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FILE COPY

September 3, 1996

961039-TB

**VIA OVERNIGHT DELIVERY**

Blanca S. Bayo, Director  
Division of Records and Reporting  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0870

"WorldCom" TI919

Re: Application of WorldCom, Inc. and MFS Communications Company, Inc.  
for Approval of Agreement and Plan of Merger, and Related Transactions

Dear Ms. Bayo:

On behalf of MFS Communications Company, Inc. and WorldCom, Inc. (the "Applicants"), enclosed for filing are an original and five (5) copies of the above-referenced application. A copy of the Application on a 3-1/2" diskette (WP 6.0) also is enclosed.

Please date-stamp the enclosed extra copy of this filing and return it to the undersigned in the attached self-addressed, stamped envelope. Should you have any questions, please do not hesitate to contact the undersigned.

Respectfully submitted,

*Jean L. Kiddoo*  
Jean L. Kiddoo  
Phyllis A. Whitten

ACK \_\_\_\_\_  
AFA \_\_\_\_\_  
ATT \_\_\_\_\_  
CIT \_\_\_\_\_  
COT \_\_\_\_\_  
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Enclosures

cc: Thomas Williams (FL PSC)

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DOCUMENT NUMBER-DATE  
09422 SEP-4 96  
FPC-RECORDS/REPORTING

**BEFORE THE  
FLORIDA  
PUBLIC SERVICE COMMISSION**

Application of WorldCom, Inc. and  
MFS Communications Company, Inc.  
for Approval of Agreement and Plan  
of Merger, and Related Transactions

Docket No. 961039-TR

**APPLICATION**

WorldCom, Inc. ("WorldCom") and MFS Communications Company, Inc. ("MFSCC"), (together the "Applicants"), by their undersigned counsel and pursuant to Section 364.33 and 364.345 of the Florida Statutes, hereby request Commission approval of a transaction whereby HIJ Corp., a wholly-owned subsidiary of WorldCom, will merge into MFSCC, and the shareholders of MFSCC will exchange each share of MFSCC common stock for 2.1 shares of WorldCom common stock. Both WorldCom and MFSCC are authorized, either directly or through certain subsidiaries, to provide a variety of telecommunications services within Florida. WorldCom and MFSCC therefore notify, and to the extent required, seek Commission approval, of the proposed merger and the related financial transactions described in detail herein. WorldCom and MFSCC currently are not affiliated with each other.

DOCUMENT NUMBER-DATE

09422 SEP-4 8

FPSC-RECORDS/REPORTING

The Applicants respectfully request expedited treatment of this Application to permit them to consummate the merger no later than December 1, 1996.

The Applicants submit the following information in support of this Application:

**I. THE PARTIES**

**A. MFS Communications Company, Inc.**

MFSCC, a Delaware corporation, is publicly traded on the Nasdaq Stock Market under the stock symbol MFST. Its principal offices are located at 11808 Miracle Hills Drive, Omaha, Nebraska 68154. Pursuant to Certificates of Public Convenience and Necessity issued by this Commission to Metropolitan Fiber Systems of Florida, Inc.,<sup>1</sup> MFS Intelenet of Florida, Inc.,<sup>2</sup> and RealCom Office Communications, Inc.<sup>3</sup> (the "Florida Operating Subsidiaries"), MFSCC subsidiaries are authorized to provide all forms of telecommunications services throughout the State of Florida, including alternative access vendor and local exchange services.

In addition to the services provided to Florida subscribers, MFSCC subsidiaries currently operate local fiber optic networks in 45 domestic U.S. metropolitan areas, resell local and interexchange services, and are authorized by the Federal Communications Commission ("FCC") to provide interstate and international long distance services throughout the United States. MFSCC subsidiaries also operate fiber optic networks in a number of cities outside the United States.

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<sup>1</sup> See Certificate No. 3151, Docket Nos. 930074-TP (February 24, 1993) and 950759-TX (October 11, 1995).

<sup>2</sup> See Order No. PSC-94-0883-FOF-TI (July 20, 1994).

<sup>3</sup> See Docket No. 940571-TF (September 16, 1994).

Recently, MFSCC completed the purchase of UUNET Technologies, Inc., a leading national and international provider of a comprehensive range of Internet services, making it the world's largest Internet access provider.

Information concerning the legal, technical, managerial and financial qualifications of MFSCC and its Florida Operating Subsidiaries to provide service was submitted with the various MFSCC subsidiaries' applications for certification filed with the Commission in Docket Nos. 930074-TP, 950759-TX, 940571-TF, and the docket of Order No. PSC-94-0883-FOF-TI, and is, therefore, already a matter of record at the Commission. Tariffs of the Florida Operating Subsidiaries are also on file at the Commission. The Applicants therefore respectfully request that the Commission take official notice of those decisions and tariffs and incorporate them by reference herein.

Upon consummation of the proposed transaction, MFSCC not only expects to rely on many of its existing management and operational staff to provide service, but will also be able to draw upon the substantial expertise of WorldCom and its operating subsidiaries. Current financial information for MFSCC is attached to this Application as Exhibit A.

**B. WorldCom, Inc.**

WorldCom, formerly known as LDDS Communications, Inc., is a Georgia corporation publicly traded on the Nasdaq Stock Market under the stock symbol WCOM. Its principal offices are located at 515 East Amite St., Jackson, Mississippi 39201-2702. WorldCom is a nondominant telecommunications company which provides a full array of domestic and international long distance voice and data communications services to business and residential customers. WorldCom offers



service, both directly and through certain operating subsidiaries, as a reseller and, in a number of states, a facilities-based carrier providing intrastate and interstate interexchange service. WorldCom and its operating subsidiaries are authorized to offer intrastate interexchange services in 48 states, including Florida,<sup>4</sup> and are authorized by the FCC as non-dominant carriers to offer domestic interstate and international services nationwide.

**C. Designated Contacts**

The designated contacts for questions concerning this Application are:

For MFSCC:

Jean L. Kiddoo, Esq.  
Phyllis A. Whitten, Esq.  
Swidler & Berlin, Chartered  
3000 K Street, N.W., Suite 300  
Washington, D.C. 20007  
(202) 424-7834 (Tel)  
(202) 424-7645 (Fax)

with a copy to:

Terrence J. Ferguson, Esq.  
MFS Communications Company, Inc.  
11808 Miracle Hills Drive  
Omaha, Nebraska 68154  
(402) 231-3435 (Tel)  
(402) 231-3545 (Fax)

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<sup>4</sup> See Docket No. 890308-TI (July 19, 1989); Docket No. 931179-TI (August 9, 1994).

For WorldCom:

Brad E. Mutschelknaus, Esq.  
Marieann Z. Machida, Esq.  
Kelley Drye & Warren LLP  
1200 19th Street, Suite 500  
Washington, D.C. 20036  
(202) 955-9600 (Tel)  
(202) 955-9792 (Fax)

with a copy to:

Richard J. Heitmann, Esq.  
WorldCom, Inc.  
515 East Amite Street  
Jackson, Mississippi 39201  
(601) 360-8970 (Tel)  
(601) 360-8971 (Fax)

## **II. REQUEST FOR APPROVAL OF MERGER AND RELATED TRANSACTIONS**

MFSCC and WorldCom have determined that they will realize significant economic and marketing efficiencies and enhancements by merging the two entities and establishing MFSCC as a wholly-owned subsidiary of WorldCom. Accordingly, MFSCC and WorldCom have negotiated an Agreement and Plan of Merger (the "Agreement") whereby the shareholders of MFSCC will exchange each share of MFSCC common stock for 2.1 shares of WorldCom common stock. A copy of the Agreement is attached hereto as Exhibit B.

Upon consummation of the merger and related transactions described herein, the Applicants expect that MFSCC will continue operating its Florida Operating Subsidiaries under their current

names and no certificate holder name will change.<sup>2</sup> Moreover, the proposed transaction will not involve a change in the manner in which the companies provide telecommunications services, and the Florida Operating Subsidiaries will continue to provide high quality, affordable telecommunications services to the public. As such, this transaction will not in any way disrupt service nor cause inconvenience or confusion to the customers of any MFSCC company. Indeed, the transaction will be virtually seamless to MFSCC customers in terms of the services they receive and all customers will be notified of the merger transaction.

WorldCom is financially well-qualified to consummate the proposed transaction. WorldCom is the nation's fourth largest interexchange carrier. In 1995, WorldCom had revenues of approximately \$3.64 billion. A copy of WorldCom's most recent SEC Form 10-Q is attached hereto as Exhibit C. WorldCom is led by a highly-qualified team of management personnel, all of whom have extensive backgrounds in telecommunications. In addition, MFSCC management personnel will continue to be involved in the management of MFSCC after the merger.

#### **A. The Merger**

Upon closing, the proposed transaction will allow HIJ Corp., a wholly-owned subsidiary of WorldCom created specifically for purposes of consummating the transaction, to merge into MFSCC. As part of that merger, the stockholders of MFSCC will exchange each issued and

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<sup>2</sup> The trade name of WorldCom will change from "LDDS WorldCom" to "MFS WorldCom." Where necessary, WorldCom will notify the Commission and file tariffs with its new name upon closing of the transaction. There is no current intent for the names of the other WorldCom operating companies to change as a result of this merger.

outstanding share of common stock of MFSCC for 2.1 shares of WorldCom common stock.<sup>2</sup> MFSCC, as the surviving entity following the merger, will become a wholly-owned subsidiary of WorldCom and, to the extent required, the Applicants respectfully request that the Commission approve such transfer. WorldCom and MFSCC will hold meetings of their shareholders to obtain approval of the proposed merger. Following the transaction, WorldCom's Board of Directors will be comprised of an odd number of directors, with WorldCom designating one more director than MFSCC.

**B. The Issuance of Securities**

In order to complete the transaction and in compliance with federal and state securities laws, WorldCom will issue additional shares of WorldCom common stock and preferred stock. To the extent required, the Applicants respectfully request that the Commission grant WorldCom authority to issue the number of shares which are determined to be required to complete the merger as provided for in the Agreement. A Form S-4 registration statement will be filed with the Securities and Exchange Commission to register the issuance of the stock, and WorldCom will hold a meeting of its shareholders to approve the amendment of WorldCom's Articles of Incorporation to increase the number of authorized shares of WorldCom stock and to approve the issuance of the stock in the merger transaction.

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<sup>2</sup> The merger will not constitute a *de facto* transfer of control of WorldCom. Although 54% of WorldCom common stock will be issued to MFS shareholders at the consummation of the contemplated transaction, the stock is widely and publicly held and lacks any voting agreements or other arrangements that would allow any one stockholder or group of stockholders to exert control over a larger percentage of shares than each stockholder individually owns. In addition, at least 11% of the current MFSCC shareholders already own WorldCom shares.

### **C. The Credit Facility Agreements**

In addition, as subsidiaries of WorldCom, MFSCC and its operating subsidiaries, including the Florida Operating Subsidiaries, will be required to execute a guaranty of WorldCom's pre-existing Amended and Restated Credit Agreement in the amount of \$3.75 billion, executed on June 28, 1996. MFSCC has entered into two senior discount notes with a current accreted value of approximately \$1.3 billion (and a principal amount due at maturity of approximately \$1.72 billion), credit facilities providing for borrowings of up to \$390 million in the aggregate, and equipment lease transactions involving up to an aggregate of roughly \$60 million. These obligations, or the equivalent thereof, will remain with the merged companies following the merger and, to the extent required, the Applicants respectfully request that the Commission approve such obligations

### **III. PUBLIC INTEREST CONSIDERATIONS**

Consummation of the proposed transaction will serve the public interest by bringing together WorldCom, one of the fastest growing interexchange carriers, with MFSCC, which through its subsidiaries is a leading provider of local and long distance communications services for businesses and government. The combination of WorldCom's extensive expertise and presence in the long distance marketplace with MFSCC's position through its subsidiaries as the nation's largest competitive local exchange carrier and Internet access provider should provide great benefits to the public. The combined entity will offer its customers a full range of competitively priced services, thereby increasing competition in the local, long distance, Internet and international market sectors. Moreover, the transaction will provide MFSCC and WorldCom the opportunity to strengthen their competitive positions with greater financial resources, which will benefit consumers through

improved service and lower rates, thereby invigorating competition in Florida. By combining both their resources and experienced management, the merger of WorldCom and MFSCC will allow the companies to offer consumers a viable alternative to the most powerful players in the telecommunications market.

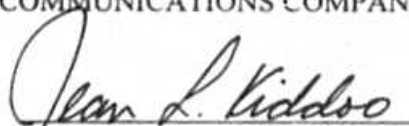
V. CONCLUSION

For the reasons stated herein, the Applicants request that, to the extent required, the Commission authorize the merger described herein and the related transactions described herein, to permit the Applicants to consummate the transaction no later than December 1, 1996.

Respectfully submitted,

WORLD COM, INC.  
MFS COMMUNICATIONS COMPANY, INC.

By:



Jean L. Kiddoo, Esq.

Phyllis A. Whitten, Esq.

SWIDLER & BERLIN, CHARTERED

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Washington, D.C. 20036

(202) 955-9600

THEIR COUNSEL

Dated: September 3, 1996

**EXHIBITS**

MFS Communications Company, Inc.  
Financial Information ..... A

Agreement and Plan of Merger ..... B

WorldCom, Inc.  
Financial Information ..... C

Verification of the Applicants ..... D

**EXHIBIT A**

**MFS COMMUNICATIONS COMPANY, INC.  
FINANCIAL INFORMATION**



FORM 10Q

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Quarterly Period Ended June 30, 1996

or

TRANSITION REPORT PURSUANT TO SECTION 13 or 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-21594

MFS COMMUNICATIONS COMPANY, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State of Incorporation)

(I.R.S. Employer

47-0714388  
Identification No.)

11808 Miracle Hills Drive, Omaha, Nebraska  
(Address of principal executive offices)

68154  
(Zip Code)

402-231-3000  
(Registrant's telephone number,  
including area code)

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

The number of shares outstanding of each class of the issuer's common stock, as of August 2, 1996:

Common Stock (\$.01 par value)..... 162,576,315 shares

MFS COMMUNICATIONS COMPANY, INC. AND SUBSIDIARIES

Part I - Financial Information

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MFS COMMUNICATIONS COMPANY, INC. AND SUBSIDIARIES  
Consolidated Statements of Operations  
(unaudited)

	Three months ended June 30		Six months ended June 30	
	1996	1995	1996	1995
(dollars in thousands, except per share data)				
Revenue	\$229,706	\$140,005	\$416,022	\$258,345
Costs and expenses:				
Operating expenses	217,911	139,135	392,084	259,017
Depreciation and amortization	47,979	31,648	92,588	60,721
General and administrative expenses	33,862	27,783	68,754	53,724
	-----	-----	-----	-----
	299,752	198,566	553,426	373,462
	-----	-----	-----	-----
Loss from operations	(70,046)	(58,561)	(137,404)	(115,117)
Other income (expense):				
Interest income	5,147	3,520	10,791	6,812
Interest expense, net	(26,854)	(9,123)	(50,480)	(18,751)
Other	(843)	(564)	(1,627)	(1,480)
	-----	-----	-----	-----
Total other income (expense)	(22,550)	(6,167)	(41,316)	(13,419)
	-----	-----	-----	-----
Loss before income taxes	(92,596)	(64,728)	(178,720)	(128,536)
Income tax expense	(100)	(100)	(200)	(200)
	-----	-----	-----	-----
Net loss	(92,696)	(64,828)	(178,920)	(128,736)
Dividends on preferred stock	(7,460)	-	(14,532)	-
	-----	-----	-----	-----
Net loss applicable to common stockholders	\$(100,156)	\$(64,828)	\$(193,452)	\$(128,736)
	-----	-----	-----	-----
Net loss per share applicable to common stockholders	\$(0.79)	\$(0.50)	(\$1.54)	(\$1.00)
	-----	-----	-----	-----

See accompanying notes to consolidated financial statements.

MFS COMMUNICATIONS COMPANY, INC. AND SUBSIDIARIES  
 Consolidated Balance Sheets  
 (dollars in thousands, except per share data)

	June 30. 1996 ----- (unaudited)	December 31. 1995 -----
ASSETS		
-----		
Current assets:		
Cash and cash equivalents.....	\$ 74,680	\$ 51,182
Marketable securities.....	212,448	85,715
Accounts receivable.....	198,722	140,302
Costs and earnings in excess of billings on uncompleted contracts.....	56,646	45,142
Other current assets.....	53,029	51,703
	-----	-----
Total current assets.....	595,525	374,044
Networks and equipment, at cost.....	1,634,310	1,315,952
Less accumulated depreciation and amortization...	(282,918)	(213,548)
	-----	-----
Networks and equipment, net.....	1,351,392	1,102,404
Goodwill, net.....	277,910	281,848
Other assets, net.....	128,213	108,838
	-----	-----
Total assets.....	\$2,353,040	\$1,867,134
	*****	*****

MFS COMMUNICATIONS COMPANY, INC. AND SUBSIDIARIES  
Consolidated Balance Sheets  
(dollars in thousands, except per share data)

	June 30, 1996 ----	December 31, 1995 ----
	(unaudited)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
-----		
Current liabilities:		
Current portion of notes payable and long-term debt.....	\$ 2,025	\$ 1,995
Current portion of capital lease obligations...	2,862	1,922
Accounts payable.....	174,259	172,407
Accrued costs and billings in excess of revenue on uncompleted contracts.....	42,740	28,686
Accrued compensation.....	14,157	6,119
Other current liabilities.....	75,244	63,328
	-----	
Total current liabilities.....	311,287	274,457
Notes payable and long-term debt,		
less current portion.....	1,299,210	692,059
Capital lease obligations, less current portion..	30,145	31,412
Other liabilities.....	26,864	27,902
Minority interest.....	11,591	10,972
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, \$.01 par value. Authorized 25,000,000 shares:		
Series A, 8% cumulative convertible; issued 94,992 in 1996 and 95,000 in 1995, variable liquidation preference.....	1	1
Series B, 7 3/4% cumulative convertible; issued 15,000,000 in 1996 and 1995, liquidation preference \$1.00 per share plus unpaid dividends.....	150	150
Common stock, \$.01 par value. Authorized 400,000,000 shares; issued 126,824,589 in 1996 and 130,240,228 in 1995 (Note 3).....	1,268	651
Additional paid-in capital.....	1,501,234	1,512,394
Deferred charge.....	-	(1,017)
Foreign currency adjustment.....	(842)	45
Unrealized investment gain (loss).....	(790)	204
Accumulated deficit.....	(827,078)	(555,221)
	-----	
Treasury stock, 5,800,000 shares, at cost.....	673,943	957,207
	-----	
Total stockholders' equity.....	673,943	830,332
	-----	
Total liabilities and stockholders' equity....	\$2,353,040	\$1,867,134
	-----	

See accompanying notes to consolidated financial statements.

MFS COMMUNICATIONS COMPANY, INC. AND SUBSIDIARIES  
 Consolidated Statement of Changes in Stockholders' Equity  
 For the Six Months Ended June 30, 1996  
 (unaudited)

(dollars in thousands)	Series A Preferred Stock	Series B Preferred Stock	Common Stock	Additional Paid-in Capital	Deferred Charge	Foreign Currency Adjustment
Balance at January 1, 1996	\$ 1	\$ 150	\$ 651	\$1,512,394	\$ (1,017)	\$ 45
Stock dividend on Series A Preferred Stock	-	-	3	14,141	-	-
Stock options exercised	-	-	14	14,303	-	-
Amortization of deferred charge	-	-	-	-	1,017	-
Foreign currency adjustment	-	-	-	-	-	(887)
Change in unrealized investment gain (loss)	-	-	-	-	-	-
Retirement of treasury stock	-	-	(29)	(48,053)	-	-
Stock compensation plan additions	-	-	-	9,078	-	-
Two-for-one stock split	-	-	629	(629)	-	-
Net loss	-	-	-	-	-	-
Balance at June 30, 1996	\$ 1	\$ 150	\$1,268	\$1,501,234	\$ -	\$ (842)

	Unrealized Investment Gain (Loss)	Accumulated Deficit	Treasury Stock	Total
Balance at January 1, 1996	\$ 204	\$(555,221)	\$(126,875)	\$ 830,332
Stock dividend on Series A Preferred Stock	-	(14,144)	-	-
Stock options exercised	-	-	-	14,317
Amortization of deferred charge	-	-	-	1,017
Foreign currency adjustment	-	-	-	(887)
Change in unrealized investment gain (loss)	(994)	-	-	(994)
Retirement of treasury stock	-	(78,793)	(126,875)	-
Stock compensation plan additions	-	-	-	9,078
Two-for-one stock split	-	-	-	-
Net loss	-	(178,920)	-	(178,920)
Balance at June 30, 1996	\$ (790)	\$(827,078)	\$ -	\$ 673,943

See accompanying notes to consolidated financial statements.

