card account or a LEC calling card account, or to the calling station, called station or a designated third party station. Charges may not be billed to pay phones or Customer-provided stations, or to stations outside the United States.

4.2.1.1 Operator Service rates will apply to the following types of calls.

.1 Customer Dialed Calling Card Station - Calls completed without the assistance of a Company operator when the charges are billed to the LEC calling card account entered by the calling party.

.2 Operator Station - Calls completed with the assistance of a Company operator on a station-to-station basis. Charges may be billed to the Customer's commercial credit card or LEC calling card account, or to the calling station, called station or a designated third party station.

.3 Person-to-Person - Calls completed with the assistance of a Company operator to a particular person, station, department or PRX extension specified by the calling party. Charges may be billed to the Customer's commercial credit card or LEC calling card account, or to the calling station, called station or a designated third party station.

Per call charges apply to all operator service calls. In addition, an operator dialed surcharge will be applied to Operator Station and Person-to-Person rated calls when the Customer has the capability of dialing all the digits necessary to complete a call, but elects to dial only the appropriate operator code and requests the operator to dial the called station. The surcharge does not apply to: 1) calls where a Customer cannot otherwise dial the call due to

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.2 OPERATOR SERVICES (Cont'd)

4.2.1 Description (Cont'd)

4.2.1.1 (Cont'd)

defective equipment or trouble on the Osiris network; 2) calls in which a Company operator places a call for a calling party who is identified as being handicapped and unable to dial the call because of his/her handicap; and 3) calling card calls.

4.2.2 Usage Charges - The charges for Operator Services will be the usage rates appearing in the following section plus a per call surcharge dependent upon the type of operator service provided along with a property surcharge ranging from \$0.00 to \$1.75.

4.2.2.1 Per Minute Rates

.1 Option A - These rates are applicable to calls originating from presubscribed ("1-") business and residential locations, and are available to traffic aggregator subscribers.

<u>Mileage</u>	<u>Day</u>		<u>Evening</u>		<u>Night/Weekend</u>	
	<u>1st</u> <u>Min.</u>	<u>Add'l</u> <u>Min.</u>	<u>1st</u> <u>Min.</u>	<u>Add'l</u> <u>Min.</u>	<u>1st</u> <u>Min.</u>	<u>Add'l</u> <u>Min.</u>
0 - 10	\$.3000	\$.1800	\$.2400	\$.1440	\$.1800	\$.1080
11 - 16	.3800	.2000	.3040	.1660	.2280	.1200
17 - 22	.3900	.2200	.3120	.1760	.2340	.1320
23 - 30	.4300	.2400	.3440	.1920	.2580	.1440
31 - 40	.4500	.2600	.3600	.2080	.2700	.1560
41 - 55	.4800	.2900	.3840	.2320	.2880	.1740
56 - 85	.5100	.3200	.4080	.2560	.3060	.1920
86 - 124	.5300	.3400	.4240	.2720	.3180	.2040
125 - 244	.5400	.3600	.4320	.2880	.3240	.2160
245 - 475	.5500	.3800	.4400	.3040	.3300	.2280

a. Per Call Charges

Customer Dialed Calling Card Station.....\$1.05
Operator Station.....\$1.88
Person-to-Person.....\$4.50
Operator Dialed Surcharge.....\$1.00

.2 Option B - These rates are applicable only to calls originating from traffic aggregator locations.

<u>Mileage</u>	<u>Day</u>		<u>Evening</u>		<u>Night/Weekend</u>	
	<u>1st</u> <u>Min.</u>	<u>Add'l</u> <u>Min.</u>	<u>1st</u> <u>Min.</u>	<u>Add'l</u> <u>Min.</u>	<u>1st</u> <u>Min.</u>	<u>Add'l</u> <u>Min.</u>
0 - 10	\$.3000	\$.3000	\$.3000	\$.3000	\$.3000	\$.3000
11 - 16	.3800	.3800	.3800	.3800	.3800	.3800
17 - 22	.3900	.3900	.3900	.3900	.3900	.3900
23 - 30	.4300	.4300	.4300	.4300	.4300	.4300
31 - 40	.4500	.4500	.4500	.4500	.4500	.4500
41 - 55	.4800	.4800	.4800	.4800	.4800	.4800
56 - 85	.5100	.5100	.5100	.5100	.5100	.5100
86 - 124	.5300	.5300	.5300	.5300	.5300	.5300
125 - 244	.5400	.5400	.5400	.5400	.5400	.5400
245 - 475	.5500	.5500	.5500	.5500	.5500	.5500

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.2 OPERATOR SERVICES (Cont'd)

4.2.2 Usage Charges (Cont'd)

4.2.2.1. Per Minute Rates (Cont'd)

.2 Option B (Cont'd)

a. Per Call Charges

Customer Dialed Calling Card Station.....\$1.20
Operator Station.....\$2.09
Person-to-Person.....\$4.65
Operator Dialed Surcharge.....\$1.00

3. The rates and service charges in Section 4.2.2.1. Option B apply to "0+", "0-" and "00" calls, including calls dialed using a 10XXX or other access number, routed to a Company operator or to an automated operator or calling card interface from the premises of:

- 1) residential and business subscribers; or
- 2) local exchange carrier customers not presubscribed to the Carrier

4.3 TOLL FREE SERVICES

4.3.1 Toll Free Services are inbound WATS services which permit calls to be completed at the Customer's location without charge to the calling party. Access to the service is gained by dialing an eleven digit telephone number (1-800-NX-XXXX) provided by the Company which will terminate at the Customer's location.

4.3.2 The Company reserves the right to require an applicant for Company Toll Free Service to supply the following information when requesting service: an initial traffic forecast, identification of anticipated busy hour, identification of its geographical marketing target areas, and a schedule of marketing and promotional activities. The Company may also require that a new traffic forecast be submitted by the Customer quarterly after service is initiated.

4.3.3 Company Toll Free Service is furnished upon condition that the Customer contracts for adequate facilities to permit the use of this service without injurious effects upon it or any service rendered by the Company. The Company may terminate or refuse to furnish Company Toll Free Service to any applicant, without incurring any liability and without notice to the Customer, if the use of the service would interfere with or impair any service rendered by the Company.

4.3.4 The Customer must obtain an adequate number of access lines for Company Toll Free Services to handle the Customer's expected demand in order to prevent interference or impairment of this service or any other service provided by the Company considering: (1) total call volume; (2) average call duration; (3) time-of-day characteristics; and (4) peak calling period. The Company, without incurring any liability and without notice to the Customer, may disconnect or refuse to furnish Company Toll Free Service to any Customer that fails to comply with these conditions.

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.3 TOLL FREE SERVICES (Cont'd)

4.3.5 Use of numbers: Each Company Toll Free Service telephone number must be placed in actual and substantial use by the Customer. "Substantial use" shall mean a pattern of use that demonstrates an intent on the Customer's part to employ the number for the purpose for which it was intended; namely, to allow callers to reach the Customer, as indicated, for example, by at least 30 average monthly minutes of use or more. Any toll free telephone number associated with Company Toll Free Service that has not been placed in actual and substantial use during the first sixty (60) day period after service activation may be redesignated as a spare number in the SMS 800 database by Company upon written notice to the Customer.

4.3.6 If the Customer requests assignment of a specific Toll Free Service telephone number, the Company may require the Customer to submit a number reservation agreement form to the Company. At no time may a Customer have more than ten (10) numbers reserved. Any reservation shall be for no more than sixty (60) days and shall be subject to a reservation fee which will be credited to Customer's unpaid balance after Company Toll Free Service has been in actual and substantial use for a consecutive sixty (60) day period.

Nothing in this Section, or in any other provision of this tariff, or in any marketing materials issued by or on behalf of the Company, shall give any person, including prospective Customers who have reserved toll free telephone numbers hereunder or Customers who subscribe to and use Company Toll Free Service or their transferee or assigns, any ownership interest or proprietary right in any particular toll free number; however, upon placing a number actually and substantially in use, as defined above, Company Toll Free Service Customers do have a controlling interest in this toll free number(s). Company Toll Free Service Customers may retain the use of their toll free number assignments, even following changes in their toll free carrier and/or Resp. Org.

4.3.7 If a Customer places an order for Company to carry Customer's already existing toll free number service, the Customer shall provide to Company the contact names, telephone number and address of the Customer's Responsible Organization (Resp. Org.). Upon subscription to Company Toll Free Service, the Customer may execute a Letter of Authorization to transfer Resp. Org. responsibility of its toll free number(s) to the Company Resp. Org. If the Customer elects to retain a non-Company Resp. Org., the Customer must notify Company of any changes in the Customer's Resp. Org. in writing within 48 hours of the change. The Customer is responsible for all outstanding indebtedness for services provided by a previous Resp. Org. or toll free service carrier. Company assumes no responsibility or liability with respect to any obligations of Customer to such previous service providers existing at the time of transfer to Company.

4.3.8 Subject to execution of a Resp. Org. Service Agreement between Company and the Customer, the Company Resp. Org. will perform the function of Resp. Org. for all Company Toll Free Service orders unless the Customer requests another Resp. Org. Company Resp. Org. functions include 1) search for and reservation of toll free numbers in the SMS/800; 2) creating and maintaining the toll free number Customer record in the SMS/800; and 3) provision of a single point of contact for trouble reporting.

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.3 TOLL FREE SERVICES (Cont'd)

4.3.9 Where Company serves as the Resp. Org. for a Company Toll Free Service Customer, Company will, at the Customer's request, subscribe to Toll Free Directory Listing for the toll free number(s) assigned to the Customer. A charge for Toll Free Directory Listings will apply as set forth in this Tariff. In the event that a Customer transfers its toll free service to another Resp. Org., the Company shall cease to subscribe to Toll Free Directory Listing Service on behalf of the Customer and the Customer is responsible for assuring that Toll-Free Directory Listing Service is maintained through the new Resp. Org. Customer is responsible for payment of any outstanding Toll Free Directory Listing charges, including any unexpired portion of any minimum period applicable to such services, and Company shall have no liability for any interruption or other delay, error, mistake, omission or other defect occurring in connection with the transfer of Toll Free Directory Listing responsibility.

4.3.10 Where Company serves as the Resp. Org. for a Company Toll Free Service Customer, it will, at the Customer's request, subscribe to Vertical Features obtained from Local Exchange Company access tariffs. When a Company Toll Free Service Customer uses Vertical Features obtained by Company from Local Exchange Company tariffs, a charge will apply. This charge may not be counted toward the attainment of any volume or revenue commitment and will not be discounted.

4.3.11 In the event that a Customer cancels its Company Toll Free Service, the Customer may elect to retain Company as its Resp. Org. Where Company serves as Resp. Org. for a non-Company Toll Free Service Customer, a charge for Resp. Org. Service will apply as set forth in this Tariff.

4.3.12 In the event that a Customer cancels its Company Resp. Org. or Toll Free Service, the Customer shall be responsible for all outstanding indebtedness to the Company and any outstanding charges applicable to any services obtained by or on behalf of the Customer by Company.

4.3.13 It is the Customer's responsibility to provide answer supervision back to the Company point of connection even when the Company Toll Free Service is connected to switching equipment or a Customer-provided communications system. In such case, the equipment or system must provide appropriate supervision so that the measure of chargeable time begins upon delivery of the call to the Customer's switching equipment or communications system and ends upon termination of the call.

4.3.14 Rates

4.3.14.1 Toll Free Feature Charges - Feature Charges are determined by the specific feature requested by a Company Toll Free Customer. These charges are in addition to toll free usage charges and are not subject to discounting unless specifically indicated.

<u>Feature</u>	<u>Set-Up Charge</u>	<u>Monthly Recurring Charge</u>
Toll Free # Charge (per toll free #)	N/C	\$ 10.00
Reservation Charge (per toll free #) max. 10 numbers per Customer)	\$ 35.00	N/C

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.3 TOLL FREE SERVICES (Cont'd)

4.3.14 Rates (Cont'd)

4.3.14.1 Toll Free Feature Charges (cont.)

<u>Feature</u>	<u>Set-Up Charge</u>	<u>Monthly Recurring Charge</u>
After Hours Voice Messaging (per Toll Free #)		
Option A - Announcement Only	\$ 25.00	\$ 30.00
Option B - Announcement w/Message	\$ 25.00	\$ 40.00
Option C - Announcement w/Message and Outdial	\$ 25.00	\$ 50.00
Real-Time ANI Delivery (per Trunk group)	\$350.00	\$200.00
Dedicated Termination Overflow (per Toll Free #)	N/C	\$ 50.00
Point of Call Routing (per Toll Free #)	\$100.00	\$ 50.00
Time of Day Routing (per Toll Free #)	\$100.00	\$ 50.00
Command Routing (per Toll Free #)	\$100.00	\$ 50.00
Percent Allocation Routing (per Toll Free #)	\$100.00	\$ 50.00
Dialed Number Identification Service (DNIS) (per Toll Free #)	\$100.00	\$ 50.00
Day of Week Routing (per Toll Free #)	\$100.00	\$ 50.00
Change Toll Free Destination Number (Via service order)	\$ 15.00	N/C
Expedite Toll Free Service Order (per order)	\$100.00	N/C
Add/Change Area of Service Screening	\$ 25.00	N/C
Add/Change Canadian Toll Free Origination	N/C	N/C
Add/Change Caribbean (Puerto Rico and U.S. Virgin Islands)	N/C	N/C
Toll Free Referral Recordings	\$ 25.00	\$ 30.00
Nationwide Toll Free Directory Listing (per toll free number)	\$ 15.00	\$ 12.50
Expedite Directory Listing - Major	\$ 25.00	N/C
Expedite Directory Listing - Minor	\$ 20.00	N/C

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.3 TOLL FREE SERVICES (Cont'd)

4.3.14 Rates (Cont'd)

4.3.14.2 Company Resp. Org. Charges - Where Company serves as a Resp. Org. for a non-Company Toll Free Service Customer, Company will pass on the tariffed Local Exchange Carrier Charges for SMS 800 Database and related services. In addition, the following Company charges will apply:

<u>Service</u>	<u>Set-Up Charge</u>	<u>Monthly Recurring Charge</u>
Set Up Toll Free # (per Toll Free #)	\$ 50.00	\$ 1.00
Modify Toll Free Record (Add/Change Toll Free #, Vertical or Enhanced Features)	\$ 25.00	N/C

4.3.15 Special Toll Free Services - Residential

4.3.15.1 Homebound 800 Service

.1 Description - Homebound 800 is an inbound service available to Company residential customers only. This service enables the customer to receive toll-free service calls at their residence. The residential customer will be assigned a toll free telephone number to receive calls that are paid for by the customer rather than the calling party.

.2 Usage Charges - Usage Charges are determined by the time of day, rate periods and minutes of use within each rate period.

a. Rate Periods:

PEAK

All calls that occur between 8 A.M. and 4:59 P.M. Monday through Friday.

OFF PEAK

All calls that occur between 5 P.M. and 7:59 A.M. Monday through Thursday, and all calls between 5 P.M. Friday and 7:59 A.M. Monday.

b. Rate Schedule:

Per Minute of Use Charges

<u>Peak</u>	<u>Off-Peak</u>
\$0.2000	\$0.2000

c. Billing Increments - Usage is billed in one (1) minute increments.

d. Monthly Recurring Charges:

Monthly Service Fee:** \$2.50

**Note: The monthly service fee will be waived for each month in which usage exceeds \$10.00. Also, the monthly service fee can be waived by Affinity groups and alumni programs.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS

4.4.1 ONLINE CARD SERVICE

4.4.1.1 OnLine calling card is available to residential and commercial Company Customers. Non-Company Customers may also subscribe to OnLine as a stand alone service. Customers may place domestic and international long distance calls using this service. Enhanced services such as voice mailbox and message delivery are available as an option of this service.

4.4.1.2 OnLine access can be from either a tone generating or rotary-dial telephone and is gained by dialing the Company toll free access number. Calls originating from rotary phones will be completed with the assistance of operators at the special rates found following. Calls will be billed at the per minute usage rates as shown following. Total monthly usage contributes to the volume discount. The volume discount is applied retroactively to peak usage only.

4.4.1.3 As an introductory offer, new Customers of OnLine card service may redeem a coupon for credit off their first full month's invoice. Coupons have no cash value and cannot be rolled over to the next month. Coupons must be redeemed prior to its expiration date.

4.4.1.4 The time of day rate periods for OnLine Service will be Peak and Off-Peak. Peak rates apply to all calls that occur between 8AM and 5PM Monday through Friday, except on Company-recognized holidays. Off-Peak rates apply to all other calls.

.1 Residential OnLine Rate Schedule - This calling card schedule applies to all Customers who subscribe to one of Company's residential long distance services.

a. Per Minute Rates (\$)

<u>Time of Day</u>	<u>Rate Per Minute</u>
Peak	\$0.30
Off-Peak	\$0.30

b. Billing Increments - All residential calls will be billed in sixty (60) second increments.

.2 Commercial OnLine Rate Schedule - This calling card schedule applies to all Customers who subscribe to one of Company's commercial long distance services.

a. Per Minute Rates (\$)

<u>Time of Day</u>	<u>Rate Per Minute</u>
Peak	\$0.25
Off-Peak	\$0.25

b. Commercial Volume Discount

<u>Usage Level</u>	<u>Percent Discount</u>
\$ 25.00 - \$ 249.99	8.70%
\$ 250.00 - \$2499.99	13.04%
\$2500.00 +	21.74%

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.1 ONLINE CARD SERVICE (Cont'd)

4.4.1.4 (Cont'd)

.2 Commercial OnLine Rate Schedule (Cont'd)

c. Billing Increments - All commercial calls will be billed in sixty (60) second initial increments and additional increments of six (6) seconds.

d. Per Call Surcharge - A per call surcharge of \$0.65 applies to each call.

.3 Stand Alone OnLine Rate Schedule - This calling card schedule applies to commercial Customers that do not have any other services with Company.

a. Per Minute Rates (\$)

<u>Time of Day</u>	<u>Rate Per Minute</u>
Peak	\$0.25
Off-Peak	\$0.25

b. Stand Alone Volume Discount

<u>Usage Level</u>	<u>Percent Discount</u>
\$ 25.00 - \$ 249.99	8.70%
\$ 250.00 - \$2499.99	13.04%
\$2500.00 +	21.74%

c. Billing Increments - All Stand Alone calls will be billed in sixty (60) second initial increments and additional increments of six (6) seconds.

d. Per Call Surcharge - A per call surcharge of \$0.65 will apply to each call.

.4 Per Call Surcharge - The following surcharge is in addition to the per minute rates found in .1, .2, or .3 above and will apply to calls which default to a live operator.

Per call Surcharge \$0.65

.5 Operator Assisted OnLine Rate Schedule - If a Customer chooses to access an Operator to place a call, the call will be billed at the Company's Dial USA rates as specified in Section 4.1.2.2.

a. Per Call Surcharge

The following surcharges are in addition to the per minute rates found in Section 4.1.2.3.a.

	<u>Per Call Charge</u>
Station-to-Station	\$1.50
Person-to-Person	\$3.00

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.1 ONLINE CARD SERVICE (Cont'd)

4.4.1.4 (Cont'd)

.6 SCHEDULE C OnLine Rate Schedule

a. Per Minute Rates (\$)

<u>Usage Level</u>	<u>Time of Day</u>	
	<u>Peak</u>	<u>Off-Peak</u>
\$ 2,500 - \$10,000.99	.250	.250
\$10,001 - \$25,000.99	.250	.250
\$25,001 +	.250	.250

b. Minimum Usage Per Month - There is a minimum usage per account of \$2,500 per month. New accounts will be given a 90-day ramp up period to reach this usage minimum.

c. Billing Increments - All SCHEDULE C calls will be billed in eighteen (18) second initial increments and additional increments of six (6) seconds.

d. Per Call Surcharge - The following surcharge is in addition to the per minute rates found above and will apply to all SCHEDULE C OnLine calls.

Per Call Surcharge \$0.65

e. SCHEDULE C OnLine Service is not available as a resale product.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.2 HOME ADVANTAGE SERVICE

4.4.2.1 Description - Home Advantage Service offers outbound, direct dial long distance service for residential customers. Home Advantage is a flat-rated service offering peak and off-peak rates. Domestic, International and Calling Card Services are available with Home Advantage.

4.4.2.2 Usage Charges

.1 Rate Periods

PEAK

All calls that occur between 8 A.M. and 4:59 P.M. Monday through Friday.

OFF PEAK

All calls that occur between 5 P.M. and 7:59 A.M. Monday through Thursday, and all calls between 5 P.M. Friday and 7:59 A.M. Monday.

.2 Billing Increments - Home Advantage Service is billed in sixty (60) second increments.

.3 Per Minute Rate Schedule

<u>Peak</u>	<u>Off-Peak</u>
\$0.2500	\$0.1200

.4 Monthly Recurring Charges (MRC)

MRC:** \$3.50

**Note: The MRC will be waived for each month in which Home Advantage Peak and Off-Peak monthly usage exceeds \$9.00. Also, the MRC can be waived by Affinity groups and alumni programs.

.5 Per Minute Surcharge**

Surcharge: \$0.02

**Note: The Per minute surcharge applies only when Home Advantage monthly usage meets or exceeds \$500.00.

.6 Home Advantage Calling Card Service - OnLine Residential Calling Card Rates will apply as filed in Section 4.4.1 of this tariff.

4.4.2.3 Home Advantage Organizational Program - The Home Advantage program is a benefit package offered in conjunction with Home Advantage Service, which allows the individual users who are members or employees of the participating organizations to receive additional product discounts, if program parameters are met. Discounts will be received off the tariff rates for Home Advantage Service. Members who elect to participate in the Home Advantage Organizational Program will receive Home Advantage products and the WorldCom TalkAround Calling Card. Home Advantage rates are found above and WorldCom TalkAround Calling Card rates are found in Section 4.4.6.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.2 HOME ADVANTAGE SERVICE (Cont'd)

4.4.2.3 Home Advantage Organizational Program (Cont'd)

To qualify for the Home Advantage Organizational Program an organization generally must be as: (1) Trade Association representing businesses or individuals in an industry, profession or business classification; (2) Business with franchises, agents, distributors, or multiple representatives; (3) Non-profit organization; or, (4) Corporations. The qualifying organization agrees to meet the following set of criteria:

- .1 Trade Associations must have 5,000 members or more and allow us to telemarket or direct mail their membership roster for promotional reasons.
- .2 Business with franchises, agents, distributors, or multiple representatives, Non-profit organizations and Corporations must have a minimum of 1,000 employees or members and allow us to direct mail their employees/members for promotional reasons.

4.4.2.4 Home Advantage Easy Plan

Home Advantage Easy Plan is a flat-rated service offering customers one simple rate for intrastate calls.

.1 Rate Periods

All calls are billed at the same rate regardless of which rate period the call is completed.

.2 Billing Increments

Home Advantage Easy Plan rates are billed in sixty (60) second initial increments and rounded to the next higher six (6) second increment. All fractional per call charges will be rounded to the nearest whole cent.

.3 Per Minute Rate*

\$0.1390

* There is no monthly recurring charge

.4 Calling Card Service

The TalkAround Calling Card rates will apply as filed in Section 4.4.6 of this tariff.

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.3 WORLDONE SERVICE

4.4.3.1 Description

WorldOne Service offers a unified service for single or multi-location customers using switched, dedicated, and OnLine calling card origination and switched or dedicated toll free (in Wats) termination. The WorldOne package includes the availability of outbound, inbound (toll free) and calling card services, and offering a discount on outbound and toll free service for customers willing to sign a term commitment and/or a willingness to commit to a specific dollar volume of monthly minimum usage.

There are seven (7) options of WorldOne available to customers, each of which has a unique set of rates for outbound and toll free service: Option A - Requires no monthly minimum billing commitment for month-to-month customers; \$250 monthly minimum billing commitment for ESP customers; Option B - Requires a monthly minimum billing commitment of \$1,000; Option C - Requires a monthly minimum billing commitment of \$5,000; Option D - Requires a monthly minimum billing commitment of \$7,500; Option E - Requires a monthly minimum billing commitment of \$15,000; Option F - Requires a monthly minimum billing commitment of \$25,000; Option G - Requires a monthly minimum billing commitment of \$50,000.

If the minimum is not reached for Option A ESP and Options B through G, the customer will be charged for the difference.

Multiple services and/or multiple locations using WorldOne service can contribute to the overall monthly minimum commitment; however, the customer must allocate the minimum by service and location. Domestic toll free, Domestic and International outbound calls contribute to determining monthly minimum usage. OnLine World Calling Card, Operator Services and Directory Assistance usage is not included in determining monthly minimum usage.

Customers must reach the minimum monthly usage requirement associated with their selected option by the fourth invoice period and monthly thereafter.

4.4.3.2 WorldOne Extended Service Plan ("ESP")

WorldOne is available to customers through a ESP option if the customer agrees to commit to such service for a term of twelve (12) or twenty-four (24) months. Customers who elect the ESP will receive a discount off their selected option's domestic interstate, and intrastate outbound and toll free rates. This discount will apply only to WorldOne's peak interstate rates and all time periods for intrastate rates. Customers who elect the ESP are subject to the following conditions:

.1 Customers must indicate what WorldOne service or services are to be included in the ESP. The discounts provided under this option become effective with the first full month's usage.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.3 WORLDONE SERVICE (Cont'd)

4.4.3.2 WorldOne Extended Service Plan ("ESP") (Cont'd)

.2 Upon execution of this agreement, the customer has ninety (90) days from the date service is made available in which to notify Company in writing, either by certified or registered mail (return receipt requested), of the customer's desire to cancel this agreement without further obligation or penalty, except for charges incurred up to the date of termination, in the event that quality deficiencies solely caused by WorldCom in the provision of telecommunications service hereunder are demonstrated by Customer to affect adversely and materially Customer's telecommunications applications (such a termination under this clause constituting a Termination for Cause). A Termination for Cause shall not be effective unless Customer has reported trouble on an ANI or circuit-specific basis to (and received a corresponding trouble ticket from) the appropriate WorldCom Support Center and a period of not less than thirty (30) days after receipt of Customer's written notice of termination has elapsed during which WorldCom fails to correct such quality deficiencies. Provided nothing contained herein shall impose any liability on WorldCom and Customer's sole remedy shall be the termination of the affected service as described.

.3 Customers who terminate service prior to the end of the term of commitment in any manner other than stated in (.4) following, will be liable for a cancellation penalty equal to the monthly minimum billing commitment times the number of months remaining in the Customer commitment period through the expiration of the first year. If applicable, twenty-five percent of the balance remaining (monthly minimum billing commitment times the number of remaining months in the contract beyond the first year) will also be included (per service type). If the termination becomes effective after the completion of the first year, then the charge shall be equal to twenty-five percent of the balance remaining (monthly minimum billing commitment times the number of months remaining in the contract). The foregoing cancellation penalty will apply unless the Customer immediately converts to another Company service with equal or greater term and minimum usage requirement commitments, and Customer continues to use such Company Service for a period of months equal to or greater than the number of months remaining in the term during which the conversion takes place.