## MFS COMMUNICATIONS COMPANY, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows  
(unaudited)

(dollars in thousands)	Six months ended	
	June 30,	
	1996	1995
-----		
Cash flows from operating activities:		
Net loss	\$(178,920)	\$(128,736)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	92,588	60,721
Non cash interest expense	45,954	17,474
Non cash compensation expense	6,885	-
Loss on sale of securities	-	1,271
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable and other current assets	(80,019)	(35,271)
Other liabilities	35,110	17,708
	-----	-----
Net cash used in operating activities	(78,402)	(66,833)
	-----	-----
Cash flows from investing activities:		
Purchases of networks and equipment	(311,933)	(249,435)
Proceeds from maturities and sales of marketable securities	280,985	319,266
Purchases of marketable securities	(404,596)	(278,983)
Purchases of minority interest in subsidiaries	-	(1,522)
Acquisitions of businesses, excluding cash acquired	-	(14,858)
Additions to deferred costs and other	(12,096)	(9,607)
	-----	-----
Net cash used in investing activities	(447,640)	(225,139)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of long-term debt and notes payable	643,812	6,075
Proceeds from issuance of preferred stock	-	306,646
Payments of debt financing costs	(20,487)	-
Payments on long-term debt, including current portion	(88,102)	(3,035)
Proceeds from exercise of stock options	14,317	2,339
	-----	-----
Net cash provided by financing activities	549,540	312,025
	-----	-----
Net change in cash and cash equivalents	23,498	10,053
Cash and cash equivalents at beginning of period	51,182	21,518
	-----	-----
Cash and cash equivalents at end of period	\$ 74,680	\$ 31,571
	-----	-----

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See accompanying notes to consolidated financial statements.

## MFS COMMUNICATIONS COMPANY, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows  
(unaudited)

Supplemental schedule of non cash financing and investing activities:

The Company recognized a common stock dividend on preferred stock of \$14,144 in the six month period ended June 30, 1996.

The Company capitalized non-cash interest expense of \$7,108 and \$8,852 in the six month periods ended June 30, 1996 and 1995, respectively.

In the first six months of 1995, the Company purchased the stock of companies that provide telecommunications services in Richmond, Virginia, Denver, Colorado and White Plains, New York for \$12,655 in cash and the issuance of stock. In connection with the acquisitions, liabilities were assumed as follows:

Fair value of tangible assets acquired	\$11,328
Fair value of intangible assets acquired	13,226
Cash paid for stock	(12,655)
Stock issued	(5,912)
	-----
Liabilities assumed	\$ 5,987
	=====

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See accompanying notes to consolidated financial statements.



6  
MFS COMMUNICATIONS COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
(dollars in thousands, except per share data)

1. Basis of Presentation:

The consolidated balance sheet of MFS Communications Company, Inc. and Subsidiaries (the "Company") at December 31, 1995 was obtained from the Company's audited balance sheet as of that date. All other financial statements contained herein are unaudited and, in the opinion of management, contain all adjustments necessary for a fair presentation of financial position and results of operations and cash flows for the periods presented. Such adjustments consist only of normal recurring items. The Company's accounting policies and certain other disclosures are set forth in the notes to the annual consolidated financial statements.

2. Income Taxes:

The income tax expense of \$100 for the three months ended June 30, 1996 and 1995, and \$200 for the six months ended June 30, 1996 and 1995, resulted from estimated state and foreign tax liabilities.

3. Capital Stock:

In the first quarter of 1996, the Company retired the shares of common stock that were held in treasury. The value of the treasury shares reduced common stock, paid in capital and increased the accumulated deficit upon retirement. In addition, the Company's stockholders approved an amendment to the Company's restated certificate of incorporation to increase the number of authorized shares of common stock to 400,000,000.

On April 1, 1996 the Board of Directors declared a two-for-one common stock split. The stock split was effected in the form of a stock dividend that was payable to stockholders of record on April 16, 1996. The conversion features of the Company's Series A and Series B preferred stock were adjusted pursuant to their terms to maintain the proportionate rights of those preferred stocks. In this report, all per share amounts and numbers of shares have been restated to reflect the stock split. In addition, an amount equal to the \$.01 par value of the shares outstanding at April 16, 1996 has been transferred from additional paid in capital to common stock.

In July, 1996 the Company sold 35,650,000 shares of \$.01 par value common stock at \$37.125 per share. The proceeds of the offering, net of the underwriters discount and expenses of the offering, was approximately \$1.3 billion.

4. Loss Per Share:

Loss per common share has been computed using the weighted average number of shares outstanding for each period. The number of shares used in computing loss per share, which have been adjusted due to the two-for-one stock split, was 126,176,000 and 125,596,000 for the three and six month periods ended June 30, 1996 and 128,960,000 and 128,845,000 for the three and six month periods ended June 30, 1995, respectively.

## MFS COMMUNICATIONS COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
(dollars in thousands, except per share data)

## 5. Long Term Debt:

## (a) Loan Agreement:

On January 2, 1996, the Company entered into a \$20,000 loan agreement with an equipment manufacturer and a bank. The loans under the agreement, which include interest at a variable rate, will be used to purchase equipment supplied by the manufacturer. The loans must be repaid in semi-annual principal installments of \$2,000 starting June 20, 1996, subject to certain adjustments, and are collateralized by the equipment purchased. The agreement contains certain covenants and restrictions similar to the Company's Credit Facilities. The Company may prepay any amounts under the agreement without premium or penalty at any time.

## (b) The 1996 Senior Discount Notes:

The Company issued 8 7/8% Senior Discount Notes on January 18, 1996 (the "1996 Senior Discount Notes") and recorded the net proceeds, exclusive of transaction costs, of approximately \$600,000 as long-term debt. The Company is accruing to the principal amount of the 1996 Senior Discount Notes of \$924,000 through January 15, 2001. Cash interest will not accrue on the 1996 Senior Discount Notes prior to January 15, 2001, however, the Company may elect to commence the accrual of cash interest at any time prior to that date. Commencing July 15, 2001, cash interest will be payable semi-annually.

The 1996 Senior Discount Notes mature on January 15, 2006. On or after January 15, 2001, the 1996 Senior Discount Notes will be redeemable at the option of the Company, in whole at any time or in part from time to time, at the following prices (expressed in percentages of the principal amount thereof at 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:

Year	Percentage
2001.....	103.32%
2002.....	102.21%
2003.....	101.11%
2004 and thereafter...	100.00%

In addition, under certain conditions related to a change in control of the Company, the Company may be required to repurchase all or any part of the 1996 Senior Discount Notes as stipulated in the note agreement. The 1996 Senior Discount Notes are senior unsecured obligations of the Company, with a ranking equal to the 1994 Senior Discount Notes, and are subordinated to all current and future indebtedness of the Company's subsidiaries, including trade payables. The 1996 Senior Discount Notes contain certain covenants which, among other things, restrict the ability of the Company to incur debt, create liens, enter into sale and leaseback transactions, pay dividends, make certain restricted payments, enter into transactions with affiliates, and sell assets or merge with or into another company.

## MFS COMMUNICATIONS COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
(dollars in thousands, except per share data)

## 6. Stock Compensation Programs:

The Company has three stock based compensation programs in effect at June 30, 1996. The programs are described as follows:

## (a) Stock Option Plans:

The Company's 1992 and 1993 Stock Plans authorize, among other things, the grant of options at not less than 100% of the fair market value at the date of the option grant. The Compensation Committee of the Board of Directors administers the stock plans. Options vest over a five-year period and are generally exercisable up to five years after the grant is completely vested. Options granted under the 1992 and 1993 plans during the first six months of 1996 were not material.

## (b) Shareworks:

In 1995 the Company implemented an employee benefit plan which is comprised of a grant plan and a match plan jointly known as Shareworks. The grant plan enables the Company to grant shares of the Company's common stock to eligible employees based upon a percentage of the employee's eligible pay, up to 5%. The original grant vests after three years with any additional grants vesting immediately once the initial three year period has been met. On December 29, 1995, the Company granted approximately 128,000 shares of stock under this part of the plan. The Company has not granted any shares during 1996.

The match plan allows eligible employees to defer between 1% and 10% of eligible pay to purchase common stock of the Company at the stock price on each pay period date. The Company matches 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. The amount deferred by employees for purchases of stock from January 1, 1996 through June 30, 1996 was \$2,193.

## (c) Shareworks Plus:

In 1996 the Company implemented a new employee stock compensation program which grants stock awards with a four-year life and immediate vesting to certain key executive employees under a program known as Shareworks Plus. Under this program, the value received by the employee upon exercise of the award is determined by the rate of increase in the Company's stock price compared to the rate of increase in the S&P 500 index, measured from the grant date. If the Company's common stock price performance is at or below the price performance of the S&P 500 index, or under certain other circumstances defined in the program, the value to be received by the employee upon exercise is \$0. If the Company's common stock price performance is above the price performance of the S&P 500 index the value received by the employee upon exercise, which will normally be paid in common stock of the Company, increases. The Company granted approximately 923,000 awards under this plan during the first six months of 1996. Subject to the approval of the Company's Compensation Committee of the Board of Directors, additional grants will be made quarterly. Terms of the Shareworks Plus program may be modified from time to time by the Compensation Committee of the Board of Directors.

## MFS COMMUNICATIONS COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
(dollars in thousands, except per share data)

6. Stock Compensation Programs: (continued)

In the first quarter of 1996, the Company adopted the accounting provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123). SFAS 123 encourages entities to adopt the fair value method of accounting for their stock-based compensation plans. Under the fair value based method, compensation cost for stock-based compensation plans is measured at the grant date based on the fair value of the award and is recognized over the service period, which for the Company is the vesting period. For the Company's Shareworks Plus program, the fair value was determined using option-pricing models that take into account the stock price at the grant date, the exercising price, a two year expected life for the award, an estimated volatility of 30% for the Company's stock price, no expected dividends, and a risk-free interest rate of 5.27% over the expected life of the award. For the Company's other stock compensation plan, Shareworks, the fair value of the match shares was determined by reference to the market value of the stock that was purchased by the employee and the fair value of the grant shares was determined by the market value of the stock at the grant date.

The Company recognized compensation expense of \$890 related to the Shareworks plan and \$5,995 related to the Shareworks Plus program in the six month period ended June 30, 1996. The pro forma impact of adopting the fair value method of accounting in the six month period ended June 30, 1995 was immaterial primarily because the number of options granted in that period under the 1992 and 1993 Stock Option Plans were not material and the fact that the Shareworks and Shareworks Plus programs were not yet implemented. During the initial phase-in period, the effects of applying SFAS 123 for recognizing compensation cost may not be representative of the effects on reported net loss or income for future quarters or years because the options in the Stock Option Plans and the match and grant shares made under the Shareworks program vest over several years and additional awards will be made in the future.

Under the Company's Shareworks Plus program, the Company granted approximately 923,000 awards during the first six months of 1996, at initial exercise prices that range from \$26.62 to \$31.13. Approximately 216,000 awards were exercised during the six month period ended June 30, 1996. The fair value of the awards granted was estimated to be \$6.50 per award.

7. Commitments and Contingencies:

In 1994, several former stockholders of MFS Telecom, a subsidiary of the Company, filed a lawsuit against the Company, the Company's former majority stockholder, Kiewit Diversified Group, Inc. ("KDG"), and the Company's chief executive officer regarding the sale of their shares of MFS Telecom to the Company in September 1992. The plaintiffs alleged that certain information was concealed from them, which caused them to sell their shares at an inadequate price. KDG agreed to indemnify the Company against any claims asserted by the former stockholders. During July 1996 this lawsuit was settled with no cost to the Company.

The Company is also involved in various other claims and regulatory proceedings incidental to its business. Management believes that any resulting liability beyond that provided should not materially affect the Company's financial position, results of operations or cash flows.

## MFS COMMUNICATIONS COMPANY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
(dollars in thousands, except per share data)

8. Merger Agreement:

On August 12, 1996 the Company issued approximately 58 million shares of common stock and approximately 6 million options to purchase the Company's common stock as consideration for UUNET Technologies, Inc. (UUNET) common stock and options to purchase UUNET common stock, respectively. The aggregate purchase price is estimated to be approximately \$2.1 billion. The Company anticipates that a substantial portion of the purchase price will be allocated to intangible assets including goodwill and expects to amortize those intangible assets over periods of up to five years. The actual allocation of the purchase price and determination of useful lives will be made after further evaluation.



## MFS COMMUNICATIONS COMPANY, INC. AND SUBSIDIARIES

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## Overview

The Company was founded in 1987 and commenced operations in 1988. The Company operates through its subsidiaries in two business segments, telecommunications services and network systems integration. The telecommunications services segment is comprised of the MFS Telecom Companies, which provide services to large customers through MFS Telecom and MFS Datanet, the MFS Intelenet Companies, which provide services to small and medium sized customers through MFS Intelenet, MFS International, which provides services to customers internationally and MFS Global Network Services, which manages the Company's network platform. The network systems integration segment provides services primarily through MFS Network Technologies. The Company's growth was funded by capital contributions from its former majority stockholder, Kiewit Diversified Group Inc. ("KDG"), until an initial public offering in 1993. Since that public offering, the Company has funded its growth through a combination of debt and equity financing including, most recently, a \$1.3 billion common stock offering in July 1996.

**Telecommunications Services.** The Company's telecommunications services include integrated local and long-distance services as well as special access, private line and high speed data communications services, among others. These services predominately result in monthly recurring revenues. The Company provides these services in an expanding number of major metropolitan areas. As of July, 1996, the Company provides services on its networks, or through the resale of services, or has network operations under development in 52 major metropolitan areas in the United States and abroad.

The development of the Company's businesses and the installation and expansion of its networks require significant expenditures, a substantial portion of which is incurred before the realization of revenues. These expenditures, together with the associated early operating expenses, result in negative cash flow until an adequate customer base is established. As this customer base grows, incremental revenues are added with minimal additional expense, providing significant contributions to cash flow. The Company also incurs ongoing capital expenditures with respect to both existing and new networks which are directly related to the installation of new revenue producing circuits. These costs vary based on the specific type of circuit installed and the location of the customer.

**The MFS Telecom Companies**

Through MFS Telecom, the Company provides dedicated special access and private line service to business and government end users. These services are provided primarily over digital fiber optic telecommunications networks that the Company has either installed or acquired and subsequently expanded. The networks also establish a platform that can be used to provide additional enhanced voice, data and video services to its customers. MFS Telecom also offers local switched services to its customers in several areas utilizing the Company's integrated switching platform.

Through MFS Datanet, the Company provides high-speed data communications services to business and government users over an international ATM network which the Company believes to be the most advanced in the world. MFS Datanet uses the Company's networks for customers located in buildings where the Company already provides special access, private line or switched services, requiring significantly less capital expenditures because data communications customers can, to a certain extent, utilize existing fiber optic networks, electronics and building equipment rooms. The Company will incur additional capital costs for the installation of new revenue producing circuits. The level of costs may vary based upon the type of circuit installed and the location of the customer.

#### The MFS Intelenet Companies

Through MFS Intelenet, the Company provides a single source for integrated local and long distance telecommunications services and facilities management to small and medium sized businesses. By utilizing its existing networks and facilities, the Company minimizes capital expenditures for transmission facilities. However, significant capital costs have been and will be incurred for switching equipment, equipment maintained at customer locations and additional building wiring costs.

#### MFS International

Through MFS International, the Company provides telecommunication services to business and government users predominately in several major European metropolitan areas as well as outbound international service from the United States and Europe. The Company is offering services over its networks, or through resale of international telecommunications services in London, England, Frankfurt, Germany, Paris, France, Stockholm, Sweden, Zurich, Switzerland and Hong Kong.

#### MFS Global Network Services

Through MFS Global Network Services, the Company manages the operation of its network and future network development in order to offer the services described above in a cost effective manner.

The incurrence of significant initial development and roll out expenses in advance of anticipated future revenues will continue to affect the operating results of the telecommunications services segment. Anticipated sales growth in the telecommunication services segment will also continue to drive increasing deployment of electronic equipment required to initiate customer service.

Network Systems Integration Services. The Company, primarily through MFS Network Technologies, designs, engineers, develops and manages the installation of the Company's new fiber optic networks and network expansions. In 1991, the Company began to offer network systems integration services to third parties. These services have been characterized by significant revenues concentrated in a relatively small number of large projects for third parties. In 1993, the Company also began to offer services related to Intelligent Transportation Systems ("ITS"). The Company recognizes revenue based upon the amount of network systems integration services performed. The amount of the Company's network systems integration services performed can vary on a quarterly basis depending upon individual customer contract requirements.

## Results of Operations

The following table presents revenue, loss from operations and EBITDA from each of the Company's reportable business segments for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	1996	1995	1996	1995
	(dollars in thousands)			
Revenue:				
Telecommunications services...	\$188,403	\$117,079	\$353,993	\$220,867
Network systems integration...	41,303	22,926	62,029	37,478
Total.....	\$229,706	\$140,005	\$416,022	\$258,345
Loss from operations:				
Telecommunications services...	\$(69,371)	\$(57,432)	\$(135,365)	\$(112,781)
Network systems integration...	(675)	(1,129)	(2,039)	(2,336)
Total.....	\$(70,046)	\$(58,561)	\$(137,404)	\$(115,117)
EBITDA: (1)				
Telecommunications services...	\$(18,722)	\$(26,325)	\$(37,560)	\$(53,197)
Network systems integration...	199	(588)	(371)	(1,199)
Total.....	\$(18,523)	\$(26,913)	\$(37,931)	\$(54,396)

(1) EBITDA consists of earnings (losses) before interest, income taxes, depreciation, amortization, non cash stock-based compensation and other non-operating income or expenses. EBITDA is commonly used in the communications industry to analyze companies on the basis of operating performance. EBITDA is not intended to represent cash flow for the periods. See Consolidated Statements of Cash Flows.

Three Months Ended June 30, 1996 vs. Three Months Ended June 30, 1995

## Telecommunications Services

Telecommunications services revenue increased to \$188.4 million in the three months ended June 30, 1996 from \$117.1 million in the three months ended June 30, 1995, an increase of \$71.3, or 61%. Revenues for each of the key elements of the telecommunications segment were as follows, in millions:

	1996	1995	Increase
MFS Telecom Companies	\$ 68.6	\$ 45.5	\$ 23.1
MFS Intelenet Companies	84.6	64.6	20.0
MFS International	35.2	7.0	28.2
	\$188.4	\$117.1	\$ 71.3

The increases resulted from increased market penetration of all telecommunications services of the Company. The especially large increase in revenues, measured on a percentage basis, from MFS International reflect strong sales in the United Kingdom and a growing revenue base in continental Europe.



Since the end of 1993 the Company has separately tracked the MFS Telecom results of operations for the 14 network cities and expansions that were materially complete at year end 1993 (the "Base Cities Competitive Access Operations"). These Base Cities Competitive Access Operations produced revenue of \$42.1 million in the three months ended June 30, 1996 and \$30.9 million in the three months ended June 30, 1995, an increase of \$11.2 million, or 36%. The increase in revenue from these operations resulted primarily from increased market penetration in these cities. Due to a modification of the Company's internal organization within the telecommunications services segment it will become increasingly less meaningful to separate the Base Cities Competitive Access Operations from other operations because of the increasingly commonality of revenues and costs within Base Cities Competitive Access Operations, expansions and types of services. For this reason, the Company may discontinue separate disclosure for these Base Cities Competitive Access Operations in the future. The Company continues to review other modifications to its financial disclosures which the Company believes will provide more meaningful information about its activities.