.4 All customer requests to commence or terminate a WorldOne ESP must be made in writing, either by certified or registered mail (return receipt requested), to Company and received no later than thirty (30) days prior to the then existing term expiration date. If such notification is not received by Company within this timeframe, the WorldOne ESP agreement will be automatically renewed for a new term of commitment.

.5 A Customer who cancels their agreement prior to the expiration of the term will be required to repay any promotional credits that were given in addition to other termination charges as noted above.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.3 WORLDONE SERVICE (Cont'd)

4.4.3.2 WorldOne Extended Service Plan ("ESP") (Cont'd)

.6 OnLine World Calling Card usage is excluded from the WorldOne ESP discounts.

4.4.3.3 Usage Charges

.1 Rate Periods

Peak - All calls that occur between 7 A.M. through 7 P.M. onday through Friday, except on Company-recognized holidays.

Off Peak - All calls that occur between 7:01 P.M. through 6:59 .M. Monday through Thursday, and all calls between 7:01 P.M. riday and 6:59 A.M. Monday and Company-recognized holidays.

.2 Billing Increments

WorldOne Switched Access Service is billed in eighteen (18) second initial increments and are rounded to the next higher six (6) second increment. WorldOne Dedicated Access Service is billed in six (6) second initial increments and is rounded to the next higher six (6) second increment (except International, which is billed in thirty (30) second initial increments and is rounded to the next higher six (6) second increment). OnLine World Calling Card is billed at an initial sixty (60) second increment and rounded to the next higher six (6) second increment thereafter. All fractional per call charges will be rounded to the nearest whole cent.

.3 Per Minute Rate Schedule - WorldOne Services

- a. Per minute intrastate base rates for WorldOne Service is the same for Options A-G and apply as shown below:

i. Switched Per Minute Rates

	<u>Monthly</u>	<u>1 Year ESP</u>	<u>2 Year ESP</u>
Outbound	\$.1550	\$.1500	\$.1450
Inbound	\$.1650	\$.1500	\$.1450

ii. Dedicated Per Minute Rates

	<u>Monthly</u>	<u>1 Year ESP</u>	<u>2 Year ESP</u>
Outbound	\$.1100	\$.1050	\$.1000
Inbound	\$.1200	\$.1050	\$.1000

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.3 WORLDONE SERVICE (Cont'd)

4.4.3.4 Online World Calling Card Service

.1 Direct Dial Rate Schedule

a. Per Minute Rates applying to all time periods:

\$.2500

b. Billing Increments - Usage is billed at an initial sixty (60) second increment and rounded to the next higher six (6) second increment thereafter.

c. Per Call Surcharge

For domestic direct dial calls, a \$0.65 surcharge will apply to each call.

The following rates and surcharge will apply to calls which default to a live operator.

Rate Per Minute:

Peak \$0.23

Off-Peak \$0.16

Per call Surcharge \$0.65

.2 Online World Calling Card Service -
Online Operator Assisted Rate Schedule

If a customer chooses to access an Operator to place a call, the call will be billed at per minute rates (Dial USA) as provided in Section 4.1.2.

a. Billing Increments - All Online World Calling Card calls placed with the assistance of an operator will be billed in one (1) minute increments.

b. Per Call Surcharge - The following surcharge will apply in addition to per minute rates.

Per Call Charge

Station-to-Station \$1.50

Person-to-Person \$3.00

4.4.3.5 WorldOne Services for intrastate use are sold as an add-on service to the Company's interstate WorldOne Service. Accordingly, recurring and non-recurring charges are found in the Company's interstate tariff, FCC No. 2, Section 6.3.1..

4.4.3.6 WorldOne Association

The WorldOne Association program is a benefit package offered in conjunction with Basic WorldOne Service, which allows the individual users who are members or employees of the participating organization to receive additional product discounts. Members who elect to participate in the WorldOne Association program will receive Basic WorldOne products and Online World Calling Card Service.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.3 WORLDONE SERVICE (Cont'd)

4.4.3.6 WorldOne Association (Cont'd)

To qualify for WorldOne Association an organization generally must be a (1) Trade association representing businesses or individuals in an industry, profession or business classification; (2) Business with franchises, agents distributors, or multiple representatives; (3) Non profit organization, or; (4) Buying group not organized merely to buy the Company's long distance for resale. The qualifying organization agrees to meet the following set of criteria within (6) months of undertaking to qualify and thereafter maintain them, and enters into a written agreement with the Company for the marketing of the Company's services. The group's members who have subscribed to the Company's services throughout the group must have aggregate billings, net of taxes, promotional credits and surcharges of at least \$5,000 per month.

The Company will render monthly statements to the individual members and the statement received will show all appropriate discounts. All sums due from members are the sole property of the Company, and the Company shall have the sole right to collect, enforce collection and settle such sums. The WorldOne Association member group shall receive a monthly report from the Company listing members of the group who subscribe to the Company service under this program.

Unless otherwise specified in this tariff, member's usage of Company service under this plan cannot be used to qualify for any other benefits under this tariff or under other arrangements between Company and third parties who undertake to market the Company's services. Association discounts for WorldOne Services are outlined below.

Month-to-Month association customer on WorldOne Service will receive the one (1) year term rates, no Extended Service Plan ("ESP") will be required; One (1) year term or two (2) year term association customers on WorldOne Service will receive the two (2) year term rates, ESP for Associations is required.

The conditions of the WorldOne Service Extended Service Plan ("ESP") as filed in the Section above will apply for WorldOne for Associations ESP agreements.

OnLine World Calling Card Service is not available for Association discounts.

	<u>Monthly</u>	<u>ESP</u>
Switched Outbound	\$0.1500	\$0.1450
Switched Toll Free	\$0.1500	\$0.1450
Dedicated Outbound	\$0.1050	\$0.1000
Dedicated Toll Free	\$0.1050	\$0.1000

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTION AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.4 WorldMark Service

4.4.4.1 Description

WorldMark Service offers a unified service for single or multi-location customers using switched, dedicated, and WorldMark calling card origination and switched or dedicated "toll free" termination. The WorldMark package includes the availability of outbound, inbound (toll free) products with peak and off peak rates and a non time-of-day sensitive, calling card product, as well as, offering the most comprehensive performance guarantees available.

WorldMark Service offers cross-contributory product volume discounts on switched and dedicated, outbound and inbound (toll free) products based on combined usage of multiple WorldMark Service products, including domestic switched and dedicated, outbound and inbound (toll free) product usage, calling card and switched and dedicated WorldMark data product usage.

WorldMark Service offers an additional discount on switched and dedicated outbound and toll free products for customers willing to sign a term commitment. Peak and off peak rates, rate periods and billing increments can be found in below. Optional features can be found the Company domestic tariff FCC No. 2, Section C - Rates and Charges.

Multiple services and/or multiple customer locations using WorldMark Service can contribute to individual product volume discounts and the overall monthly minimum commitment. WorldMark Operator Services and Directory Assistance usage is not included in determining product volume discounts and monthly minimum usage.

4.4.4.2 WorldMark "toll free" Switched and Dedicated Service Options

- * Toll Free Directory Assistance
- * Message Referral
- * Call Area Selection
- * Dialed Number Identification Service (DNIS)
- * Call Distributor
- * Exchange Routing
- * Multi-Carrier Toll Free Service
- * Percentage Allocation Routing
- * Call Zone Routing
- * Real-Time ANI (RTA)
- * Route Completion
- * Time of Day, Day of Week, Day of Year routing

Descriptions, Rates and Charges: Provided in our Domestic Tariff No. 2, Section C.

4. SERVICE DESCRIPTION AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.4 WorldMark Service (Cont'd)

4.4.4.3 WorldMark Service Guarantees

The following is a list of guarantees for each product offered under this service that will automatically compensate the customer when stated product performance levels are not met. The customer's right to receive the WorldMark Guarantees as set forth will depend upon the Company's receipt of customer's full payment of each month's invoice. In the event the customer's account becomes past due, the Company reserves the right to void all rights to WorldMark's Service Satisfaction Guarantees and Service Restoration Guarantees as defined herein.

.1 WorldMark 1+ Switched/ Dedicated Service

a. Installation Interval Guarantee - WorldMark customers of switched outbound service will be installed within five (5) full business days from the date the customer signed the service order. WorldMark customers of dedicated outbound service (limited to WorldCom Tier One cities) will be installed within eighteen (18) full business days from the date the customer signed the service order.

i. Customer Compensation - For each day the WorldMark switched or dedicated outbound installation interval is exceeded, a credit for each day's usage for the affected service will be issued. The average daily usage amount is calculated from the first complete billing period. In addition, customers will receive credit for their installation and first month's access line charges.

b. Service Satisfaction Guarantee - Company will pay the local access and interexchange carrier service installation charges to return the customer to their previous carrier and circuit configuration if they are not satisfied after one hundred twenty (120) days with our service. Reimbursement will be limited to the levels of service in the previous configuration.

c. Service Restoration Guarantee - Company guarantees that it will restore outbound service interruptions within thirty (30) minutes from the time the customer initiates the trouble call.

i. Customer Compensation - If the restoration interval is exceeded, Company will automatically issue a credit equal to one (1) day's average usage charges. The average daily usage amount is calculated from the first complete billing period. Limited to one (1) credit per day, not to exceed thirty (30) credits in one (1) month.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTION AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.4 WorldMark Service (Cont'd)

4.4.4.3 WorldMark Service Guarantees (Cont'd)

.2 WorldMark Toll-Free Service

a. Installation Interval Guarantee - WorldMark customers of switched inbound service will be installed within five (5) full business days from the date the customer signed the service order. WorldMark customers of dedicated inbound service (limited to WorldCom Tier One cities) will be installed within eighteen (18) full business days from the date the customer signed the service order.

i. Customer Compensation - For each day the WorldMark switched or dedicated inbound installation interval is exceeded, a credit for each day's usage for the affected service will be issued. The average daily usage amount is calculated from the first complete billing period. Limited to one (1) credit per day, not to exceed thirty (30) credits in one (1) month. In addition, the monthly WorldMark toll-free service fee will be credited and dedicated customers will receive credit for their installation and first month's access line charges.

b. Additional Number Installation Guarantee - Additional toll-free numbers will be added to existing WorldMark switched or dedicated inbound service within one (1) full business day. This guarantee is not applicable if the additional number requires the installation of additional dedicated access lines or if the FCC-imposed restrictions on the availability of toll-free numbers necessitates a delay beyond Company's control. In addition, Company makes no warranty on our ability to overcome delays caused by competitors when porting existing numbers.

i. Customer Compensation - For each day the additional number installation interval is exceeded, a credit for each day's usage will be issued for the affected service. In addition, the monthly WorldMark toll-free service fee will be credited for the affected service.

c. Feature Installation Interval Guarantee - New WorldMark toll-free service feature configurations will be installed in one hundred twenty (120) minutes or less from the time a request is received by our WorldMark Customer Service Support Center. Toll-free feature change requests are limited to three (3) per hour, limited to ten (10) changes per feature.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTION AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.4 WorldMark Service (Cont'd)

4.4.4.3 WorldMark Service Guarantees (Cont'd)

.2 WorldMark Toll-Free Service (Cont'd)

- d. Feature Reconfiguration Guarantee - Predetermined WorldMark toll-free service feature configurations will be implemented in sixty (60) minutes or less from the time a request is received by our WorldMark Customer Support Center. Toll-free feature change requests are limited to three (3) per hour, limited to ten (10) changes per feature.
- e. Service Reconfiguration Guarantee - Company guarantees that it will implement any predefined alternative routing schemes for WorldMark toll-free service and/or features in thirty (30) minutes or less from the time a request is received by our WorldMark Customer Support Center. Toll-free feature change requests are limited to three (3) per hour, limited to ten (10) changes per feature.
 - 1. Customer Compensation - If the service or feature installation and/or reconfiguration interval is exceeded, the customer will automatically receive a credit equal to one day's average usage charges for WorldMark toll-free service and WorldMark toll-free monthly recurring service and feature charges for the affected service.
- f. Service Satisfaction Guarantee - Company will pay the local access and interexchange carrier service installation charges to return the customer to their previous carrier and circuit configuration if they are not satisfied after one hundred twenty (120) days with our service. Reimbursement will be limited to the levels of service in the previous configuration.
- g. Service Restoration Guarantee - Company guarantees that it will restore inbound service interruptions within thirty (30) minutes from the time the customer initiates the trouble call.
 - 1. Customer Compensation - If the restoration interval is exceeded, Company will automatically issue a credit equal to one (1) day's average usage charges. The average daily usage amount is calculated from the first complete billing period. Limited to one (1) credit per day, not to exceed thirty (30) credits in one (1) month.

Issued:

Effective:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

4. SERVICE DESCRIPTION AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.4 WorldMark Service (Cont'd)

4.4.4.3 WorldMark Service Guarantees (Cont'd)

.3 WorldMark Calling Card Service

- a. Installation Interval Guarantee - Company will deliver WorldMark calling cards within five (5) business days from the date the service order is signed. Upon signing a service order for WorldMark Calling Cards, a complimentary twenty (20) minute PhonePass prepaid card will be issued for each calling card ordered.
 - i. Customer Compensation - If the installation interval is exceeded, a \$15.00 credit will be issued for each distinct WorldMark Calling Card number.
- b. Service Restoration Guarantee - Company guarantees that it will restore WorldMark Calling Card service interruptions within thirty (30) minutes or less, upon notification to the WorldMark Customer Support Center.
 - i. Customer Compensation - Company will automatically issue a \$15.00 credit if WorldMark Calling Card Service is not restored within thirty (30) minutes. Limit one (1) credit per account per day, not to exceed thirty (30) credits in one (1) month.
- c. Card Security Guarantee - If the customer's WorldMark Calling Card is deactivated due to toll fraud, they may call our WorldMark Customer Support Center and receive a free twenty (20) minute PhonePass prepaid card number to use until we issue another calling card.

4.4.4.4 WorldMark Service Liability

.1 With thirty (30) days prior written notice, the Company reserves the right to discontinue providing WorldMark Service to a customer if the Company issues five (5) or more restoration credits in a thirty (30) calendar period.

- a. In the event the Company cancels WorldMark Service in accordance with Section 4.5.10.4 above, the Company will reimburse the customer the charges directly related to the switch back (the "Qualifying Charges") based on the customer's prior network configuration, not to exceed the amount paid for installation of WorldMark Service.
- b. Any WorldMark Switched Back Reimbursement due hereunder as described above, shall be due and payable to customer on or before sixty (60) calendar days from the time the Company notifies the customer of the cancellation of WorldMark Services.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTION AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.4 WorldMark Service (Cont'd)

4.4.4.4 WorldMark Service Liability (Cont'd)

- c. Payment of the WorldMark Switch back Reimbursement may at the customer's option, be made by either (i) a credit against the customer's then-current charges for services provided by the Company, if any; or, (ii) a check drawn on a United States bank and payable in United States dollars. Said payment may be withheld if customer is in past due status with the Company.

- .2 In addition to the liability provisions specifically provided in this section, all other Rules and Regulations for liability as filed in Section 3 - General Rules and Regulations will also apply to WorldMark Services.

4.4.4.5 Usage Charges

.1 Rate Periods

Peak

All calls that occur between 7 A.M. through 6:59 P.M., Monday through Friday, except on Company-recognized holidays.

Off Peak

All calls that occur between 7 P.M. through 6:59 A.M., Monday through Friday, and all calls between 7 P.M. Friday and 6:59 A.M. Monday and Company-recognized holidays.

.2 Billing Increments

Domestic switched and dedicated access, outbound and inbound (toll free) product calls are billed in eighteen (18) second initial increments and additional increments of six (6) seconds. WorldMark Calling Card is billed at an initial sixty (60) second increment and rounded to the next higher six (6) second increment thereafter. All fractional per call charges will be rounded to the nearest whole cent.

.3 WorldMark Rate Schedules

a. WorldMark Switched Rate Plans

i. Base Rates - Switched

	<u>Peak</u>	<u>Off Peak</u>
Switched Outbound	\$0.1150	\$0.1150
Switched Toll Free	\$0.1200	\$0.1200

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTION AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.4 WorldMark Service (Cont'd)

4.4.4.5 Usage Charges (Cont'd)

.3 WorldMark Rate Schedules (Cont'd)

a. WorldMark Switched Rate Plans (Cont'd)

ii. Term Discounts

Commitment	Month to Month Peak	1 Year		2 Year		3 Year		Peak	Off Peak	Peak	Off Peak
		Off Peak	Peak	Off Peak	Peak	Off Peak	Peak				
Option A (\$15,000)	0.00%	0.00%	3.80%	3.30%	7.25%	7.00%	10.75%	10.30%			
Option B (\$25,000)	1.70%	0.00%	5.25%	3.30%	9.00%	7.00%	13.30%	10.30%			
Option C (\$30,000)	3.60%	0.00%	7.25%	3.30%	10.75%	7.00%	14.25%	10.30%			
Option D (\$75,000)	5.30%	0.00%	9.00%	3.30%	12.15%	7.00%	16.25%	10.30%			

iii. Switched Volume Discounts - This discount will apply if the customer's monthly volume of traffic exceeds their committed volume significantly.

Commitment	Monthly Volume of Traffic						
	\$15,000	\$25,000	\$30,000	\$40,000	\$50,000	\$75,000	\$100,000
Option A (\$15,000)		0.00%	0.25%	0.30%	0.30%	0.75%	1.25%
Option B (\$25,000)		0.00%	0.00%	0.00%	0.75%	1.00%	1.30%
Option C (\$30,000)		0.00%	0.00%	0.00%	0.00%	0.00%	1.75%
Option D (\$75,000)		0.00%	0.00%	0.00%	0.00%	0.00%	1.75%

b. WorldMark Dedicated Rate Plans

i. Base Rates - Dedicated

	Peak	Off Peak
Dedicated Outbound	\$0.0900	\$0.0900
Dedicated Toll Free	\$0.0950	\$0.0950

ii. Term Discounts

Commitment	Month to Month Peak	1 Year		2 Year		3 Year		Peak	Off Peak	Peak	Off Peak
		Off Peak	Peak	Off Peak	Peak	Off Peak	Peak				
Option A (\$15,000)	0.00%	0.00%	5.30%	5.00%	10.30%	10.25%	13.75%	10.25%			
Option B (\$25,000)	2.40%	0.00%	7.00%	5.00%	13.30%	10.25%	16.50%	10.25%			
Option C (\$30,000)	5.25%	0.00%	10.30%	5.00%	15.75%	10.25%	20.00%	10.25%			
Option D (\$75,000)	7.25%	0.00%	13.00%	5.00%	18.00%	10.25%	23.50%	10.25%			

iii. Dedicated Volume Discounts - This discount will apply if the customer's monthly volume of traffic exceeds their committed volume significantly.

Commitment	Monthly Volume of Traffic						
	\$15,000	\$25,000	\$30,000	\$40,000	\$50,000	\$75,000	\$100,000
Option A (\$15,000)		0.00%	0.25%	0.30%	0.30%	0.75%	1.25%
Option B (\$25,000)		0.00%	0.00%	0.00%	0.75%	1.00%	1.30%
Option C (\$30,000)		0.00%	0.00%	0.00%	0.00%	0.00%	1.75%
Option D (\$75,000)		0.00%	0.00%	0.00%	0.00%	0.00%	1.75%

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTION AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.4 WorldMark Service (Cont'd)

4.4.4.6 WorldMark Calling Card Service

.1 Direct Dial Rate Schedule

- a. Per Minute rates applying to all time periods:

Per Minute rate \$0.2500

- b. Billing Increments

Domestic calls are billed in sixty (60) second initial increments and additional increments of six (6) seconds.

- c. Per Call Surcharge

- i. Per Call Surcharge \$0.2500
ii. The following rates and surcharge will apply to calls which default to a live operator.

Per Minute rate \$0.2500
Per Call Surcharge \$0.5000

.2 WorldMark Calling Card Service - Operator Assisted Rate Schedule

If a customer chooses to access an operator to place a call, the call will be billed at the per minute rate below:

Per Minute Rate \$0.5000

- a. Billing Increments

All WorldMark Calling Card calls placed with the assistance of an operator will be billed in one (1) minute increments.

- b. Per Call Surcharge

The following surcharge will apply in addition to the per minute rates above.

Per Call Charge

Station-to-Station..... \$1.50
Person-to-Person..... \$3.00
Basic Surcharge..... \$0.50

4.4.4.7 WorldMark Service and Feature Charges

A description of the chargeable services and features, including monthly recurring, non-recurring charges and per minute surcharges associated with WorldMark Service can be found in the Company's Domestic Tariff, FCC No. 2.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTION AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.4 WorldMark Service (Cont'd)

4.4.4.8 Term Commitment Liability

Customers who terminate service prior to the end of the term of commitment in any manner will be liable for a cancellation penalty equal to the monthly minimum billing commitment times the number of months remaining in the Customer commitment period through the expiration of the first year. If applicable, 25% of the balance remaining (monthly minimum billing commitment times the number of remaining months in the contract beyond the first year) will also be included (per service type). If the termination becomes effective after the completion of the first year, then the charge shall be equal to 25% of the balance remaining (monthly minimum billing commitment times the number of months remaining in the contract). The following cancellation penalty will apply unless the customer immediately converts to another Company service with equal or greater term and minimum usage requirement commitments, and Customer continues to use such Company service for a period of months equal to or greater than the number of months remaining in the term during which the conversion takes place.

4.4.5 LDOS WorldCom Calling Card Service

4.4.5.1 Description

LDOS WorldCom Calling Card service is available to residential and commercial Company Customers. Customers may place domestic and international long distance calls using this service. Calling card access can be from either a tone generating or rotary-dial telephone and is gained by dialing the Company's toll free access number, and/or 10XXX, 950-XXXX depending on availability. Several available features include Call Reorganization, Call Correction, Call Relay, Operator Time-Out, International Origination and Termination Service.

4.4.5.2 Direct Dial Rate Schedule

.1 Per Minute Rate Schedule applying to all Time Periods

Per Minute Rate	\$0.2500
-----------------	----------

.2 Billing Increments

Domestic calls are billed in sixty (60) second initial increments and additional increments of six (6) seconds.

.3 Per Call Surcharge

- a. The Per Call Surcharge is in addition to the per minute rate found in .1 above:

Per Call Surcharge	\$0.40
--------------------	--------

- b. The following Per Call Surcharge is in addition to the per minute rate found in .1 above and will apply to calls which default to a live operator only.

Per Call Surcharge	\$0.65
--------------------	--------

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTION AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.5 LDOS WorldCom Calling Card Service (Cont'd)

4.4.5.3 Operator Assisted Rate Schedule

This calling card schedule applies to all customers who place a call with the assistance of an operator.

.1 Per Minute Rate Schedule applying to all Time Periods

Per Minute Rate	\$0.65
-----------------	--------

.2 Billing Increments

LDOS WorldCom Calling Card calls placed with the assistance of an operator will be billed in sixty (60) second initial increments and additional increments of sixty (60) seconds.

.3 Per Call Surcharge

The following surcharge will apply in addition to the per minute rate found in .1 above

Per Call Surcharge	
Station-to-Station	\$1.50
Person-to-Person	\$3.00

4.4.6 LDOS WorldCom TalkAround Calling Card

4.4.6.1 - This Calling Card schedule applies to all customers who subscribe to one of the Company's residential long distance services.

4.4.6.2 Direct Dial Rate Schedule

.1 Per Minute Rate Schedule applying to all Time Periods

Per Minute Rate	\$0.3000
-----------------	----------

.2 Billing Increments

Calls are billed in sixty (60) second initial increments and additional increments of sixty (60) seconds.

.3 Per Call Surcharge

a. There is no Per Call Surcharge for direct dialed calls.

b. The following Per Call Surcharge is in addition to the per minute rate found in .1 above and will apply to calls which default to a live operator only.

Per Call Surcharge	\$0.5000
--------------------	----------

4. SERVICE DESCRIPTION AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.6 LDDS WorldCom TalkAround Calling Card (Cont'd)

4.4.6.3 Operator Assisted Rate Schedule

This calling card schedule applies to all customers who place a call with the assistance of an operator.

.1 Per Minute Rates

Mileage Band	Day		Evening		Night/Weekend	
	1st Min.	Add'l. Min.	1st Min.	Add'l. Min.	1st Min.	Add'l. Min.
0 - 10	\$.2100	\$.1500	\$.1575	\$.1125	\$.1260	\$.0900
11 - 16	.2100	.1500	.1575	.1125	.1260	.0900
17 - 22	.2600	.1600	.1950	.1200	.1560	.0960
23 - 30	.3000	.1800	.2250	.1350	.1800	.1080
31 - 40	.3400	.2100	.2550	.1575	.2040	.1260
41 - 55	.3600	.2400	.2700	.1800	.2160	.1440
56 - 85	.3900	.2500	.2925	.1875	.2340	.1500
86 - 124	.4000	.2600	.3000	.1950	.2400	.1560
125 - 244	.4100	.2700	.3075	.2025	.2460	.1620
245 - 3000	.4300	.2900	.3225	.2175	.2580	.1740
3000 +	.4400	.3000	.3300	.2250	.2640	.1800

.2 Billing Increments

LDDS WorldCom TalkAround Calling Card calls placed with the assistance of an operator will be billed in sixty (60) second initial increments and additional increments of sixty (60) seconds.

.3 Per Call Surcharge

The following surcharge will apply in addition to the per minute rate found in .1 above

Per Call Surcharge:
Station-to-Station \$1.50
Person-to-Person \$3.00

4.4.6.4 TalkAround Calling Card Association - The TalkAround Calling Card Association program is a benefit package offered in conjunction with basic residential TalkAround Calling Card which allows the individual users who are members or employees of the participating organization to receive additional product discounts. Members who elect to participate in the TalkAround Association program will receive a discounted flat rate for the service.

To qualify for this rate an organization generally must be a: (1) Trade Association representing businesses or individuals in an industry, profession or business classification; (2) Business with franchisees, agents, distributors or multiple representatives; (3) Non-profit organization, or (4) Buying group not organized merely to buy the Company's long distance for resale.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTION AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.6 LDPS WorldCom TalkAround Calling Card (Cont'd)

4.4.6.4 TalkAround Calling Card Association (Cont'd)

The qualifying organization must meet the following criteria to receive the special discounted rate:

- .1 Associations - Must have 5,000 or more professional members (e.g., Certified Public Accountants, American Medical Associations, State Bar Associations) and allow us to telemarket or direct mail their membership roster for promotional reasons.
- .2 Colleges/Universities - Must have 5,000 or more members and allow us to telemarket or direct mail their membership roster for promotional reasons.
- .3 Companies - Must have a minimum of 1,000 employees and allow us to telemarket or direct mail their employees for promotional reasons.
- .4 Direct Dialed Rate Schedule applying to all Time Periods:

Per Minute Rate	\$0.20
-----------------	--------
- .5 Billing Increments - Domestic calls are billed in sixty (60) second initial increments and additional increments of sixty (60) seconds.
- .6 Per Call Surcharge - There is no per call surcharge for Association direct dialed calls.

All other services for the TalkAround Calling Card Association will be the same services and rates as filed for the basic residential TalkAround Calling Card in the above Sections.

4.4.7 PHONEPASS SERVICE

4.4.7.1 Description - PhonePass Service is a switched service that enables the end-user to place calls charged to prepaid phone cards issued by the Company. The end-user accesses the network by dialing the appropriate Company Toll Free number printed on the back of the card. Each toll free number accesses a custom greeting designated by the customer. Language menu selection is available if requested by the customer.

The PhonePass Card is available in five (5) or more unit denominations at a flat rate per unit. Cards and/or Codes are issued with an expiration date of six (6), twelve (12) or eighteen (18) months from the date of the code or six (6) or twelve (12) months from first usage. First use is anytime the toll free number and code are entered by the code holder. A terminating number is not necessary in starting the time period for reactivation on first use. The number of available Company PhonePass Cards is subject to technical limitation.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTION AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.7 PHONEPASS SERVICE (Cont'd)

4.4.7.1 Description (Cont'd)

The Company is not liable or responsible for theft, loss or unauthorized use of cards or card numbers. The Company will not refund or issue credit on unused units of the PhonePass Card. The customer(s) of PhonePass Service is solely responsible for the payment of all applicable federal, state or local use, excise, sales or privilege taxes, duties or any similar fees that may be assessed by any governmental body or regulatory authority in connection with the service.

4.4.7.2 Availability - PhonePass Service is available twenty-four (24) hours a day, seven (7) days a week. Card availability is limited and shall be handled on a first come, first served basis. PhonePass Service can be accessed through touchtone telephones only. 900 calls cannot be made on the PhonePass Card.

PhonePass Service may be made available from time to time with certain promotional offerings.

4.4.7.3 Card Depletion/Renewal or Expiration - Each time the card is used, the end-user hears a message stating the amount of minutes remaining on the card. Sixty (60) seconds prior to the card being depleted, the user hears a warning announcing the time remaining on the card.

4.4.7.4 Description of Terms applying to PhonePass Service

.1 Unit - A unit is equal to one (1) minute of domestic long distance time. The U.S. includes all fifty (50) contiguous states. Additional units per minute are charged for all other destination.

.2 Retailer - Wholesale product customer.

.3 End User - Wholesale customer's customer.

4.4.7.5 Usage Charges - The applicable usage rate depends upon the Service Option selected by the customer. Two options listed below in Sections 4.5.12.5.1 and 4.5.12.5.2 are available for the customer to choose. Calls are billed in one (1) minute increments and are debited against the PhonePass Service Card. Cards and/or Codes are valued based on a number of call Units. Rates for PhonePass Service may vary depending on the commitment term, total purchase commitment, card printing or packaging and collector purchase rights. All units purchased for the sole purpose of resale, must be purchased with a generic PhonePass Card. If a customer purchases units from the Company for promotion and not resale, the customer may be entitled to a custom PhonePass card printed by the Company. Cards being used for resale are available in 5, 10, 20, 30, 60 and 100 unit denominations. Cards purchased for promotional purposes can be set with the number units determined by the customer.

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.7 PHONEPASS SERVICE (Cont'd)

4.4.7.5 Usage Charges (Cont'd)

.1 Option A - Generic Wholesale Cards - The customer may obtain Generic PhonePass Cards as a one-time purchase with full payment due upon delivery or with a one (1) or two (2) year commitment with payment due prior to delivery of each order. Upon acceptance by Company, the Term Commitment discount will be applied to each partial order of PhonePass Cards and/or Codes. Installment (Partial Order) payment must be made fifteen (15) days prior to issuance of the Cards and/or Codes. At the end of the one (1) year or two (2) year commitment period or upon request for cancellation by the customer, the customer must pay the difference between the Term Commitment amount purchased and the initial Term Commitment amount, if the commitment has not been met. The Company may terminate a purchase commitment plan in order to allow the customer to agree to a higher "number of Units" Term Commitment. PhonePass Cards will be sold at prices rounded to the nearest cent. The rate per unit and purchase volumes are as follows:

a. One-Time Purchase

	<u>Purchase Volume</u>	<u>Rate per Unit</u>
\$	250 - 2,499	\$0.2700
	2,500 - 4,999	0.2550
	5,000 - 9,999	0.2400
	10,000 - 14,999	0.2250
	15,000 - 24,999	0.2150
	25,000 - 49,999	0.2000
	50,000 - 99,999	0.1900
	100,000 - 199,999	0.1750
	200,000 - 299,999	0.1650
	300,000 - +	0.1600

b. 1-Year Term Monthly Commitment

	<u>Purchase Volume</u>	<u>Rate per Unit</u>
\$	2,500 - 4,999	\$0.2400
	5,000 - 9,999	0.2250
	10,000 - 14,999	0.2150
	15,000 - 24,999	0.2000
	25,000 - 49,999	0.1900
	50,000 - 99,999	0.1750
	100,000 - 199,999	0.1650
	200,000 - 299,999	0.1600
	300,000 - +	0.1550

c. 2-Year Term Monthly Commitment

	<u>Purchase Volume</u>	<u>Rate per Unit</u>
\$	2,500 - 4,999	\$0.2300
	5,000 - 9,999	0.2150
	10,000 - 14,999	0.2000
	15,000 - 24,999	0.1900
	25,000 - 49,999	0.1750
	50,000 - 99,999	0.1650
	100,000 - 199,999	0.1600
	200,000 - 299,999	0.1550
	300,000 - +	0.1500

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.7 PHONEPASS SERVICE (Cont'd)

4.4.7.5 Usage Charges (Cont'd)

.1 Option A - Generic Wholesale Cards (Cont'd)

d. Retail Rate

<u>Purchase Volume</u>	<u>Rate per Unit</u>
\$ 1 - 250	\$0.4000

.2 Retail Option - Generic Cards - The following rate schedules apply to the end-user. The retailer has the option of setting the retail rate at the following rates based on the level of purchase and/or commitment. If the retailer would prefer to sell at any of the retail rates above their specified purchase level of commitment, they may choose any of the preset rates listed below:

Option A - Generic Cards

<u>Purchase Volume</u>	<u>Rate per Unit</u>
\$ 250 - 2,499	\$0.4000
2,500 - 4,999	0.4000
5,000 - 9,999	0.4000
10,000 - 14,999	0.3500
15,000 - 24,999	0.3300
25,000 - 49,999	0.3000
50,000 - 99,999	0.2700
100,000 - 199,999	0.2500
200,000 - 299,999	0.2200
300,000 - +	0.2000

.3 Directory Assistance - Cards will be decreased by the following unit(s) for each use.

2 Units

4.4.8 INTELENET

4.4.8.1 Description

Intelenet offers a full service voice product for single or multi-location customers using switched or dedicated, and calling card origination and switched or dedicated toll-free termination. The Intelenet package includes a single flat rate for both peak and off-peak dedicated and switched usage and offers discounts for customers willing to sign a term commitment of month to month, twelve (12) or twenty-four (24) months and/or a willingness to commit to a specific dollar volume of monthly minimum usage.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.8 INTELENET (Cont'd)

4.4.8.1 Description (Cont'd)

The minimum monthly commitment will be based on net charges for service (after discounts have been applied) and must be reached by the fourth invoice period and monthly thereafter. Multiple services and/or multiple locations using Intelenet can contribute to the overall monthly commitment; however, the customer must allocate the minimum by service and location. All inbound and outbound domestic and international, calling card, intrastate service and internet access charges, including local services (if applicable) contribute to determining the monthly minimum usage with the exception of enhanced fax, conference calling and non-recurring charges.

If a customer's monthly service usage charges for any month in the term are less than the monthly commitment agreed upon, the customer shall pay the company the difference between the monthly usage charges and the monthly commitment in addition to charges for service.

When the customer has completed the term commitment, service will automatically be renewed for additional term(s) of the agreement unless the Company has received the customer's written notice to terminate the service on not less than sixty (60) days prior to the then existing term expiration date. Customers who terminate service prior to the end of the term in any manner other than stated will be liable for a service termination charge of an amount equal to the greater of the following, unless customer converts to another Company service with equal or greater term and minimum usage commitment:

- .1 If the termination becomes effective prior to the completion of the first year of the Customer Term, then the charge shall be an amount equal to the monthly billing commitment times the number of months remaining in Term through the expiration of the first year. If applicable, twenty-five percent (25%) of the balance remaining (monthly billing commitment times the number of remaining months in the Term beyond the first year) will also be included.
- .2 If the termination becomes effective after the completion of the first year, then the charge shall be an amount equal to twenty-five percent (25%) of the balance remaining (monthly billing commitment times the number of months remaining in the Term).

In addition, the customer will be required to repay any promotional credits that were applied, and any charges reimbursed or waived.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.8 INTELENET (Cont'd)

4.4.8.1 Description (Cont'd)

Upon execution of the Intelnet Service Agreement, the customer has ninety (90) days from the date service is made available in which to notify the Company in writing, either by certified or registered mail (return receipt requested), of customer's desire to cancel the Service Agreement without penalty or further obligation, except for charges incurred up to the date of termination, in the event that quality deficiencies solely caused by the Company in the provision of telecommunications service hereunder are demonstrated by customer to affect adversely and materially customer's telecommunications applications (such a termination under this clause constituting a Termination for Cause). A Termination for Cause shall not be effective unless customer has reported trouble on an ANI or circuit-specific basis to (and received corresponding trouble ticket from) the appropriate Company Support Center and a period of not less than thirty (30) days after receipt of customer's written notice of termination has elapsed during which the Company fails to correct such quality deficiencies. Provided, nothing contained herein shall impose any liability on Company and customer's sole remedy shall be termination of the affected service as described.

Customer's Intelnet Service Agreement is subject to the general terms, and conditions and rates of this Tariff and/or Service or Credit Application forms executed in connection with the services provided herein.

4.4.8.2 Rate Periods

Peak - All calls that occur between 7:00 A.M. through 7:00 P.M. Monday through Friday, except on Company recognized holidays.

Off Peak - All calls that occur between 7:01 P.M. through 6:59 A.M. Monday through Thursday, and all calls between 7:01 P.M. Friday and 6:59 A.M. Monday and Company-recognized holidays.

4.4.8.3 Billing Increments

Intelnet is billed in eighteen (18) second initial increments and is rounded to the next higher six (6) second increment with the exception of calling card which is billed in sixty (60) second initial increments and rounded to the next higher six (6) second increment. All fractional per call charges will be rounded to the nearest whole cent.

4.4.8.4 Per Minute Base Rate Schedule - Intelnet

	<u>Base Rates</u>
Switched Services	\$0.1210
Dedicated Services	\$0.0872

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.8 INTELENET (Cont'd)

4.4.8.5 Discounts Applicable

A ten percent (10%) discount will apply towards intrastate usage.

4.4.8.6 Intelnet Calling Card Service

.1 Per Minute Rates applying to all time periods:

\$0.2500

.2 Per Call Surcharge:

\$0.4000

4.4.8.7 Monthly Recurring/Non-Recurring Charges

Intelnet for intrastate use is offered in connection with the Company's interstate Intelnet service. Accordingly, monthly recurring and non-recurring charges are found in the Company's interstate tariff, F.C.C. No. 2, Section 6.3.1.

4.4.8.8 Intelnet Association

The Intelnet Association program is a benefit package offered in conjunction with Intelnet, which allows the individual users who are members or employees of the participating organization to receive additional product discounts off of domestic interstate usage. Members who elect to participate in the Intelnet Association will receive Intelnet products and Calling card service.

To qualify for Intelnet association an organization generally must be a: (1) Trade association representing businesses or individuals in an industry, profession or business classification; (2) Business with franchisees, agents, distributors, or multiple representatives; (3) Non profit organization; or, (4) Buying group not organized merely to buy the Company's long distance for resale. The qualifying organization agrees to meet the following criteria within six (6) months of undertaking to qualify and thereafter maintain, and enters into a written agreement with the Company for marketing of the Company's services. The group's members who have subscribed to the Company's services throughout the group must have aggregate billings, net of taxes; promotional credits and surcharges of at least \$5,000 per month.

The Company will render monthly statements to the individual members and the statement received will show all appropriate discounts. All sums due from members are the sole property of the Company, and the Company shall have sole right to collect, enforce collection and settle such sums. The Intelnet member group shall receive a monthly report from the Company listing members of the group who subscribe to the Company service under this program.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.8 INTELENET (Cont'd)

4.4.8.8 Intelnet Association (Cont'd)

Unless otherwise specified in this tariff, member's usage of Company service under this plan cannot be used to qualify for any other benefits under this tariff or under other arrangements between the Company and third parties who undertake to market the Company's services. All other conditions of Intelnet will apply to Intelnet Association.

4.4.9 Total Solution Series 100SM Service

4.4.9.1 Description

Total Solution Series 100SM Service is an offering that allows Customers to select a commitment level and shared and dedicated outbound and inbound service arrangements, obtain term plan discounts, and receive Peak and Off-Peak pricing (Off-Peak pricing only applies to intraLATA outbound service where available). Total Solution Series 100SM calls are flat rated, with discounts off the base rates available according to the commitment level and term plan selected by the Customer.

The Outbound Calling Service arrangement is a long distance switch-based service, which is available on either a shared or dedicated access basis. The usage is billed on a flat rated basis. Outbound Calling Service calls are billed in 6 second increments, with an initial billing period of 18 seconds per call. Rates for Operator-assisted calls are set forth in Section 4.3.

The Inbound Calling Service arrangement is an toll free switched access service, which permits calls to be completed at the Customer's location without charge to the calling party. This service is available on either a shared or dedicated basis. Access to the service is gained by an end user dialing a 10 digit telephone number (eg. 800-NXX-XXXX) which will terminate at the Customer's location. The usage is billed on a flat rated basis. Toll Free Service calls are billed in 6 second increments, with an initial billing period of 18 seconds per call. In addition, there is a non-recurring and monthly recurring toll free service number charge, which will be applied either on a "per toll free number" basis for shared access or on a "per routing arrangement" basis for dedicated access.

4.4.9.2 Commitment Levels and Term Plans

Total Solution Series 100SM Service is available on a month to month basis or on an optional 1 or 2 year Term Plan. Discounts off the base rates are available to the Customer according to the commitment level and Term Plan selected by the Customer.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.9 Total Solution Series 100[®] Service (Cont'd)

4.4.9.2 Commitment Levels and Term Plans (Cont'd)

Total Solution Series 100[®] Service is subject to a minimum monthly usage commitment (after the third full month following the initial installation of service for new Customers) based on the Customer's selected commitment level. The commitment level is calculated from the monthly total of usage generated from the following Company products: shared and dedicated domestic interstate and intrastate outbound and inbound service, international outbound, intralATA, local service, and calling card. Charges such as taxes, late payment fees or other service non-recurring and monthly recurring charges will not be included in the total usage amount calculation, as well as usage charges from Directory Assistance, Operator Service, voice mail and conference calling.

Should the Customer's actual usage fall below the monthly minimum usage commitment, the Customer is required to pay the Company a fee equal to the difference between the Customer's actual usage and the Customer's minimum monthly commitment. A Customer who terminates a Term Plan prior to the term's expiration will be required to pay in one lump sum an amount equaling the selected monthly commitment level times the number of months remaining in the term, plus an amount equal to any promotional credit, or discount, or waiver, if applicable, that was provided to the Customer.

A Customer may terminate their Term Plan without liability under the following conditions:

- .1 The Customer requests, and remains on, a new Term Plan for a term and commitment level equal to or greater than their current Company Term Plan and commitment level.
- .2 A new Customer (who was not receiving services through the Company prior to execution of the Term Plan) provides written notification to cancel the Term Plan to the Company postmarked within 90 days of the commencement of the Term Plan. The Customer is responsible for payment of services used during this period.

Term Plans will be automatically renewed unless the Customer notifies the Company in writing to cancel the renewal within 30 days of expiration of the current Term Plan.

4.4.9.3 Discounts

The following discounts on per minute base rates for qualifying usage are based on the monthly commitment level and Term Plan selected by the Customer. Customers committing to Term Plans will receive an additional discount off the applicable Commitment Level discounted rate for qualifying interstate usage. To qualify for Term Plan Discounts, shared access Customers must select a minimum commitment level of at least \$250.00 per month, and dedicated access Customers must select a minimum commitment level of at least \$1,000.00 per month.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.9 Total Solution Series 100SM Service (Cont'd)

4.4.9.3 Discounts (Cont'd)

.1 Shared Outbound Discount

Monthly Commitment Level	Month to Month	Term Plan	
		1 Year	2 Year
\$ 0	0.00%	N/A	N/A
\$ 250	0.00%	5.00%	10.00%
\$ 500	0.00%	5.00%	10.00%
\$ 1,000	0.00%	5.00%	10.00%
\$ 2,500	0.00%	5.00%	10.00%
\$ 5,000	0.00%	5.00%	10.00%
\$ 10,000	0.00%	5.00%	10.00%
\$ 15,000	0.00%	5.00%	10.00%

.2 Dedicated Outbound Discount

Monthly Commitment Level	Month to Month	Term Plan	
		1 Year	2 Year
\$ 0	0.00%	N/A	N/A
\$ 250	0.00%	N/A	N/A
\$ 500	0.00%	N/A	N/A
\$ 1,000	0.00%	5.00%	10.00%
\$ 2,500	0.00%	5.00%	10.00%
\$ 5,000	0.00%	5.00%	10.00%
\$ 10,000	0.00%	5.00%	10.00%
\$ 15,000	0.00%	5.00%	10.00%

.3 Shared Inbound Discount

Monthly Commitment Level	Month to Month	Term Plan	
		1 Year	2 Year
\$ 0	0.00%	N/A	N/A
\$ 250	0.00%	9.94%	14.68%
\$ 500	0.00%	9.94%	14.68%
\$ 1,000	0.00%	9.94%	14.68%
\$ 2,500	0.00%	9.94%	14.68%
\$ 5,000	0.00%	9.94%	14.68%
\$ 10,000	0.00%	9.94%	14.68%
\$ 15,000	0.00%	9.94%	14.68%

.4 Dedicated Inbound Discount

Monthly Commitment Level	Month to Month	Term Plan	
		1 Year	2 Year
\$ 0	0.00%	N/A	N/A
\$ 250	0.00%	N/A	N/A
\$ 500	0.00%	N/A	N/A
\$ 1,000	0.00%	12.17%	16.79%
\$ 2,500	0.00%	12.17%	16.79%
\$ 5,000	0.00%	12.17%	16.79%
\$ 10,000	0.00%	12.17%	16.79%
\$ 15,000	0.00%	12.17%	16.79%

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.9 Total Solution Series 100SM Service (Cont'd)

4.4.9.4 Rate Periods

Peak and Off-Peak rate periods are as follows:

Non-Holiday Rate Periods	From	To But Not Including	Days
Peak	8:00 a.m.	5:00 p.m.	Mon-Fri
Off-Peak	5:00 p.m.	8:00 a.m.	Mon-Fri
	8:00 a.m.	8:00 a.m.	Sat-Sun
	8:00 a.m.	8:00 a.m.	Holidays

Holidays: On Christmas Day (Dec. 25), New Years Day (Jan. 1), Memorial Day, Independence Day (July 4), Labor Day (first Monday in Sept.) and Thanksgiving Day (fourth Thursday in Nov.) the Off-Peak period rate applies unless a lower rate would normally apply.

4.4.9.5 Usage Charges

.1 Outbound Calling Service

Shared \$ 0.1825

Dedicated \$ 0.1225

Off-Peak Discount: 10%

.2 Inbound Calling Service

Shared \$ 0.1925

Dedicated \$ 0.1325

.3 Toll Free Number Charge

	Monthly Recurring	Non- Recurring
Shared charge per toll free number	\$ 10.00	\$ 15.00

Dedicated charge per routing arrangement	\$ 40.00	\$ 50.00
---	----------	----------

4.4.10 Total Solution GoldSM Service

4.4.10.1 Description

Total Solution GoldSM Service is an offering which allows customers to select shared and dedicated outbound and inbound service arrangements, and obtain Term Plan discounts. Total Solution GoldSM calls are eligible for volume discounts based on total cross-contribution usage from all interstate and intrastate shared and dedicated outbound and inbound usage products (directory assistance and operator assistance are not contributory). Discounted rates apply retroactively, such that once the next dollar threshold is reached, the lower rate applies back to the first minute of usage for that billing period. Charges such as taxes, late payment fees or other service non-recurring and monthly recurring charges will not be included in the volume discount cross-contribution calculation.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.10 Total Solution GoldSM Service (Cont'd)

4.4.10.1 Description (Cont'd)

The Outbound Calling Service arrangement is a long distance switched access service, which is available on either a shared or dedicated basis. The usage is billed on a flat rated basis. Outbound Calling Service calls are billed in 6 second increments, with an initial billing period of 18 seconds per call. Rates for Operator-assisted calls are set forth in Section 4.3.

The Inbound Calling Service arrangement is a toll free switched access service, which permits calls to be completed at the Customer's location without charge to the calling party. This service is available on either a shared or dedicated basis. Access to the service is gained by a end user dialing a 10 digit telephone number (e.g., 800-NXX-XXXX) which will terminate at the Customer's location. The usage is billed on a flat rated basis. Toll Free Service calls are billed in 6 second increments, with an initial billing period of 18 seconds per call. In addition, there is a non-recurring and monthly recurring Toll Free Service number charge, which will be applied either on a "per Toll Free Service number" basis for shared access or on a "per routing arrangement" basis for dedicated access.

4.4.10.2 Term Plans

Total Solution GoldSM Service is available at 1 or 2 year Term Plan rates. Term Plans are subject to a minimum monthly usage level of \$500 for shared access or \$2,500 for dedicated access after 90 days of initial service. Should the Customer's actual usage fall below the monthly minimum usage commitment, the Customer is required to pay the Company a fee equal to the difference between the Customer's actual usage and the Customer's minimum monthly commitment. Term Plan threshold calculations will include usage charges from all intrastate and interstate switched outbound and inbound usage products (directory assistance and operator assistance are not contributory). Charges such as taxes, late payment fees and other service non-recurring and monthly recurring charges will not be included in the Term Plan usage threshold calculation. A Customer who terminates a Term Plan prior to the term's expiration will be required to pay in one lump sum an amount equaling the monthly minimum service usage charge times the number of months remaining in the term.

A Customer may terminate their Term Plan without liability under the following conditions:

- .1 The customer requests, and remains on, a new Term Plan for a term equal to or greater than the time remaining on their current Company Term Plan.
- .2 The Customer provides written notification to cancel the Term Plan to the Company postmarked within 90 days of the commencement of the Term Plan. The Customer is responsible for payment of services used during this period.

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.10 Total Solution Gold™ Service (Cont'd)

4.4.10.2 Term Plans (Cont'd)

Term Plans will be automatically renewed unless the Customer notifies the Company in writing to cancel the renewal within 30 days of expiration of the current Term Plan.

4.4.10.3 Rate Periods

Peak and Off-Peak rate periods are as follows:

Non-Holiday	From	To But Not Including	Days
<u>Rate Periods</u>			
Peak	8:00 a.m.	5:00 p.m.	Mon-Fri
Off-Peak	5:00 p.m.	8:00 a.m.	Mon-Fri
	8:00 a.m.	8:00 a.m.	Sat-Sun
	8:00 a.m.	8:00 a.m.	Holidays

Holidays: On Christmas Day (Dec. 25), New Years Day (Jan. 1), Memorial Day, Independence Day (July 4), Labor Day (first Monday in Sept.) and Thanksgiving Day (fourth Thursday in Nov.) the Off-Peak Period rate applies unless a lower rate would normally apply.

4.4.10.4 Usage Charges

.1 Outbound Calling Service

a. Shared - Per Minute Rates

Usage	1 Year	2 Year
<u>Per Month</u>		
\$0-\$249	\$0.1675	\$0.1625
\$250-\$999	\$0.1675	\$0.1625
\$1,000-\$2,499	\$0.1675	\$0.1625
\$2,500-\$4,999	\$0.1675	\$0.1625
\$5,000-\$9,999	\$0.1675	\$0.1625
\$10,000-\$19,999	\$0.1675	\$0.1625
\$20,000 +	\$0.1675	\$0.1625

b. Dedicated - Per Minute Rates

Usage	1 Year	2 Year
<u>Per Month</u>		
\$0-\$249	\$0.1125	\$0.1075
\$250-\$999	\$0.1125	\$0.1075
\$1,000-\$2,499	\$0.1125	\$0.1075
\$2,500-\$4,999	\$0.1125	\$0.1075
\$5,000-\$9,999	\$0.1125	\$0.1075
\$10,000-\$19,999	\$0.1125	\$0.1075
\$20,000 +	\$0.1125	\$0.1075

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.10 Total Solution GoldSM Service (Cont'd)

4.4.10.4 Usage Charges (Cont'd)

.1 Inbound Calling Service

a. Shared - Per Minute Rates

Usage Per Month	1 Year	2 Year
\$0-\$249	\$0.1675	\$0.1625
\$250-\$999	\$0.1675	\$0.1625
\$1,000-\$2,499	\$0.1675	\$0.1625
\$2,500-\$4,999	\$0.1675	\$0.1625
\$5,000-\$9,999	\$0.1675	\$0.1625
\$10,000-\$19,999	\$0.1675	\$0.1625
\$20,000 +	\$0.1675	\$0.1625

b. Dedicated - Per Minute Rates

Usage Per Month	1 Year	2 Year
\$0-\$249	\$0.1125	\$0.1075
\$250-\$999	\$0.1125	\$0.1075
\$1,000-\$2,499	\$0.1125	\$0.1075
\$2,500-\$4,999	\$0.1125	\$0.1075
\$5,000-\$9,999	\$0.1125	\$0.1075
\$10,000-\$19,999	\$0.1125	\$0.1075
\$20,000 +	\$0.1125	\$0.1075

4.4.11 MFS IntelplanSM Service

4.4.11.1 Description

MFS IntelplanSM Service is a communications service that is available for use by residential customers twenty-four (24) hours a day. MFS IntelplanSM Service is offered in exchanges whereby the Customer's local telephone lines are presubscribed by the local exchange company (LEC) to the Company's MFS IntelplanSM Service, such that "1+ the 10-digit number" calls are automatically routed to the Company's network. Customers may originate MFS IntelplanSM Service from locations served by the Company, and may terminate in all locations within the State of South Dakota.

MFS IntelplanSM Service is a flat-rated calling plan that is non-distance sensitive for direct-dialed long distance calling. Charges are based on the time period (Peak/Off-peak) when the call is placed. Peak and Off-peak time periods are defined in below. Calls are billed in one-minute increments, with an initial billing period of one minute. A monthly recurring charge will apply to Customer accounts with usage (including Directory Assistance) of less than \$25.00. Customer accounts with usage in excess of \$500.00 per month will be assessed a surcharge, as specified in Section 5.3.4 following. The entire month's charges will be recalculated at the new rate level.