Annualized monthly recurring revenue increased to approximately \$795 million at June 30, 1996 from approximately \$505 million at June 30, 1995, an increase of 57%. The increase reflects the sales of additional services to current and new customers in existing and new markets. Monthly recurring revenue represents monthly service charges billable to telecommunications services customers as of the last day of the period indicated, but excludes non-recurring revenues for certain one-time services, such as installation fees or equipment charges.

Telecommunications services operating expenses increased to \$180.6 million or 96% of segment revenue in the three months ended June 30, 1996 from \$118.6 million or 101% of segment revenue in the three months ended June 30, 1995, an increase of \$62.0 million. The change includes an increase of \$45.3 million in circuit charges, including local and long distance service costs, and personnel costs necessary to support the Company's growth. The remaining increase of \$16.7 million relates to increased rent, utilities and other costs incurred to support the increased revenue base. Telecommunications services operating expenses consist of costs associated directly with network operations, including salaries, sales commissions and related employee benefits, rent expense, right-of-way fees, other network costs and local and long distance service costs.

Telecommunications services depreciation and amortization expense increased to \$47.4 million in the three months ended June 30, 1996 from \$31.1 million in the three months ended June 30, 1995, an increase of \$16.3 million or 52%. The increase is primarily related to the expanded fixed asset base of the Company's networks which includes increasing amounts of electronic equipment with depreciable lives that are shorter than the Company's other major fixed asset categories.

Telecommunications services general and administrative expenses increased to \$29.8 million in the three months ended June 30, 1996 from \$24.8 million in the three months ended June 30, 1995, an increase of \$5.0 million or 20%. The change is primarily due to an increase of \$4.5 million in personnel costs. Management of the Company expects general and administrative services to continue to increase during 1996 as the Company expands its services.

Telecommunications EBITDA loss decreased to \$(18.7) million in the three months ended June 30, 1996 from \$(26.3) million in the three months ended June 30, 1995. EBITDA in 1996 and 1995 for each of the key elements of the telecommunications segment were as follows, in millions:

	1996	1995	Change
MFS Telecom Companies	\$ 11.4	\$ 5.1	\$ 6.3
MFS Intelenet Companies	(22.3)	(21.1)	(1.2)
MFS International	(7.8)	(10.3)	2.5
	-----	-----	-----
	\$ (18.7)	\$ (26.3)	\$ 7.6
	-----	-----	-----

The increase at the MFS Telecom Companies reflects the high incremental margins inherent in the dedicated special access and private line services primarily provided over the Company's own facilities. The small increase in EBITDA loss at MFS Intelenet reflects the additional costs incurred to expand the integrated local and long distance telecommunications service markets including normal increases in operating expenses offset by the additional EBITDA margins provided by increased revenues resulting from a sales strategy that emphasized the provision of local switch services in advance of the implementation of the Telecommunications Act of 1996. The decrease in EBITDA loss at MFS International reflects the additional EBITDA margins provided by increased revenues partially offset by the additional costs incurred to expand the Company's international service, particularly in new markets.

The Base Cities Competitive Access Operations produced EBITDA of \$22.3 million before parent company allocations in the three months ended June 30, 1996 and \$14.4 million in the three months ended June 30, 1995, an increase of \$7.9 million, or 55%. For reasons noted earlier, the Company may discontinue separate disclosure for these Base Cities Competitive Access Operations in the future. The Company continues to review other modifications to its financial disclosures which the Company believes will provide more meaningful information about its activities.

#### Network Systems Integration

Third party revenue from services offered by the Company's network systems integration segment increased to \$41.3 million in the three months ended June 30, 1996 from \$22.9 million in the three months ended June 30, 1995, an increase of \$18.4 million or 80%. The increase is due to an increase in the number of new projects, including a contract to provide design and construction services for a wireless personal communications system.

Network systems integration operating expenses increased to \$37.3 million in the three months ended June 30, 1996 from \$20.5 million in the three months ended June 30, 1995, an increase of \$16.8 million or 82%. The increase is primarily due to the increased level of operating expenses related to the projects noted above, including the continuing development and investment in Intelligent Transportation Systems ("ITS") service projects. Network systems integration operating expenses consist of direct costs associated with the network systems integration projects.

Network systems integration general and administrative expenses increased to \$4.1 million in the three months ended June 30, 1996 from \$3.0 million in the three months ended June 30, 1995, an increase of \$1.1 million or 37%. The increase reflects the increased third party work noted above.

Network systems integration EBITDA increased to \$.2 million in the three months ended June 30, 1996 from \$(.6) million in the three months ended June 30, 1995. This resulted from the increased margins realized from the increase in third party work noted above.

Other Income (Expense)

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Other income (expense) increased to \$(22.6) million of other expense in the three months ended June 30, 1996 from \$(6.2) million of other expense in the three months ended June 30, 1995. The increase in other expense resulted primarily from additions to interest expense incurred in connection with the issuance of the 1996 Senior Discount Notes. This increase was partially offset by increased interest income from the investment of the proceeds of the 1996 Senior Discount Notes.

Income Taxes

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The income tax expense of \$.1 million for the three months ended June 30, 1996 and 1995, resulted from estimated state and foreign tax liabilities.

Net Loss

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Net loss increased to \$92.7 million in the three months ended June 30, 1996 from \$64.8 million in the three months ended June 30, 1995, an increase of \$27.9 million. The increase resulted primarily from increased depreciation, amortization and interest expense.

Backlog. The network systems integration and facilities management services segment had third party backlog of approximately \$202 million at June 30, 1996. Backlog consists of firm contracts less revenue recognized to date by the Company.

Six Months Ended June 30, 1996 vs. Six Months Ended June 30, 1995

Telecommunications Services

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Telecommunications services revenue increased to \$354.0 million in the six months ended June 30, 1996 from \$220.9 million in the six months ended June 30, 1995, an increase of \$133.1, or 60%. Revenues for each of the key elements of the telecommunications segment were as follows, in millions:

	1996	1995	Increase
	-----	-----	-----
MFS Telecom Companies	\$131.5	\$ 85.5	\$ 46.0
MFS Intelenet Companies	164.1	123.5	40.6
MFS International	58.4	11.9	46.5
	-----	-----	-----
	\$354.0	\$220.9	\$133.1
	-----	-----	-----

The increases resulted from increased market penetration of all telecommunications services of the Company. The especially large increase in revenues, measured on a percentage basis, from MFS International reflect strong sales in the United Kingdom and a growing revenue base in continental Europe.

The Base Cities Competitive Access Operations produced revenue of \$81.7 million in the six months ended June 30, 1996 and \$59.8 million in the six months ended June 30, 1995, an increase of \$21.9 million, or 37%. The increase in revenue from these operations resulted primarily from increased market penetration in these cities. For reasons noted earlier, the Company may discontinue separate disclosure for these Base Cities Competitive Access Operations in the future. The Company continues to review other modifications to its financial disclosures which the Company believes will provide more meaningful information about its activities.

Telecommunications services operating expenses increased to \$337.0 million or 95% of segment revenue in the six months ended June 30, 1996 from \$226.1 million or 102% of segment revenue in the six months ended June 30, 1995, an increase of \$110.9 million. The change includes an increase of \$87.8 million in circuit charges, including local and long distance service costs, and personnel costs necessary to support the Company's growth. The remaining increase of \$23.1 million relates to increased rent, utilities and other costs incurred to support the increased revenue base.

Telecommunications services depreciation and amortization expense increased to \$91.4 million in the six months ended June 30, 1996 from \$59.6 million in the six months ended June 30, 1995, an increase of \$31.8 million or 53%. The increase is primarily related to the expanded fixed asset base of the Company's networks which includes increasing amounts of electronic equipment with depreciable lives that are shorter than the Company's other major fixed asset categories.

Telecommunications services general and administrative expenses increased to \$60.9 million in the six months ended June 30, 1996 from \$48.0 million in the six months ended June 30, 1995, an increase of \$12.9 million or 27%. The change is primarily due to an increase of \$10.8 million in personnel costs. Management of the Company expects general and administrative services to continue to increase during 1996 as the Company expands its services.

Telecommunications services EBITDA loss decreased to \$(37.6) million in the six months ended June 30, 1996 from \$(53.2) million in the six months ended June 30, 1995. EBITDA in 1996 and 1995 for each of the key elements of the telecommunications segment were as follows, in millions:

	1996	1995	Change
	----	----	-----
MFS Telecom Companies	\$ 23.3	\$ 8.6	\$ 14.7
MFS Intelenet Companies	(43.1)	(42.1)	(1.0)
MFS International	(17.8)	(19.7)	1.9
	-----	-----	-----
	\$ (37.6)	\$ (53.2)	\$ 15.6
	-----	-----	-----

The increase at the MFS Telecom Companies reflects the high incremental margins inherent in the dedicated special access and private line services primarily provided over the Company's own facilities. The small increase in EBITDA loss at MFS Intelenet reflects the additional costs incurred to expand the integrated local and long distance telecommunications service markets including normal increases in operating expenses offset by the additional EBITDA margins provided by increased revenues resulting from a sales strategy that emphasized the provision of local switch services in advance of the implementation of the Telecommunications Act of 1996. The decrease in EBITDA loss at MFS International reflects the additional EBITDA margins provided by increased revenues partially offset by the additional costs incurred to expand the Company's international service, particularly in new markets.

The Base Cities Competitive Access Operations produced EBITDA of \$42.9 million before parent company allocations in the six months ended June 30, 1996 and \$27.2 million in the six months ended June 30, 1995, an increase of \$15.7 million, or 58%. For reasons noted earlier, the Company may discontinue separate disclosure for these Base Cities Competitive Access Operations in the future. The Company continues to review other modifications to its financial disclosures which the Company believes will provide more meaningful information about its activities.



## Network Systems Integration

Third party revenue from services offered by the Company's network systems integration segment increased to \$62.0 million in the six months ended June 30, 1996 from \$37.5 million in the six months ended June 30, 1995, an increase of \$24.5 million or 65%. The increase is due to an increase in the number of new projects, including a contract to provide design and construction services for a wireless personal communications system.

Network systems integration operating expenses increased to \$55.0 million in the six months ended June 30, 1996 from \$32.9 million in the six months ended June 30, 1995, an increase of \$22.1 million or 67%. The increase is primarily due to the increased level of operating expenses related to the projects noted above, including the continuing development and investment in ITS service projects.

Network systems integration general and administrative expenses increased to \$7.8 million in the six months ended June 30, 1996 from \$5.8 million in the six months ended June 30, 1995, an increase of \$2.0 million or 34%. The increase reflects the increased third party work noted above.

Network systems integration EBITDA loss decreased to \$(0.4) million in the six months ended June 30, 1996 from \$(1.2) million in the six months ended June 30, 1995. This resulted from the increased margins realized from the increase in third party work noted above.

### Other Income (Expense)

Other income (expense) increased to \$(41.3) million of other expense in the six months ended June 30, 1996 from \$(13.4) million of other expense in the six months ended June 30, 1995. The increase in other expense resulted primarily from additions to interest expense incurred in connection with the issuance of the 1996 Senior Discount Notes. This increase was partially offset by increased interest income from the investment of the proceeds of the 1996 Senior Discount Notes.

### Income Taxes

The income tax expense of \$.2 million for the six months ended June 30, 1996 and 1995, resulted from estimated state and foreign tax liabilities.

### Net Loss

Net loss increased to \$178.9 million in the six months ended June 30, 1996 from \$128.7 million in the six months ended June 30, 1995, an increase of \$50.2 million. The increase resulted primarily from increased depreciation, amortization and interest expense.

## Liquidity and Capital Resources

The Company's total assets have increased to \$2.4 billion at June 30, 1996. The Company's growth was funded by capital contributions from its former majority stockholder, KDG, until an initial public offering in 1993. Since that public offering, the Company has funded its growth through a combination of debt and equity financing including, most recently, a \$1.3 billion common stock offering in July 1996. The Company's current assets at June 30, 1996 (prior to the July common stock offering) of \$595.5 million, including cash and marketable securities aggregating \$287.1 million, exceeded current liabilities of \$311.3 million, providing working capital of \$284.2 million. Network and equipment, net of depreciation, comprise \$1.4 billion of total assets.

The Company's operating activities used net cash of \$78.4 million in the six months ended June 30, 1996 and \$66.8 million in the six months ended June 30, 1995. The increase in cash used by operating activities was primarily due to the increased loss from operations incurred expanding the Companies services and an increase in cash used supporting increased levels of accounts receivable and other assets which is partially offset by increased depreciation, amortization and non cash interest expense.

In order to finance the Company's operations and network development, the Company has utilized a variety of financing vehicles including:

- capital contributions from its former majority shareholder,
- proceeds from its initial public offering and a follow-on public offering in 1993,
- proceeds from 9 3/8% Senior Discount Notes in 1994,
- availability of proceeds from various revolving credit facilities arranged in 1994 and 1995,
- proceeds from a public offering of Depositary Shares which represent an interest in preferred stock of the Company, in 1995,
- sale-leaseback transactions in 1995 and,
- proceeds from 8 7/8% Senior Discount Notes in the first quarter of 1996.

Proceeds from these financing transactions that occurred in the six month periods ended June 30, 1996 and 1995 resulted in net cash provided by financing activities of \$549.5 million and \$312.0 million, respectively.

Including the proceeds of the July common stock offering on a pro forma basis, at June 30, 1996, the Company had approximately \$1.9 billion of available liquidity, including cash, marketable securities and unused lines of credit.

During the first six months of 1996, the Company's capital expenditures, including the acquisitions of businesses, were \$311.9 million compared to \$265.8 million in the first six months of 1995. The capital expenditures are primarily for the construction or expansion of networks and the purchase of related equipment. Net cash used in all investing activities was \$447.6 million in the first six months of 1996 and \$235.1 million in the first six months of 1995.

On May 7, 1996 the Company announced that it intends to undertake certain initiatives designed to take advantage of opportunities created by changes in telecommunications laws and the rapid development of Internet-based communications networks. These initiatives involve increasing the number of cities served, expanding its networks in existing cities, constructing or acquiring its own intercity high capacity network, accelerating central office interconnection, deployment of additional switches, and providing high-speed local Internet access.

Expenditures for the initiatives are subject to the Company's review of a number of factors including the cost of any additional capital required, technological developments and market conditions. In addition, each initiative may be implemented in whole or in part, and independently of any other initiative, ensuring that the Company retains maximum financial and operating flexibility. The Company anticipates that implementation of these initiatives including certain of the Internet-related initiatives, will, together with currently anticipated expenditures, result in total average annual capital expenditures of approximately \$1.0 billion to \$1.3 billion over the period of implementation, which the Company expects to be up to four years. Since a significant portion of the Company's capital expenditures are success-based (that is, related directly to revenue growth), actual capital expenditures may vary significantly from the above range depending on the level of incremental sales. This range is also subject to a number of factors, including the pace and extent of network development, levels of incremental sales, as well as regulatory actions by state, federal and international authorities, which, individually or in the aggregate, could cause material changes in capital

expenditure requirements. The available liquidity at June 30, 1996 and the proceeds from the common stock offering completed in July will be used to fund the initial capital expenditures of these initiatives. The Company expects to fund the balance of its capital requirements through existing resources, internally generated funds and additional debt or equity financing as appropriate.

#### Merger Agreement

On August 12, 1996 the Company issued approximately 58 million shares of common stock and approximately 6 million options to purchase the Company's common stock as consideration for UUNET Technologies, Inc. (UUNET) common stock and options to purchase UUNET common stock, respectively. The aggregate purchase price is estimated to be approximately \$2.1 billion. The Company anticipates that a substantial portion of the purchase price will be allocated to intangible assets including goodwill and expects to amortize those intangible assets over periods of up to five years. The actual allocation of the purchase price and determination of useful lives will be made after further evaluation.

#### Other Matters

As evidenced by the merger agreement noted above the Company from time to time evaluates acquisitions in pursuit of its business strategy, either as an alternative to constructing networks, adding customers, or to the introduction of services that compliment existing and/or planned services. Such acquisitions may be significant in size and could use a substantial portion of the Company's available cash.

From time to time, the Company has had discussions with other communications entities concerning the establishment of possible strategic relationships, including transactions involving substantial acquisitions, combinations and equity investments in the Company or one of its subsidiaries. In addition, certain acquisitions may provide the Company with the opportunity to acquire an established customer base. The Company intends to consider appropriate opportunities to establish strategic relationships.

#### Accounting for Stock-Based Compensation

In October 1995, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 ("SFAS 123"), Accounting for Stock-Based Compensation. SFAS 123 encourages entities to adopt a fair value based method of accounting for employee stock compensation plans, however it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting. Under the intrinsic value based method, many companies, including MFS, had not previously recognized compensation costs for many of their stock compensation plans.

The Company adopted the fair value based method of SFAS 123 in the first quarter of 1996. The Company believes that the fair value method of accounting more appropriately reflects the substance of the transaction between an entity that issues stock options, or other stock-based instruments, and its employees; that is, an entity has granted something of value to an employee (the stock option or other instrument) generally in return for their continued employment and services. The Company believes that the value of the instrument granted to employees should be recognized in financial statements because nonrecognition implies that either the instruments have no value or that they are free to employees, neither of which is an accurate reflection of the substance of the transaction. Although the recognition of the value of the instruments results in compensation expense in an entity's financial statements, the expense differs from other common forms of compensation expenses in that these charges typically will not be settled in cash, but rather through issuance of common stock.

The Company has introduced certain changes to its stock-based compensation plans, including a new award plan for key executive employees which ultimately have value to the employee only if the Company's stock price outperforms the S&P 500. The Company has granted approximately 923,000 awards under the new plan in the first six months of 1996, and anticipates that additional grants will be made on a quarterly basis. The amount of non cash stock-based compensation expense recorded in the six month period ended June 30, 1996, as measured under SFAS 123, was \$6,885. The Company believes that these charges will continue in 1996 and thereafter. The amount of the non-cash charge will be dependent upon a number of factors, including the number of options and awards granted and the fair value estimated at the time of grant.

#### Effects of Inflation

Inflation has not had a significant effect on Company operations. However, there can be no assurance that inflation will not have a material effect on the Company's operations in the future.

#### Forward-looking Statements

The matters discussed in this Form 10Q contain forward-looking statements that involve risks and uncertainties including risk of changing market conditions, competitive and regulatory risk associated with the telecommunications and Internet industries, the impact of competitive services and pricing, the impact of the Telecommunications Act of 1996, the successful and timely completion of the UUNET Technologies, Inc. merger, and other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission.



PART II - OTHER INFORMATION  
-----

Item 1. Legal Proceedings

On March 4, 1994, several of the former minority stockholders of MFS Telecom, Inc., a subsidiary of the Company, filed a lawsuit against Kiewit Diversified Group Inc. ("KDG"), the Company and its chief executive officer in the United States District Court for the Northern District of Illinois, Case No. 94C-1381, captioned Arthur Brantman et al. v. MFS Communications Company, Inc. et al. Plaintiffs alleged that MFS fraudulently concealed material information about its plans from them, causing them to sell their shares at an inadequate price and further alleged damages of at least \$100 million. KDG agreed to indemnify the Company against any claims asserted by the former stockholders. On July 9, 1996 this lawsuit was settled with no cost to the Company.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

11 Schedule computing consolidated net loss per share applicable to common stockholders.

(b) A report on Form 8-K, dated April 30, 1996, was filed reporting under Item 5 that the Company and UUNET Technologies, Inc. executed an agreement and plan of merger.

A report on Form 8-K, dated May 10, 1996, was filed reporting under Item 5 that the Company plans to undertake a series of initiatives designed to position it to take advantage of opportunities created by changes in telecommunications laws and the rapid development of Internet-based communications networks.