Directory Assistance and Operator Services are available to MFS IntelplanSM Service subscribers subject to the provisions of Sections 4.5 and 4.3.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.4 OTHER SERVICE ARRANGEMENTS (Cont'd)

4.4.11 MFS InteleplanSM Service (Cont'd)

4.4.11.2 Rate Periods

Peak and Off-Peak rate periods are as follows:

<u>Non-Holiday</u> <u>Rate Periods</u>	<u>From</u>	<u>To But Not</u> <u>Including</u>	<u>Days</u>
Peak	7:00 a.m.	7:00 p.m.	Mon-Fri
Off-Peak	7:00 p.m.	7:00 a.m.	Mon-Fri
All Hours	Sat-Sun		
All Hours	Holidays		

Holidays: On Christmas Day (Dec. 25), New Years Day (Jan. 1), Memorial Day, Independence Day (July 4), Labor Day (first Monday in Sept.) and Thanksgiving Day (fourth Thursday in Nov.) the Off-Peak Period rate applies unless a lower rate would normally apply.

4.4.11.3 Usage Charges

	<u>Peak</u>	<u>Off-Peak</u>
Per Minute Rates	\$0.3100	\$0.2300
	<u>Monthly</u> <u>Recurring</u>	
Per Account	\$3.00	
	<u>Surcharge</u>	
Per Minute	\$0.02	

4.5 COMPLEMENTARY SERVICES

4.5.1 DIRECTORY ASSISTANCE

4.5.1.1 Long distance Directory Assistance is available to Customers of any Company's switched services. The charge applies to each call regardless of whether the Directory Assistance Bureau is able to furnish the requested telephone number. Up to two requests may be made on each Directory Assistance call.

4.5.1.2 A credit allowance for a Directory Assistance call will be provided if the Customer experiences poor transmission quality, receives an incorrect telephone number, or inadvertently misdials the intended Directory Assistance number.

4.5.1.3 Directory Assistance charges will be included with other usage charges toward satisfying minimum usage requirements for all services.

4.5.1.4 Usage Charges - Per call charges for Directory Assistance will be no more than \$.72 per call.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.6 PROMOTIONAL OFFERINGS - Certain promotional offerings may be provided from time to time via this tariff. These promotional offerings may only apply to certain services, and may be limited to certain dates, times, and locations.

4.6.1 Home Advantage Promotion - Until further notice, Company will offer, to new customers of its Home Advantage Service, a waiver of the monthly recurring charges, regardless of the customer's total monthly usage.

4.6.2 Bottom Line Business Promotion - Available from June 27, 1997 through August 31, 1997, the Company will offer new small business customers, either month-to-month or Term, a discounted switched flat rate schedule that will apply to both outbound and inbound intrastate calls. Customers can receive this discounted rate month-to-month or sign a Term Agreement of one (1) year. Written notice of intent to cancel the Term Agreement must be given thirty (30) days prior to the end of the term; Customers who do not formally cancel this service will be automatically renewed for another one (1) year term. Calls will be billed in thirty (30) second initial increments and rounded to the next higher six (6) second increment. No other discounts apply under this offer and this offer cannot be combined with any other promotions and/or offers unless specified by the Company.

	Base Rates Month-to-Month	Base Rates 1 - Year Term
Switched Outbound/Inbound	\$0.1450	\$0.1450
Per toll free Number Per Month		\$ 3.00

Termination Penalty

If the termination becomes effective prior to the completion of the first year of the Customer commitment period, then the charge shall be an amount equal to the monthly volume threshold (\$100) times the number of months remaining in the customer commitment period through the expiration of the first year.

A customer who cancels his agreement prior to its expiration will be required to repay any promotional credits that were applied, in addition to other termination charges as noted above.

A customer may cancel or discontinue service prior to the expiration of term without liability if Customer orders new service with a length of term equal to or exceeding the total original term length. The former service will terminate on the start date of the new service.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.6 PROMOTIONAL OFFERINGS (Cont'd)

4.6.3 USAdvantage Promotion

Through October 31, 1997, the Company will offer existing small business customers of switched service, who are willing to sign a 1 or 2 year Term Agreement and commit to a specific monthly dollar amount, a discounted flat rate schedule that will apply to both inbound and outbound intrastate calls. In addition, there will be a monthly fee per toll free number. The minimum monthly usage levels that will apply under this promotion are \$250.00, \$500.00, \$1,000.00 and \$1,500.00. Customers must meet the minimum usage threshold each month depending on the level the customer chooses.

When the Customer has completed the term commitment, service will automatically be renewed for additional term(s) of the agreement unless the Company has received the Customer's written notice to terminate the service on not less than thirty (30) days prior to the then existing term expiration date. Customers who terminate service prior to the end of the term in any manner other than stated will be liable for a service termination charge of the following, unless Customer converts to another Company service with equal or greater term and minimum billing commitment:

1. if the termination becomes effective prior to the completion of the first year of the Customer Term, then the charge shall be an amount equal to the monthly billing commitment times the number of months remaining in the term through the expiration of the first year.
2. if the termination becomes effective after the completion of the first year, then the charge shall be an amount equal to twenty-five percent (25%) of the balance remaining (monthly billing commitment times the number of months remaining in the Term.)

Calls will be billed in thirty (30) second initial increments and rounded to the next higher six (6) second increment. All fractional per call charges will be rounded to the nearest whole cent. No other discounts apply under this offer and this offer cannot be combined with any other promotions and/or offers unless specified by the Company.

Switched Outbound/Inbound Per minute rates

	<u>1 Year</u> <u>Term</u>	<u>2 Year</u> <u>Term</u>	<u>Toll Free #</u> <u>Charge</u>
All Levels	\$0.1450	\$0.1450	\$3.00/number

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

4. SERVICE DESCRIPTIONS AND CHARGES (Cont'd)

4.6 PROMOTIONAL OFFERINGS (Cont'd)

4.6.4 Home State Saver Promotion

Through October 31, 1997, the Company will offer existing small business customers of switched service, billing monthly between \$250.00 and \$2,000.00, who are willing to sign a 1 or 2 year Term Agreement a discounted flat rate schedule that will apply to both inbound and outbound intrastate calls. In addition, there will be a monthly fee per toll free number.

When the Customer has completed the term commitment, service will automatically be renewed for additional term(s) of the agreement unless the Company has received the Customer's written notice to terminate the service on not less than thirty (30) days prior to the then existing term expiration date. Customers who terminate service prior to the end of the term in any manner other than stated will be liable for a service termination charge of the following, unless Customer converts to another Company service with equal or greater term:

1. if the termination becomes effective prior to the completion of the first year of the Customer Term, then the charge shall be an amount equal to \$250.00 times the number of months remaining in the term through the expiration of the first year.
2. if the termination becomes effective after the completion of the first year, then the charge shall be an amount equal to twenty-five percent (25%) of \$250.00 times the number of months remaining in the Term.

Calls will be billed in thirty (30) second initial increments and rounded to the next higher six (6) second increment. All fractional per call charges will be rounded to the nearest whole cent. No other discounts apply under this offer and this offer cannot be combined with any other promotions and/or offers unless specified by the Company.

Switched Outbound/Inbound Per Minute Rates

<u>1 Year</u> <u>Term</u>	<u>2 Year</u> <u>Term</u>	<u>Toll Free #</u> <u>Charge</u>
\$0.1300	\$0.1200	\$3.00/number

4.7 MISCELLANEOUS CHARGES

4.7.1 SUMMARY REPORT CHARGE

The charge listed below applies in addition to the regular monthly invoice for business customers that receive any type of summary reports. The per month charge is applicable regardless of the number of reports selected by the customer. These reports include, but are not limited to, Call Summary, Area Code Summary, Account Code Summary, Auth/ANI Summary, Toll Free Product Type, Toll Free Summary by Date, Long Call Summary, Frequent # Summary, Executive Summary, PAC by Auth Summary, LATA Summary, Department Summary, Department/Division, International Summary, Long Call Minutes and Frequent Called Number Threshold. However, the Customer may choose either the Caller ReCap Summary or Traffic Management Summary at no additional charge.

Summary Report Charge \$1.00 per month

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

5. GRANDFATHERED SERVICES

Services listed in this section are available to previously existing Customers only.

5.1 PERFORMANCE SERVICES

5.1.1 Performance 2000 Services

5.1.1.1 Description - This service offering allows the Customer to select outward, inward and/or travel service arrangements as provided below and to obtain Performance 2000 Term Plan discounts. The Performance 2000 services consist of three levels: Level I - no per invoice billing commitment; Level II - \$1,500 per invoice billing commitment or the Customer is charged the difference; and Level III - \$4,500 per invoice billing commitment or the Customer is charged the difference. Level I service is limited to the OnePlus, Toll Free and Calling Card service arrangements. Calls may be originated and/or terminated via Company switched facilities. Outbound calls may be terminated to any point within the United States. Inbound calls may originate from any point within the contiguous United States and Canada.

5.1.1.2 Service Arrangements

.1 Performance 2000 One Plus - This service option is an outward calling switched access service arrangement available to Customers who presubscribe to the Company's service. Usage rates are time-of-day sensitive. Calls are billed in six second increments.

.2 Performance 2000 Toll Free - This service option is an inward calling termination arrangement available via switched and dedicated access facilities. Usage rates are time-of-day sensitive. Calls are billed in six second increments. A minimum average time requirement (MATR) of thirty seconds per call applies during a billing period. Toll Free Service number charges apply as described in the same section.

.3 Performance 2000 Calling Card - This service option is an outward calling switched access arrangement which allows a Customer to originate calls through use of a Company calling card via a Toll Free Universal Access Number. Usage rates are time-of-day sensitive. Calls are billed in one minute increments.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

5. GRANDFATHERED SERVICES (Cont'd)

5.1 PERFORMANCE SERVICES (Cont'd)

5.1.1 Performance 2000 Services (Cont'd)

5.1.1.3 Per Minute Domestic Rates:

	<u>Mileage Bands</u>	<u>Peak</u>	<u>Off-Peak</u>
Level I One Plus	All	\$.2600	\$.2267
Level I Toll Free:			
Switched	All	\$.3472	\$.3472
Level I Calling Card*	All	\$.2500	\$.2500
Level II One Plus	All	\$.2600	\$.2267
Level II Toll Free:			
Switched	All	\$.3400	\$.3400
Level II Calling Card*	All	\$.2500	\$.2500
Level III One Plus	All	\$.2600	\$.2267
Level III Toll Free:			
Switched	All	\$.3400	\$.3400
Level III Calling Card*	All	\$.2500	\$.2500

* A \$0.25 surcharge applies to each call.

5.1.1.4 Rate Periods - Peak rates apply weekdays between 7:00 a.m. to 7:00 p.m. Off-peak rates apply to all other times and on holidays.

5.1.2 Performance 4000 Services

5.1.2.1 Description - Performance 4000 Service offers a unified service for single or multi-location customers using both switched and dedicated inbound and outbound service, a calling card and international service. Performance 4000 has been designed especially for the larger customer billing over \$7,500 a month, with the availability of peak and off-peak rates, calling card services and offering a discount for customers willing to sign a term commitment of either twelve (12), twenty-four (24) or thirty-six (36) months and/or a willingness to commit to a specific dollar volume of monthly minimum usage. There are five (5) levels of Performance 4000 which are described as follows:

- Level I - Requires a monthly minimum billing commitment of \$7,500; if the minimum is not reached the customer is charged the difference.
- Level II - Requires a monthly minimum billing commitment of \$15,000; if the minimum is not reached the customer is charged the difference.
- Level III - Requires a monthly minimum billing commitment of \$25,000; if the minimum is not reached the customer is charged the difference.
- Level IV - Requires a monthly minimum billing commitment of \$50,000; if the minimum is not reached the customer is charged the difference.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

5. GRANDFATHERED SERVICES (Cont'd)

5.1 PERFORMANCE SERVICES (Cont'd)

5.1.2 Performance 4000 Services (Cont'd)

5.1.2.1 Description (Cont'd)

Level V - Requires a monthly minimum billing commitment of \$75,000; if the minimum is not reached the customer is charged the difference.

Multiple services and/or multiple locations using Performance 4000's services can contribute to the overall monthly minimum commitment. Domestic Toll Free, Domestic and International outbound calls contribute to determining monthly minimum usage. Operator Services usage is not included in determining monthly minimum usage.

Customers must reach the minimum monthly usage requirement associated with their selected Performance 4000 Level by the fourth invoice period and monthly thereafter.

Peak and off peak rates, rate periods and billing increments can be found in following. Performance 4000 Services for intrastate use are sold as an add-on service to the Company's interstate Performance 4000 Services. Accordingly, recurring and non-recurring charges are found in the Company's interstate tariff, FCC No. 2, Section 6.3.1..

5.1.2.2 Performance 4000 Term Plan - Performance 4000 Services are available to customers through a Term Plan option if the customer agrees to commit to such service for a term of twelve (12), twenty-four (24) or thirty-six (36) months. Customers who elect the Term Plan Option will receive a discount off their selected option's domestic rates. Customers who elect the Performance 4000 Term Plan option are subject to the following:

.1 Customers must indicate what Performance 4000 Level is to be included in the term plan. The rates provided under this option become effective with the first full month's usage.

.2 Customers who fall below the monthly minimum usage requirement for the plan selected will be billed the difference between actual usage and the monthly minimum required.

.3 Customers who terminate service prior to the end of the term of commitment will be billed a termination liability consisting of the monthly minimum of the selected plan option multiplied by the number of months remaining in the commitment, due and payable upon termination in a lump sum. This charge will not apply to customers who convert from a Performance 4000 service to another Company service with equal or greater term and minimum usage requirement commitments.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

5. GRANDFATHERED SERVICES (Cont'd)

5.1 PERFORMANCE SERVICES (Cont'd)

5.1.2 Performance 4000 Services (Cont'd)

5.1.2.2 Performance 4000 Term Plan (Cont'd)

.4 All customer requests to commence or terminate a Performance 4000 Term Plan must be made in writing to Company and received no later than thirty (30) days prior to the then existing term expiration date. If such notification is not received by Company within this timeframe, the Performance Term Plan agreement will be automatically renewed for a new term of commitment. The customer has ninety (90) days from the date service is made available in which to notify Company in writing of the customer's desire to cancel this agreement without further obligation.

.5 Performance 4000 Term Plan is not available with Operator Services, Ultimate Call Manager, other Fixed Period Discount Plans or any promotions not associated with this plan.

5.1.2.3 Usage Charges

.1 Rate Periods

Peak

All calls that occur between 7 A.M. through 7 P.M. Monday through Friday, except on Company recognized holidays.

Off Peak

All calls that occur between 7:01 P.M. through 6:59 A.M. Monday through Thursday, and all calls between 7:01 P.M. Friday and 6:59 A.M. Monday and Company-recognized holidays.

.2 Billing Increments - Performance 4000 Services are billed in six (6) second initial increments and are rounded to the next higher six (6) second increment. A minimum average time requirement (MATR) of thirty (30) seconds per call applies during a billing period for switched outbound and calling card. Performance 4000 Calling Card is billed at an initial sixty (60) second increment and rounded to the next higher sixty (60) second increment thereafter.

.3 Per Minute Rate Schedules - Performance 4000 Level I and II Customers will receive the following rates:

a. Switched Per Minute Rate

	Month to Month	12 Month Term	24/36 Month Term
Outbound	\$.1550	\$.1500	\$.1450
Inbound	\$.1650	\$.1500	\$.1450

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

5. GRANDFATHERED SERVICES (Cont'd)

5.1 PERFORMANCE SERVICES (Cont'd)

5.1.2 Performance 4000 Services (Cont'd)

5.1.2.3 Usage Charges (Cont'd)

.3 Per Minute Rate Schedules (Cont'd)

b. Dedicated Per Minute Rate

	Month to Month	12 Month Term	24/36 Month Term
Outbound	\$.1100	\$.1050	\$.1000
Inbound	\$.1200	\$.1050	\$.1000

Performance 4000 Levels III, IV, and V Customers will receive a 5% discount of the rates listed in (1) and (2).

NOTE: Product is sold in conjunction with interstate basis. Customers will receive additional discounted rates depending on the level chosen by the Customer.

5.1.2.4 Performance 4000 Calling Card Service

.1 Direct Dial Rate Schedule - Per Minute Rates applying to all time periods and Levels:

Month to Month Rate:	\$.2500
12, 24 or 36 Month Term Plan Rate:	\$.2500

.2 Billing Increments - Usage is billed at an initial sixty (60) second increment and rounded to the next higher sixty (60) second increment thereafter.

.3 Per Call Surcharge - The following per call surcharge will apply to all calling card calls in addition to the per minute rates listed above.

\$0.25

5.2 EASYANSWER SERVICES

5.2.1 Basic EasyAnswer Service

5.2.1.1 Description - Basic EasyAnswer Service offers a unified service for single or multi-location Customers using switched, dedicated, and OnLine calling card origination and switched or dedicated toll free (in WATS) termination. The Basic EasyAnswer package includes the availability of outbound, inbound (toll free) and calling card services, and offering a discount on outbound and toll free service for Customers willing to sign a term commitment and/or a willingness to commit to a specific dollar volume of monthly minimum usage. Rates, rate periods and billing increments can be found in this section.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

5. GRANDFATHERED SERVICES (Cont'd)

5.2 EASYANSWER SERVICES (Cont'd)

5.2.1 Basic EasyAnswer Service (Cont'd)

5.2.1.1 Description (Cont'd)

There are three (3) Options of Basic EasyAnswer available to Customers, each of which are described below:

- Option 1 - Requires no monthly minimum billing commitment.
- Option 2 - Requires a monthly minimum billing commitment of \$1,000; if the minimum is not reached, the Customer is charged for the difference.
- Option 3 - Requires a monthly minimum billing commitment of \$5,000; if the minimum is not reached, the Customer is charged for the difference.

Multiple services and/or multiple locations using Basic EasyAnswer's services can contribute to the overall monthly minimum commitment; however, the Customer must allocate the minimum by service and location. Domestic Toll Free, Domestic and International outbound calls contribute to determining monthly minimum usage. Easy OnLine Calling Card, Easy Calling Card Option A, Operator Services and Directory Assistance usage is not included in determining monthly minimum usage.

Customers must reach the minimum monthly usage requirement associated with their selected Basic EasyAnswer Option by the fourth invoice period and monthly thereafter.

5.2.1.2 Usage Charges

.1 Rate Periods

Peak

All calls that occur between 7 A.M. through 7 P.M. Monday through Friday, except on Company recognized holidays.

Off Peak

All calls that occur between 7:01 P.M. through 6:59 A.M. Monday through Thursday, and all calls between 7:01 P.M. Friday and 6:59 A.M. Monday and Company-recognized holidays.

.2 Billing Increments - Basic EasyAnswer Services are billed in six (6) second initial increments and are rounded to the next higher six (6) second increment (except International, which is billed in thirty (30) second initial increments and is rounded to the next higher six (6) second increment). Easy OnLine Calling Card is billed at an initial sixty (60) second increment and rounded to the next higher six (6) second increment thereafter. Easy Calling Card Option A is billed at an initial sixty (60) second increment and rounded to the next higher sixty (60) second increment thereafter.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

5. GRANDFATHERED SERVICES (Cont'd)

5.2 EASYANSWER SERVICES (Cont'd)

5.2.1 Basic EasyAnswer Service (Cont'd)

5.2.1.2 Usage Charges (Cont'd)

.3 Per Minute Rate Schedule - Basic EasyAnswer Services - Per minute intrastate base rates for Basic EasyAnswer Services are the same for all Options (1, 2 & 3) and apply as shown below:

a. Switched Per Minute Rates

Peak/Off-Peak

Outbound	\$.1589
Inbound	\$.1691

b. Dedicated Per Minute Rates

Peak/Off-Peak

Outbound	\$.1128
Inbound	\$.1230

5.2.1.3 Easy OnLine Calling Card Service

.1 Direct Dial Rate Schedule

a. Per Minute Rates applying to all time periods:

\$.2500

b. Billing Increments - Usage is billed at an initial sixty (60) second increment and rounded to the next higher six (6) second increment thereafter.

c. Per Call Surcharge

(1) For domestic direct dial calls, a \$0.65 surcharge will apply to each call.

(2) The following rates and surcharge will apply to calls which default to a live operator.

Rate Per Minute:	
Peak	\$0.23
Off-Peak	\$0.16

Per call Surcharge	\$0.65
--------------------	--------

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

5. GRANDFATHERED SERVICES (Cont'd)

5.2 EASYANSWER SERVICES (Cont'd)

5.2.1 Basic EasyAnswer Service (Cont'd)

5.2.1.3 Easy OnLine Calling Card Service (Cont'd)

.2 Online Operator Assisted Rate Schedule - If a Customer chooses to access an Operator to place a call, the call will be billed at per minute rates (Dial USA) as provided in Section 4.1.2.2.

a. Billing Increments - All Easy OnLine Calling Card calls placed with the assistance of an operator will be billed in one (1) minute increments.

b. Per Call Surcharges - The following surcharge will apply in addition to per minute rates.

Per Call Charge

Station-to-Station	\$1.50
Person-to-Person	\$3.00

.3 Easy Calling Card Option A Service

a. Direct Dial Rate Schedule

(1) Per Minute Rates applying to all time periods:

\$.2500

(2) Billing Increments - Usage is billed at an initial sixty (60) second increment and rounded to the next higher sixty (60) second increment thereafter.

(3) Per Call Surcharge - There is no Per Call Surcharge on domestic direct dial calls. The following rates and surcharge will apply to calls which default to a live operator.

Rate Per Minute:	
Peak	\$0.23
Off-Peak	\$0.16
Per call Surcharge	\$0.65

5.2.1.4 Basic EasyAnswer Services for intrastate use are sold as an add-on service to the Company's interstate EasyAnswer Services. Accordingly, recurring and non-recurring charges are found in the Company's interstate tariff FCC No. 2, Section 6.3.1..

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

5. GRANDFATHERED SERVICES (Cont'd)

5.2 EASYANSWER SERVICES (Cont'd)

5.2.1 Basic EasyAnswer Service (Cont'd)

5.2.1.5 Basic EasyAnswer Term Plan

Basic EasyAnswer Services are available to Customers through a Term Plan option if the Customer agrees to commit to such service for a term of twelve (12), twenty-four (24) or thirty-six (36) months. Customers who elect the Term Plan option will receive a discount off their selected Option's domestic interstate, and intrastate outbound and toll free rates. This discount will apply to Basic EasyAnswer's peak interstate rates and all time periods for intrastate rates. Customers who elect the Basic EasyAnswer Term Plan option are subject to the following:

.1 Customers must indicate what Basic EasyAnswer service or services are to be included in the term plan. The discounts provided under this option become effective with the first full month's usage.

.2 Customers who terminate service prior to the end of the term of commitment in any manner other than stated in d. following, will be liable for a cancellation penalty equal to the number of months remaining in the term then in effect multiplied by: (1) \$200 per month for switched services; or, (2) \$500 per month for dedicated services (per service type). The foregoing cancellation penalty will apply unless the Customer immediately converts to another Company service with equal or greater term and minimum usage requirement commitments, and the Customer continues to use such Company Service for a period of months equal to or greater than the number of months remaining in the term during which the conversion takes place.

.3 All Customer requests to commence or terminate a Basic EasyAnswer Term Plan must be made in writing, either by certified or registered mail (return receipt requested), to Company and received no later than thirty (30) days prior to the then existing term expiration date. If such notification is not received by Company within this timeframe, the Basic EasyAnswer Term Plan agreement will be automatically renewed for a new term of commitment. The Customer has ninety (90) days from the date service is made available in which to notify Company in writing, either by certified or registered mail (return receipt requested), of the Customer's desire to cancel this agreement without further obligation.

.4 Easy OnLine Calling Card and Easy Calling Card Option A usage is excluded from the Basic EasyAnswer Term Plan discounts.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

5. GRANDFATHERED SERVICES (Cont'd)

5.2 EASYANSWER SERVICES (Cont'd)

5.2.1 Basic EasyAnswer Service (Cont'd)

5.2.1.5 Basic EasyAnswer Term Plan (Cont'd)

.5 Basic EasyAnswer Term Plan Discounts

Term	Outbound Discount	Toll Free Discount
12 Months	\$.0050	\$.0150
24 & 36 Months	\$.0100	\$.0200

5.2.2 EasyAnswer Association

The EasyAnswer Association program is a benefit package which allows the individual users who are members or employees of the participating organization to receive additional product discounts. Members who elect to participate in the EasyAnswer Association program will receive Basic EasyAnswer products, and Easy OnLine Calling Card Service or Easy Calling Card Option A Service.

To qualify for EasyAnswer Association an organization generally must be a: (1) Trade association representing businesses or individuals in an industry, profession or business classification; (2) Business with franchises, agents, distributors, or multiple representatives; (3) Non profit organization, or; (4) Buying group not organized merely to buy Company long distance for resale. The qualifying organization agrees to meet the following set of criteria within (6) months of undertaking to qualify and thereafter maintain them, and enters into a written agreement with Company for the marketing of Company's services. The group's members who have subscribed to Company's services throughout the group must have aggregate billings, net of taxes; promotional credits and surcharges of at least \$5,000 per month.

Company will render monthly statements to the individual members and the statement received will show all appropriate discounts. All sums due from members are the sole property of Company, and Company shall have the sole right to collect, enforce collection and settle such sums. The EasyAnswer Association member group shall receive a monthly report from Company listing members of the group who subscribe to Company service under this program.

Unless otherwise specified in this tariff, member's usage of Company service under this plan cannot be used to qualify for any other benefits under this tariff or under other arrangements between Company and third parties who undertake to market Company's services. Association discounts for Basic EasyAnswer are outlined in this section.

EasyAnswer Association members will receive a 5% discount on interstate and intrastate usage, peak and off-peak time periods for monthly and one (1) year term plan Customers. Association members who sign up for a two (2) year term plan will receive the same discounts as non-Association Customers.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

5. GRANDFATHERED SERVICES (Cont'd)

5.3 "THE ANSWER" FAMILY OF SERVICES

5.3.1 Description - "The Answer" is a family of service offerings that offers a unified service for single or multi-location Customers using switched, dedicated, and OnLine card origination and switched or dedicated toll free (in WATS) termination. "The Answer" package includes the availability of switched and dedicated access termination with peak and off peak rates, volume discounts, accounting codes, call detail, and a consolidated invoice for all locations. Peak and off peak rates and volume discounts can be found in Section 4.5.6.2.. Optional features are described in the Company's Domestic Tariff. All fractional per call charges will be rounded to the nearest whole cent.

"The Answer" I is available as an outgoing switched product with origination via PGD, equal access lines. "The Answer" II is available as an outgoing dedicated product via Customer-provided dedicated access line (DAL) or T-1 access. "The Answer" III is an toll free product via regular business lines. "The Answer" IV is an toll free product via Customer-provided dedicated access line (DAL) or T-1 service. "The Answer" V OnLine World Calling Card is available as a calling card service.

5.3.2 Usage Charges

5.3.2.1 Rate Periods

Peak

All calls that occur between 7 A.M. through 7 P.M. Monday through Friday, except on Company-recognized holidays.

Off Peak

All calls that occur between 7:01 P.M. through 6:59 A.M. Monday through Thursday, and all calls between 7:01 P.M. Friday and 6:59 A.M. Monday and Company-recognized holidays.