Pursuant to the requirements 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.

MFS COMMUNICATIONS COMPANY, INC.

/s/ R. Douglas Bradbury

Dated: August 14, 1996

-----  
R. Douglas Bradbury  
Chief Financial Officer

MFS COMMUNICATIONS COMPANY, INC. AND SUBSIDIARIES

SCHEDULE COMPUTING CONSOLIDATED NET LOSS PER SHARE  
 APPLICABLE TO COMMON STOCKHOLDERS  
 (dollars in thousands, except per share data)

Common shares outstanding

	Three months ended June 30,		Six months ended June 30	
	1996	1995	1996	1995
Common shares outstanding at beginning of period(1)	125,619,642	128,852,624	130,240,228	128,306,436
Add issuances	1,204,327	176,900	2,364,361	723,088
Less retirement of treasury stock	-	-	(5,800,000)	-
Common shares outstanding at end of period	126,824,589	129,029,524	126,824,589	129,029,524

Net loss per share applicable to common

stockholders

	Three months ended June 30,		Six months ended June 30,	
	1996	1995	1996	1995
Weighted average number of common shares outstanding	126,176,000	128,960,000	125,596,000	128,845,000
Net loss	\$ (92,696)	\$ (64,828)	\$ (178,920)	\$ (128,736)
Dividends on preferred stock	(7,460)	-	(14,532)	-
Net loss applicable to common stockholders	\$ (100,156)	\$ (64,828)	\$ (193,452)	\$ (128,736)
Net loss per share applicable to common stockholders	\$ (0.79)	\$ (0.50)	\$ (1.54)	\$ (1.00)

(1) All share data has been stated reflecting the common stock split in 1996.

<ARTICLE> 5

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FORM 10Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FORM 10Q

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**EXHIBIT B**

**AGREEMENT AND PLAN OF MERGER**

EXECUTION COPY

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**AGREEMENT AND PLAN OF MERGER**

By and Among  
WorldCom, Inc.,

HIJ Corp.

and

MPS Communications Company, Inc.

Dated As Of  
August 25, 1996

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**AGREEMENT AND PLAN OF MERGER**

This Agreement and Plan of Merger (the "Agreement") is made and entered into as of August 25, 1996, by and among WorldCom, Inc., a Georgia corporation ("WorldCom"), HIJ Corp., a Delaware corporation and wholly owned subsidiary of WorldCom ("Acquisition Subsidiary"), and MFS Communications Company, Inc., a Delaware corporation ("MFS").

**Recitals**

A. The respective Boards of Directors of MFS, Acquisition Subsidiary and WorldCom have approved the merger (the "Merger") of Acquisition Subsidiary with and into MFS in accordance with the laws of the State of Delaware and the provisions of this Agreement.

B. MFS, Acquisition Subsidiary and WorldCom desire to make certain representations, warranties and agreements in connection with, and establish various conditions precedent to, the Merger.

C. As a condition and inducement to WorldCom and Acquisition Subsidiary entering into this Agreement, concurrently with the execution and delivery of this Agreement, MFS has granted an option to WorldCom to purchase common stock of MFS pursuant to a Stock Option Agreement with WorldCom (the "MFS Option Agreement").

D. As a condition and inducement to MFS entering into this Agreement, concurrently with the execution and delivery of this Agreement, WorldCom has granted an option to MFS to purchase common stock of WorldCom pursuant to a Stock Option Agreement with MFS (the "WorldCom Option Agreement").

NOW, THEREFORE, in consideration of the premises and the representations, warranties, covenants and agreements hereinafter set forth, the parties hereto agree as follows:

**ARTICLE I  
TERMS OF THE MERGER**

1.1 The Merger. Upon the terms and subject to the conditions of this Agreement, the Merger shall be consummated in accordance with the Delaware General Corporation Law (the "Delaware Code"). At the Effective Time (as defined in Section 1.2, below), upon the terms and subject to the conditions of this Agreement, Acquisition Subsidiary shall be merged with and into MFS in accordance with the Delaware Code and the separate existence of Acquisition Subsidiary shall thereupon cease, and MFS, as the surviving corporation in the Merger (the "Surviving Corporation"), shall continue its corporate existence under the laws of the State of Delaware as a subsidiary of WorldCom. The parties shall prepare and execute a certificate of merger (the

"Certificate of Merger") in order to comply in all respects with the requirements of the Delaware Code and with the provisions of this Agreement.

1.2 Effective Time. The Merger shall become effective at the time of the filing of the Certificate of Merger with the Secretary of State of Delaware in accordance with the applicable provisions of the Delaware Code or at such later time as may be specified in the Certificate of Merger. The Certificate of Merger shall be filed as soon as practicable after all of the conditions set forth in this Agreement have been satisfied or waived by the party or parties entitled to the benefit of the same. WorldCom and MFS shall mutually determine the time of such filing and the place where the closing of the Merger (the "Closing") shall occur. The time when the Merger shall become effective is herein referred to as the "Effective Time" and the date on which the Effective Time occurs is herein referred to as the "Closing Date."

1.3 Merger Consideration. (a) Subject to the provisions of this Agreement and any applicable backup or other withholding requirements, each of the issued and outstanding shares (the "MFS Shares") of common stock, par value \$.01 per share, of MFS (the "MFS Common Stock"), together with the associated preferred stock purchase rights issued under the MFS Rights Agreement (as hereinafter defined) (the "MFS Rights"), as of the Effective Time shall be converted into the right to receive, and there shall be paid and issued as hereinafter provided, in exchange for each of the MFS Shares and MFS Rights, 2.1 shares (the "Exchange Ratio") of the common stock of WorldCom, par value \$.01 per share, together with the associated preferred stock purchase rights issued under the WorldCom Rights Agreement (as hereinafter defined) (the "WorldCom Stock"), subject to payment of cash in lieu of any fractional share as hereinafter provided (the "Merger Consideration"). The Exchange Ratio shall be subject to appropriate adjustment in the event of a stock split, stock dividend or recapitalization after the date of this Agreement applicable to shares of the WorldCom Stock or the MFS Common Stock.

(b) Subject to the provisions of this Agreement and any applicable backup or other withholding requirements, each of the issued and outstanding shares (the "MFS Preferred Shares") of Series A Preferred (as hereinafter defined) and Series B Preferred (as hereinafter defined) (other than any Dissenting Shares (as hereinafter defined)), as of the Effective Time shall be converted into the right to receive and there shall be paid and issued as hereinafter provided, in exchange for each share of Series A Preferred and Series B Preferred one (1) share of Series A 8 $\frac{1}{2}$  Cumulative Convertible Preferred Stock of WorldCom and one (1) share of Series B Convertible Preferred Stock of WorldCom, respectively (collectively, "WorldCom Preferred Stock") (and, as a result, each depositary share representing a 1/100 interest in



a share of MFS Series A Preferred shall be converted into the right to receive a depository share representing a 1/100 interest in a share of Series A 8 $\frac{1}{2}$  Cumulative Convertible Preferred Stock of WorldCom. The terms of the WorldCom Preferred Stock shall be substantially the same as the terms of the corresponding MFS Preferred Shares (with such stock being convertible at the same conversion price into the same number of shares of WorldCom Stock, in each case, as adjusted for the Exchange Ratio and otherwise on terms substantially similar to the terms of the corresponding MFS Preferred Shares with appropriate adjustments for dates of issuance or anniversary), except that each share of Series B Preferred (i) shall be entitled to one vote per share on all matters presented to WorldCom shareholders, voting together with the WorldCom Stock and such other voting rights as may be required by law, and (ii) at the discretion of WorldCom, may contain corresponding restrictions on transfer, and in the case of both series of WorldCom Preferred Stock, with such changes as shall be appropriate to reflect previous adjustments effected pursuant to the terms of the MFS Preferred Shares and the requirements of Georgia Law.

(c) No fractional shares of WorldCom Stock shall be issued pursuant to the Merger nor will any fractional share interest involved entitle the holder thereof to vote, to receive dividends or to exercise any other rights of a shareholder of WorldCom. In lieu thereof, any person who would otherwise be entitled to a fractional share of WorldCom Stock pursuant to the provisions hereof shall receive an amount in cash equal to the value of such fractional share. The value of such fractional share shall be the product of such fraction (rounded down to the nearest hundredth of a share) multiplied by \$26.375, subject to appropriate adjustment in the event of a stock split, stock dividend or recapitalization after the date of this Agreement applicable to shares of the WorldCom Stock.

(d) Each share of MFS Common Stock or MFS Preferred Stock held in the treasury of MFS or by a wholly owned subsidiary of MFS shall be cancelled as of the Effective Time and no Merger Consideration shall be payable with respect thereto.

(e) Subject to the provisions of this Agreement, at the Effective Time, the shares of Acquisition Subsidiary common stock outstanding immediately prior to the Merger shall be converted, by virtue of the Merger and without any action on the part of the holder thereof, into one share of the common stock of the Surviving Corporation (the "Surviving Corporation Common Stock"), which one share of the Surviving Corporation Common Stock shall constitute all of the issued and outstanding capital stock of the Surviving Corporation and shall be owned by WorldCom.

1.4 Stockholders' Rights upon Merger. Upon consummation of the Merger, the certificates which theretofore

represented MPS Shares or MPS Preferred Shares (other than Dissenting Shares) (the "Certificates") shall cease to represent any rights with respect thereto, and, subject to applicable law and this Agreement, shall only represent the right to receive the Merger Consideration including the amount of cash, if any, payable in lieu of fractional shares of WorldCom Stock into which the MPS Shares or MPS Preferred Shares, as the case may be, have been converted pursuant to this Agreement. MPS represents and warrants neither the holders of the shares of MPS Stock nor the holders of shares of Series A Preferred are entitled to appraisal rights under applicable Law (as hereinafter defined) or the Certificate of Incorporation of MPS provided the conditions of Section 262(b)(1) of the Delaware Code are satisfied and the provisions of Section 262(b)(2) of the Delaware Code are not applicable.

1.5 Surrender and Exchange of Shares. (a) Prior to the Closing Date, WorldCom shall appoint The Bank of New York or another agent mutually acceptable to WorldCom and MPS to act as exchange agent (the "Exchange Agent") for the Merger. Promptly after the Effective Time, WorldCom shall make available, or cause to be made available, to the Exchange Agent such certificates evidencing such number of shares of WorldCom Stock and WorldCom Preferred Stock and such amount of cash, as and when necessary, in order to enable the Exchange Agent to effect the exchange of certificates and make the cash payments in respect of fractional shares contemplated by Section 1.5(c) below.

(b) On the Closing Date, WorldCom shall instruct the Exchange Agent to mail to each holder of record of a Certificate within five business days of receiving from MPS a list of such holders of record, (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Exchange Agent and shall be in such form and have such other provisions as WorldCom may reasonably specify) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for certificates representing the Merger Consideration.

(c) After the Effective Time, each holder of a MPS Share or MPS Preferred Share (other than Dissenting Shares) shall surrender and deliver the Certificates to the Exchange Agent together with a duly completed and executed transmittal letter. Upon such surrender and delivery, the holder shall receive a certificate representing the number of whole shares of WorldCom Stock or WorldCom Preferred Stock into which such holder's MPS Shares or MPS Preferred Shares have been converted pursuant to this Agreement, subject to payment of cash in lieu of any fractional share. Until so surrendered and exchanged, each outstanding Certificate after the Effective Time shall be deemed for all purposes to evidence the right to receive that number of whole shares of WorldCom Stock or WorldCom Preferred Stock into



which the MPS Shares or MPS Preferred Shares (other than Dissenting Shares) have been converted pursuant to this Agreement, subject to payment of cash in lieu of any fractional share; provided, however, that no dividends or other distributions, if any, in respect of the shares of WorldCom Stock or WorldCom Preferred Stock, declared after the Effective Time and payable to holders of record after the Effective Time, shall be paid to the holders of any unsurrendered Certificates until such Certificates and transmittal letters are surrendered and delivered as provided herein. Subject to applicable Law, after the surrender and exchange of Certificates, the record holders thereof will be entitled to receive any such dividends or other distributions without interest thereon, which theretofore have become payable with respect to the number of shares of WorldCom Stock or WorldCom Preferred Stock for which such Certificates were exchangeable. Holders of any unsurrendered Certificates shall not be entitled to vote WorldCom Stock or WorldCom Preferred Stock until such Certificates are exchanged pursuant to this Agreement.

(d) At the Effective Time, the stock transfer books of MPS shall be closed and no transfer of MPS Shares or MPS Preferred Shares shall be made thereafter, other than transfers of MPS Shares and MPS Preferred Shares that have occurred prior to the Effective Time. In the event that, after the Effective Time, Certificates are presented to the Surviving Corporation, they shall be canceled and exchanged for shares of WorldCom Stock or WorldCom Preferred Stock or cash as provided in Section 1.3.

(e) Neither MPS nor WorldCom nor the Exchange Agent shall be liable to any holder of MPS Shares or MPS Preferred Shares for any such shares of WorldCom Stock or WorldCom Preferred Stock (or dividends or distributions with respect thereto), or cash delivered to a public official pursuant to any abandoned property, escheat or similar law, rule, regulation, statute, order, judgment or decree.

1.6 Options and Warrants. (a) At the Effective Time, WorldCom shall cause each holder of a then-outstanding and unexercised option (the "MPS Options") or warrant (the "MPS Warrants") exercisable for shares of MPS Common Stock to receive, by virtue of the Merger and without any action on the part of the holder thereof, options or warrants, respectively, exercisable for shares of WorldCom Stock having the same terms and conditions as the MPS Options and MPS Warrants (including such terms and conditions as may be incorporated by reference into the agreements evidencing MPS Options and MPS Warrants pursuant to the plans or arrangements pursuant to which such MPS Options and MPS Warrants were granted and taking into account the provisions of Section 5.12(b) hereof) except that (i) the exercise price and the number of shares issuable upon exercise shall be divided and multiplied, respectively, by the Exchange Ratio, and (ii) MPS Options which are "MPS Outperformance Options" (as defined in

Section 1.6(b) shall be treated as set forth in Section 1.6(b). WorldCom shall use all reasonable efforts to ensure that the MFS Options which qualified as incentive stock options under Section 422 of the Code prior to the Effective Time continue to so qualify after the Effective Time. WorldCom shall take all corporate action necessary to reserve for issuance a sufficient number of shares of WorldCom Stock for delivery upon the exercise of MFS Options and MFS Warrants after the Effective Time. Immediately after the Effective Time, WorldCom shall file or cause to be filed all registration statements on Form S-8 or other appropriate form as may be necessary in connection with the purchase and sale of WorldCom Stock contemplated by such MFS Options subsequent to the Effective Time, and shall maintain the effectiveness of such registration statements (and maintain the current status of the prospectus or prospectuses contained therein) for so long as any of the MFS Options registered thereunder remain outstanding. As soon as practicable after the Effective Time, WorldCom shall qualify under applicable state securities laws the issuance of such shares of WorldCom Stock issuable upon exercise of MFS Options. WorldCom shall use reasonable business efforts to cause to be taken any actions necessary on the part of WorldCom to enable subsequent transactions in WorldCom Stock after the Effective Time pursuant to MFS Options held by persons subject to the reporting requirements of Section 16(a) of the Securities Exchange Act to be exempt from the application of Section 16(b) of the Securities Exchange Act, to the extent permitted thereunder. At the Effective Time, WorldCom shall assume, by supplemental agreement, the due and punctual performance and observance of each and every covenant and condition of the Warrant Agreement dated as of June 8, 1993 between MFS and Gleacher & Co., Inc.

(b) At the Effective Time, WorldCom shall cause each holder of a then-outstanding and unexercised MFS Option which is an "Outperformance Option" awarded under the MFS 1993 Stock Plan ("MFS Outperformance Options") to receive, by virtue of the Merger, in substitution for such MFS Outperformance Options, awards in respect of shares of WorldCom Stock ("WorldCom Outperformance Options") which shall preserve the economic value of, and the potential economic value associated with, each such MFS Outperformance Option immediately prior to the Effective Time, provided that the holder thereof executes and delivers to WorldCom an agreement reasonably satisfactory to WorldCom relating thereto. To the greatest extent practicable, such WorldCom Outperformance Options shall be based on the same performance criteria applicable to the MFS Outperformance Options, giving effect to the Merger and the transactions contemplated thereby. Each of MFS and WorldCom hereby covenant to cooperate in good faith in order to develop terms for each such WorldCom Outperformance Option which will effectuate the intent and purpose of this Section 1.6(b).

1.7 Certificate of Incorporation. At and after the Effective Time, the Certificate of Incorporation of the Surviving Corporation shall be identical to the Certificate of Incorporation of MPS in effect at the Effective Time (subject to any subsequent amendment).

1.8 Bylaws. Subject to Section 5.13 below, at and after the Effective Time, the Bylaws of Acquisition Subsidiary in effect at the Effective Time shall be the Bylaws of the Surviving Corporation (subject to any subsequent amendment).

1.9 [Intentionally left blank].

1.10 Other Effects of Merger. The Merger shall have all further effects as specified in the applicable provisions of the Delaware Code.

1.11 Registration Statement; Prospectus/Proxy Statement.

(a) For the purposes of (i) registering the issuance of WorldCom Stock, the WorldCom Preferred Stock and, if required, the WorldCom Outperformance Options, to holders of the MPS Shares, MPS Preferred Shares and MPS Outperformance Options in connection with the Merger with the Securities and Exchange Commission ("SEC") under the Securities Act of 1933, as amended, and the rules and regulations thereunder (the "Securities Act"), and complying with applicable state securities Laws, (ii) holding the meeting of MPS stockholders to vote upon the adoption of this Agreement and the Merger and the transactions contemplated hereby and thereby (the "MPS Proposals"), and (iii) holding the meeting of WorldCom's shareholders to approve the amendment of WorldCom's Articles of Incorporation to increase the number of authorized shares of WorldCom Stock and to approve the issuance of the WorldCom Stock and WorldCom Preferred Stock in the Merger and the other transactions contemplated hereby and thereby (the "WorldCom Proposals"), WorldCom and MPS will cooperate in the preparation of a registration statement on Form S-4 (such registration statement, together with any and all amendments and supplements thereto, being herein referred to as the "Registration Statement"), including a prospectus/joint proxy statement satisfying all requirements of applicable state securities Laws, the Securities Act and the Securities Exchange Act of 1934 and the rules and regulations thereunder (the "Securities Exchange Act"). Such prospectus/joint proxy statement in the form mailed by MPS and WorldCom to their respective stockholders, together with any and all amendments or supplements thereto, is herein referred to as the "Prospectus/Proxy Statement."

(b) MPS will furnish WorldCom with such information concerning MPS and its subsidiaries as is necessary in order to cause the Prospectus/Proxy Statement, insofar as it relates to MPS and its subsidiaries, to comply with applicable Law. None of

the information relating to MFS and its subsidiaries supplied by MFS for inclusion in the Prospectus/Proxy Statement will be false or misleading with respect to any material fact or will omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. MFS agrees promptly to advise WorldCom if, at any time prior to the respective meetings of the stockholders of MFS or WorldCom referenced herein, any information provided by it in the Prospectus/Proxy Statement is or becomes incorrect or incomplete in any material respect and to provide WorldCom with the information needed to correct such inaccuracy or omission. MFS will furnish WorldCom with such supplemental information as may be necessary in order to cause the Prospectus/Proxy Statement, insofar as it relates to MFS and its subsidiaries, to comply with applicable Law after the mailing thereof to the stockholders of MFS or WorldCom.