5.3.2.2 Billing Increments - "The Answer" products are billed in six (6) second initial increments and are rounded to the next higher six (6) second increment (except International, which is billed in thirty (30) second initial increments and is rounded to the next higher six (6) second increment). "The Answer" V OnLine World Calling Card usage is billed at an initial sixty (60) second increment and rounded to the next higher six (6) second increment thereafter.

5.3.2.3 Per Minute Rate Schedule - "The Answer" I, II, III & IV - Per minute rates apply as shown below. In addition, a volume discount will apply to each month's total Peak usage as specified below.

<u>"The Answer" I</u>		<u>"The Answer" III</u>	
<u>Peak</u>	<u>Off Peak</u>	<u>Peak</u>	<u>Off Peak</u>
\$0.1905	\$0.1524	\$0.2236	\$0.1789
<u>"The Answer" II</u>		<u>"The Answer" IV</u>	
<u>Peak</u>	<u>Off Peak</u>	<u>Peak</u>	<u>Off Peak</u>
\$0.1273	\$0.1019	\$0.1616	\$0.1293

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

5. GRANDFATHERED SERVICES (Cont'd)

5.3 "THE ANSWER" FAMILY OF SERVICES (Cont'd)

5.3.3 "The Answer" V - OnLine World Calling Card Service

5.3.3.1 Direct Dial Rate Schedule

.1 Per Minute Rates (\$)

<u>Time of Day</u>	<u>Rate Per Minute</u>
Peak	\$0.2500
Off-Peak	\$0.2500

.2 Billing Increments - Usage is billed at an initial sixty (60) second increment and rounded to the next higher six (6) second increment thereafter.

.3 Per Call Surcharge - The following surcharge will apply in addition to the per minute rates found in (a) above.

Per Call Surcharge \$0.65

The following surcharge is in addition to the per minute rates found in (a) above and will apply to calls which default to a live operator.

Per call Surcharge \$0.65

5.3.3.2 "The Answer" V - Online Operator Assisted Rate Schedule - If a Customer chooses to access an Operator to place a call, the call will be billed at per minute rates (Dial USA) as provided in Section 4.1.2.2.

.1 Billing Increments - All OnLine "Answer" calling card calls placed with the assistance of an operator will be billed in one (1) minute increments.

.2 Per Call Surcharges - The following surcharge will apply in addition to per minute rates.

Per Call Charge

Station-to-Station	\$1.50
Person-to-Person	\$3.00

5.3.4 Volume Discount - A volume discount will apply to each month's total domestic Peak usage as specified below and is calculated on a retroactive amount basis. Total intrastate, interstate and international usage for all Answer products of the same term length may be combined to reach the appropriate discount level. "The Answer" V OnLine World Calling Card calls are added to the total of monthly usage to determine the appropriate discount. Off peak usage and International usage contribute to volume discount but are not eligible for discount.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

5. GRANDFATHERED SERVICES (Cont'd)

5.3 "THE ANSWER" FAMILY OF SERVICES (Cont'd)

5.3.4 Volume Discount (Cont'd)

Usage Level (\$)		----- % Discount ----- "Answer" I, II, III or IV and/or "Answer" V OnLine Card
\$ 0 - \$	249.99	0%
\$ 250 - \$	999.99	5%
\$ 1,000 - \$	2,499.99	7%
\$ 2,500 - \$	4,999.99	9%
\$ 5,000 - \$	7,499.99	11%
\$ 7,500 - \$	9,999.99	13%
\$10,000 - \$24,999.99		15%
\$25,000 - \$49,999.99		17%
\$50,000 plus		19%

5.3.5 "The Answer" Extended Service Plan ("ESP") - "The Answer" services are available to Customers through an Extended Service Plan ("ESP") option if the Customer agrees to commit to such service for a term of twelve (12), twenty-four (24), or thirty-six (36) months and to generate a minimum monthly gross usage as outlined below. Customers who elect the Answer ESP option are subject to the following:

5.3.5.1 Customers must indicate what Answer service or services are to be included in the ESP. The discounts provided under this option become effective with the first full month's usage.

5.3.5.2 Customers must reach the minimum usage requirement associated with each Answer ESP option by the fourth invoice period and monthly thereafter.

5.3.5.3 Customers who do not generate the monthly minimum required in a given month will be billed the monthly minimum in lieu of the actual usage for that month. No discounts will be applied if usage does not reach required ESP option monthly minimum.

5.3.5.4 Customers who terminate service prior to the end of the term of commitment will be billed the minimum usage requirement times the number of full or partial months remaining in the term in one lump sum. This charge will not apply to Company Answer Customers who convert from an Answer service to another Company service with equal or greater term and minimum requirement commitments.

5.3.5.5 All Customer requests to commence or terminate an Answer ESP must be made in writing to Company and received no later than the last day of the month preceding the month in which the desired action is to take effect. The Customer must provide written notification to cancel the ESP which must be received by Company not less than 30 days prior to the expiration of the term commitment. If such notification is not received by Company within this timeframe, the Answer ESP agreement will be automatically renewed for a new term of commitment.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

5. GRANDFATHERED SERVICES (Cont'd)

5.3 "THE ANSWER" FAMILY OF SERVICES (Cont'd)

5.3.5 "The Answer" Extended Service Plan ("ESP") (Cont'd)

5.3.5.6 Customers who elect ESP for "The Answer" I or III must meet the minimum usage requirement of \$250 per month per account for each service. Customers who elect ESP for "The Answer" II or IV must meet the minimum usage requirement of \$1,000 per month per account for each service. A minimum commitment does not apply to the "The Answer" V OnLine World Calling Card service.

5.3.5.7 Customers who subscribe to "The Answer" through an ESP option will receive the following discounts in lieu of those described in Section 5.3.4.

5.3.5.8 This additional discount is applied to all usage and is given only to Customers who have met the monthly minimum usage requirement.

5.3.5.9 Total intrastate, interstate and international usage contributes to discount level, including "The Answer" V - OnLine World Calling Card usage. Directory Assistance calls are not added to the total of monthly usage to determine the appropriate discount nor are they discounted.

5.3.5.10 The method of calculation to determine the ESP discount is explained below.

"The Answer" I, II, III, IV
or "The Answer" V OnLine Calling Card

----- % Discount -----

Monthly Usage (\$)	12 Month ESP		24 Month ESP		36 Month ESP	
	Peak	Off Peak	Peak	Off Peak	Peak	Off Peak
\$ 0 - \$ 249.99	0%	0%	0%	0%	0%	0%
\$ 250 - \$ 999.99	12%	7%	15%	10%	17%	12%
\$ 1,000 - \$ 2,499.99	14%	7%	17%	10%	19%	12%
\$ 2,500 - \$ 4,999.99	16%	7%	19%	10%	21%	12%
\$ 5,000 - \$ 7,499.99	18%	7%	21%	10%	23%	12%
\$ 7,500 - \$ 9,999.99	20%	7%	23%	10%	25%	12%
\$10,000 - \$24,999.99	22%	7%	25%	10%	27%	12%
\$25,000 - \$49,999.99	24%	7%	27%	10%	29%	12%
\$50,000 plus	26%	7%	29%	10%	31%	12%

5.3.5.11 Method of Calculation for ESP Discount - Determine the total monthly usage (all domestic, international and Answer OnLine usage combined). Refer to the appropriate term period. The discount percentage will apply to all domestic Peak usage, including "The Answer" V OnLine Calling Card usage.

5. GRANDFATHERED SERVICES (Cont'd)

5.4 ASSOCIATION SAVER

5.4.1 The Association Saver Program is a benefit package which allows the individual users who are members or employees of the participating organization to receive additional product discounts. Members who elect to participate in the Association Saver program will receive Answer Products and OnLine Calling Service.

5.4.2 To qualify for association saver an organization generally must be a : (1) Trade association representing businesses or individuals in an industry, profession or business classification; (2) Business with franchises, agents, distributors, or multiple representatives; (3) Non profit organization, or; (4) Buying group not organized merely to buy Company long distance for resale. The qualifying organization agrees to meet the following set of criteria within six (6) months of undertaking to qualify and thereafter maintain them, and enters into a written agreement with Company for the marketing of Company's services. The group's members who have subscribed to Company's services throughout the group must have aggregate billings, net of taxes; promotional credits and surcharges of at least \$5,000 per monthly.

5.4.3 Discounts Applicable to "The Answer": Group members who subscribe to Answer I or III products (to include a twelve or twenty-four month "ESP" term commitment) will receive a five (5%) percent discount of Answer usage up to \$2500.00. Group members who subscribe to Answer II or IV products will receive the following rates: (1) members who elect no term commitment will receive term rates applicable to a twelve-month "ESP" term commitment; (2) members who commit to a twelve-month "ESP" term will receive term rates applicable to a twenty-four month "ESP" term commitment; and (3) members who commit to a twenty-four month "ESP" term will receive term rates applicable to a thirty-six month "ESP" term commitment.

5.4.4 Company will render monthly statements to the individual members and the statement received will show all appropriate discounts. All sums due from members are the sole property of Company, and Company shall have the sole right to collect, enforce collection and settle such sums. The Association Saver member group shall receive a monthly report from Company listing members of the group who subscribe to Company service under this program.

5.5 PREPAID CARD SERVICE

5.5.1 Description - Prepaid Card Service is a switched service that enables an end-user to place calls charged to prepaid phone cards issued by Company. The end-user accesses the network by dialing the appropriate Company toll free number printed on the back of the card. Six toll free numbers are available and each number prompts the end-user in a different language: Chinese, English, French, Japanese, Portuguese, Spanish and German.

The Prepaid Card is available in 10, 20, 50, 100 and 200 unit (minute) denominations. The 10 unit (minute) denomination cards are subject to a per card surcharge of \$0.20. The number of available Company Prepaid Cards is subject to technical limitations.

5. GRANDFATHERED SERVICES (Cont'd)

5.5 PREPAID CARD SERVICE (Cont'd)

5.5.1 Description (Cont'd)

Company is not liable or responsible for theft, loss or unauthorized use of cards or card numbers. Company will not refund or issue credit on unused units (minutes) of the Prepaid Card. The Customer(s) of Prepaid Card Service is solely responsible for payment of all applicable federal, state or local use, excise, sales or privilege taxes, duties or any similar fees that may be assessed by any governmental body or regulatory authority in connection with the service.

5.5.1.1 Availability - Prepaid Card Service is available 24 hours a day, 7 days a week. Card availability is limited and shall be handled on a first come, first served basis. Prepaid Card Service can be accessed through touchtone telephones only. 900 calls cannot be made on the Prepaid Card.

5.5.1.2 Card Depletion/Renewal or Expiration - Each time the card is used, the end-user hears a message stating the amount of minutes remaining on the card. Sixty (60) seconds prior to the card being depleted, the user hears a warning announcing the time remaining on the card and a reminder tone 30 seconds thereafter. If the end user is holding a re-usable card, the user can extend the value of the card in increments identified via voice prompt by charging the cost of additional increments on an authorized major credit card. The system will prompt the user through the processes necessary to purchase these additional increments on the phone card. An online credit check will be done to ensure available credit.

Each Prepaid Card will expire twelve (12) months following printing of the cards. If the card is purchased wholesale the customer will be given an additional three (3) month period in which to sell the cards ordered prior to the beginning of the twelve (12) month period.

5.5.2 Usage Charges

5.5.2.1 The customer may obtain Prepaid Cards as a one-time purchase with full payment due upon delivery. The minimum purchase is 10,000 units. Prepaid Cards will be sold at prices rounded to the nearest cent. The rates and volume discounts are as follows:*

<u>Units</u>	<u>Rate per Unit</u>
10,000 - 24,999	\$.280
25,000 - 49,999	.260
50,000 - 99,999	.240
100,000 - 249,999	.220
250,000 - 349,999	.200
350,000 - 499,999	.190
500,000 - 749,999	.180
750,000 - +	.175

Issued:

Issued by: Charles J. Cardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

5. GRANDFATHERED SERVICES (Cont'd)

5.5 PREPAID CARD SERVICE (Cont'd)

5.5.2 Usage Charges (Cont'd)

5.5.2.2 The customer may obtain Prepaid Cards with a one or two year commitment with payment due upon delivery of each order. The minimum purchase is 100,000 units and the purchase must be ordered in 50,000 unit increments or more over the 12-month or 24-month period. Prepaid Cards will be sold at prices rounded to the nearest cent. The rates and volume discounts are as follows:*

<u>Units</u>	<u>Rate per Unit</u>	
	<u>1-Yr Term</u>	<u>2-Yr Term</u>
100,000 - 249,999	\$.230	\$.240
250,000 - 499,999	.210	.220
500,000 - 749,999	.190	.200
750,000 - +	.180	.190

* The ten unit (minute) denomination cards are subject to a per card surcharge of \$0.20.

5.5.2.3 Cards will be decreased by 1 unit per minute for Intrastate calls and 2 units per minute for Directory Assistance.

5.6 MFS Intelnet Calling Card Service

5.6.1 Description

MFS Intelnet Calling Card Service is provided to Customers for use when away from their established service location. New customers of the Company's interexchange services will automatically be issued two calling cards. These cards will initially be subject to a \$25.00 per month usage limit. Upon notification to the Company by the Customer, the monthly usage limit may be increased. Access to the service is gained by dialing a Company-designated toll free access number (eg. 800-NXX-XXXX), plus the Customer's/ User's MFS Intelnet Calling Card authorization number and the called telephone number. The service includes a Customer-programmable speed dialing capability for up to eight telephone numbers, and a capability whereby a Customer may establish 2-to-6 digit, verified or unverified accounting codes for use with the MFS Intelnet Calling Card, at no additional charge. The MFS Intelnet Calling Card can also be used to place an operator-assisted and directory assistance calls, subject to the application of additional charges.

Beyond these standard features, the MFS Intelnet Calling Card includes the following enhanced features: conference calling, MFS Intelnet Voice Mail access, voice messaging, and news and information access. Use of these enhanced features is subject to separate charges. MFS Intelnet Calling Card calls are billed in six second increments, with a one minute minimum. This service is offered with Peak and Off-Peak pricing. A description of the additional features are as follows.

Issued:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

Effective:

5. GRANDFATHERED SERVICES (Cont'd)

5.6 MFS Intelnet Calling Card Service (Cont'd)

5.6.2 Operator-Assisted Calls

The MFS Intelnet Calling Card can be used to place MFS Intelnet operator-assisted calls. The surcharges are applied per call, in addition to the standard usage charges.

5.6.3 Directory Assistance Calls

The MFS Intelnet Calling Card can be used to place calls for Directory Assistance. A flat charge will apply per requested number (Requested Number Charge). At the Customer's option, the Company will automatically place a call to the requested number. For calls completed in this manner, a Call Completion Charge and the Standard Usage Charges will apply in addition to the Requested Number Charge.

5.6.4 Enhanced Features Charges

Enhanced features are available for use as described below. Enhanced features charges apply in lieu of standard usage charges. Usage charges are billed in six second increments with a one minute minimum.

5.6.4.1 Conference Calling

Allows a User to establish a conference call by accessing the conference operator. Charges apply per established line and per minute of usage.

5.6.4.2 Voice Mail Access

Allows a User to access MFS Intelnet Voice Mail and to place return calls without having to hang-up and initiate a new calling card call.

5.6.4.3 Voice Messaging

Allows the User to leave up to a three minute voice recorded message that is stored for future delivery when the called number is busy or no answer.

5.6.4.4 News and Information

Provides access to news, weather, sports, financial information and other features.

5.6.5 Rate Periods

Peak and Off-Peak rate periods are as follows:

Non-Holiday	To But Not		
<u>Rate Periods</u>	<u>From</u>	<u>Including</u>	<u>Days</u>
Peak	8:00 a.m.	5:00 p.m.	Mon-Fri
Off-Peak	5:00 p.m.	8:00 a.m.	Mon-Fri
	8:00 a.m.	8:00 a.m.	Sat-Sun
	8:00 a.m.	8:00 a.m.	Holidays

Holidays: On Christmas Day (Dec. 25), New Years Day (Jan. 1), Memorial Day, Independence Day (July 4), Labor Day (first Monday in Sept.) and Thanksgiving Day (fourth Thursday in Nov.) the Off-Peak Period rate applies unless a lower rate would normally apply.

Issued:

Effective:

Issued by: Charles J. Gardella, Vice President-General Manager
Legislative and Regulatory Affairs

5. GRANDFATHERED SERVICES (Cont'd)

5.6 MPS Intelenet Calling Card Service (Cont'd)

5.6.6 Usage Charges

5.6.6.1 Standard Usage Charges

	<u>Rates</u>
Per minute of use	
Peak/Off-Peak Rate	\$ 0.25
Off-Peak Discount	0%
Per Call Surcharge	\$ 0.40

5.6.6.2 Operator-Assisted Calls
Person-to-Person surcharge
Station-to-Station surcharge

\$ 3.50
\$ 0.60

5.6.6.3 Directory Assistance Calls
Requested Number Charge
Call Completion Charge

\$ 0.60
\$ 0.60

5.6.6.4 Enhanced Feature Charges

Conference Calling	
per established line	\$ 2.00
per minute of usage per line	\$ 0.26
Voice Mail Access	
per minute of usage	\$ 0.26
Voice Messaging	
per call	\$ 1.50
News and Information	
per minute of usage	\$ 0.28

014J.65.217

NEXT

DOCUMENT (S)

BEST IMAGE

POSSIBLE



WorldCom Invoicing Services

Whether you are a small business or a multi-national, multi-location corporation, WorldCom provides an array of solutions to fit your needs. We conveniently display time-saving information for multiple levels and locations; and since reporting is not tied to remittance accounts only, our invoicing service also benefits the most complex corporate reporting structure.



Our enhanced corporate reporting and advanced account hierarchy are designed to make your job easier and your invoice more useful to you. We think you'll agree with our customers as well as industry experts . . . WorldCom's invoicing services are the best in the business!

1115 East Apple Street • Jackson, Mississippi 39201
1-800-445-2000 • Invoicing Service
<http://www.worldcom.com>



WorldCom Invoicing Services

Corporate telecom managers and industry experts ranked WorldCom's invoicing service #1 and well ahead of other major carriers in a survey published in the May, 1997 issue of "Billing World" magazine. Our invoicing service received a combined total of 78% Excellent/Good ratings. That's considerably better than the 57%, 54% and 38% ratings given to our three largest competitors.

WorldCom's invoicing service is powerful, yet flexible enough to support a variety of business applications. From the simplest invoice to the most advanced corporate account hierarchy, our invoicing service is designed to help you do business better. Our invoice layout offers clear, concise detail and summary paper reports as well as the latest media options.

Our enhanced corporate reporting also allows you to receive a wide variety of summary reports that display overviews of your company's calling patterns, costs, totals by location and the amount payable by remittance group. With so many options, WorldCom makes understanding and using your invoice easier than you could ever imagine!

Enhanced Corporate Reporting

WorldCom makes invoicing easy and informative.

Ease of Cost Allocation

You can easily group your communications expenses into cost centers which will save your corporate accounting group considerable time.

Necessary Reporting

You can receive as few or as many reports as you need to completely analyze your invoice, and you can add or remove reports at any time.

Location Reporting

We currently offer over 30 management reports that you can select regardless of your location.

Enhanced corporate reporting makes invoicing simple:

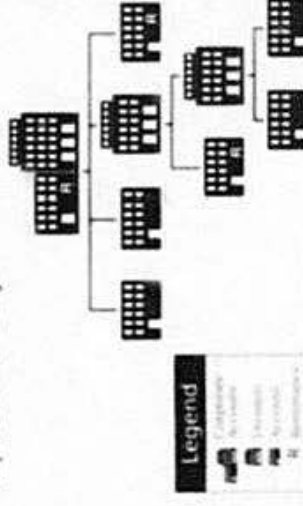
- Up to 10 hierarchy levels
- Standard reports available at Corporate, Division and Account levels
- Flexible remittance options

WorldCom's invoicing service provides a portfolio of standard reports which summarize usage, charges, discounts, taxes and remittance information. Your invoice will automatically contain reports on the specific products or services we provide your company.

Optional reports, which may be selected at any time, will enhance your call management and cost management activities. If you want to make a change in the reports you receive, simply call customer service for assistance at the toll-free number listed on your invoice.

Designed with extensive customer input, the corporate hierarchy easily accommodates a wide variety of invoicing applications - from small business customers to Fortune 100 multi-national, multi-location corporations.

Our corporate reporting flexibility allows you to structure any corporate hierarchy:



Corporate Account

Only one account in your corporate hierarchy will be designated as the corporate account. The corporate summary reports provide a global view of usage for all accounts in the organization. If the corporate account remits payment, it will also receive the remittance page and the summary reports associated to a remittance group.

Division Account

For the most advanced multiple-location account, WorldCom features division summary reports which display usage and charges for a designated group of accounts within the hierarchy, regardless of their remittance groups. A division account allows additional summary levels or increased expense management, but it does not remit payment.

Remittance Account

A remittance account remits payment for itself and other associated subordinate accounts. Remittance summary reports are sent to each remittance account along with reports specific to that location's usage.

WORLD
COM

WorldCom started a telecommunications revolution by becoming the first company to provide its own long distance, local and Internet services—internationally.

Full service, extensive product line, economy, simplicity, convenience. Just a handful of the benefits created when three industry titans—LDDS WorldCom, MFS Communications and UNET—merged to create the ultimate one-stop telecom shop: WorldCom.

WorldCom has redefined modern communications by integrating all of the transmission services your business needs. With networks and operations in more than 50 countries, WorldCom provides facilities-based local, long distance and Internet services to businesses, other carriers of telecommunications traffic and the residential market.

By embracing technology, and very often pioneering it, WorldCom has played a major role in changing the way businesses operate. We've altered the industry forever with technological innovations that have become standards.

But for all of our high-profile accomplishments, what drives WorldCom is our commitment to providing what is practical for you and your business. It is your world we serve.

**WORLD
COM**

COMPANY

- More than 500,000 business customers nationwide.
- More than 200 offices worldwide.
- More than 13,000 employees worldwide.
- A *Fortune* 500 company.
- Annual revenue approaching \$6 billion.
- First-quarter 1997 revenue of \$1.68 billion, a 62 percent increase from first quarter 1996.

DOMESTIC AND INTERNATIONAL FACILITIES

- 16,000 route miles of owned U.S. long distance fiber, with an additional 4,000 miles under construction.
- 4,000 miles of owned U.S. long distance digital microwave facilities.
- Worldwide satellite coverage:
 - More than 80 transmit/receive earth stations.
 - More than 25 international dedicated gateway earth stations.
- State-of-the-art SONET/SDH local fiber networks:
 - More than 40 U.S. cities.
 - 6 key foreign financial markets: Amsterdam, Brussels, Frankfurt, London, Paris and Stockholm.
- Local operations in major international markets: Hong Kong, Milan, Tokyo, Toronto and Zurich.
- Local points of presence in major international markets: Montreal, Sydney, Taipei and Vancouver.

- More interconnection agreements with U.S. local exchange carriers than any other local access entrant.
- 950 Internet access points of presence internationally—more than 500 outside of the U.S.
- More than 200 international service agreements.
- Long-term capacity in virtually every undersea fiber cable.
- Building transatlantic and pan-European cable systems to integrate key markets.

TECHNOLOGICAL LEADERSHIP

- Introduced the first:
 - Public frame relay service.
 - International ATM service.
 - National ATM network.
 - Fractional T-1 service.
 - Switched DS-3 service.
 - Bandwidth-on-command service.
 - Proactive ESF DS-1 performance-monitoring service.
 - Broadcast-quality television transmission over fiber.

INDUSTRY LEADERSHIP

- The largest supplier of international private line services in the U.S.
- America's largest provider of overseas private line networks.

- World's largest provider of Internet services.
- First to receive permission to build local networks in France and Germany.
- One of the first to receive permission to build a pan-European network.

INDUSTRY REPUTATION

Rated as the top performing telecommunications stock for a ten-year return on investment.

Wall Street Journal Shareholder Scoreboard, February 1997

"The merger [of WorldCom, MFS Communications and UUNET] creates one of the most advanced suppliers of integrated one-stop solutions in the new post-Telecom Act era."

The Yankee Group

"WorldCom seems likely to operate with a speed and hunger that will haunt the established phone companies for years."

USA Today

"The merger between WorldCom and MFS to create a \$20 billion telecom giant is a lesson in the virtues of being an entrepreneurial start-up in a bureaucratic industry. While old-style U.S. telecom groups have spent years downsizing their workforces and fighting rearguard actions to protect market share, WorldCom and MFS have expanded aggressively by concentrating on the fastest-growing and most lucrative segments of the market."

Financial Times

WorldCom is a full-service telecommunications company operating nationwide and international networks. We offer a complete range of domestic and international voice and data services to business customers and the residential market. The common and depositary shares of WorldCom, Inc., a *Fortune* 500 company, trade on The Nasdaq Stock Market's National Market under the symbols WCOM and WCOMF, respectively.

315 E. Anate St. • Jackson, MS 39201 • 1-800-534-2000 • info@worldcom.com
<http://www.worldcom.com>

Reprinted from THE WALL STREET JOURNAL.

WEDNESDAY, AUGUST 10, 1994

© 1994 Dow Jones & Company, Inc. All Rights Reserved.

Value Investors, Long King of the Hill, May Be Knocked Off by the Growth Gang

HEARD ON THE STREET

By JOHN R. DORFMAN

Staff Reporter of THE WALL STREET JOURNAL

NEW YORK — For 2½ years, "growth" investors who chase rapidly rising earnings have lagged behind "value" investors who buy stocks cheap. But the tide may turn soon, some market veterans say.

"I'm hoping it's the latter part of this year," says James Craig, manager of the Janus Fund. The Denver money manager owns a mixture of value and growth stocks, but all of his recent purchases have been growth stocks.

A turn toward growth may already be occurring, says William Dodge, chief investment strategist for Dean Witter Reynolds in New York. Returns from the value sector are "still positive, but heading south in a hurry," he says.

Growth stocks have been out of favor before, but rarely for such a long period, says Terence J. McLaughlin of Ashland Management in New York. Over the years, he says, growth stocks have sold for 1.0 to 2.2 times the valuation of the average stock (based on each stock's price-to-earnings ratio). Lately, he says, growth stocks have fetched only 1.1 or 1.2 times the average valuation. So there's plenty of room for growth stocks to rise.

Growth and value are the two major schools of investing. Growth investors buy stocks with rapidly growing sales and earnings. Such stocks usually cost more, but proponents say it's worth paying a premium for them, because eventually the stock's price will reflect rising profits. Their portfolios are often heavy in areas such as technology, communications, entertainment and medicine. Medical stocks have been battered since 1992, and that's one reason many growth managers have done badly.

Value investors are the Scrooges of the marketplace. They buy stocks that are cheap compared with a company's earnings, assets or some other fundamental yardstick. Their portfolios are often heavy on financial stocks, utilities and basic-industry cyclical stocks such as autos, chemicals and steels.

Where the Growth Is

These companies show at least 20% compound annual growth in earnings and revenues over the past one, three and five years. And their earnings have accelerated in the past four quarters. Stocks selling for more than 30 times per-share earnings are excluded, as are debt-heavy companies.

COMPANY	FIVE-YEAR EARNINGS GROWTH	ONE-YEAR EARNINGS GROWTH	PRICE EARNINGS RATIO
Sollectron	66%	93%	24
Cobra Golf	10	226	26
Atmel	49	123	23
Swift Transportation	48	100	28
Litesat Technology	45	56	29
LDOS Communications	41	66	21
Cirrus Logic	39	145	14
Fair Isaac	36	91	22
Kosme	33	104	23
Mylan Laboratories	31	75	22
Lam Research	30	105	23
Applied Materials	29	165	25
Franklin Resources	27	53	12
Ind'T Imaging Materials	24	103	29
Bombay	23	179	19
Network General	23	149	21

*Compound annual rate. †Price as of Monday, divided by past four quarters' per-share earnings.
Source: MarketFocus; DowJones

Both investing methods have their share of pitfalls. Value investors may buy a stock that is cheap, all right, but it may become even cheaper as the company's problems intensify. Growth investors may buy a company that is flying high but is about to nose-dive.

Which is the better way to invest for the long term? That question has never been settled, and money managers of both schools have had success over the years. But in any given year, one style often beats the pants off the other. Indeed, one style will often remain king of the hill for one to four years. By most measures, value has been king since early 1992.

Why should that change? One reason is that corporate profit advances may slow in 1995, growth-stock proponents say. When the economy is gaining

steam, cyclical stocks can show exploding earnings, and their stocks move up smartly. But when the economy slows, earnings growth becomes a scarcer commodity, which only a true growth stock can deliver.

"If we are moving into a period with slow [economic] growth and moderate inflation, it's an ideal climate for growth stocks," says Rodney Linafelter, a money manager with Berger Associates, Denver.

Melissa Brown, chief quantitative analyst at Prudential Securities in New York, "strongly favors" growth stocks over value stocks. She says the valuation on growth stocks has been "out of whack," with investors unreasonably stingy about paying for growth.

Ms. Brown says "the rate of economic growth is slowing down somewhat,"

(over please)

changing what had been a plus for value stocks to a neutral factor. She sees the recent increases in interest rates as a blow to value stocks. Rising rates depress economic activity, and particularly hurt financial and utility stocks, often mainstays of value portfolios.

The accompanying table, compiled by running a computer "screen" with MarketBase software, shows some companies of potential interest to growth-stock aficionados. Every stock in the table has shown sales and earnings growth of 20% or more during the past year, three years, and five years. The stocks in the table also show earnings acceleration: the past four quarters' earnings growth was greater than the growth in the earlier periods. In addition, they pass some other statistical tests: debt less than 50% of total capital; a price/earnings ratio below 30, and a market value of \$100 million or more.

The table has a strong technology flavor, and includes several little-known companies. It is devoid of traditional big "consumer nondurable" stocks, the drug, food and tobacco names like Merck, Coca-Cola and Philip Morris that for years were standard issues in many growth-stock portfolios.

It's hard for any big, mature company to show 20% annual growth in sales and earnings. And some money managers say the big-name steady-growth stocks have passed their peak growth periods, much as International Business Machines and Xerox did a decade earlier.

"The traditional growth stocks have stopped growing," says Doug Raborn, chairman of Raborn & Co. in Delray Beach, Fla. "Take Merck, Procter & Gamble, Campbell Soup, Hershey Foods . . . their rates of growth have slowed down because they can no longer raise prices at will."

Others say that the big-name growth stocks aren't dead, just asleep. Mr. Craig

of Janus Fund is a large holder of Wal-Mart Stores, Home Depot and Gillette, for example. Their price/earnings multiples "are contracting to a point where they're getting real cheap," he says. Mr. Dodge of Dean Witter looks for a resurgence from stocks such as Home Depot, Coca-Cola, McDonald's and Microsoft.

Mr. Linafelter of Berger Associates prefers smaller companies that can show red-hot earnings growth. He happens to own the first three stocks shown in the table: Soletron, Cobra Golf and Atmel.

Soletron, of Milpitas, Calif., makes printed circuit boards for use in computers and other electronic devices. Many of the country's big computer makers are contracting out work to Soletron. "Most of the major technology companies are not great manufacturing companies," says Mr. Linafelter. "What they're good at is new-product development and marketing."

Cobra Golf, which makes large-head golf clubs (like another successful stock, Callaway Golf) will benefit from demographics, as aging baby boomers hit the golf links, Mr. Linafelter says. The endorsement of golfing star Greg Norman is proving a valuable marketing tool, adds Mr. Linafelter.

Atmel, a semiconductor company, has thrived by making specialized components such as logic chips and flash chips, Mr. Linafelter says.

Two names in the table have a high controversy quotient. Franklin Resources, a mutual-fund company, emphasizes bond funds, which have had a rocky time lately. Bombay, a furniture retailer, shocked investors recently with a down quarter (seven cents a share profit, compared with eight cents a year earlier).

As a result, Franklin Resources is cheap for a growth stock, selling at only 12 times earnings. And Bombay, while still at 19 times earnings, has come way down, selling for 11 1/4 a share yesterday, down from a 52-week high of 32 1/2.

Reprinted from THE WALL STREET JOURNAL.

THURSDAY, FEBRUARY 29, 1996

© 1996 Dow Jones & Company, Inc. All Rights Reserved.

THE WALL STREET JOURNAL SHAREHOLDER SCOREBOARD

Which Companies Stood Out For Better or Worse

(the following has been excerpted:)

Best 10-Year Performer:

WorldCom Inc.

By EMORY THOMAS JR.

Staff Reporter of THE WALL STREET JOURNAL

Bernard J. Ebbers is living proof that appearances deceive.

The bearded chief executive of long-distance carrier WorldCom Inc. often wears blue jeans to work, is given to chomping on cigars and toothpicks, and sometimes drives a pickup truck to his Southwestern-style office in downtown Jackson, Miss. But, says analyst Jack Grubman of Salomon Brothers in New York, "Don't let the toothpick and aw-shucks fool you."

In fact, for the past decade, Mr. Ebbers's laid-back style has fooled lots of folks—and made lots of others rich. During that 10-year period, WorldCom and its predecessor companies have provided a total return to investors of 57.3% a year—the best among the 1,000 corporations tracked in Shareholder Scoreboard. A \$100 investment in WorldCom in 1989, for instance, would be worth \$1,580 as of January; that, according to the company, is about 10 times the best return generated by WorldCom's primary competitors, the Big Three of long-distance: AT&T Corp., MCI Communications Corp. and Sprint Corp.

Behind Mr. Ebbers's dumb-as-a-fox approach, WorldCom, formerly known as LDDS Communications, has emerged as a formidable No. 4. Having gobbled up dozens of less-aggressive rivals, the company now sits alone at the head of a class of hundreds of long-distance concerns created since the break-up of AT&T. WorldCom's revenue jumped to an estimated \$1.6 billion in 1995, up from \$109.5 million in 1989.

Mr. Ebbers "realized long ago," says Mr. Grubman, "that acquisition was not a dirty word." Lately, WorldCom has made its biggest acquisitions yet—deals involving

10 YEARS

COMPANY NAME	RETURN
WorldCom Inc.	+ 57.3%
Amgen Inc.	+ 48.7
Surgical Care Affiliates Inc.	+ 46.3
Home Depot Inc.	+ 44.5
Conseco Inc.	+ 42.6
Applied Material	+ 40.7
United Healthcare Corp.	+ 38.3
Clear Channel Communications	+ 38.2
St. Jude Medical Inc.	+ 38.2
SunAmerica Inc.	+ 37.2
Micron Technology Inc.	+ 37.2
CUC International Inc.	+ 37.0
Nike Inc.	+ 36.8
Medtronic Inc.	+ 36.6
Compaq Computer Corp.	+ 36.1
Paychex Inc.	+ 35.6
Computer Associates Intl Inc.	+ 35.1
Pacificare Health Sys.	+ 35.1
Intl Game Technology	+ 34.7
Tellabs Inc.	+ 34.0
Federal Natl Mortgage Assn.	+ 33.1
Danaher Corp.	+ 32.2
3Com Corp.	+ 32.1
ADC Telecommunications Inc.	+ 31.7
Green Tree Financial Corp.	+ 31.6

Source: I/E/A Research Group

WorldCom, formerly a unit of Williams Cos., and IDB Communications Group. These give the company new reach as a national and international carrier.

Although many industry analysts and observers suspected he'd stumble in combining the sprawling WorldCom and IDB operations (some analysts placed "hold" ratings on the stock), virtually all now concede WorldCom has emerged as powerful as ever. Says one bearish analyst: "He's done a good job of proving me wrong."

Founded as LDDS in 1983, WorldCom, like most other small long-distance companies, began by catering mainly to small and midsize businesses that are largely ignored by the Big Three. Typically, small long-distance companies lease chunks of line access from big carriers such as MCI and then resell that access in smaller portions to their customers. The key to turning a profit is keeping overhead costs low and phone-call traffic on leased lines high.

Hence the acquisitions. Mr. Ebbers, a former motel owner and junior-high basketball coach who took the reins of LDDS in 1989, saw early on that there were huge economies of scale to be had by combining the customer traffic of separate providers on a single set of phone lines. The buying binge began in 1987, and the deals have gotten progressively bigger.

LDDS went public in 1989 by combining with Advantage Cos., an already-publicly owned company based in Nashville, Tenn. Advantage was a long-distance provider that also had real-estate and publishing operations; those were shed in the combination. The 10-year record for WorldCom in Shareholder Scoreboard reflects the performance of Advantage Cos. from Dec. 31, 1985, until the merger.

Growth by acquisition now may be tougher than in the old days. There are few suitable merger targets for WorldCom left in the long-distance business. (Frontier Corp. and LCI International Inc. are two of the most prominent.)

Some investors have bought WorldCom shares in anticipation of a possible buyout of WorldCom by a Baby Bell. Industry observers believe such a deal eventually could happen, but they caution that the price would be steep—well over \$10 billion by some estimates.

Despite its increasing prominence, WorldCom isn't yet a household name. But that may change soon. The company recently signed basketball star Michael Jordan as its new pitchman.

NEXT

DOCUMENT (S)

BEST IMAGE

POSSIBLE

B I L L I N G S E R V I C E S

SPECTRUM CALL MANAGER

Clear rather than complicated. Helpful rather than confusing. Everything in balance. The way things should be. When accounting for your world.

The pressure to minimize corporate expenses has never been more acute. Now, more than ever, companies trying to reduce or contain costs are closely scrutinizing their long distance bills.

That's why we developed the Spectrum Call Manager billing system, arguably the best invoicing system available for managing long distance costs.

Spectrum Call Manager gives you flexible reporting, remittance and invoicing options. With four Stratum Billing Levels to choose from, this service offers the proper level of simplicity or complexity for your specific billing applications.

Spectrum Call Manager provides vital long distance statistics in your choice of 52 different management reports. The reports can be generated by location or reflect usage from groups of locations. You decide which locations will remit, the locations for which they are remitting and which locations receive particular reports.

Finally, an invoice solution determined by your needs rather than by system limitations.

UNIV**WORLD
COM.**Voice Data Video

REPORTING SPECIFICATIONS

- **Choose from 52 management reports.**
- **Reports sort data by product, call duration, call frequency, time period, call destination and cost.**
- **Call Detail** — Sort by ANI, accounting code, cost center and verbal translation, or suppress entirely.
- **Electronic Media** — Receive invoice data on floppy disk or CD-ROM with Call Manager PC, our Windows-based software. View and print standard reports. Create custom reports. Call detail data is also available on magnetic tape and cartridge.

HIERARCHY DESIGNATIONS

Five designations determine the type of reports each location receives, and serve as building blocks in the corporate hierarchy.

- **Service Location** — Each distinct service used at an individual account, division or corporate account location.

- **Account Location** — Comprised of service types. Remitting account locations receive remittance and account summary reports.
- **Division Reporting** — A division can be configured to provide summary reports on any accounts in the corporate hierarchy, regardless of remittance group. Also, the reports may be directed to any address either inside or outside the company.
- **Corporate Location** — Main hierarchy account which receives summary reports consolidating all account usage company-wide.
- **Remittance Group** — A remitting account and the subordinate accounts for which it remits payment.

STRATUM BILLING LEVELS

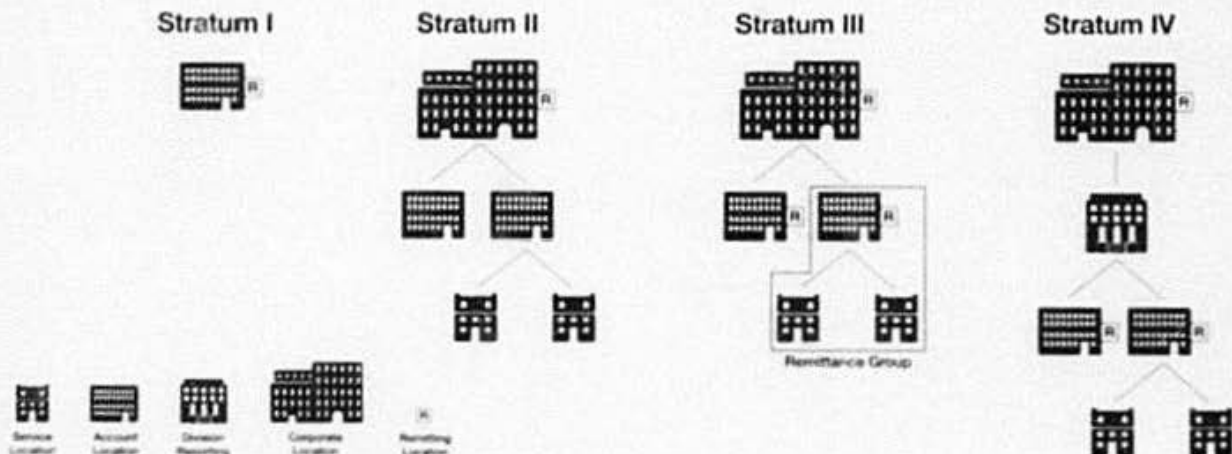
- **Stratum Billing Level I** — For single-location, single-point remittance businesses. Level I provides all of the invoice reports the Spectrum billing system offers.
- **Stratum Billing Level II** — For multi-location businesses requiring only single-point remittance,

Level II provides corporate, account and service-location reporting. The remittance page, corporate and service-location summary reports are all sent to the corporate location to remit payment for the entire hierarchy.

- **Stratum Billing Level III** — For multi-location, multi-point remittance applications, Level III designates remitting locations and for which locations they remit payment. Level III provides all of the reporting options found in Level II.
- **Stratum Billing Level IV** — For the most advanced multiple-account, multi-point remittance applications, Level IV features division summary reports. A division can be constructed to summarize usage information for any accounts in the hierarchy. Division summary reports may be mailed to any address.

To learn more about the flexibility of Spectrum Call Manager, simply contact your LDDS WorldCom sales representative.

Windows is a registered trademark of Microsoft Corporation.



LEDS WorldCom is a full-service telecommunications company operating a nationwide digital fiber-optic network and providing worldwide capacity. We offer a complete range of domestic and international voice, data and video services to business customers and the residential market. The shares of WorldCom, Inc., a *Fortune* 500 company, trade on The Nasdaq Stock Market's National Market under the symbol WCOM.

515 E. Amite St. • Jackson, MS 39201 • 1-800-539-2000 • info@wcom.com
<http://www.wcom.com/>

LEDS
**WORLD
COM**

Voice Data Video

800 MarketWatch provides detailed information on who your best sales prospects are, where they are located and the products and services they purchase. It also suggests the most appropriate types of media vehicles with which to reach them, including:

- Print media: daily newspapers and magazines—sports, current affairs, fashion, music, specialty.
- Television: major networks, cable (HBO, MTV, news, sports, home shopping).
- Radio formats: news/talk, jazz, classical, country, Top 40, easy listening.
- Outdoor advertising: billboards, public transportation.

HOW THE PRIZM CLUSTER SYSTEM WORKS.

PRIZM uses census data and more than 500 million individual consumer transactions to classify every neighborhood in the United States into one of 62 unique lifestyle "clusters."

In addition, PRIZM offers:

- Accurate, continually updated demographic and behavioral data.
- More links to the nation's leading marketing databases than any other system.

- Unparalleled expertise: PRIZM and its clusters have become fixtures in the marketing lexicon ("Blue Blood Estates," "Gray Power").
- Site-evaluation models factor in population age, density and distance.

If you're ready to grow your business by marketing new and existing products via print, billboard or broadcast advertising, catalog sales, or through reservation systems and improved customer service applications, we can help you capture important information about your callers to:

- Identify the appropriate advertising medium to reach your target audience.
- Develop customized copy and targeted messages.
- Identify cross-promotional opportunities for maximum exposure.
- Design appropriate sweepstakes offers to capture your market.

To learn more about the usefulness of 800 MarketWatch, simply contact your LIDS WorldCom sales representative.

PRIZM LIFESTYLE CLUSTERS

Examples include:

Country Squires

One of four clusters comprising the "Landed Gentry" social group, characterized by large, multi-income families of school-aged children and headed by well-educated executives, professionals and "techies."



Middleburg Managers

Includes business executives, bankers, doctors, lawyers, retailers and city-hall chiefs, all with above-average incomes. Half are older, married and post-child; the other half are younger, single and pre-child.



Agri-Business

Rural farm-town and ranch families. Includes people within the farming, forestry, fishing, ranching and mining industries. Agri-Business is affluent and skewed to the greater northwest part of the country.



Scrib Pine Flats

The most geocentric of the clusters, found mainly in the coastal flatlands of the Atlantic and Gulf states, from the James to the Mississippi rivers. Mostly humid, rural communities with a 35/65 ratio of blacks to whites.



TELUS WorldCom is a full-service telecommunications company operating a worldwide digital fiber-optic network and providing worldwide capacity. We offer a complete range of domestic and international voice, data and video services to business customers and the residential market. The shares of WorldCom, Inc., a *Fortune* 500 company, trade on The Nasdaq Stock Market's National Market under the symbol WCOM.

615 E. Ann St. • Jackson, MS 39201 • 1-800-538-7000 • info@worldcom.com
<http://www.worldcom.com>

WORLD
COM

Share Price: \$18.00

Individual

MAY 1997

INVESTOR

INVESTING for MAXIMUM RETURNS

ONE SERVICE FITS ALL

By gobbling up small local carriers, WorldCom is becoming a one-step telecom.

BY STEPHEN GANDEL

A long-distance phone call is like a relay race. The call is handled first by a local carrier, often a Baby Bell, then passed to a long-distance company, then back to yet another local carrier, completing the circuit. Now imagine that none of the relay-team members wear the same colored jerseys. They're all rivals as well as colleagues. And with new federal laws, that rivalry is sure to intensify.

That's why WorldCom, a relatively unknown Jackson, Mississippi, telecom, is so notable: With its recent marriage to MFS Communications, a provider of local telephone services to businesses, WorldCom is offering both local and long-distance service over its own fiber-optic network to businesses in 52 North American cities. Metaphorically speaking, in the long-distance relay race, it can carry its own baton—something that dial-tone providers would love to

do. Over the next three years, the company expects to expand its network soon to 85 cities, representing about 70% of the domestic commercial telecom market.

WorldCom was established in 1983 to resell long-distance dial tones that it bought at a discount from AT&T, and others. It is now the fourth-largest long-distance provider, behind goliaths AT&T, MCI, and Sprint, having bought 36 competitors over the years. Certainly, its most spectacular purchase was MFS





Communications and Uninet Technologies, which MFS had purchased only months before. Besides getting a local phone company in the \$12.4 billion buy-out, WorldCom got the leading Internet provider to businesses.

In addition to local and long distance dial tones, the new WorldCom sells Internet access, and frame relay and ATM (asynchronous transfer mode), both of which are types of data transmission, through 25,000-plus miles of fiber-optic cable—in short, virtually every service the business customer needs from the moment he picks up a phone or sends an e-mail to the moment he hangs up the receiver or logs off. The company is expected to grow \$7.2 billion in 1997, compared with \$5.4 billion pro forma in 1996, according to Robert Bolen, an analyst at J. C. Bradford in Nashville.

WorldCom chief executive officer Bernard Ebbers once called his company—with only 5% of the long-distance market and less than 3% of the entire global commercial market—"a gnat on an elephant's back." But given the expected sales growth, he added, "a gnat on steroids." Hyperbole, perhaps, but WorldCom's bundling of telecom services is "a master stroke," says Bolen, who calls the stock a strong buy. "WorldCom's merger with MFS/Uninet greatly enhances WorldCom's strategic position and creates tremendous opportunities for more rapid revenue and earnings growth over the longer term."

Unlike its heavyweight foes, AT&T, GTT, MCI, and Sprint, WorldCom stays out of the residential phone-service fray, where margins are low and customer attrition rates are high, and sells its services to the high-margin niche: businesses and other resellers of telecom-

munications services. "While other carriers inevitably will find themselves fighting out resale issues with the [Baby Bells] over the next few years, WorldCom will be taking local service market share," Bolen says. And because WorldCom is using its own network, it can grab gross profit margins of 60% or more, Bolen notes. That's about double the gross margins enjoyed by resellers, who must pay the Baby Bells for local switching.

Another reason WorldCom will be

stock tumbled to a 52-week low last September, after the acquisition announcement (though it has since recovered), because of dilution from the deal. Fully diluted, there are now about 960 million shares outstanding, up from 400 million at year-end.

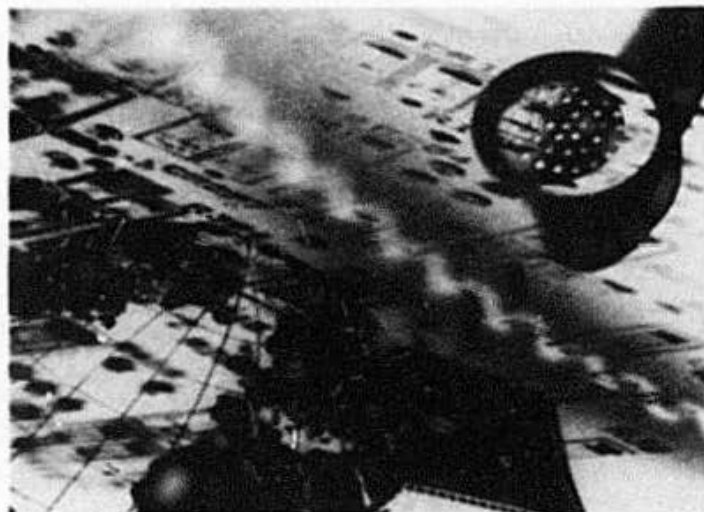
That means, Bolen says, WorldCom may report earnings of only \$305,500, or \$0.35 a share, down almost 60% from the \$1.01 a share it earned in 1996 and well below Bolen's 1997 premerger forecast of \$1.35. In 1998, Bolen reckons, the company should net about \$0.95 a share on an estimated \$9.5 billion in sales.

But to obsess about net income for 1997 or 1998 would be a mistake. First, given the number of acquisitions WorldCom has made in its short life, comparing net income for 1997 with that of 1996 is not meaningful. Rather, investors should value the company on the basis of its free cash flow (or EBITDA: earnings before interest, taxes, depreciation, and amortization).

That's because, though WorldCom has already made big payments for its network and taken charges for past acquisitions, it still has some cash and noncash charges to expense in the future, which will dampen earnings.

That suggests cash flow is a better benchmark of the company's performance, because it measures financial performance from actual operations—before the noise of financing mucks up the picture. Bolen estimates that WorldCom's EBITDA should grow by 42% a year, compounded, through 2000, with sales increasing by about 30% annually. Not bad.

In another healthy sign, calling traffic (an important measure of growth in the industry) on WorldCom's network surged by 36% in the fourth quarter,



more efficient than its bigger, better-known rivals is its "high-speed state-of-the-art network that is likely to be more cost-effective than the existing networks owned and operated by the Bells," according to Keith Ferguson, an analyst at the newsletter *Value Line*. "[WorldCom's] MFS should have little problem competing with the Bells."

So the stock's a no-brainer, right? Compelling might be a better description, given the near-term uncertainties—such as the fact that the MFS purchase dragged WorldCom down from its earnings-growth pedestal. (Not including charges, its fourth-quarter profit from operations of \$0.28 a share beat Wall Street's estimates by two pennies.) As wise as the MFS acquisition was (it doubled the size of WorldCom's potential market), the



WEDDING BELLS

WorldCom snapped up MFS Communications in January. 3Com announced it would merge with modem maker U.S. Robotics in February. And the mergers of MCI and British Telecommunications, Bell Atlantic and Nynex, and SBC Communications and Pacific Telesis all are under way. Although the waters of the telecommunications industry are roiled now, one fact should be clear: Jockeying for position will bring more merger and acquisition activity. The challenge for investors is to predict which companies will get bought and for what price. We think we've found a few: Adtran, Boca Research, Microcom, PairGain Technologies, Palmer Wireless, and Teleport Communications.

The WorldCom-MFS merger provides a good takeover model, says Robert Bolen of the Nashville brokerage J. C. Bradford. "It's tough to be a player in the local market without your own network." So, Bolen explains, companies offering local service are attractive takeover targets for any of the long-distance players, mainly AT&T, MCI, and Sprint. Take Teleport Communications, which provides local phone service to businesses in 55 U.S. markets. Long-distance companies typically pay 40% of their revenue to the local companies for originating and completing calls, but Teleport, with its own fiber-optic cable network, might provide a cheaper alternative. (See Street Sentiment, page 55.)

The wireless market, too, is ripe for consolidation. Wireless companies are trying to construct a single cellular network for the entire United States, and they will likely acquire smaller companies to do it. But the acquisition season in the wireless segment is still far off, says David Karson of Dain Bosworth in Minneapolis. That said, Palmer Wireless, with its strong network in the southeastern U.S., might emerge as a target, Karson says, because it serves an area in which AT&T is looking to expand.

Among telecommunications equipment manufacturers, check out Boca Research and Microcom. Stocks of modem makers, including Boca Research and Microcom, have fallen recently. Because the new, faster modems don't all communicate with one another, investors are waiting on the sidelines to find out which modem platform will reign supreme. When the transition to the new modems takes place, according to Michael Cristinziano, an analyst at Needham & Co. in New York, it could amount to \$10 billion in new revenue. Boca Research and Microcom are trading at forecasted price-earnings mul-

tiples of 15 and 11, respectively, multiples that large networking companies might find attractive. As Neal Johnson, an analyst at Robinson Humphrey in Atlanta, says, "When a market hits a down cycle, as the modem market has, there are often acquisitions."

Telecom companies also might fancy Adtran and PairGain Technologies, both recognized leaders in boosting the performance of long-distance lines. Instead of replacing copper telephone lines with fiber-optic cable, a costly process, telecoms can deploy Adtran's ISDN and PairGain's HDSL technologies, which enable the copper to carry digital signals, increasing the rate at which a signal travels along the wire.