(c) WorldCom will furnish MFS with such information concerning WorldCom and its subsidiaries as is necessary in order to cause the Prospectus/Proxy Statement, insofar as it relates to WorldCom and its subsidiaries, to comply with applicable Law. None of the information relating to WorldCom and its subsidiaries supplied by WorldCom for inclusion in the Prospectus/Proxy Statement will be false or misleading with respect to any material fact or will omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. WorldCom agrees promptly to advise MFS if, at any time prior to the respective meetings of stockholders of MFS or WorldCom referenced herein, any information provided by it in the Prospectus/Proxy Statement is or becomes incorrect or incomplete in any material respect and to provide MFS with the information needed to correct such inaccuracy or omission. WorldCom will furnish MFS with such supplemental information as may be necessary in order to cause the Prospectus/Proxy Statement, insofar as it relates to WorldCom and its subsidiaries, to comply with applicable Law after the mailing thereof to the stockholders of MFS or WorldCom.

(d) MFS and WorldCom agree to cooperate in making any preliminary filings of the Prospectus/Proxy Statement with the SEC, as promptly as practicable, pursuant to Rule 14a-6 under the Securities Exchange Act.

(e) WorldCom will file the Registration Statement with the SEC and appropriate materials with applicable state securities agencies as promptly as practicable and will use all reasonable efforts to cause the Registration Statement to become effective under the Securities Act and all such state filed materials to comply with applicable state securities Laws. MFS authorizes WorldCom to utilize in the Registration Statement and in all such state filed materials, the information concerning MFS



and its subsidiaries provided to WorldCom in connection with, or contained in, the Prospectus/Proxy Statement. WorldCom promptly will advise MPS when the Registration Statement has become effective and of any supplements or amendments thereto, and WorldCom will furnish MPS with copies of all such documents. Except for the Prospectus/Joint Proxy or the preliminary prospectus/joint proxy, neither WorldCom nor MPS shall distribute any written material that might constitute a "prospectus" relating to the Merger, the MPS Proposals or the WorldCom Proposals within the meaning of the Securities Act or any applicable state securities Law without the prior written consent of WorldCom.

**1.12 Tax-Free Reorganization.** The parties intend that the Merger qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, and the regulations thereunder (the "Code"). None of the parties will knowingly take any action that would cause the Merger to fail to qualify as a reorganization within the meaning of Section 368(a) of the Code.

**1.13 Additional Actions.** If, at any time after the Effective Time, the Surviving Corporation shall consider or be advised that any deeds, bills of sale, assignments, assurances or any other actions or things are necessary or desirable to vest, perfect or confirm of record or otherwise in the Surviving Corporation its right, title or interest in, to or under any of the rights, properties or assets of Acquisition Subsidiary or MPS or otherwise to carry out this Agreement, the officers and directors of the Surviving Corporation shall be authorized to execute and deliver, in the name and on behalf of Acquisition Subsidiary or MPS, all such deeds, bills of sale, assignments and assurances and to take and do, in the name and on behalf of Acquisition Subsidiary or MPS, all such other actions and things as may be necessary or desirable to vest, perfect or confirm any and all right, title and interest in, to and under such rights, properties or assets in the Surviving Corporation or otherwise to carry out this Agreement.

**1.14 Dissenting Shares.**

(a) Notwithstanding any provision of this Agreement to the contrary, any shares of MPS Series B Preferred held by a holder who has demanded and perfected his demand for appraisal of his shares of Series B Preferred in accordance with Section 262 of the Delaware Code and as of the Effective Time has neither effectively withdrawn nor lost his right to such appraisal (the "Dissenting Shares"), shall not be converted into or represent a right to receive the Series B Convertible Preferred Stock of WorldCom pursuant to Section 1.3 hereof, but the holder thereof shall be entitled to only such rights as are granted by the Delaware Code.

(b) Notwithstanding the provisions of subsection (a) of this Section 1.14, if any holder of shares of Series B Preferred who demands appraisal of such shares under the Delaware Code shall effectively withdraw or lose (through failure to perfect or otherwise) his right to appraisal, then as of the Effective Time or the occurrence of such event, whichever later occurs, such holder's shares of Series B Preferred shall automatically be converted into and represent only the right to receive the Series B Convertible Preferred Stock of WorldCom pursuant to Section 1.1 hereof, without any interest thereon, upon surrender of the certificate or certificates representing such shares of Series B Preferred.

(c) MPS shall give WorldCom (i) prompt notice of any written demands for appraisal or payment of the fair value of any shares of Series B Preferred, withdrawals of such demands, and any other instruments served pursuant to the Delaware Code received by MPS and (ii) the opportunity to direct all negotiations and proceedings with respect to demands for appraisal under the Delaware Code. MPS shall not voluntarily make any payment with respect to any demands for appraisal and shall not, except with the prior written consent of WorldCom, settle or offer to settle any such demands. All payments made to holders of Dissenting Shares shall be made by MPS. No funds will be provided to MPS, directly or indirectly, by WorldCom or Acquisition Subsidiary nor will WorldCom or Acquisition Subsidiary reimburse MPS, directly or indirectly, for these payments.

1.15 Alternative Structure. Notwithstanding anything to the contrary herein, the parties agree that the structure of the Merger as provided herein may, by mutual agreement of MPS and WorldCom, be modified such that, in lieu of Acquisition Subsidiary merging with and into MPS, MPS may merge with and into WorldCom (the "Alternative Structure"), provided the Alternative Structure (i) provides for equivalent value of consideration (which in the case of securities, shall be freely tradeable, subject to Rule 145 promulgated under the Securities Act) for, and entails no adverse tax consequences to, MPS's stockholders or holders of options or warrants for MPS Shares or MPS Outperformance Options, (ii) would have no materially adverse tax, accounting or other financial consequences for MPS, MPS's stockholders or holders of options or warrants for MPS Shares or MPS Outperformance Options (including without limitation an adverse effect with respect to any change in control provisions contained therein), and (iii) would not result in any material delay in consummation of the Merger as modified. In addition, MPS agrees to cooperate with WorldCom in considering structures for the Merger other than the Alternative Structure which will be implemented at the request of WorldCom, but only with the consent of MPS, which consent shall not be unreasonably withheld; provided, however, that in determining whether to consent to structures other than the Alternative Structure, consent will not

be considered to be unreasonably withheld if the decision to withhold consent is determined by considering the factors referred to in clauses (i), (ii) and (iii) above. In the event WorldCom and MPS agree to implement the Alternative Structure or another structure as contemplated by this Section 1.15, the parties agree to execute an appropriate amendment to this Agreement (including representations, warranties, covenants and other pertinent provisions to the extent appropriate in light of the Alternative Structure or other structure) providing for such Alternative Structure or other structure.

**ARTICLE II  
REPRESENTATIONS, WARRANTIES AND CERTAIN  
COVENANTS OF MPS**

MPS represents, warrants and/or covenants to and with WorldCom as follows:

**2.1 Organization and Good Standing.** MPS and each of the MPS Subsidiaries is a corporation or partnership duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization and has all requisite corporate or partnership power and authority to own, lease and operate its properties and to carry on its business as now being conducted. MPS and each of the MPS Subsidiaries is duly qualified or licensed and in good standing to do business in each jurisdiction in which the character of the property owned, leased or operated by it or the nature of the business conducted by it makes such qualification or licensing necessary, except where the failure to be so duly qualified or licensed and in good standing would not have a material adverse effect on the business, assets (including, but not limited to, intangible assets), prospects, condition (financial or otherwise), properties (including, but not limited to, intangible properties), liabilities or the results of operations of MPS and its subsidiaries taken as a whole ("MPS Material Adverse Effect"). Schedule 2.1 attached hereto contains a complete and accurate list of the jurisdictions of incorporation or organization and qualification or license of MPS and the MPS Subsidiaries. MPS has heretofore made available to WorldCom accurate and complete copies of the Certificate of Incorporation and Bylaws, as currently in effect, of MPS. For purposes of this Agreement, the term "MPS Subsidiary" shall mean any "Significant Subsidiary" (as such term is defined in Rule 1-02 of Regulation S-X of the SEC) of MPS.

**2.2 Capitalization.** As of the date hereof, the authorized capital stock of MPS consists of (a) 400,000,000 shares of MPS Common Stock, and (b) 25,000,000 shares of preferred stock, as to which 95,000 shares have been designated as Series A 8% Cumulative Convertible Preferred Stock, 15,000,000 shares have been designated as Series B Convertible Preferred

Stock and 75,000 shares have been designated as Series C Junior Participating Preferred Stock (collectively, the "MFS Preferred Stock" and, separately, the "Series A Preferred," "Series B Preferred," and "Series C Preferred," respectively). As of August 23, 1996, (a) 220,869,715 shares of MFS Common Stock were issued and outstanding, (b) no shares of MFS Common Stock were issued and held in the treasury of MFS, and (c) 94,492 shares of Series A Preferred, 15,000,000 shares of Series B Preferred and no shares of Series C Preferred were issued and outstanding. No other capital stock of MFS is authorized or issued. All issued and outstanding shares of the MFS Common Stock and MFS Preferred Stock are duly authorized, validly issued, fully paid and non-assessable and were issued free of preemptive rights and in compliance with applicable securities Laws. Except as set forth in the MFS Securities Filings (as hereinafter defined) or on Schedule 2.2 attached hereto and as otherwise contemplated by this Agreement, as of the date hereof there are no outstanding rights, subscriptions, warrants, puts, calls, unsatisfied preemptive rights, options or other agreements of any kind relating to any of the outstanding, authorized but unissued, unauthorized or treasury shares of the capital stock or any other security of MFS, and there is no authorized or outstanding security of any kind convertible into or exchangeable for any such capital stock or other security. Except as disclosed in the MFS Securities Filings, there are no restrictions upon the transfer of or otherwise pertaining to the securities (including, but not limited to, the ability to pay dividends thereon) or retained earnings of MFS and the MFS Subsidiaries or the ownership thereof other than those, if any, described on Schedule 2.2 attached hereto or those imposed by the Securities Act, the Securities Exchange Act, applicable state securities Laws or applicable corporate Law.

2.3 Subsidiaries. Schedule 2.1 attached hereto sets forth the name and jurisdiction of incorporation or organization of each MFS Subsidiary, each of which is wholly owned by MFS except as otherwise indicated on said Schedule 2.1. All of the capital stock and other interests of the MFS Subsidiaries so held by MFS are owned by it or a MFS Subsidiary as indicated on said Schedule 2.1, free and clear of any claim, lien, encumbrance, security interest or agreement with respect thereto. All of the outstanding shares of capital stock in each of the MFS Subsidiaries directly or indirectly held by MFS are duly authorized, validly issued, fully paid and non-assessable and were issued free of preemptive rights and in compliance with applicable Laws. Except as set forth on Schedule 2.1 attached hereto, there are no irrevocable proxies or similar obligations with respect to such capital stock of the MFS Subsidiaries held by MFS and no equity securities or other interests of any of the MFS Subsidiaries are or may become required to be issued or purchased by reason of any options, warrants, rights to subscribe to, puts, calls or commitments of any character whatsoever relating to, or securities or rights convertible into or



exchangeable for shares of any capital stock of any MPS Subsidiary, and there are no contracts, commitments, understandings or arrangements by which any MPS Subsidiary is bound to issue additional shares of its capital stock, or options, warrants or rights to purchase or acquire any additional shares of its capital stock or securities convertible into or exchangeable for such shares.

2.4 Authorizations; Binding Agreement. MPS has all requisite corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the other agreements and documents referred to herein to which MPS is or will be a party or a signatory (the "MPS Ancillary Agreements") and the consummation of the transactions contemplated hereby and thereby, including, but not limited to, the Merger have been duly and validly authorized by MPS's Board of Directors and no other corporate proceedings on the part of MPS or any MPS Subsidiary are necessary to authorize the execution and delivery of this Agreement and the MPS Ancillary Agreements or to consummate the transactions contemplated hereby or thereby (other than the adoption of this Agreement by the stockholders of MPS in accordance with the Delaware Code and the Certificate of Incorporation and Bylaws of MPS). This Agreement has been duly and validly executed and delivered by MPS and constitutes, and upon execution and delivery thereof as contemplated by this Agreement, the MPS Ancillary Agreements will constitute, the legal, valid and binding agreements of MPS, enforceable against MPS in accordance with its and their respective terms, except to the extent that enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally and by principles of equity regarding the availability of remedies ("Enforceability Exceptions").

2.5 Governmental Approvals. No consent, approval, waiver or authorization of, notice to or declaration or filing with ("Consent") any nation or government, any state or other political subdivision thereof, any entity, authority or body exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, including, without limitation, any governmental or regulatory authority, agency, department, board, commission, administration or instrumentality, any court, tribunal or arbitrator and any self-regulatory organization ("Governmental Authority") on the part of MPS or any of the MPS Subsidiaries is required in connection with the execution or delivery by MPS of this Agreement and the MPS Ancillary Agreements or the consummation by MPS of the transactions contemplated hereby or thereby other than (i) the filing of the Certificate of Merger with the Secretary of State of Delaware in accordance with the Delaware Code, (ii) filings with the SEC, state securities laws administrators and the National Association of Securities Dealers, Inc.

("NASD"), (iii) Consents from the Federal Communications Commission, state public service or utility commissions (or comparable state Governmental Authorities) or foreign telephone administrations, (iv) filings under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder (the "HSR Act"), (v) such filings as may be required in any jurisdiction where MFS is qualified or authorized to do business as a foreign corporation in order to maintain such qualification or authorization, and (vi) those Consents that, if they were not obtained or made, do not or would not have a MFS Material Adverse Effect or materially and adversely affect the ability of MFS to perform its obligations as set forth in this Agreement or to consummate the transactions contemplated hereby.

**2.6 No Violations.** The execution and delivery of this Agreement and the MFS Ancillary Agreements, the consummation of the transactions contemplated hereby and thereby and compliance by MFS with any of the provisions hereof or thereof will not (i) conflict with or result in any breach of any provision of the Certificate and/or Articles of Incorporation or Bylaws or other governing instruments of MFS or any of the MFS Subsidiaries, (ii) except as set forth on Schedule 2.f attached hereto, require any Consent under or result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation or acceleration or augment the performance required) under any of the terms, conditions or provisions of any MFS Material Contract (as hereinafter defined), (iii) result in the creation or imposition of any lien or encumbrance of any kind upon any of the assets of MFS or any MFS Subsidiary, or (iv) subject to obtaining the Consents from Governmental Authorities referred to in Section 2.5, above, contravene any applicable provision of any constitution, treaty, statute, law, code, rule, regulation, ordinance, policy or order of any Governmental Authority or other matters having the force of law including, but not limited to, any orders, decisions, injunctions, judgments, awards and decrees of or agreements with any court or other Governmental Authority ("Law") currently in effect to which MFS or any MFS Subsidiary or its or any of their respective assets or properties are subject, except in the case of clauses (ii), (iii) and (iv), above, for any deviations from the foregoing which do not or would not have a MFS Material Adverse Effect.

**2.7 Securities Filings and Litigation.** MFS has made available to WorldCom true and complete copies of (i) its Annual Reports on Form 10-K, as amended, for the years ended December 31, 1993, 1994 and 1995, as filed with the SEC, (ii) its proxy statements relating to all of the meetings of stockholders (whether annual or special) of MFS since May 26, 1993, as filed with the SEC, and (iii) all other reports, statements and registration statements and amendments thereto (including, without limitation, Quarterly Reports on Form 10-Q and Current

Reports on Form 8-K, as amended) filed by MPS with the SEC since May 26, 1993. The reports and statements set forth in clauses (i) through (iii), above, and those subsequently provided or required to be provided pursuant to this Section, are referred to collectively herein as the "MPS Securities Filings." As of their respective dates, or as of the date of the last amendment thereof, if amended after filing, none of the MPS Securities Filings (including all schedules thereto and disclosure documents incorporated by reference therein), contained or, as to MPS Securities Filings subsequent to the date hereof, will contain any untrue statement of a material fact or omitted or, as to MPS Securities Filings subsequent to the date hereof, will omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Each of the MPS Securities Filings at the time of filing or as of the date of the last amendment thereof, if amended after filing, complied or, as to MPS Securities Filings subsequent to the date hereof, will comply in all material respects with the Securities Exchange Act or the Securities Act, as applicable. There is no action, cause of action, claim, demand, suit, proceeding, citation, summons, subpoena, inquiry or investigation of any nature, civil, criminal, regulatory or otherwise, in law or in equity, by or before any court, tribunal, arbitrator or other Governmental Authority ("Litigation") pending or, to the knowledge of MPS, threatened against MPS or any of its subsidiaries, any officer, director, employee or agent thereof, in his or her capacity as such, or as a fiduciary with respect to any MPS Benefit Plan, as hereinafter defined, or otherwise relating to MPS or any of its subsidiaries or the securities of any of them, or any properties or rights of MPS or any of its subsidiaries or any MPS Benefit Plan which is required to be described in any MPS Securities Filing that is not so described. No event has occurred as a consequence of which MPS would be required to file a Current Report on Form 8-K pursuant to the requirements of the Securities Exchange Act as to which such a report has not been timely filed with the SEC. Any reports, statements and registration statements and amendments thereof (including, without limitation, Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as amended) filed by MPS with the SEC after the date hereof shall be provided to WorldCom on the date of such filing.

**2.8 MPS Financial Statements.** The audited consolidated financial statements and unaudited interim financial statements of MPS included in the MPS Securities Filings (the "MPS Financial Statements") have been prepared in accordance with generally accepted accounting principles applied on a consistent basis (except as may be indicated therein or in the notes thereto) and present fairly, in all material respects, the financial position of MPS and its subsidiaries as at the dates thereof and the results of their operations and cash flows for the periods then ended subject, in the case of the unaudited

interim financial statements, to normal year-end audit adjustments, any other adjustments described therein and the fact that certain information and notes have been condensed or omitted in accordance with the Securities Exchange Act.

**2.9 Absence of Certain Changes or Events.** Except as set forth in the MFS Securities Filings or in Schedule 2.9 attached hereto, since December 31, 1995, through the date of this Agreement, there has not been: (i) any event, occurrence, fact, condition, change, development or effect ("Event") that has had or could reasonably be expected to have a MFS Material Adverse Effect; or (ii) any declaration, payment or setting aside for payment of any dividend (except to MFS or a MFS Subsidiary and dividends required under the present terms of the MFS Preferred Stock) or other distribution or any redemption, purchase or other acquisition of any shares of capital stock or securities of MFS by or from MFS.

**2.10 Compliance with Laws.** The business of MFS and each of its subsidiaries has been operated in compliance with all Laws and all tariffs, rules and regulations applicable to the regulation of the provision of communications services including, but not limited to, information service providers and competitive local exchange, exchange access, inter-exchange and international telecommunications services, except for any instances of non-compliance which do not and will not have a MFS Material Adverse Effect. Without limiting the generality of the foregoing, neither MFS nor any of its subsidiaries has engaged in carrying transit or indirect traffic in violation of applicable Laws, tariffs, rules and regulations in any jurisdiction, foreign or domestic, which violation could reasonably be expected to have a MFS Material Adverse Effect.

**2.11 Permits.** (i) MFS and its subsidiaries have all permits, certificates, licenses, approvals, tariffs and other authorizations required in connection with the operation of their business (collectively, "MFS Permits"), (ii) neither MFS nor any of its subsidiaries is in violation of any MFS Permit, and (iii) no proceedings are pending or, to the knowledge of MFS, threatened, to revoke or limit any MFS Permit, except, in each case, those the absence or violation of which do not and will not have a MFS Material Adverse Effect.

**2.12 Finders and Investment Bankers.** Neither MFS nor any of its officers or directors has employed any broker or finder or incurred any liability for any brokerage fees, commissions or finders' fees in connection with the transactions contemplated hereby other than pursuant to the agreement with Gleacher HatWest Inc., an accurate and complete copy of which agreement has been provided to WorldCom.