Whereas the two technologies have similar functions, Adtran's ISDN lines are used primarily in the residential market, to provide faster Internet connections and for accessing corporate computer networks from home. HDSL, on the other hand, has a larger capacity than ISDN does, but it is more expensive. Thus, PairGain's technology is used primarily to meet the needs of corporations, universities, and military bases. Because most of Adtran's and PairGain's revenue comes from local operators, either company might be snatched up by a Baby Bell. Of course, Adtran and PairGain might remain independent for the same reason that Lucent, a maker of telecommunications equipment, wanted to be free of AT&T: the better to sell equipment to all parties, including rivals.

Merger and acquisition activity is bound to heat up, but be cautious. It's hard to guess what's going to be bought—when, by whom, and for how much. (U.S. Robotics shares, for example, fell \$5 in the two days following its announced takeover.) That's why Charles Pluckhahn of Dain Bosworth in Seattle says you can't ignore business fundamentals. "In the cases of both Adtran and PairGain, the fundamentals are excellent," Pluckhahn says. "That's why investors should buy them."

—STEPHEN GANDEL

TAKEOVER PLAYS

Target Companies	Price (3/24/97)	Percent Off 52-Week High	P/E Ratio	Investor Relations	Strategic Position
Adtran	\$22.88	-88.6%	4.0	295-871-8000	Its ISDN lines can provide immediate entrance to residential Internet access
Boca Research	\$7.63	-70.7%	8.4	487-897-8021	Revenue should surge when new modem standards arrive
Microcom	\$10.00	-70.6%	8.9	817-551-1000	Growing more than 100%; like Boca, it's been beaten up over modem standards
PairGain Technologies	\$28.80	-33.2%	8.5	714-832-8922	Technological lead in HDSL; key for leading corporate business
Palmer Wireless	\$13.50	-40.8%	2.6	941-433-4350	Large wireless network in the Southeast, an area AT&T is eyeing
Teleport Communications	\$25.00	-29.3%	13.7	718-355-2000	Provides local service in 55 markets with its own fiber-optic network

compared with Sprint's 21% growth, MCI's 8% jump, and the 6% increase AT&T notched.

Some observers predict that the Internet threatens phone traffic the way the telephone supplanted the telegraph. Thankfully, WorldCom has that base covered, too. Its Internet division, which provides Internet access, hosts Web sites, and runs Microsoft's Internet service, had revenue of \$253 million in 1996, up 254% from 1995. Driving the growth, of course, is the increasing demand for the Internet and the rising popularity of Microsoft's Internet service, which accounts for 40% of UUNET's 1996 revenue. "UUNET is a very important piece to the WorldCom growth story,"

says analyst Stephen Shook of Interstate Johnson Lane in Charlotte, North Carolina.

Although the dilution has created confusion for WorldCom in the short run, CEO Scott Sullivan expects the merger to cut \$285 million in costs during the first year, and possibly as much as \$650 million in 1998. "Without MTS," says Sullivan, "WorldCom gets stuck in a box. Now, with the additions of data, local, and Internet services, WorldCom is above and beyond where it could be by itself."

Bolen thinks the market already has built into the stock price the negatives of the deal. "Now investors are looking at cash flow and bidding the stock back

up," he says. At a recent \$24.25, the company trades at 11 times Bolen's estimated free cash flow for 1997, which is about fair value. In the long term (beyond 1998) the company should be able to grow cash flow around 42%. But growth should be faster in 1998, at 50%. And Bolen thinks that could give the stock a boost. According to that math, WorldCom should be trading at between \$32 and \$35 by next year, and between \$53 and \$55 in the next 24 months.

ValueLine's Ferguson is likewise bullish, though he cautions, "Conservative investors should exercise caution as the issue is likely to remain volatile." ■

**WORLD
COM** SM

Reprinted from THE WALL STREET JOURNAL.

WEDNESDAY, AUGUST 10, 1994

© 1994 Dow Jones & Company, Inc. All Rights Reserved.

Value Investors, Long King of the Hill, May Be Knocked Off by the Growth Gang

HEARD ON THE STREET

By JOHN R. DORFMAN

Staff Reporter of THE WALL STREET JOURNAL

NEW YORK — For 2½ years, "growth" investors who chase rapidly rising earnings have lagged behind "value" investors who buy stocks cheap. But the tide may turn soon, some market veterans say.

"I'm hoping it's the latter part of this year," says James Craig, manager of the Janus Fund. The Denver money manager owns a mixture of value and growth stocks, but all of his recent purchases have been growth stocks.

A turn toward growth may already be occurring, says William Dodge, chief investment strategist for Dean Witter Reynolds in New York. Returns from the value sector are "still positive, but heading south in a hurry," he says.

Growth stocks have been out of favor before, but rarely for such a long period, says Terence J. McLaughlin of Ashland Management in New York. Over the years, he says, growth stocks have sold for 1.0 to 2.2 times the valuation of the average stock (based on each stock's price-to-earnings ratio). Lately, he says, growth stocks have fetched only 1.1 or 1.2 times the average valuation. So there's plenty of room for growth stocks to rise.

Growth and value are the two major schools of investing. Growth investors buy stocks with rapidly growing sales and earnings. Such stocks usually cost more, but proponents say it's worth paying a premium for them, because eventually the stock's price will reflect rising profits. Their portfolios are often heavy in areas such as technology, communications, entertainment and medicine. Medical stocks have been battered since 1992, and that's one reason many growth managers have done badly.

Value investors are the Scrooges of the marketplace. They buy stocks that are cheap compared with a company's earnings, assets or some other fundamental yardstick. Their portfolios are often heavy on financial stocks, utilities and basic-industry cyclical such as autos, chemicals and steels.

Where the Growth Is

These companies show at least 20% compound annual growth in earnings and revenues over the past one, three and five years. And their earnings have accelerated in the past four quarters. Stocks selling for more than 30 times per-share earnings are excluded, as are debt-heavy companies.

COMPANY	FIVE-YEAR EARNINGS GROWTH*	ONE-YEAR EARNINGS GROWTH	PRICE/ EARNINGS RATIO†
Selectra	68%	93%	24
Cobra Golf	60	226	26
Almel	49	123	23
Swift Transportation	48	100	28
Linear Technology	45	56	29
LDOS Communications	41	66	21
Cirrus Logic	39	145	14
Fair Isaac	36	91	22
Keene	33	104	23
Mylan Laboratories	31	75	22
Lam Research	30	105	23
Applied Materials	29	165	25
Franklin Resources	27	53	12
Int'l Imaging Materials	24	103	29
Bombay	23	179	19
Network General	23	149	21

*Compound annual rate †Price as of Monday, divided by past four quarters' per-share earnings

Source: MarketBase; DowStocks

Both investing methods have their share of pitfalls. Value investors may buy a stock that is cheap, all right, but it may become even cheaper as the company's problems intensify. Growth investors may buy a company that is flying high but is about to nosedive.

Which is the better way to invest for the long term? That question has never been settled, and money managers of both schools have had success over the years. But in any given year, one style often beats the pants off the other. Indeed, one style will often remain king of the hill for one to four years. By most measures, value has been king since early 1992.

Why should that change? One reason is that corporate profit advances may slow in 1995, growth-stock proponents say. When the economy is gaining

steam, cyclical stocks can show exploding earnings, and their stocks move up smartly. But when the economy slows, earnings growth becomes a scarcer commodity, which only a true growth stock can deliver.

"If we are moving into a period with slow [economic] growth and moderate inflation, it's an ideal climate for growth stocks," says Rodney Lindefelter, a money manager with Berger Associates, Denver.

Melissa Brown, chief quantitative analyst at Prudential Securities in New York, "strongly favors" growth stocks over value stocks. She says the valuation on growth stocks has been "out of whack," with investors unreasonably stingy about paying for growth.

Ms. Brown says "the rate of economic growth is slowing down somewhat."

(over please)

changing what had been a plus for value stocks to a neutral factor. She sees the recent increases in interest rates as a blow to value stocks. Rising rates depress economic activity, and particularly hurt financial and utility stocks, often mainstays of value portfolios.

The accompanying table, compiled by running a computer "screen" with Marketbase software, shows some companies of potential interest to growth-stock aficionados. Every stock in the table has shown sales and earnings growth of 20% or more during the past year, three years, and five years. The stocks in the table also show earnings acceleration: the past four quarters' earnings growth was greater than the growth in the earlier periods. In addition, they pass some other statistical tests: debt less than 50% of total capital, a price/earnings ratio below 30, and a market value of \$100 million or more.

The table has a strong technology flavor, and includes several little-known companies. It is devoid of traditional big "consumer nondurable" stocks, the drug, food and tobacco names like Merck, Coca-Cola and Philip Morris that for years were standard issues in many growth-stock portfolios.

It's hard for any big, mature company to show 20% annual growth in sales and earnings. And some money managers say the big-name steady-growth stocks have passed their peak growth periods, much as International Business Machines and Xerox did a decade earlier.

"The traditional growth stocks have stopped growing," says Doug Raborn, chairman of Raborn & Co. in Delray Beach, Fla. "Take Merck, Procter & Gamble, Campbell Soup, Hershey Foods... their rates of growth have slowed down because they can no longer raise prices at will."

Others say that the big-name growth stocks aren't dead, just asleep. Mr. Craig

of Janus Fund is a large holder of Wal-Mart Stores, Home Depot and Gillette, for example. Their price/earnings multiples "are contracting to a point where they're getting real cheap," he says. Mr. Dodge of Dean Witter looks for a resurgence from stocks such as Home Depot, Coca-Cola, McDonald's and Microsoft.

Mr. Linafelter of Berger Associates prefers smaller companies that can show red-hot earnings growth. He happens to own the first three stocks shown in the table: Sollectron, Cobra Golf and Atmel.

Sollectron, of Milpitas, Calif., makes printed circuit boards for use in computers and other electronic devices. Many of the country's big computer makers are contracting out work to Sollectron. "Most of the major technology companies are not great manufacturing companies," says Mr. Linafelter. "What they're good at is new product development and marketing."

Cobra Golf, which makes large-head golf clubs (like another successful stock, Callaway Golf) will benefit from demographics, as aging baby boomers hit the golf links, Mr. Linafelter says. The endorsement of golfing star Greg Norman is proving a valuable marketing tool, adds Mr. Linafelter.

Atmel, a semiconductor company, has thrived by making specialized components such as logic chips and flash chips, Mr. Linafelter says.

Two names in the table have a high controversy quotient. Franklin Resources, a mutual fund company, emphasizes bond funds, which have had a rocky time lately. Bombay, a furniture retailer, shocked investors recently with a down quarter (seven cents a share profit, compared with eight cents a year earlier).

As a result, Franklin Resources is cheap for a growth stock, selling at only 12 times earnings. And Bombay, while still at 19 times earnings, has come way down, selling for 11 1/4 a share yesterday, down from a 52-week high of 32 1/2.

8
1
4
3
6
5
2
7
1

America's
Largest
Corporations

FORTUNE

APRIL 28, 1997

1997

HUNDRED



FORTUNE 5 HUNDRED LARGEST U.S. CORPORATIONS

RANK 1996 1995		REVENUES		PROFITS		ASSETS		STOCKHOLDERS' EQUITY	
		\$ millions	% change from 1995	\$ millions	Rank	% change from 1995	\$ millions	Rank	\$ millions
301 294	MEAD <i>Easton</i>	4,706.5	(9.1)	195.3	309	(44.2)	4,985.9	302	2,246.4
302 273	BETHLEHEM STEEL <i>Bethlehem, Pa.</i>	4,679.0	(3.9)	(308.8)	490	(271.9)	5,109.9	294	966.0
303 314	GANNETT <i>Ann Arbor, Mich.</i>	4,665.1	16.4	942.1	91	87.6	6,349.6	281	2,930.8
304 334	PACIFICARE HEALTH SYSTEMS <i>Spokane, Wash.</i>	4,631.3	24.3	72.0	457	(33.4)	1,299.5	477	823.2
305 299	TECH DATA <i>Channahon, Ill.</i>	4,588.9	49.0	57.0	417	164.5	1,545.3	480	438.4
306 275	PACCAR <i>Bellevue, Wash.</i>	4,584.7	(5.4)	201.0	306	(20.5)	5,298.8	295	1,358.0
307 276	INLAND STEEL INDUSTRIES <i>Chicago</i>	4,584.1	(4.1)	45.7	439	(88.9)	3,541.6	348	788.0
308 465	SCI SYSTEMS <i>Norwalk, Conn.</i>	4,544.8	70.0	81.0	402	76.9	1,283.2	474	472.3
309 341	WORLDCOM <i>Jackson, Miss.</i>	4,485.1	23.2	(2,213.4)	495	(1,843.9)	19,862.0	329	12,960.0
310 309	HORSTROM <i>Seattle</i>	4,453.1	8.3	147.5	345	(16.7)	2,702.5	306	1,473.2
311 381	PRAXAIR <i>Danbury, Conn.</i>	4,449.0	41.4	282.0	254	7.6	7,538.0	244	1,924.0
312 369	QUANTUM <i>Waltham, Mass.</i>	4,427.7	31.3	(90.5)	472	(210.9)	1,975.4	441	544.8
313 *	ALLEGIANCE <i>McLean, Va.</i>	4,387.2	—	(477.7)	693	—	2,799.2	390	827.7
314 375	WABAN <i>Burlington, Mass.</i>	4,375.5	19.0	76.7	407	5.0	1,376.0	464	631.9
315 370	CMS ENERGY <i>Grand Rapids, Mich.</i>	4,333.0	11.4	240.0	280	17.6	6,615.0	224	1,782.0
316 452	UTILICORP UNITED <i>Kansas City</i>	4,332.3	54.8	185.8	378	32.8	4,704.9	313	1,373.0
317 385	PACIFICORP <i>Portland, Ore.</i>	4,293.8	26.3	504.9	185	—	14,834.5	260	4,187.8
318 301	PICO ENERGY <i>Philadelphia</i>	4,283.7	2.3	817.2	160	(19.2)	15,268.6	293	4,845.3
319 367	COMPUTER SCIENCES <i>El Segundo, Calif.</i>	4,242.4	25.8	141.7	350	26.0	2,585.6	407	1,305.7
320 417	ORACLE <i>Redwood Shores, Calif.</i>	4,223.3	42.3	683.3	140	34.6	3,357.2	381	1,870.4
321 354	CORNING <i>Corning, N.Y.</i>	4,199.5	(21.4)	175.6	329	—	4,321.3	327	961.0
322 376	MUTUAL OF OMAHA INSURANCE <i>Omaha</i>	4,199.1	1.6	65.8	420	(7.2)	11,749.8	190	1,281.8
323 441	CORESTATES FINANCIAL CORP. <i>Princeton, N.J.</i>	4,197.3	46.4	649.1	131	42.5	45,494.7	57	3,695.7
324 314	AON <i>Chicago</i>	4,191.2	(9.3)	335.2	122	(16.8)	13,722.7	149	2,832.9
325 318	FHP INTERNATIONAL <i>San Jose, Calif.</i>	4,179.0	6.9	44.2	437	18.4	2,833.9	431	1,167.6
326 397	WELLPOINT HEALTH NETWORKS <i>Woodland Hills, Calif.</i>	4,168.8	34.2	202.0	304	17.2	3,405.5	356	670.5
327 325	MARSH & MCLENNAN <i>New York</i>	4,149.0	10.0	459.3	182	14.0	4,542.2	314	1,888.6
328 405	APPLIED MATERIALS <i>Santa Clara, Calif.</i>	4,144.8	35.4	589.6	141	32.1	3,638.0	343	2,370.4
329 299	LTV <i>Cleveland</i>	4,134.5	(2.3)	108.2	376	(40.9)	5,410.5	277	1,710.7
330 382	SHERWIN-WILLIAMS <i>Cleveland</i>	4,132.9	26.2	229.2	288	14.2	2,984.6	378	1,481.2
331 441	AMERICAN FINANCIAL GROUP <i>Cincinnati</i>	4,115.4	13.4	233.3	286	22.0	19,051.1	154	1,554.4
332 *	CISCO SYSTEMS <i>San Jose, Calif.</i>	4,096.0	107.0	913.3	96	116.9	3,830.2	341	2,819.6
333 391	HOUSTON INDUSTRIES <i>Houston</i>	4,095.3	(6.7)	404.9	200	(64.0)	12,787.9	184	1,828.0
334 330	DOVER <i>New York</i>	4,076.1	9.8	186.2	205	48.2	2,993.4	351	1,489.7
335 303	SUPERMARKETS GENL. HOLDINGS <i>Westborough, Mass.</i>	4,065.9	(2.9)	36.8	441	(30.3)	1,815.8	485	(1,248.7)
336 331	SUNTRUST BANKS <i>Atlanta</i>	4,064.0	8.7	616.6	186	9.0	52,468.2	54	4,860.0
337 307	UNUM <i>Portland, Me.</i>	4,042.7	(1.9)	238.0	283	(16.3)	19,467.5	161	2,263.1
338 400	FOSTER WHEELER <i>Clinton, N.J.</i>	4,040.6	31.1	82.2	399	188.2	3,510.3	392	688.0
339 368	COMCAST <i>Philadelphia</i>	4,038.4	20.1	(52.3)	468	—	12,088.6	188	551.6
340 319	AIR PRODUCTS & CHEMICALS <i>Allentown, Pa.</i>	4,033.0	3.6	416.0	196	13.0	6,522.0	256	2,374.0
341 377	WACHOVIA CORP. <i>Winston-Salem, N.C.</i>	4,015.0	6.5	644.6	137	7.0	46,884.5	60	3,761.0
342 305	UNION CAMP <i>Wayne, N.J.</i>	4,013.2	(4.7)	85.3	395	(81.1)	5,096.3	396	2,893.6
343 316	NIAGARA MOHAWK POWER <i>Troy, N.Y.</i>	3,990.7	1.9	110.4	374	(35.5)	9,402.0	218	1,025.6
344 376	HERSHEY FOODS <i>Hershey, Pa.</i>	3,989.5	6.1	273.2	190	(3.1)	3,184.8	370	1,181.0
345 321	ROHM & HAAS <i>Philadelphia</i>	3,982.0	2.5	363.0	212	24.3	3,933.0	353	1,729.0
346 254	SAFECO <i>Seattle</i>	3,977.3	6.8	439.0	188	10.0	19,917.7	127	4,115.3
347 326	OWENS-ILLINOIS <i>Franklin</i>	3,976.2	2.5	191.1	312	13.0	6,380.3	264	729.7
348 404	STAPLES <i>Westborough, Mass.</i>	3,967.7	25.3	186.4	177	44.4	1,151.3	480	761.7
349 313	SERVICE MERCHANTISE <i>Berwyn, Tenn.</i>	3,955.0	(1.6)	38.3	438	(71.8)	2,042.8	458	427.1
350 *	HILTON HOTELS <i>Beverly Hills, Calif.</i>	3,940.6	138.8	82.6	400	(52.5)	7,577.0	243	3,211.0

**MARKET
VALUE**
3/14/97

PROFITS AS % OF ...
EARNINGS PER SHARE
**TOTAL RETURN TO
INVESTORS**

\$ millions	Rank	REVENUES % Rank	ASSETS % Rank	STOCK- HOLDERS' EQUITY % Rank	1996 \$	% change from 1995	1986-96 annual growth rate % Rank	1996 % Rank	1995-96 annual return % Rank	Industry rank number	RANK 1996
2,954.4	361	4.1 279	3.9 245	8.7 376	3.67	(42.0)	20.3 33	13.0 396	28.4 278	72	301
950.6	439	(6.6) 488	(6.0) 480	(32.0) 479	(3.15)	(354.0)	—	(36.0) 486	4.2 349	75	302
11,963.7	118	20.2 8	14.9 16	32.2 30	6.69	96.2	22.8 26	24.6 200	10.5 276	41	303
3,485.7	323	1.4 406	5.5 176	8.7 376	2.27	(37.3)	14.2 34	(6.0) 387	41.3 8	25	304
1,198.0	432	1.2 413	3.7 263	13.0 259	1.35	141.1	28.7 20	82.5 18	32.3 14	59	305
2,700.0	356	4.4 272	3.8 254	14.8 229	5.17	(70.3)	14.7 30	75.0 25	10.0 302	37	306
878.2	437	3.9 431	3.3 304	5.8 419	0.79	(72.3)	6.5 206	(19.0) 430	3.8 363	35	307
1,471.1	413	3.8 354	6.3 147	17.1 186	2.00	65.0	15.0 32	44.8 79	16.3 105	12	308
20,006.7	75	(40.3) 495	(11.1) 487	(17.1) 472	(5.34)	(955.4)	—	47.9 61	93.0 2	49	309
3,874.4	340	8.5 319	9.5 178	10.0 305	1.82	(5.0)	7.2 190	(12.0) 415	8.4 281	34	310
7,969.3	181	6.3 194	3.7 257	14.7 231	1.77	(2.7)	—	30.4 112	—	7	311
2,477.4	363	(2.0) 479	(4.0) 478	(16.0) 471	(1.74)	(201.2)	—	77.5 22	20.0 74	11	312
1,381.9	428	(10.0) 492	(17.1) 492	(37.7) 479	(8.70)	—	—	—	—	75	313
943.6	440	1.8 395	5.6 172	12.1 295	2.31	5.0	—	20.4 107	—	48	314
3,008.3	336	5.5 332	2.8 305	14.1 240	2.45	7.9	12.7 33	16.3 266	10.1 283	57	315
1,405.5	418	2.4 365	2.2 328	9.8 369	2.20	27.9	2.3 258	(2.1) 360	10.9 285	52	316
6,006.4	223	11.0 60	3.9 282	11.0 302	1.82	(1.2)	(6.0) 291	2.2 357	8.2 315	57	317
4,700.3	271	12.2 57	3.4 286	10.3 341	2.24	(15.2)	(1.3) 297	(10.2) 411	8.0 303	57	318
5,176.1	251	3.0 317	5.5 178	10.0 302	2.48	18.7	16.0 59	10.0 261	10.2 287	9	319
27,713.9	65	14.3 35	18.0 8	33.3 28	0.90	35.0	54.1 4	47.8 62	93.0 2	9	320
10,234.3	143	4.2 273	4.1 239	18.3 146	0.76	—	(2.0) 336	47.7 63	15.5 146	6	321
N.A.		1.0 402	0.6 404	5.1 426	N.A.	—	—	—	—	28	322
11,682.2	125	15.5 32	1.4 371	17.8 148	2.97	(7.8)	7.3 188	42.7 64	16.1 120	8	323
7,118.8	194	8.0 147	2.4 319	11.0 302	2.87	(17.5)	1.5 267	27.9 172	17.9 102	29	324
1,540.3	436	1.3 429	2.2 334	3.8 435	0.43	48.3	(0.1) 395	—	—	76	325
3,829.0	344	4.8 353	9.9 159	23.2 95	3.04	12.8	—	(0.0) 405	—	25	326
6,182.7	180	11.1 56	10.1 48	24.3 72	6.54	14.6	6.7 253	21.2 226	6.3 387	13	327
8,430.3	156	14.5 32	16.5 12	25.2 66	5.27	27.7	78.3 1	(8.7) 406	40.6 9	15	328
1,308.3	420	2.0 352	2.0 339	6.4 408	1.81	(40.0)	—	(13.0) 418	—	36	329
4,775.5	270	9.5 231	7.7 99	16.4 193	1.33	13.7	6.7 164	20.5 116	17.2 111	7	330
2,274.9	377	5.7 324	1.6 362	15.0 272	3.04	(0.0)	7.1 191	27.2 176	8.0 318	51	331
23,240.0	42	22.3 5	25.2 7	32.4 27	1.37	80.3	—	79.5 28	—	14	332
5,010.5	261	9.9 201	3.3 289	10.6 339	1.66	(63.4)	(1.4) 293	(0.2) 371	11.2 257	57	333
5,992.2	226	9.6 211	13.0 27	26.2 59	3.45	40.6	19.0 41	36.8 110	10.8 287	21	334
N.A.		0.9 435	1.4 368	—	N.A.	—	—	—	—	30	335
11,299.0	127	15.2 33	1.2 391	12.8 290	2.78	11.7	11.5 111	46.0 64	20.7 64	8	336
5,506.4	239	9.0 212	1.5 380	10.5 342	3.26	(15.0)	—	33.7 130	20.4 68	29	337
1,500.0	407	2.0 382	2.3 323	11.0 305	2.80	107.0	11.2 119	(11.0) 414	13.4 210	17	338
5,000.3	231	(1.3) 472	(0.4) 461	(0.7) 468	(0.21)	—	—	(1.5) 378	14.4 182	45	339
8,194.8	176	10.3 37	6.4 143	16.2 198	3.73	12.4	37.4 2	33.5 140	12.5 109	7	340
9,912.0	146	16.1 39	1.4 374	17.1 149	3.81	8.0	9.8 143	27.4 178	16.1 96	8	341
1,374.3	421	2.1 372	1.9 359	4.1 432	1.23	(80.9)	(3.6) 310	3.9 346	7.1 327	22	342
1,227.1	427	2.8 345	1.2 392	3.4 437	0.50	(65.3)	(15.3) 327	3.9 345	(0.3) 369	52	343
7,647.1	185	6.8 176	8.6 80	23.5 82	1.77	4.1	9.8 149	27.2 121	16.3 130	19	344
5,765.0	235	9.1 206	9.2 63	21.0 107	5.45	29.1	10.5 130	30.0 162	12.0 142	7	345
9,000.1	157	11.0 57	2.2 333	10.7 334	3.48	0.0	7.4 182	18.0 250	15.4 153	31	346
1,000.7	334	4.8 258	3.1 294	26.2 60	1.50	12.0	—	56.9 45	—	6	347
3,516.0	310	2.7 349	9.2 61	14.0 247	0.84	37.1	—	11.2 308	—	46	348
374.3	450	1.9 433	1.9 344	6.2 467	0.20	(22.0)	—	(15.0) 424	6.4 312	48	349
6,321.4	212	2.1 379	1.1 397	2.0 443	0.40	(33.3)	(1.0) 296	71.7 27	14.0 177	16	350

FORTUNE **5** HUNDRED RANKED BY PERFORMANCE

HIGHEST TOTAL RETURN TO INVESTORS*

10 YEARS

RANK		500 REVENUES RANK	1986-89 ANNUAL RATE %			
1	ORACLE	320	53.5	27	TOSCO	146 25.1
2	WORLDWIDE	309	53.0	28	PHILIP MORRIS	10 25.0
3	MICROSOFT	172	51.0	29	ARROW ELECTRONICS	221 24.2
4	CONSECO	446	47.3	30	BANKAMERICA CORP.	38 24.2
5	NIKE	223	46.9	31	SUN MICROSYSTEMS	203 24.0
6	INTEL	43	43.8	32	SCHERING-PLOUGH	254 23.8
7	MICRON TECHNOLOGY	370	41.8	33	VONS	266 23.7
8	PACIFICARE HEALTH SYSTEMS	904	41.3	34	THERMO ELECTRON	458 23.4
9	APPLIED MATERIALS	328	40.6	35	WASHINGTON MUTUAL	398 23.4
10	HOME DEPOT	50	40.2	36	PEPSICO	21 23.0
11	COMPAQ COMPUTER	60	38.9	37	SILICON GRAPHICS	460 22.9
12	UNITED HEALTHCARE	140	36.0	38	ALBERTSON'S	89 22.7
13	COMPUTER ASSOCIATES INTL.	388	32.7	39	GAP	269 22.6
14	TECH DATA	905	32.3	40	MOTOROLA	24 22.5
15	GILLETTE	152	31.6	41	WELLS FARGO & CO.	169 22.5
16	CARDINAL HEALTH	166	31.5	42	COMERICA	444 22.4
17	JOHNSON & JOHNSON	39	31.0	43	FIRST DATA	299 22.2
18	COCA-COLA	58	29.8	44	IRON OFFICE SOLUTIONS	121 22.1
19	MATTEL	363	29.2	45	MERCK	48 22.1
20	BERKSHIRE HATHAWAY	132	29.3	46	MCDONNELL DOUGLAS	87 22.1
21	SERVICEMASTER	394	28.0	47	PROCTER & GAMBLE	18 21.9
22	NEWELL	463	27.5	48	AFLAC	202 21.8
23	MCI COMMUNICATIONS	59	26.7	49	AMERICAN STORES	56 21.8
24	TRAVELERS GROUP	40	26.4	50	PFIZER	118 21.7
25	PHELPS DODGE	362	26.1		THE 500 MEDIAN	14.1
26	NORWEST CORP.	165	26.0			

B U S I N E S S S E R V I C E S

PHONEPASS™
PREPAID CALLING CARD

B U S I N E S S S E R V I C E S

The push of a button. The strike of a key. The switch is on.
Voice, data and video transported in an instant. In precise,
fiber-optic choreography. LDDS WorldCom goes the distance.
To give you a closer look at your world.

PhonePass is a prepaid calling card with limitless applications for increasing your company's name recognition. Use PhonePass to provide a new source of revenue, to promote customer goodwill, to increase company and product awareness, or simply to place a long distance phone call.

PhonePass cards may be used as promotional vehicles, gifts, giveaways or incentives. Custom artwork makes your message more visible and memorable, while custom greetings reinforce your message. Interactive menus, surveys, sweepstakes and product registrations are among the PhonePass card's many applications.

PhonePass also offers profitable retail opportunities, so you can use it to sell your products or the card itself.

After using PhonePass, you will wonder how you ever marketed without it.

**WORLD
COM**

© 1995 WorldCom

HOW PHONEPASS WORKS

PhonePass is a prepaid calling card. As with conventional long distance calling cards, users dial a toll-free authorization code. But instead of accumulating time, PhonePass subtracts time in units. Cards contain a fixed amount of units, or calling time. With each PhonePass call, you are informed of the remaining number of units on your card. Once depleted, a "one-minute warning" is announced before any call is disconnected.

FEATURES/BENEFITS

- **Fixed Calling Time** — Cards are available in denominations of 10, 20, 50 or 100 units. A unit is equivalent to one minute of domestic calling time. International calls require multiple units per minute, depending on the destination of the call.
- **International Termination** — (optional) Call from the U.S. to more than 230 international direct-dial locations. The number of units-per-minute varies depending on the international location called.
- **International Origination*** — (optional) Call from 30 international locations back to the U.S.
- **Custom Greeting** — Establish a recorded custom greeting up to seven seconds in length. PhonePass users will hear the greeting with each use.
- **Custom Closing** — A custom closing up to three seconds in length may be recorded.
- **System Speed Dialing** — Pre-defined numbers can be made available to card users as menu selection options. For example, a travel agency distributes PhonePass cards that prompt customers, "To plan your next vacation with XYZ Travel, press one." The user is automatically connected to the travel agency.

- **Multilingual** — All voice recordings can be provided in several languages, including English, Japanese, Spanish, German, French and Chinese. Up to six languages can be provided on a single card for an additional charge.
- **Chaining** — Allows users to consolidate units between cards.
- **Subscriber Debit Service** — Enables users to add more time to their cards using a major credit card, which is an excellent revenue stream for organizations that choose to retail PhonePass.
- **Activation on First Usage** — PhonePass cards are issued with a pre-determined shelf-life, after which the cards automatically expire. Each card's shelf-life begins when the card is first used.
- **Expiration** — Can be set for either three-, six- or twelve-month periods.
- **24-Hour Customer Service** — LDDS WorldCom provides your cardholders 24-hour support, seven days a week.

UNLIMITED CUSTOMIZED APPLICATIONS

Examples:

- Consumer goods companies can package PhonePass cards with their products, or simply incorporate authorization codes into product packaging. Awards, in the form of calling time or a sweepstakes giveaway, can be associated with a winning authorization code.
- Software companies can use the advanced, programmable PhonePass platform to handle automated product registrations or to provide new customers with a fixed amount of free technical support.

WORLD
COM

PhonePass

- PhonePass also provides a convenient, cost-effective means of conducting customer surveys, eliminating data-entry costs and increasing customer-response rates with convenient telephone access.

CARD PRODUCTION

Four card options are available:

- **Custom Cards** — Produce your unique promotional or collector cards through LDDS WorldCom. We work with the industry's finest card producers to ensure your custom cards are produced affordably and to the highest quality standards.
- **Stock Cards** — Choose from our selection of stock-photography PhonePass cards, available at no additional charge. Minimum quantities may apply.
- **Private Label Cards** — Hot-stamp your company name, product name or logo onto any of our stock-photography cards.
- **PINs Only** — Purchase PhonePass service PINs provided on computer diskette. Codes can be printed on cards or almost anything you choose to distribute, including consumer packaging, sweepstakes forms and direct mail pieces.

*LDDS WorldCom provides international origination for incidental traffic as allowed by the applicable PTT. The availability of origination from a country is not a guarantee of continual availability and is subject to termination at any time. International country-to-country calling is not available with PhonePass.

PhonePass is for sale only in the U.S.

014365235

KELLEY DRYE & WARREN LLP
1200 19TH STREET, N.W.
WASHINGTON, DC 20036

FIRST UNION NATIONAL BANK
OF WASHINGTON, D.C.
WASHINGTON, DC

04498

15-122/540
00460

August 22, 1997

PAY TO THE
ORDER OF

South Dakota Public Utilities Commission

\$ 250.00

Two Hundred Fifty And No/100-----

DOLLARS

MEMO

Chg. 36489.020 Application Fee

Philip P. Purnell

⑈004498⑈ ⑆054001220⑆2000034690853⑈

Returned check

ORIGINAL

State of South Dakota



OFFICE OF THE SECRETARY OF STATE

CERTIFICATE OF AUTHORITY

I, JOYCE HAZELTINE, Secretary of State of the State of South Dakota, hereby certify that duplicate of the Application for a Certificate of Authority of WORLD COM TECHNOLOGIES, INC. (DE) to transact business in this state duly signed and verified pursuant to the provisions of the South Dakota Corporation Acts, have been received in this office and are found to conform to law.

ACCORDINGLY and by virtue of the authority vested in me by law, I hereby issue this Certificate of Authority and attach hereto a duplicate of the application to transact business in this state under the name of WORLD COM TECHNOLOGIES, INC.



IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the Great Seal of the State of South Dakota, at Pierre, the Capital, this August 25, 1997.

Joyce Hazeltime
JOYCE HAZELTINE
Secretary of State

KELLEY DRYE & WARREN LLP

A LIMITED LIABILITY PARTNERSHIP INCLUDING PROFESSIONAL ASSOCIATIONS

1200 19TH STREET, N.W.

SUITE 500

WASHINGTON, D. C. 20036

(202) 955-9600

FACSIMILE

(202) 955-9797

NEW YORK, N.Y.

LOS ANGELES, CA

MIAMI, FL

CHICAGO, IL

STAMFORD, CT

PARSIPPANY, N.J.

BRUSSELS, BELGIUM

HONG KONG

AFFILIATED OFFICES

NEW DELHI, INDIA

TOKYO, JAPAN

October 15, 1997

RECEIVED

OCT 17 1997

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

BY FEDERAL EXPRESS

Mr. William Bullard, Jr.
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol Avenue
Pierre, South Dakota 57501-5070

COPY

Re: Application of WorldCom, Inc., MFS Intelenet of South Dakota, Inc. and
WorldCom Technologies, Inc. -- Docket No. TC-97-110

Dear Mr. Bullard:

Enclosed for filing with the South Dakota Public Utilities Commission please find an original and 10 copies of a bond in the amount of \$25,000 for WorldCom Technologies, Inc. that is being filed in support of the above-referenced docket. Enclosed please also find a duplicate of this filing and a self-addressed stamped envelope. Please date-stamp the duplicate upon receipt and return it in the envelope provided.

Please do not hesitate to contact me at (202) 955-9883 if you have any questions.

Very truly yours,

Maricann Z. Machida
Maricann Z. Machida

INDEMNITY BOND TO THE
PEOPLE OF THE STATE OF SOUTH DAKOTA

BOND NO. U2801951

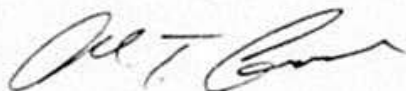
We, WorldCom Technologies, Inc., the principle and applicant for a CERTIFICATE OF AUTHORITY to resell long-distance telecommunications services within the State of South Dakota, and UNITED PACIFIC INS COMPANY, as an admitted surety insurer, bind ourselves unto the Public Service Commission of the State of South Dakota and the consumers of South Dakota as Obligees, in the sum of \$25,000.00.

The conditions of the obligation are such that the principle, having been granted such CERTIFICATE OF AUTHORITY subject to the provision that said principal purchase this indemnity Bond, and if said principal shall in all respects fully and faithfully comply with all applicable provisions of South Dakota State Law, and reimburse customers of WorldCom Technologies, Inc., for any prepayment or deposits they have made with WorldCom Technologies, Inc. which WorldCom Technologies, Inc., may be unable or unwilling to return to said customers as a result of insolvency or other business failure, then this obligation shall be void, discharged and forever exonerated, otherwise to remain in full force and effect.

This bond shall take effect as of the date hereon and shall remain in force and effect until the surety is released from liability by the written order of the Public Service Commission, provided that the surety may cancel this Bond and be relieved of further liability hereunder by delivering thirty (30) days written notice to the Public Service Commission. Such cancellation shall not affect any liability incurred or accrued hereunder prior to the termination of said thirty (30) day period.

Dated this 3RD day of OCTOBER, 1997.

To be effective this 3RD day of OCTOBER, 1997



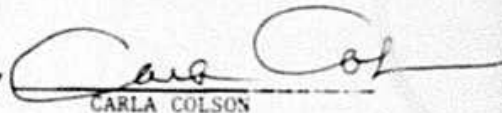
Countersigned this 3RD day of
OCTOBER, 1997.

Countersign for South Dakota

By Nick Grusso
Resident Agent

NICK GRUSSO

By



CARLA COLSON

UNITED PACIFIC INSURANCE CO.

Surety

By



Attorney in Fact

RELIANCE SURETY COMPANY
UNITED PACIFIC INSURANCE COMPANY

RELIANCE INSURANCE COMPANY
RELIANCE NATIONAL INDEMNITY COMPANY

ADMINISTRATIVE OFFICE, PHILADELPHIA, PENNSYLVANIA

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that RELIANCE SURETY COMPANY is a corporation duly organized under the laws of the State of Delaware, and that RELIANCE INSURANCE COMPANY and UNITED PACIFIC INSURANCE COMPANY, are corporations duly organized under the laws of the Commonwealth of Pennsylvania and that RELIANCE NATIONAL INDEMNITY COMPANY is a corporation duly organized under the laws of the State of Wisconsin (herein collectively called "the Companies") and that the Companies by virtue of signature and seals do hereby make, constitute and appoint Joseph N. Duval, Gary Ivey, Kerry Scott Crawford, Carla Coleon, Joyce M. Connor, Angie Granschnig, Michael J. Keenan, Elaine Hunt, Vincent Carrell, David Crosby, Edward Kilman, Brian Demell, of Atlanta, Georgia their true and lawful Attorney(s)-in-Fact, to make, execute, seal and deliver for and on their behalf, and as their act and deed any and all bonds and undertakings of suretyship and to bind the Companies thereby as fully and to the same extent as if such bonds and undertakings and other writings obligatory in the nature thereof were signed by an Executive Officer of the Companies and sealed and attested by one other of such officers, and hereby ratifies and confirms all that their said Attorney(s)-in-Fact may do in pursuance hereof.

This Power of Attorney is granted under and by the authority of Article VII of the By-Laws of RELIANCE SURETY COMPANY, RELIANCE INSURANCE COMPANY, UNITED PACIFIC INSURANCE COMPANY, and RELIANCE NATIONAL INDEMNITY COMPANY which provisions are now in full force and effect, reading as follows:

ARTICLE VII - EXECUTION OF BONDS AND UNDERTAKINGS

1. The Board of Directors, the President, the Chairman of the Board, any Senior Vice President, any Vice President or Assistant Vice President or other officer designated by the Board of Directors shall have power and authority to (a) appoint Attorney(s)-in-Fact and to authorize them to execute on behalf of the Company, bonds and undertakings, recognizances, contracts of indemnity and other writings obligatory in the nature thereof, and (b) to remove any such Attorney(s)-in-Fact at any time and revoke the power and authority given to them.

2. Attorney(s)-in-Fact shall have power and authority, subject to the terms and limitations of the Power of Attorney issued to them, to execute deliver on behalf of the Company, bonds and undertakings, recognizances, contracts of indemnity and other writings obligatory in the nature thereof. The corporate seal is not necessary for the validity of any bonds and undertakings, recognizances, contracts of indemnity and other writings obligatory in the nature thereof.

3. Attorney(s)-in-Fact shall have power and authority to execute affidavits required to be attached to bonds, recognizances, contracts of indemnity or other conditional or obligatory undertakings and they shall also have power and authority to certify the financial statements of the Company and to execute of the By-Laws of the Company or any article or section thereof.

This Power of Attorney is signed and sealed by facsimile under and by authority of the following resolution adopted by the Executive and Finance Committees of the Boards of Directors of Reliance Insurance Company, United Pacific Insurance Company and Reliance National Indemnity Company by Unanimous Consent dated as of February 28, 1994 and by the Executive and Finance Committee of the Board of Directors of Reliance Surety Company by Unanimous Consent dated as of March 31, 1994.

"Resolved that the signatures of such directors and officers and the seal of the Company may be affixed to any such Power of Attorney or any certificate relating thereto by facsimile and any such Power of Attorney or certificate bearing such facsimile signatures or facsimile seal shall be valid and binding upon the Company and any such Power as executed and certified by facsimile signatures and facsimile seal shall be valid and binding upon the Company, in the future with respect to any bond or undertaking to which it is attached."

IN WITNESS WHEREOF, the Companies have caused these presents to be signed and their corporate seals to be hereto affixed, this July 28, 1997.



RELIANCE SURETY COMPANY
RELIANCE INSURANCE COMPANY
UNITED PACIFIC INSURANCE COMPANY
RELIANCE NATIONAL INDEMNITY COMPANY

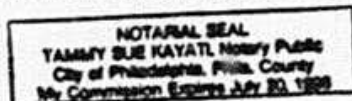
David T. Akers

STATE OF Pennsylvania
COUNTY OF Philadelphia

} ss.

On this, July 28, 1997, before me, Tommy Sue Kayati, personally appeared David T. Akers, who acknowledged himself to be the Senior Vice President of the Reliance Surety Company, and the Vice President of Reliance Insurance Company, United Pacific Insurance Company, and Reliance National Indemnity Company and that as such, being authorized to do so, executed the foregoing instrument for the purpose therein contained by signing the name of the corporation by himself as its duly authorized officer.

In witness whereof, I hereunto set my hand and official seal.



Tommy Sue Kayati
Notary Public in and for the State of Pennsylvania
Residing at Philadelphia

I, Anita Zippert, Secretary of RELIANCE SURETY COMPANY, RELIANCE INSURANCE COMPANY, UNITED PACIFIC INSURANCE COMPANY, and RELIANCE NATIONAL INDEMNITY COMPANY do hereby certify that the above and foregoing is a true and correct copy of the Power of Attorney executed by said Companies, which is still in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seals of said Companies this 3rd day of October 19 97.

Anita Zippert
Secretary



8
342656
1

UNITED PACIFIC INSURANCE COMPANY

HEAD OFFICE, PHILADELPHIA, PENNSYLVANIA

RIDER

To be attached to and form part of Bond Number U2801951 Executed by
WorldCom Technologies, Inc.
as Principal, and UNITED PACIFIC INSURANCE COMPANY, as Surety, in favor of
The Public Service Commission of the State of South Dakota
and dated October 3, 1997

In consideration of the premium charged for the attached bond, it is hereby agreed that:

Name of Obligee is amended to read:

The Public Utility Commission of the State of South Dakota

The attached bond shall be subject to all its agreements, limitations and conditions except
as herein expressly modified.

This rider shall become effective as of the 3rd day of October, 1997,
standard time.

Signed, sealed and dated this 7th day of Oct., 1997.

WorldCom Technologies, Inc.
PRINCIPAL

By 
Scott D. Sullivan
Chief Financial Officer

ACCEPTED

UNITED PACIFIC INSURANCE COMPANY

By _____

TITLE

BDR-1468 ED 7-71

By 
ATTORNEY IN FACT

0143-65-242

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

IN THE MATTER OF THE APPLICATION OF)	ORDER GRANTING
WORLDCOM TECHNOLOGIES, INC. FOR A)	CERTIFICATE OF
CERTIFICATE OF AUTHORITY TO PROVIDE)	AUTHORITY
TELECOMMUNICATIONS SERVICES,)	
INCLUDING LOCAL EXCHANGE SERVICES, IN)	TC97-110
SOUTH DAKOTA)	

On June 25, 1997, the Public Utilities Commission (Commission), in accordance with SDCL 49-31-3 and ARSD 20:10:24:02, received an application for a certificate of authority from WorldCom Technologies, Inc. (WorldCom).

WorldCom proposes to provide MTS, WATS, 800, calling card and debit card services. WorldCom also proposes to provide local exchange and exchange access services. A proposed tariff was filed by WorldCom.

On June 26, 1997, the Commission electronically transmitted notice of the filing and the intervention deadline of July 11, 1997, to interested individuals and entities. No petitions to intervene or comments were filed and at its regularly scheduled October 9, 1997, meeting, the Commission considered WorldCom's request for a certificate of authority. Commission Staff recommended granting a certificate of authority, subject to rural safeguards. Commission Staff further recommended a waiver of 20:10:24:02(6), (7), (8), (11) and (12). WorldCom has furnished the Commission with a surety bond. WorldCom is to surrender its previously issued certificates of authority to the South Dakota Public Utilities Commission.

The Commission finds that it has jurisdiction over this matter pursuant to Chapter 49-31, specifically 49-31-3 and ARSD 20:10:24:02 and 20:10:24:03. The Commission finds that WorldCom has met the legal requirements established for the granting of a certificate of authority. WorldCom has, in accordance with SDCL 49-31-1, demonstrated sufficient technical, financial and managerial capabilities to offer telecommunications services in South Dakota. Further, the Commission finds that there is good cause to waive subparagraphs (6), (7), (8), (11) and (12) of ARSD 20:10:24:02.

The Commission approves WorldCom's application for a certificate of authority, subject to rural safeguards. The certificate of authority for WorldCom shall authorize it to offer local exchange services in those areas in South Dakota where U S WEST Communications, Inc. is the incumbent local exchange carrier. In the future, should WorldCom choose to provide local exchange services statewide, with respect to rural telephone companies, WorldCom will have to come before the Commission in another proceeding before being able to provide local service in that rural service area pursuant to 47 U.S.C. § 253(f) which allows the Commission to require a company that seeks to provide service in a rural service area to meet the requirements in 47 U.S.C. § 214(e)(1) for designation as an eligible telecommunications carrier. In addition, the granting of

statewide certification will not affect the exemptions, suspensions, and modifications for rural telephone companies found in 47 U.S.C. § 251(f). It is therefore

ORDERED, that WorldCom's application for a Certificate of Authority to provide telecommunications services, including local exchange services, is granted, and it is

FURTHER ORDERED, that WorldCom shall file informational copies of tariff changes with the Commission as the changes occur, and it is

FURTHER ORDERED, that the Commission shall authorize WorldCom to offer its services in those areas in South Dakota where U S WEST Communications, Inc. is the incumbent local exchange carrier, and it is

FURTHER ORDERED, that the Commission finds good cause to waive subparagraphs (6), (7), (8), (11) and (12) of ARSD 20:10:24.02, and it is

FURTHER ORDERED, that WorldCom shall surrender and return to the Commission those certificates of authority granted to WorldCom, Inc., and MFS Intelenet of South Dakota, Inc.

Dated at Pierre, South Dakota, this 17th day of October, 1997.

CERTIFICATE OF SERVICE The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon. By <u><i>Christine Kaelke</i></u> Date <u>10/30/97</u> (OFFICIAL SEAL)
--

BY ORDER OF THE COMMISSION

James A. Burg
JAMES A. BURG, Chairman

Pam Nelson
PAM NELSON, Commissioner

Laska Schoenfelder
LASKA SCHOENFELDER, Commissioner

8143.65.244

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

CERTIFICATE OF AUTHORITY

To Conduct Business As A Telecommunications Company
Within The State Of South Dakota

Authority was Granted October 9, 1997
Docket No. TC97-110

This is to certify that

WORLDCOM TECHNOLOGIES, INC.

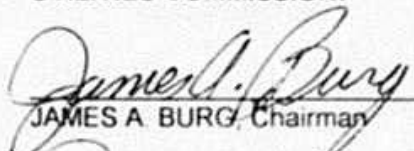
is authorized to provide telecommunications services in South Dakota.

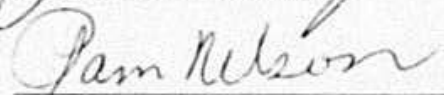
This certificate is issued in accordance with SDCL 49-31-3 and ARSD 20.10.24.02, and is subject to all of the conditions and limitations contained in the rules and statutes governing its conduct of offering telecommunications services.

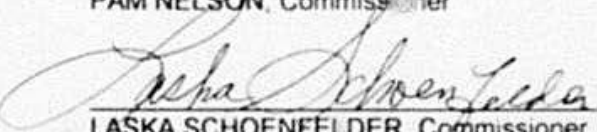
Dated at Pierre, South Dakota, this 17th day of October, 1997.

**SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION:**




JAMES A. BURG, Chairman


PAM NELSON, Commissioner


LASKA SCHOENFELDER, Commissioner

8 JAN 5 1997

KELLEY DRYE & WARREN LLP

A LIMITED LIABILITY PARTNERSHIP INCLUDING PROFESSIONAL ASSOCIATIONS

1200 19TH STREET, N.W.

SUITE 500

WASHINGTON, D. C. 20036

(202) 955-9600

NEW YORK, N.Y.

LOS ANGELES, CA.

MIAMI, FL.

CHICAGO, IL.

STAMFORD, CT.

PARSIPPANY, N.J.

BRUSSELS, BELGIUM

HONG KONG

AFFILIATED OFFICES

NEW DELHI, INDIA

TOKYO, JAPAN

FACSIMILE

(202) 955-9792

RECEIVED

NOV 03 1997

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

October 31, 1997

BY FEDERAL EXPRESS

Mr. William Bullard, Jr.
Executive Director
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol Avenue
Pierre, South Dakota 57501

Re: Docket No. TC-97-110 -- WorldCom Corporate Reorganization

Dear Mr. Bullard:

On behalf of WorldCom, Inc. ("WorldCom"), MFS Intelenet of South Dakota, Inc. ("MFS of South Dakota") and WorldCom Technologies, Inc. ("WorldCom Technologies"), I am writing to advise you that the corporate reorganization pursuant to which the operations of WorldCom and MFS of South Dakota were consolidated into WorldCom Technologies has been completed. *Please note that the WorldCom companies are still waiting on the IRS private letter ruling referred to in their filing. Therefore, MFS Network Technologies, Inc. has not been removed from the chain of ownership of WorldCom Technologies at this time.* The WorldCom companies will notify the Commission as soon as the IRS has made a definitive ruling.

Enclosed please find the original certificates issued by the Commission to MFS of South Dakota and LDDS Communications, Inc. d/b/a LDDSMetromedia Communications ("LDDS"). The WorldCom companies have been unable to locate the certificate issued by the Commission that reflected the name change of LDDS to WorldCom. If that certificate is located, the WorldCom companies will forward it to the Commission.

8
1
4
3
.
6
5
.
2
4
6

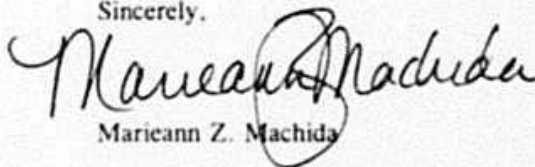
KELLEY DRYE & WARREN LLP

Mr. William Bullard, Jr.
October 31, 1997
Page 2

Enclosed please also find a duplicate of this filing and a self-addressed stamped envelope. Please date-stamp the duplicate upon receipt and return it in the envelope provided.

Please do not hesitate to contact me at (202) 955-9883 if you have any questions.

Sincerely,

A handwritten signature in cursive script, appearing to read "Marieann Z. Machida". The signature is fluid and somewhat stylized, with the first and last names being more prominent than the middle initial.

Marieann Z. Machida

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

CERTIFICATE OF AUTHORITY
To Conduct Business As A Telecommunications Company
Within The State Of South Dakota

This is to certify that

***LDDS Communications, Inc. d/b/a
LDDSMetromedia Communications***

is authorized to provide telecommunications services in South Dakota.

This certificate is issued in accordance with SDCL 49-31-3 and ARSD
20:10:24:02, and is subject to all of the conditions and limitations contained in the
rules and statutes governing its conduct of offering telecommunications services.

Dated at Pierre, South Dakota, this 10th day of June, 1994

**SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION:**



Laska Schoenfelder
LASKA SCHOENFELDER, Chairman

Kenneth Stofferahn
KENNETH STOFFERAHN, Commissioner

James A. Burg
JAMES A. BURG, Commissioner

8143 36 24 8

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

AMENDED CERTIFICATE OF AUTHORITY

To Conduct Business As A Telecommunications Company
Within The State Of South Dakota

Authority was Granted April 15, 1997
Docket No. TC97-019

This is to certify that

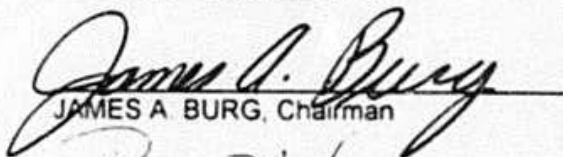
MFS INTELENET OF SOUTH DAKOTA, INC.

is authorized to provide telecommunications services in South Dakota.

This certificate is issued in accordance with SDCL 49-31-3 and ARSD 20:10:24:02, and is subject to all of the conditions and limitations contained in the rules and statutes governing its conduct of offering telecommunications services.

Dated at Pierre, South Dakota, this 28th day of April, 1997.

**SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION:**


JAMES A. BURG, Chairman


PAM NELSON, Commissioner


LASKA SCHOENFELDER, Commissioner