**2.13 Contracts.** Except as set forth in Schedule 2.11 attached hereto, neither MFS nor any of its subsidiaries is a

party or is subject to any material note, bond, mortgage, indenture, contract, lease, license, agreement, understanding, instrument, bid or proposal that is required to be described in or filed as an exhibit to any MFS Securities Filing ("MFS Material Contract") that is not so described in or filed as required by the Securities Act or the Securities Exchange Act, as the case may be. For purposes of this Section 2.11 and Section 3.13 below, a note, bond, mortgage, indenture, contract, lease, license, agreement, understanding, instrument, bid or proposal shall be considered material if it is required to be described in or filed as an exhibit to any document filed under the Securities Act or the Securities Exchange Act, as the case may be. MFS has made available to WorldCom true and accurate copies of the MFS Material Contracts. All such MFS Material Contracts are valid and binding and are in full force and effect and enforceable against MFS or such subsidiary in accordance with their respective terms, subject to the Enforceability Exceptions. Except as set forth in Schedule 2.6 attached hereto, (i) no Consent of any person is needed in order that each such MFS Material Contract shall continue in full force and effect in accordance with its terms without penalty, acceleration or rights of early termination by reason of the consummation of the transactions contemplated by this Agreement, except for Consents the absence of which would not have a MFS Material Adverse Effect, and (ii) neither MFS nor any of its subsidiaries is in violation or breach of or default under any such MFS Material Contract; nor to MFS's knowledge is any other party to any such MFS Material Contract in violation or breach of or default under any such MFS Material Contract in each case where such violation or breach would have a MFS Material Adverse Effect.

2.14 Employee Benefit Plans. Except as set forth in Schedule 2.14(a) attached hereto, there are no material Benefit Plans (as defined below) maintained or contributed to by MFS or any of its subsidiaries ("MFS Benefit Plan"). A "Benefit Plan" shall include (i) an employee benefit plan as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended, together with all regulations thereunder ("ERISA"), even if, because of some other provision of ERISA, such plan is not subject to any or all of ERISA's provisions, and (ii) whether or not described in the preceding clause, any pension, profit sharing, stock bonus, deferred or supplemental compensation, retirement, thrift, stock purchase or stock option plan, or any other compensation, welfare, fringe benefit or retirement plan, program, policy, course of conduct, understanding or arrangement of any kind whatsoever, providing for benefits for or the welfare of any or all of the current or former employees or agents of MFS or any of its subsidiaries or their beneficiaries or dependents; provided that Benefit Plans shall not include any multiemployer plan, as defined in Section 3(37) of ERISA (a "Multiemployer Plan").



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No MFS Benefit Plan is a defined benefit pension plan subject to Title IV of ERISA or Section 412 of the Code. Each of the MFS Benefit Plans has been maintained in material compliance with its terms and all applicable Law, except where the failure to do so would not be reasonably likely to result in a MFS Material Adverse Effect.

Neither MFS nor any of its subsidiaries contributes to, or has any outstanding liability with respect to, any Multiemployer Plan.

Except as set forth in Schedule 2.14(b) attached hereto and except as provided in Section 5.12(b), the consummation of the transactions contemplated by this Agreement will not (i) entitle any individual to severance pay, or (ii) accelerate the time of payment or vesting of benefits or increase the amount of compensation due to any individual.

2.15 Taxes and Returns. (a) Except as disclosed in Schedule 2.15 attached hereto, MFS and each of its subsidiaries has timely filed, or caused to be timely filed all material Tax Returns required to be filed by it, and has paid, collected or withheld, or caused to be paid, collected or withheld, all material amounts of Taxes required to be paid, collected or withheld, other than such Taxes for which adequate reserves in the MFS Financial Statements have been established or which are being contested in good faith. Except as set forth in Schedule 2.15 attached hereto, there are no claims or assessments pending against MFS or any of its subsidiaries for any alleged deficiency in any Tax, and MFS has not been notified in writing of any proposed Tax claims or assessments against MFS or any of its subsidiaries (other than in each case, claims or assessments for which adequate reserves in the MFS Financial Statements have been established or which are being contested in good faith or are immaterial in amount). Except as set forth in Schedule 2.15 attached hereto, neither MFS nor any of its subsidiaries has any waivers or extensions of any applicable statute of limitations to assess any material amount of Taxes. Except as set forth in Schedule 2.15 attached hereto, there are no outstanding requests by MFS or any of its subsidiaries for any extension of time within which to file any material Tax Return or within which to pay any material amounts of Taxes shown to be due on any return.

(b) To the best knowledge of MFS, there are no liens for material amounts of Taxes on the assets of MFS or any of its subsidiaries except for statutory liens for current Taxes not yet due and payable.

(c) For purposes of this Agreement, the term "Tax" shall mean any federal, state, local, foreign or provincial income, gross receipts, property, sales, use, license, excise, franchise, employment, payroll, alternative or added minimum, ad valorem, transfer or excise tax, or any other tax, custom, duty,



governmental fee or other like assessment or charge of any kind whatsoever, together with any interest or penalty imposed by any Governmental Authority. The term "Tax Return" shall mean a report, return or other information (including any attached schedules or any amendments to such report, return or other information) required to be supplied to or filed with a governmental entity with respect to any Tax, including an information return, claim for refund, amended return or declaration or estimated Tax.

2.16 Fairness Opinion. MFS's Board of Directors has received from its financial advisors, Gleacher MatWest Inc., a written opinion addressed to it for inclusion in the Prospectus/Proxy Statement to the effect that the Exchange Ratio and the WorldCom Preferred Stock is fair to the holders of the MFS Shares and the MFS Preferred Shares, respectively, from a financial point of view.

2.17 Takeover Statutes. Assuming WorldCom and its "associates" and "affiliates" (as defined in Section 203 of the Delaware Code) collectively beneficially own and have beneficially owned at all times during the three year period prior to the date hereof less than fifteen percent (15%) of the MFS Shares outstanding (other than MFS Shares issuable pursuant to the MFS Option Agreement), Section 203 of the Delaware Code is, and shall be, inapplicable to the Merger, this Agreement, the MFS Option Agreement and the transactions contemplated hereby and thereby.

2.18 MFS Rights Plan. Under the Rights Agreement between MFS and Continental Stock Transfer & Trust Company, as Rights Agent, dated as of September 30, 1995 and as amended as of August 24, 1996 (the "MFS Rights Agreement"), WorldCom will not become an "Acquiring Person", no "Stock Acquisition Date" or "Distribution Date" (as such terms are defined in the MFS Rights Agreement) will occur, and the holders of any MFS Rights will not be entitled to receive any benefits under the MFS Rights Agreement as a result of the approval, execution or delivery of this Agreement, the MFS Option Agreement or the consummation of the transactions contemplated hereby and thereby.

**ARTICLE III  
REPRESENTATIONS, WARRANTIES AND  
CERTAIN COVENANTS OF WORLDCom**

WorldCom represents, warrants and/or covenants to and with MFS as follows:

3.1 Organization and Good Standing. WorldCom, Acquisition Subsidiary and each of the WorldCom Subsidiaries is a corporation or partnership duly organized, validly existing and in good standing under the laws of the jurisdiction of its

incorporation or organization and has all requisite corporate or partnership power and authority to own, lease and operate its properties and to carry on its business as now being conducted. WorldCom and each of the WorldCom Subsidiaries is duly qualified or licensed and in good standing to do business in each jurisdiction in which the character of the property owned, leased or operated by it or the nature of the business conducted by it makes such qualification or licensing necessary, except where the failure to be so duly qualified or licensed and in good standing would not have a material adverse effect on the business, assets (including, but not limited to, intangible assets), prospects, condition (financial or otherwise), properties (including, but not limited to, intangible properties), liabilities or the results of operations of WorldCom and its subsidiaries taken as a whole ("WorldCom Material Adverse Effect"). WorldCom has heretofore made available to NYS accurate and complete copies of the Articles of Incorporation and Bylaws, as currently in effect, of WorldCom. For purposes of this Agreement, the term "WorldCom Subsidiary" shall mean any "Significant Subsidiary" (as such term is defined in Rule 1-02 of the Registration S-X of the SEC) of WorldCom.

**3.2 Capitalization.** As of the date hereof, the authorized capital stock of WorldCom consists of 750,000,000 shares of WorldCom Stock, and 50,000,000 shares of preferred stock, par value \$0.01 per share ("WorldCom Preferred Shares"). As of August 23, 1996, (a) 408,161,493 shares of WorldCom Stock were issued and outstanding, and (b) no WorldCom Preferred Shares were outstanding. No other capital stock of WorldCom is authorized or issued. All issued and outstanding shares of the WorldCom Stock are duly authorized, validly issued, fully paid and non-assessable and were issued free of preemptive rights and in compliance with applicable securities laws. Except as set forth in the WorldCom Securities Filings (as hereinafter defined) or on Schedule 3.2 attached hereto, or as otherwise contemplated by this Agreement, as of the date hereof there are no outstanding rights, subscriptions, warrants, puts, calls, unsatisfied preemptive rights, options or other agreements of any kind relating to any of the outstanding, authorized but unissued, unauthorized or treasury shares of the capital stock or any other security of WorldCom, and there is no authorized or outstanding security of any kind convertible into or exchangeable for any such capital stock or other security. Except as disclosed in the WorldCom Securities Filings, there are no restrictions upon the transfer of or otherwise pertaining to the securities (including, but not limited to, the ability to pay dividends thereon) or retained earnings of WorldCom and the WorldCom Subsidiaries or the ownership thereof other than those imposed by the Securities Act, the Securities Exchange Act, applicable state securities laws or applicable corporate law.

**3.3 Subsidiaries.** Schedule 3.3 attached hereto sets forth the name and jurisdiction of incorporation or organization

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of each WorldCom Subsidiary, each of which is wholly owned by WorldCom except as otherwise indicated on said Schedule 1.1. All of the capital stock and other interests of the WorldCom Subsidiaries so held by WorldCom are owned by it or a WorldCom Subsidiary as indicated on said Schedule 1.1, free and clear of any claim, lien, encumbrance, security interest or agreement with respect thereto. All of the outstanding shares of capital stock in each of the WorldCom Subsidiaries held by WorldCom are duly authorized, validly issued, fully paid and non-assessable and were issued free of preemptive rights and in compliance with applicable Laws. Except as set forth on Schedule 1.1 attached hereto, there are no irrevocable proxies or similar obligations with respect to such capital stock of the WorldCom Subsidiaries held by WorldCom and no equity securities or other interests of any of the WorldCom Subsidiaries are or may become required to be issued or purchased by reason of any options, warrants, rights to subscribe to, puts, calls or commitments of any character whatsoever relating to, or securities or rights convertible into or exchangeable for, shares of any capital stock of any WorldCom Subsidiary, and there are no contracts, commitments, understandings or arrangements by which any WorldCom Subsidiary is bound to issue additional shares of its capital stock, or options, warrants or rights to purchase or acquire any additional shares of its capital stock or securities convertible into or exchangeable for such shares.

3.4 Authorization; Binding Agreement. WorldCom and Acquisition Subsidiary have all requisite corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the other agreements and documents referred to herein to which WorldCom or Acquisition Subsidiary is or will be a party or a signatory (the "WorldCom Ancillary Agreements") and the consummation of the transactions contemplated hereby and thereby, including, but not limited to, the Merger have been duly and validly authorized by the respective Boards of Directors of WorldCom and Acquisition Subsidiary, as appropriate, and no other corporate proceedings on the part of WorldCom, Acquisition Subsidiary or any WorldCom Subsidiary are necessary to authorize the execution and delivery of this Agreement and the WorldCom Ancillary Agreements or to consummate the transactions contemplated hereby or thereby (other than the requisite approval by the WorldCom shareholders of the WorldCom Proposals and the sole shareholder of Acquisition Subsidiary of this Agreement and the Merger). This Agreement has been duly and validly executed and delivered by each of WorldCom and Acquisition Subsidiary and constitutes, and upon execution and delivery thereof as contemplated by this Agreement, the WorldCom Ancillary Agreements will constitute, the legal, valid and binding agreements of WorldCom and Acquisition Subsidiary, enforceable against each of WorldCom and Acquisition Subsidiary in accordance with its and their respective terms, subject to the Enforceability Exceptions.

**3.5 Governmental Approvals.** No Consent from or with any Governmental Authority on the part of WorldCom or any of the WorldCom Subsidiaries is required in connection with the execution or delivery by WorldCom of this Agreement and the WorldCom Ancillary Agreements or the consummation by WorldCom of the transactions contemplated hereby or thereby other than (i) filings with the SEC, state securities laws administrators, the NASD and applicable Georgia Governmental Authorities, (ii) Consents from the Federal Communications Commission, state public service or utility commissions (or comparable state Governmental Authorities) or foreign telephone administrations, (iii) filings under the ESR Act, and (iv) those Consents that, if they were not obtained or made, do not or would not have a WorldCom Material Adverse Effect or materially and adversely affect the ability of WorldCom to perform its obligations set forth herein or to consummate the transactions contemplated hereby.

**3.6 No Violations.** The execution and delivery of this Agreement and the WorldCom Ancillary Agreements, the consummation of the transactions contemplated hereby and thereby and compliance by WorldCom with any of the provisions hereof or thereof will not (i) conflict with or result in any breach of any provision of the Certificate and/or Articles of Incorporation or Bylaws or other governing instruments of WorldCom or any of the WorldCom Subsidiaries, (ii) except for compliance with the requirements under WorldCom's Amended and Restated Credit Agreement dated as of June 28, 1996 (the "WorldCom Credit Agreement"), require any Consent under or result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation or acceleration or augment the performance required) under any of the terms, conditions or provisions of any WorldCom Material Contract (as hereinafter defined), (iii) result in the creation or imposition of any lien or encumbrance of any kind upon any of the assets of WorldCom or any WorldCom Subsidiary, or (iv) subject to obtaining the Consents from Governmental Authorities referred to in Section 3.5, above, contravene any Law currently in effect to which WorldCom or any WorldCom Subsidiary or its or any of their respective assets or properties are subject, except in the case of clauses (ii), (iii) and (iv), above, for any deviations from the foregoing which do not or would not have a WorldCom Material Adverse Effect.

**3.7 Securities Filings and Litigation.** WorldCom has made available to NPS true and complete copies of (i) its Annual or Transition Reports on Form 10-K, as amended, for the years ended December 31, 1993, 1994 and 1995, or periods included therein, as filed with the SEC, (ii) its proxy statements relating to all of the meetings of shareholders (whether annual or special) of WorldCom since January 1, 1993, as filed with the SEC, and (iii) all other reports, statements and registration

statements and amendments thereto (including, without limitation, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as amended) filed by WorldCom with the SEC since January 1, 1993. The reports and statements set forth in clauses (i) through (iii), above, and those subsequently provided or required to be provided pursuant to this Section, are referred to collectively as the "WorldCom Securities Filings". As of their respective dates, or as of the date of the last amendment thereof, if amended after filing, none of the WorldCom Securities Filings (including all schedules thereto and disclosure documents incorporated by reference therein), contained or, as to WorldCom Securities Filings subsequent to the date hereof, will contain any untrue statement of a material fact or omitted or, as to WorldCom Securities Filings subsequent to the date hereof, will omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Each of the WorldCom Securities Filings at the time of filing or as of the date of the last amendment thereof, if amended after filing, compiled or, as to WorldCom Securities Filings subsequent to the date hereof, will comply in all material respects with the Securities Exchange Act or the Securities Act, as applicable. There is no litigation pending or, to the knowledge of WorldCom, threatened against WorldCom or any of its subsidiaries, any officer, director, employee or agent thereof, in his or her capacity as such, or as a fiduciary with respect to any WorldCom Benefit Plan, as hereinafter defined, or otherwise relating to WorldCom or any of its subsidiaries or the securities of any of them, or any properties or rights of WorldCom or any of its subsidiaries or any WorldCom Benefit Plan which is required to be described in any WorldCom Securities Filing that is not so described. No event has occurred as a consequence of which WorldCom would be required to file a Current Report on Form 8-K pursuant to the requirements of the Securities Exchange Act as to which such a report has not been timely filed with the SEC. Any reports, statements and registration statements and amendments thereof (including, without limitation, Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as amended) filed by WorldCom with the SEC after the date hereof shall be provided to NPS on the date of such filing.

3.8 WorldCom Financial Statements. The audited consolidated financial statements and unaudited interim financial statements of WorldCom included in the WorldCom Securities Filings (the "WorldCom Financial Statements") have been prepared in accordance with generally accepted accounting principles applied on a consistent basis (except as may be indicated therein or in the notes thereto) and present fairly, in all material respects, the financial position of WorldCom and its subsidiaries as at the dates thereof and the results of their operations and cash flows for the periods then ended subject, in the case of the unaudited interim financial statements, to normal year-end audit adjustments, any other adjustments described therein and the fact



that certain information and notes have been condensed or omitted in accordance with the Securities Exchange Act.

3.9 Absence of Certain Changes or Events. Except as set forth in the WorldCom Securities Filings and except for the adoption of the WorldCom Rights Agreement, since December 31, 1995, through the date of this Agreement, there has not been: (i) any Event that has had or could reasonably be expected to have a WorldCom Material Adverse Effect; or (ii) any declaration, payment or setting aside for payment of any dividend (except to WorldCom or a WorldCom Subsidiary) or other distribution or any redemption, purchase or other acquisition of any shares of capital stock or securities of WorldCom by or from WorldCom.

3.10 Compliance with Laws. The business of WorldCom and each of its subsidiaries has been operated in compliance with all Laws and all tariffs, rules and regulations applicable to the regulation of the provision of communications services including, but not limited to, information service providers and competitive local exchange, exchange access, inter-exchange and international telecommunications services, except for any instances of non-compliance which do not and will not have a WorldCom Material Adverse Effect. Without limiting the generality of the foregoing, neither WorldCom nor any of its subsidiaries has engaged in carrying transit or indirect traffic in violation of applicable Laws, tariffs, rules and regulations in any jurisdiction, foreign or domestic, which violation could reasonably be expected to have a WorldCom Material Adverse Effect.

3.11 Permits. (i) WorldCom and its subsidiaries have all permits, certificates, licenses, approvals, tariffs and other authorizations required in connection with the operation of their business (collectively, "WorldCom Permits"), (ii) neither WorldCom nor any of its subsidiaries is in violation of any WorldCom Permit, and (iii) no proceedings are pending or, to the knowledge of WorldCom, threatened, to revoke or limit any WorldCom Permit, except, in each case, those the absence or violation of which do not and will not have a WorldCom Material Adverse Effect.

3.12 Finders and Investment Bankers. Neither WorldCom nor any of its officers or directors has employed any broker or finder other than Salomon Brothers Inc or otherwise incurred any liability for any brokerage fees, commissions or finders' fees in connection with the transactions contemplated hereby.

3.13 Contracts. Neither WorldCom nor any of its subsidiaries is a party or is subject to any material note, bond, mortgage, indenture, contract, lease, license, agreement, understanding, instrument, bid or proposal that is required to be described in or filed as an exhibit to any WorldCom Securities Filing ("WorldCom Material Contract") that is not so described in

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or filed as required by the Securities Act or the Securities Exchange Act, as the case may be. WorldCom has made available to NPS true and accurate copies of the WorldCom Material Contracts. All such WorldCom Material Contracts are valid and binding and are in full force and effect and enforceable against WorldCom or such subsidiary in accordance with their respective terms, subject to the Enforceability Exceptions. Except as referenced in Section 3.6 above, (i) no Consent of any person is needed in order that each such WorldCom Material Contract shall continue in full force and effect in accordance with its terms without penalty, acceleration or rights of early termination by reason of the consummation of the transactions contemplated by this Agreement, except for Consents the absence of which would not have a WorldCom Material Adverse Effect, and (ii) neither WorldCom nor any of its subsidiaries is in violation or breach of or default under any such WorldCom Material Contract; nor to WorldCom's knowledge is any other party to any such WorldCom Material Contract in violation or breach of or default under any such WorldCom Material Contract in each case where such violation or breach would have a WorldCom Material Adverse Effect.

3.14 Employee Benefit Plans. Except as set forth in Schedule 3.14 attached hereto, there are no material Benefit Plans maintained or contributed to by WorldCom or any of its subsidiaries ("WorldCom Benefit Plan"). No WorldCom Benefit Plan is a defined benefit pension plan subject to Title IV of ERISA or Section 412 of the Code. Each of the WorldCom Benefit Plans has been maintained in material compliance with its terms and all applicable Law, except where the failure to do so would not be reasonably likely to result in a WorldCom Material Adverse Effect.

3.15 Taxes and Returns. (a) Except as disclosed in Schedule 3.15 attached hereto, WorldCom and each of its subsidiaries has timely filed, or caused to be timely filed all material Tax Returns required to be filed by it, and has paid, collected or withheld, or caused to be paid, collected or withheld, all material amounts of Taxes required to be paid, collected or withheld, other than such Taxes for which adequate reserves in the WorldCom Financial Statements have been established or which are being contested in good faith. Except as set forth in Schedule 3.15 attached hereto, there are no claims or assessments pending against WorldCom or any of its subsidiaries for any alleged deficiency in any Tax, and WorldCom has not been notified in writing of any proposed Tax claims or assessments against WorldCom or any of its subsidiaries (other than in each case, claims or assessments for which adequate reserves in the WorldCom Financial Statements have been established or which are being contested in good faith or are immaterial in amount). Except as set forth in Schedule 3.15 attached hereto, neither WorldCom nor any of its subsidiaries has any waivers or extensions of any applicable statute of limitations to assess any material amount of Taxes. Except as



set forth in Schedule 1.15 attached hereto, there are no outstanding requests by WorldCom or any of its subsidiaries for any extension of time within which to file any material Tax Return or within which to pay any material amounts of Taxes shown to be due on any return.

(b) To the best knowledge of WorldCom, there are no liens for material amounts of Taxes on the assets of WorldCom or any of its subsidiaries except for statutory liens for current Taxes not yet due and payable.

3.16 Fairness Opinion. WorldCom's Board of Directors has received from its financial advisors, Salomon Brothers Inc, a written opinion addressed to it for inclusion in the Prospectus/Proxy Statement to the effect that the Exchange Ratio is fair to the holders of WorldCom Stock from a financial point of view.

3.17 Takeover Statutes and Charter. Assuming MFS and its "associates" and "affiliates" (as defined under 14-2-1110 of the Georgia Business Corporation Code), collectively beneficially own and have beneficially owned at all times during the three-year period prior to the date hereof less than 1% of the shares of WorldCom Stock outstanding (other than shares of WorldCom Stock subject to the WorldCom Option Agreement), Section 14-2-1132 of the Georgia Business Corporation Code is, and shall be inapplicable to the Merger, the WorldCom Option Agreement and the transactions contemplated by this Agreement. As a result of the execution of this Agreement and the WorldCom Option Agreement, MFS is not, and will not be, a "Related Person" as defined in Article Ten of the Amended and Restated Certificate of Incorporation of WorldCom.

3.18 WorldCom Rights Plan. Under the Rights Agreement between WorldCom and The Bank of New York, dated as of the date hereof (the "WorldCom Rights Agreement"), MFS will not become an "Acquiring Person," no "Share Acquisition Date" or "Distribution Date" (as such terms are defined in the WorldCom Rights Agreement) will occur, and the holders of any rights issued pursuant to the WorldCom Rights Agreement will not be entitled to receive any benefits under the WorldCom Rights Agreement as a result of the approval, execution or delivery of this Agreement, the WorldCom Option Agreement or the consummation of the transactions contemplated hereby and thereby.

#### ARTICLE IV ADDITIONAL COVENANTS OF MFS

MFS represents, covenants and agrees as follows:

4.1 Conduct of Business of MFS and MFS Subsidiaries. Except as expressly contemplated by this Agreement, during the period from the date of this Agreement to the Effective Time, MFS shall conduct, and it shall cause its subsidiaries to conduct,

its or their businesses in the ordinary course and consistent with past practice, subject to the limitations contained in this Agreement, and MFS shall, and it shall cause its subsidiaries to, use its or their reasonable business efforts to preserve intact its business organization, to keep available the services of its officers and employees and to maintain satisfactory relationships with all persons with whom it does business. Without limiting the generality of the foregoing, and except as otherwise expressly provided in this Agreement or as otherwise set forth in the MFS Disclosure Letter (as hereinafter defined), after the date of this Agreement and prior to the Effective Time, neither MFS nor any of its subsidiaries will, without the prior written consent of WorldCom:

(i) amend or propose to amend its Certificate of Articles of Incorporation or Bylaws (or comparable governing instruments) in any material respect;

(ii) authorize for issuance, issue, grant, sell, pledge, dispose of or propose to issue, grant, sell, pledge or dispose of any shares of, or any options, warrants, commitments, subscriptions or rights of any kind to acquire or sell any shares of, the capital stock or other securities of MFS or any of its subsidiaries including, but not limited to, any securities convertible into or exchangeable for shares of stock of any class of MFS or any of its subsidiaries, except for the issuance of shares of MFS Common Stock pursuant to the exercise of stock options or warrants or the conversion of convertible securities outstanding on the date of this Agreement in accordance with their present terms and except for the grant of employee stock options and issuance of MFS Common Stock pursuant to the exercise thereof, in the ordinary course of business consistent with past practice, and except for the issuance of shares of MFS Common Stock in accordance with the terms of acquisitions approved by WorldCom; and

(iii) split, combine or reclassify any shares of its capital stock or declare, pay or set aside any dividend or other distribution (whether in cash, stock or property or any combination thereof) in respect of its capital stock, other than dividends or distributions to MFS or a subsidiary of MFS and dividends required under the present terms of the MFS Preferred Stock, or directly or indirectly redeem, purchase or otherwise acquire or offer to acquire any shares of its capital stock or other securities;

(iv) other than as contemplated by its May 6, 1996 business plans or in the ordinary course of business consistent with past practice, (a) create, incur or assume any debt or obligations in respect of capital leases, except refinancings of existing obligations on terms that are no less favorable to MFS or its subsidiaries than the existing terms; (b) assume, guarantee, endorse or otherwise become liable or responsible

(whether directly, indirectly, contingently or otherwise) for the obligations of any person; (c) make any capital expenditures or make any loans, advances or capital contributions to, or investments in, any other person (other than to a MFS subsidiary and customary travel, relocation or business advances to employees) made in the ordinary course of business consistent with past practice; (d) acquire the stock or assets of, or merge or consolidate with, any other person; (e) voluntarily incur any material liability or obligation (absolute, accrued, contingent or otherwise); or (f) sell, transfer, mortgage, pledge or otherwise dispose of, or encumber, or agree to sell, transfer, mortgage, pledge or otherwise dispose of or encumber, any assets or properties, real, personal or mixed material to MFS and its subsidiaries taken as a whole other than to secure debt permitted under (a) of this clause (iv);

(v) increase in any manner the compensation of any of its officers or employees or enter into, establish, amend or terminate any employment, consulting, retention, change in control, collective bargaining, bonus or other incentive compensation, profit sharing, health or other welfare, stock option or other equity, pension, retirement, vacation, severance, deferred compensation or other compensation or benefit plan, policy, agreement, trust, fund or arrangement with, for or in respect of, any shareholder, officer, director, other employee, agent, consultant or affiliate other than as required pursuant to the terms of agreements in effect on the date of this Agreement and such as are in the ordinary course of business consistent with past practice;

(vi) enter into any lease or amend any lease of real property other than in the ordinary course of business consistent with past practice; or

(vii) consent to the transfer of any shares of the Series B Preferred.

Furthermore, MFS covenants, represents and warrants that from and after the date of this Agreement, unless WorldCom shall otherwise expressly consent in writing, MFS shall, and MFS shall cause each of its subsidiaries to, use its or their reasonable business efforts to comply in all material respects with all Laws applicable to it or any of its properties, assets or business and maintain in full force and effect all MFS Permits necessary for, or otherwise material to, such business.

4.2 Notification of Certain Matters. MFS shall give prompt notice to WorldCom if any of the following occur after the date of this Agreement: (i) any notice of, or other communication relating to, a default or Event which, with notice or lapse of time or both, would become a default under any MFS Material Contract which could have a MFS Material Adverse Effect; (ii) receipt of any notice or other communication in writing from

any third party alleging that the Consent of such third party is or may be required in connection with the transactions contemplated by this Agreement, provided that such Consent would have been required to have been disclosed in this Agreement; (iii) receipt of any material notice or other communication from any Governmental Authority (including, but not limited to, the NASD or any securities exchange) in connection with the transactions contemplated by this Agreement; (iv) the occurrence of an Event which could have a MFS Material Adverse Effect; (v) the commencement or threat of any Litigation involving or affecting MFS or any of its subsidiaries, or any of their respective properties or assets, or, to its knowledge, any employee, agent, director or officer, in his or her capacity as such, of MFS or any of its subsidiaries which, if pending on the date hereof, would have been required to have been disclosed in this Agreement or which relates to the consummation of the Merger or any material development in connection with any Litigation disclosed by MFS in or pursuant to this Agreement or the MFS Securities Filings; and (vi) the occurrence of any Event that could cause a breach by MFS of any provision of this Agreement or a MFS Ancillary Agreement, including such a breach that could occur if such Event had taken place on or prior to the date of this Agreement.

4.3 Access and Information. Between the date of this Agreement and the Effective Time, MFS and its subsidiaries will give, and shall direct its accountants and legal counsel to give, WorldCom, its lenders and their respective authorized representatives (including, without limitation, financial advisors, accountants and legal counsel) at all reasonable times access as reasonably requested to all offices and other facilities and to all contracts, agreements, commitments, books and records (including, but not limited to, Tax Returns) of or pertaining to MFS and its subsidiaries, will permit the foregoing to make such reasonable inspections as they may require and will cause its officers promptly to furnish WorldCom with (a) such financial and operating data and other information with respect to the business and properties of MFS and its subsidiaries as WorldCom may from time to time reasonably request, and (b) a copy of each material report, schedule and other document filed or received by MFS or any of its subsidiaries pursuant to the requirements of applicable securities laws or the NASD.

4.4 Stockholder Approval. As soon as practicable, MFS will take all steps necessary to duly call, give notice of, convene and hold a meeting of its stockholders for the purpose of approving the MFS Proposals and for such other purposes as may be necessary or desirable in connection with effectuating the transactions contemplated hereby. Except as otherwise contemplated by this Agreement, the Board of Directors of MFS (i) will recommend to the stockholders of MFS that they approve the MFS Proposals, and (ii) will use its reasonable best efforts to obtain any necessary approval by MFS's stockholders of the MFS

Proposals including, without limitation, voting the MFS Shares and MFS Preferred Shares held by such Directors for such adoption and approval.

4.5 Reasonable Business Efforts. Subject to the terms and conditions herein provided, MFS agrees to use its reasonable business efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable to consummate and make effective as promptly as practicable the Merger and the transactions contemplated by this Agreement including, but not limited to (i) obtaining the Consent of MFS's lenders and others to this Agreement and the transactions contemplated hereby, (ii) the defending of any litigation against MFS or any of its subsidiaries challenging this Agreement or the consummation of the transactions contemplated hereby, (iii) obtaining all Consents from Governmental Authorities required for the consummation of the Merger and the transactions contemplated thereby, and (iv) timely making all necessary filings under the HSR Act. Upon the terms and subject to the conditions hereof, MFS agrees to use reasonable business efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary to satisfy the other conditions of the closing set forth herein.

4.6 Public Announcements. So long as this Agreement is in effect, MFS shall not, and shall cause its affiliates not to, issue or cause the publication of any press release or any other announcement with respect to the Merger, the MFS Proposals, the WorldCom Proposals, the MFS Option Agreement, the WorldCom Option Agreement or the transactions contemplated hereby or thereby without the consent of WorldCom, except where such release or announcement is required by applicable Law or pursuant to any applicable listing agreement with, or rules or regulations of, the NASD, in which case MFS, prior to making such announcement, shall consult with WorldCom regarding the same.

4.7 Compliance. In consummating the Merger and the transactions contemplated hereby, MFS shall comply in all material respects with the provisions of the Securities Exchange Act and the Securities Act and shall comply, and/or cause its subsidiaries to comply or to be in compliance, in all material respects, with all other applicable Laws.

4.8 No Solicitation. (a) MFS shall, and shall direct and use reasonable efforts to cause its officers, directors, employees, representatives and agents to, immediately cease any discussions or negotiations with any parties that may be ongoing with respect to a MFS Takeover Proposal (as hereinafter defined). MFS shall not, nor shall it permit any of its subsidiaries to, nor shall it authorize or permit any of its officers, directors or employees or any investment banker, financial advisor, attorney, accountant or other representative retained by it or any of its subsidiaries to, directly or indirectly, (i) solicit,



initiate or encourage (including by way of furnishing information), or take any other action designed or reasonably likely to facilitate, any inquiries or the making of any proposal which constitutes, or may reasonably be expected to lead to, any MFS Takeover Proposal or (ii) participate in any discussions or negotiations regarding any MFS Takeover Proposal; provided, however, that if, at any time prior to the Effective Time, the Board of Directors of MFS determines in good faith, after consultation with outside counsel, that it is necessary to do so in order to comply with its fiduciary duties to MFS's stockholders under applicable law, MFS may, in response to a MFS Takeover Proposal which was not solicited subsequent to the date hereof, and subject to compliance with Section 4.8(c), (x) furnish information with respect to MFS to any person pursuant to a customary confidentiality agreement (as determined by MFS after consultation with its outside counsel) and (y) participate in negotiations regarding such MFS Takeover Proposal. Except as expressly provided in a separate letter agreement of even date herewith agreed to by WorldCom and MFS (the "MFS Disclosure Letter"), "MFS Takeover Proposal" means any inquiry, proposal or offer from any person relating to any direct or indirect acquisition or purchase of 15% or more of the assets of MFS and its subsidiaries or 15% or more of any class of equity securities of MFS or any of its subsidiaries, any tender offer or exchange offer that if consummated would result in any person beneficially owning 15% or more of any class of equity securities of MFS or any of its subsidiaries, any merger, consolidation, share exchange, business combination, recapitalization, liquidation, dissolution or similar transaction involving MFS or any of its subsidiaries, other than the transactions contemplated by this Agreement, or any other transaction the consummation of which could reasonably be expected to impede, interfere with, prevent or materially delay the Merger or which would reasonably be expected to dilute materially the benefits to WorldCom of the transactions contemplated by this Agreement.

(b) Except as set forth in this Section 4.8, neither the Board of Directors of MFS nor any committee thereof shall (i) withdraw or modify, or propose publicly to withdraw or modify, in a manner adverse to WorldCom, the approval or recommendation by such Board of Directors or such committee of the MFS Proposals, (ii) approve or recommend, or propose publicly to approve or recommend, any MFS Takeover Proposal or (iii) cause MFS to enter into any letter of intent, agreement in principle, acquisition agreement or other similar agreement (each, a "MFS Acquisition Agreement") related to any MFS Takeover Proposal. Notwithstanding the foregoing, in the event that prior to the Effective Time the Board of Directors of MFS determines in good faith, after consultation with outside counsel, that it is necessary to do so in order to comply with its fiduciary duties to MFS's stockholders under applicable law, the Board of Directors of MFS may (subject to this and the following sentences) (x) withdraw or modify its approval or recommendation

of the MFS Proposals or (y) approve or recommend a MFS Superior Proposal (as defined below) or terminate this Agreement (and concurrently with or after such termination, if it so chooses, cause MFS to enter into any MFS Acquisition Agreement with respect to any MFS Superior Proposal), but in each of the cases set forth in this clause (y), only at a time that is after the tenth business day following WorldCom's receipt of written notice advising WorldCom that the Board of Directors of MFS has received a MFS Superior Proposal, specifying the material terms and conditions of such MFS Superior Proposal and identifying the person making such MFS Superior Proposal. Any such withdrawal or modification of the recommendation of the MFS Proposals shall not change the approval of the Board of Directors of MFS for purposes of causing Section 203 of the Delaware Code to be inapplicable to the MFS Proposals and the MFS Option Agreement or the status of WorldCom as other than an "Acquiring Person" under the MFS Rights Agreement and shall not directly or indirectly cause a "Stock Acquisition Date" or a "Distribution Date" (as such terms are defined in the MFS Rights Agreement) to occur. For purposes of this Agreement, a "MFS Superior Proposal" means any bona fide proposal made by a third party to acquire, directly or indirectly, for consideration consisting of cash and/or securities, more than 15% of the combined voting power of the shares of MFS Common Stock and MFS Preferred Stock then outstanding or all or substantially all the assets of MFS and otherwise on terms which the Board of Directors of MFS determines in its good faith judgment (based on the advice of a financial advisor of nationally recognized reputation) to be materially more favorable to MFS's stockholders than the Merger and for which financing, to the extent required, is then committed or which, in the good faith judgment of the Board of Directors of MFS, is reasonably capable of being financed by such third party.

(c) In addition to the obligations of MFS set forth in paragraphs (a) and (b) of this Section 4.8, MFS shall immediately advise WorldCom orally and in writing of any request for information or of any MFS Takeover Proposal, the material terms and conditions of such request or MFS Takeover Proposal and the identity of the person making such request or MFS Takeover Proposal. MFS will keep WorldCom fully informed of the status and details (including amendments or proposed amendments) of any such request or MFS Takeover Proposal.

(d) Nothing contained in this Section 4.8 shall prohibit MFS from taking and disclosing to its stockholders a position contemplated by Rule 14e-2(a) promulgated under the Securities Exchange Act or from making any disclosure to MFS's stockholders if, in the good faith judgment of the Board of Directors of MFS, after consultation with outside counsel, failure so to disclose would be inconsistent with its fiduciary duties to MFS's stockholders under applicable law; provided, however, neither MFS nor its Board of Directors nor any committee thereof shall, except as permitted by Section 4.8(b), withdraw or



modify, or propose publicly to withdraw or modify, its position with respect to the MFS Proposals or approve or recommend, or propose publicly to approve or recommend, a MFS Takeover Proposal.

4.9 SEC and Stockholder Filings. MFS shall send to WorldCom a copy of all material public reports and materials as and when it sends the same to its stockholders, the SEC or any state or foreign securities commission.

4.10 Tax Opinion Certifications. MFS shall execute and deliver a certificate in a form satisfactory to the counsel of both MFS and WorldCom, signed by an officer of MFS setting forth factual representations and covenants that will serve as a basis for the tax opinions required pursuant to Section 6.1.8 of this Agreement ("MFS Tax Opinion Certificate").

4.11 Affiliate Agreements. MFS shall use reasonable business efforts to ensure that each person who is or may be an "affiliate" of MFS within the meaning of Rule 145 promulgated under the Securities Act shall enter into an agreement in the form attached hereto as Schedule 4.11.

4.12 Takeover Statutes. If any "fair price," "moratorium," "control share acquisition" or other similar antitakeover statute or regulation enacted under state or federal laws in the United States (each a "Takeover Statute"), including, without limitation, Section 203 of the Delaware Code, is or may become applicable to the Merger, the MFS Proposals or the MFS Option Agreement, MFS and the members of its Board of Directors will grant such approvals, and take such actions as are necessary so that the transactions contemplated by this Agreement, the MFS Proposals and the MFS Option Agreement may be consummated as promptly as practicable on the terms contemplated hereby and thereby and otherwise act to eliminate or minimize the effects of any Takeover Statute on any of the transactions contemplated hereby or thereby.

4.13 Comfort Letters. Upon the request of WorldCom, MFS shall use reasonable business efforts to provide to WorldCom prior to the Effective Time "comfort letters" from the independent certified public accountants for MFS and its subsidiaries dated the date on which the Registration Statement, or last amendment thereto, shall become effective, and dated the Closing Date, addressed to the Board of Directors of each of MFS and WorldCom, covering such matters as WorldCom shall reasonably request with respect to facts concerning the financial condition of MFS and its subsidiaries and customary for such certified public accountants to deliver in connection with a transaction similar to the Merger.

ARTICLE V  
ADDITIONAL COVENANTS OF WORLDCOM

WorldCom covenants and agrees as follows:

5.1 Conduct of Business of WorldCom and the WorldCom Subsidiaries. Except as expressly contemplated by this Agreement, during the period from the date of this Agreement to the Effective Time, WorldCom shall conduct, and it shall cause its subsidiaries to conduct, its or their businesses in the ordinary course and consistent with past practice, subject to the limitations contained in this Agreement, and WorldCom shall, and it shall cause its subsidiaries to, use its or their reasonable business efforts to preserve intact its business organization, to keep available the services of its officers and employees and to maintain satisfactory relationships with all persons with whom it does business. Without limiting the generality of the foregoing, and except as otherwise expressly provided in this Agreement or as otherwise set forth in the WorldCom Disclosure Letter (as hereinafter defined), after the date hereof and prior to the Effective Time, neither WorldCom nor any of its subsidiaries will, without the prior written consent of NPS:

(i) amend or propose to amend its Certificate or Articles of Incorporation or Bylaws (or comparable governing instruments) in any material respect;

(ii) authorize for issuance, issue, grant, sell, pledge, dispose of or propose to issue, grant, sell, pledge or dispose of any shares of, or any options, warrants, commitments, subscriptions or rights of any kind to acquire or sell any shares of, the capital stock or other securities of WorldCom or any of its subsidiaries including, but not limited to, any securities convertible into or exchangeable for shares of stock of any class of WorldCom or any of its subsidiaries, except for the issuance of shares of WorldCom Stock pursuant to the exercise of stock options outstanding on the date of this Agreement in accordance with their present terms and except for the grant of employee stock options and issuance of shares of WorldCom Stock pursuant to the exercise thereof in the ordinary course of business consistent with past practice, and except for the issuance of shares of WorldCom Stock in accordance with the terms of acquisitions approved by NPS, or pursuant to the terms of rights or obligations referred to in Schedule 1.2;

(iii) split, combine or reclassify any shares of its capital stock or declare, pay or set aside any dividend or other distribution (whether in cash, stock or property or any combination thereof) in respect of its capital stock, other than dividends or distributions to WorldCom or a subsidiary of WorldCom, or directly or indirectly redeem, purchase or otherwise acquire or offer to acquire any shares of its capital stock or other securities;

(iv) sell, transfer, mortgage, pledge or otherwise dispose of, or encumber, or agree to sell, transfer, mortgage, pledge or otherwise dispose of or encumber, any assets or properties, real, personal or mixed, material to WorldCom and its subsidiaries taken as a whole, other than in the ordinary course of business consistent with past practice; or

(v) increase in any manner the compensation of any of its officers or employees or enter into, establish, amend or terminate any employment, consulting, retention, change in control, collective bargaining, bonus or other incentive compensation, profit sharing, health or other welfare, stock option or other equity, pension, retirement, vacation, severance, deferred compensation or other compensation or benefit plan, policy, agreement, trust, fund or arrangement with, for or in respect of, any shareholder, officer, director, other employee, agent, consultant or affiliate other than as required pursuant to the terms of agreements in effect on the date of this Agreement and such as are in the ordinary course of business consistent with past practice.

Furthermore, WorldCom covenants, represents and warrants that from and after the date of this Agreement, unless MFS shall otherwise expressly consent in writing, WorldCom shall, and WorldCom shall cause each of its subsidiaries to, use its or their reasonable business efforts to comply in all material respects with all Laws applicable to it or any of its properties, assets or business and maintain in full force and effect all the WorldCom Permits necessary for, or otherwise material to, such business.

5.2 Notification of Certain Matters. WorldCom shall give prompt notice to MFS if any of the following occur after the date of this Agreement: (i) any notice of, or other communication relating to, a default or Event which, with notice or lapse of time or both, would become a default under any WorldCom Material Contract which could have a WorldCom Material Adverse Effect; (ii) receipt of any notice or other communication in writing from any third party alleging that the Consent of such third party is or may be required in connection with the transactions contemplated by this Agreement, provided that such Consent would have been required to have been disclosed in this Agreement; (iii) receipt of any material notice or other communication from any Governmental Authority (including, but not limited to the NASD or any securities exchange) in connection with the transactions contemplated by this Agreement; (iv) the occurrence of an Event which could have a WorldCom Material Adverse Effect; (v) the commencement or threat of any Litigation involving or affecting WorldCom or any of its subsidiaries or any of their respective properties or assets, or, to its knowledge, any employee, agent, director or officer, in his or her capacity as such, of WorldCom or any of its subsidiaries which, if pending on the date hereof, would have been required to have been

disclosed in this Agreement or which relates to the consummation of the Merger or any material development in connection with any litigation disclosed by WorldCom in or pursuant to this Agreement or the WorldCom Securities Filings; and (vi) the occurrence of any Event that could cause a breach by WorldCom of any provision of this Agreement or a WorldCom Ancillary Agreement, including such a breach that could occur if such Event had taken place on or prior to the date of this Agreement.

5.3 Access and Information. Between the date of this Agreement and the Effective Time, WorldCom and its subsidiaries will give, and shall direct its accountants and legal counsel to give NPS, and their respective authorized representatives (including, without limitation, its lenders, financial advisors, accountants and legal counsel) at all reasonable times access as reasonably requested to all offices and other facilities and to all contracts, agreements, commitments, books and records (including, but not limited to, Tax Returns) of or pertaining to WorldCom and its subsidiaries, will permit the foregoing to make such reasonable inspections as they may require and will cause its officers promptly to furnish NPS with (a) such financial and operating data and other information with respect to the business and properties of WorldCom and its subsidiaries as NPS may from time to time reasonably request, and (b) a copy of each material report, schedule and other document filed or received by WorldCom or any of its subsidiaries pursuant to the requirements of applicable securities laws or the NASD.

5.4 Shareholder Approval. As soon as practicable, WorldCom will take all steps necessary to duly call, give notice of, convene and hold a meeting of its shareholders for the purpose of approving the WorldCom Proposals, for such other purposes as may be necessary or desirable in connection with effectuating the transactions contemplated hereby and for such other purposes as WorldCom shall determine. Except as otherwise contemplated by this Agreement, the Board of Directors of WorldCom (i) will recommend to the shareholders of WorldCom that they approve the WorldCom Proposals, and (ii) will use its reasonable best efforts to obtain any necessary approval by WorldCom's shareholders of the WorldCom Proposals, including, without limitation, voting the WorldCom Stock held by such Directors for such approval.

5.5 Reasonable Business Efforts. Subject to the terms and conditions herein provided, WorldCom agrees to use its reasonable business efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable to consummate and make effective as promptly as practicable the Merger and the transactions contemplated by this Agreement including, but not limited to (i) obtaining the Consent of WorldCom's lenders to this Agreement and the transactions contemplated hereby, (ii) the defending of any litigation against WorldCom or any of its subsidiaries

challenging this Agreement or the consummation of the transactions contemplated hereby, (iii) obtaining all Consents from Governmental Authorities required for the consummation of the Merger and the transactions contemplated thereby, and (iv) timely making all necessary filings under the HSR Act. Upon the terms and subject to the conditions hereof, WorldCom agrees to use reasonable business efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary to satisfy the other conditions of the closing set forth herein.

5.6 Public Announcements. So long as this Agreement is in effect, WorldCom shall not, and shall cause its affiliates not to, issue or cause the publication of any press release or any other announcement with respect to the Merger, the WorldCom Proposals, the MFS Proposals, the WorldCom Option Agreement, the MFS Option Agreement or the transactions contemplated hereby or thereby without the consent of MFS, except where such release or announcement is required by applicable Law or pursuant to any applicable listing agreement with, or rules or regulations of, the NASD, in which case WorldCom, prior to making such announcement, will consult with MFS regarding the same.

5.7 Compliance. In consummating the Merger and the transactions contemplated hereby, WorldCom shall comply in all material respects with the provisions of the Securities Exchange Act and the Securities Act and shall comply, and/or cause its subsidiaries to comply or to be in compliance, in all material respects, with all other applicable Laws.

5.8 No Solicitation. (a) WorldCom shall, and shall direct and use reasonable efforts to cause its officers, directors, employees, representatives and agents to, immediately cease any discussions or negotiations with any parties that may be ongoing with respect to a WorldCom Takeover Proposal (as hereinafter defined). WorldCom shall not, nor shall it permit any of its subsidiaries to, nor shall it authorize or permit any of its officers, directors or employees or any investment banker, financial advisor, attorney, accountant or other representative retained by it or any of its subsidiaries to, directly or indirectly, (i) solicit, initiate or encourage (including by way of furnishing information), or take any other action designed or reasonably likely to facilitate, any inquiries or the making of any proposal which constitutes, or may reasonably be expected to lead to, any WorldCom Takeover Proposal or (ii) participate in any discussions or negotiations regarding any WorldCom Takeover Proposal; provided, however, that if, at any time prior to the Effective Time, the Board of Directors of WorldCom determines in good faith, after consultation with outside counsel, that it is necessary to do so in order to comply with its fiduciary duties to WorldCom's shareholders under applicable law, WorldCom may, in response to a WorldCom Takeover Proposal which was not solicited subsequent to the date hereof, and subject to compliance with Section 5.8(c), (x) furnish information with respect to WorldCom



to any person pursuant to a customary confidentiality agreement (as determined by WorldCom after consultation with its outside counsel) and (y) participate in negotiations regarding such WorldCom Takeover Proposal. Except as expressly provided in a separate letter agreement of even date herewith agreed to by WorldCom and NPS (the "WorldCom Disclosure Letter"), "WorldCom Takeover Proposal" means any inquiry, proposal or offer from any person relating to any direct or indirect acquisition or purchase of 15% or more of the assets of WorldCom and its subsidiaries or 15% or more of any class of equity securities of WorldCom or any of its subsidiaries, any tender offer or exchange offer that if consummated would result in any person beneficially owning 15% or more of any class of equity securities of WorldCom or any of its subsidiaries, any merger, consolidation, share exchange, business combination, recapitalization, liquidation, dissolution or similar transaction involving WorldCom or any of its subsidiaries, other than the transactions contemplated by this Agreement, or any other transaction the consummation of which could reasonably be expected to impede, interfere with, prevent or materially delay the Merger or which would reasonably be expected to dilute materially the benefits to NPS of the transactions contemplated by this Agreement.

(b) Except as set forth in this Section 5.8, neither the Board of Directors of WorldCom nor any committee thereof shall (i) withdraw or modify, or propose publicly to withdraw or modify, in a manner adverse to NPS, the approval or recommendation by such Board of Directors or such committee of the WorldCom Proposals, (ii) approve or recommend, or propose publicly to approve or recommend, any WorldCom Takeover Proposal or (iii) cause WorldCom to enter into any letter of intent, agreement in principle, acquisition agreement or other similar agreement (each, a "WorldCom Acquisition Agreement") related to any WorldCom Takeover Proposal. Notwithstanding the foregoing, in the event that prior to the Effective Time the Board of Directors of WorldCom determines in good faith, after consultation with outside counsel, that it is necessary to do so in order to comply with its fiduciary duties to WorldCom's shareholders under applicable law, the Board of Directors of WorldCom may (subject to this and the following sentences) (x) withdraw or modify its approval or recommendation of the WorldCom Proposals or (y) approve or recommend a WorldCom Superior Proposal (as defined below) or terminate this Agreement (and concurrently with or after such termination, if it so chooses, cause WorldCom to enter into any WorldCom Acquisition Agreement with respect to any WorldCom Superior Proposal), but in each of the cases set forth in this clause (y), only at a time that is after the tenth business day following NPS's receipt of written notice advising NPS that the Board of Directors of WorldCom has received a WorldCom Superior Proposal, specifying the material terms and conditions of such WorldCom Superior Proposal and identifying the person making such WorldCom Superior Proposal. Any such withdrawal or modification of the



recommendation of the WorldCom Proposals shall not change the approval of the Board of Directors of WorldCom for purposes of Section 14-2-1132 of the Georgia Business Corporation Code or Article Ten of the Amended and Restated Articles of Incorporation of WorldCom. For purposes of this Agreement, a "WorldCom Superior Proposal" means any bona fide proposal made by a third party to acquire, directly or indirectly, for consideration consisting of cash and/or securities, more than 15% of the combined voting power of the shares of WorldCom Stock and WorldCom Preferred Stock then outstanding or all or substantially all the assets of WorldCom and otherwise on terms which the Board of Directors of WorldCom determines in its good faith judgment (based on the advice of a financial advisor of nationally recognized reputation) to be materially more favorable to WorldCom's shareholders than the Merger and for which financing, to the extent required, is then committed or which, in the good faith judgment of the Board of Directors of WorldCom, is reasonably capable of being financed by such third party.

(c) In addition to the obligations of WorldCom set forth in paragraphs (a) and (b) of this Section 5.8, WorldCom shall immediately advise NFS orally and in writing of any request for information or of any WorldCom Takeover Proposal, the material terms and conditions of such request or WorldCom Takeover Proposal and the identity of the persons making such request or WorldCom Takeover Proposal. WorldCom will keep NFS fully informed of the status and details (including amendments or proposed amendments) of any such request or WorldCom Takeover Proposal.

(d) Nothing contained in this Section 5.8 shall prohibit WorldCom from taking and disclosing to its shareholders a position contemplated by Rule 14e-2(a) promulgated under the Securities Exchange Act or from making any disclosure to WorldCom's shareholders if, in the good faith judgment of the Board of Directors of WorldCom, after consultation with outside counsel, failure so to disclose would be inconsistent with its fiduciary duties to WorldCom's shareholders under applicable law; provided, however, neither WorldCom nor its Board of Directors nor any committee thereof shall, except as permitted by Section 5.8(b), withdraw or modify, or propose publicly to withdraw or modify, its position with respect to the WorldCom Proposals or approve or recommend, or propose publicly to approve or recommend, a WorldCom Takeover Proposal.

5.9 SEC and Shareholder Filings. WorldCom shall send to NFS a copy of all material public reports and materials as and when it sends the same to its shareholders, the SEC or any state or foreign securities commission.

5.10 Tax Opinion Certificates. WorldCom shall execute and deliver a certificate in form satisfactory to the counsel of NFS and WorldCom, signed by an officer of WorldCom setting forth

factual representations and covenants that will serve as a basis for the tax opinions required pursuant to Section 6.1.8 of this Agreement ("WorldCom Tax Opinion Certificate").

**5.11 Board Representation.** WorldCom's Board of Directors will take action to cause the number of directors comprising the full Board of Directors of WorldCom at the Effective Time to consist of an odd number of directors, with NPS being entitled to designate one less director than WorldCom (the "Nominations"). It is the intent of the parties that membership on the compensation and stock option, audit and nominating committees of WorldCom's Board of Directors shall initially consist of an equal number of designees of WorldCom and NPS.

**5.12 Employee Benefit Plans.**

(a) Benefit Plans. After the Effective Time, WorldCom shall arrange for each employee participating in any of the Benefit Plans of NPS or an NPS subsidiary as are in effect on the date hereof to participate in any counterpart Benefit Plans of WorldCom in accordance with the eligibility criteria thereof, provided that (i) such participants shall receive full credit for years of service with NPS or any of its subsidiaries prior to the Merger for all purposes for which such service was recognized under the Benefit Plan of NPS or such subsidiary including, but not limited to, recognition of service for eligibility, vesting, and, to the extent not duplicative of benefits received under such Benefit Plan of NPS or such subsidiary, the amount of benefits, (ii) such participants shall participate in the Benefit Plans of WorldCom on terms no less favorable than those offered by WorldCom to similarly situated employees of WorldCom; and (iii) WorldCom shall cause any and all pre-existing condition limitations (to the extent such limitations did not apply to a pre-existing condition under NPS' Benefit Plans) and eligibility waiting periods under any group health plans to be waived with respect to such participants and their eligible dependents.

(b) Change in Control Provisions. Except with respect to NPS Outperformance Options, which shall be treated as described in Section 1.6(b) above, WorldCom and NPS hereby acknowledge that the Merger and the consummation of the transactions contemplated under this Agreement will be treated as a "Change in Control" for purposes of each of the applicable NPS Benefit Plans and each applicable employment, severance or similar agreement applicable to any employee of NPS or any of its subsidiaries listed on Schedule 5.12(b) attached hereto (collectively, "Change in Control Agreements") and agree to abide by the provisions of any Benefit Plans and Change in Control Agreements which relate to a Change in Control, including, but not limited to, the accelerated vesting and/or payment of equity-based awards.

(c) Treatment under Section 280G of the Code.

With respect to any income tax filing relating to Sections 280G or 4999 of the Code, WorldCom hereby agrees that it shall take, and shall cause its subsidiaries to take, the position that none of the execution of this Agreement, the approval of this Agreement by stockholders of MFS, or the consummation of the Merger shall constitute a change in the ownership or effective control of MFS or a change in the ownership of a substantial portion of the assets of MFS within the meaning of Section 280G of the Code, and further agrees that, consistent with such position, it shall not withhold from any amounts payable to any MFS employee by reason of consummation of the transactions contemplated hereby (including by reason of any termination of employment of any such employee within specified periods following the Effective Time) any amounts in respect of the excise tax described in Section 4999 of the Code unless, as a result of a change in relevant "authority" (as such term is defined in Treasury Regulation § 1.6662-4)(d)(3)(iii) for purposes of Section 6662 of the Code) which occurs after the date hereof, such position ceases to be supported by a good faith interpretation of relevant authority (as so defined).

5.13 Indemnification. The indemnification provisions of the By-laws and the Certificate of Incorporation of the Surviving Corporation shall not be amended, repealed or otherwise modified for a period of six years after the Closing Date in any manner that would adversely affect the rights thereunder of individuals who immediately prior to the Closing Date were directors, officers, agents or employees of MFS unless otherwise required by applicable Law. From and after the Effective Time, WorldCom and the Surviving Corporation shall jointly and severally indemnify, defend and hold harmless the directors, officers and agents of MFS as provided in MFS's Certificate of Incorporation, By-Laws or indemnification agreements, as in effect as of the date hereof, with respect to matters occurring through the Closing Date. To the extent available, WorldCom agrees to cause the Surviving Corporation to maintain in effect for not less than three years after the Closing Date policies of directors' and officers' liability insurance comparable to those maintained by MFS with carriers comparable to MFS's existing carriers and containing terms and conditions which are no less advantageous in any material respect to the officers, directors and employees of MFS; provided, however, that the Surviving Corporation shall not be required to pay an annual premium for such insurance in excess of two times the last annual premium paid prior to the date hereof, but in such case shall purchase as much coverage as possible for such amount.

5.14 Takeover Statutes. If any Takeover Statute, including, without limitation, Section 14-2-1132 of the Georgia Business Corporation Code, is or may become applicable to the Merger, the WorldCom Proposals or the WorldCom Option Agreement, WorldCom and the members of its Board of Directors will grant

such approvals, and take such actions as are necessary so that the transactions contemplated by this Agreement, the WorldCom Proposals and the WorldCom Option Agreement may be consummated as promptly as practicable on the terms contemplated hereby and thereby and otherwise act to eliminate or minimize the effects of any Takeover Statute on any of the transactions contemplated hereby or thereby.

5.15 Comfort Letters. Upon the request of MFS, WorldCom shall use reasonable business efforts to provide to MFS prior to the Effective Time "comfort letters" from the independent certified public accountants for WorldCom and its subsidiaries, dated the date on which the Registration Statement, or last amendment thereto, shall become effective, and dated the Closing Date, addressed to the Board of Directors of each of MFS and WorldCom, covering such matters as MFS shall reasonably request with respect to facts concerning the financial condition of WorldCom and its subsidiaries and customary for such certified public accountants to deliver in connection with a transaction similar to the Merger.

#### ARTICLE VI CONDITIONS

6.1 Conditions to Each Party's Obligations. The respective obligations of each party to effect the Merger shall be subject to the fulfillment or waiver at or prior to the Effective Time of the following conditions:

6.1.1 Stockholder Approval. The MFS Proposals shall have been approved at or prior to the Effective Time by the requisite vote of the stockholders of MFS in accordance with the Delaware Code and the WorldCom Proposals shall have been approved by the requisite vote of the shareholders of WorldCom in accordance with applicable Law and the rules and regulations of the NASC.

6.1.2 No Injunction or Action. No order, statute, rule, regulation, executive order, stay, decree, judgment or injunction shall have been enacted, entered, promulgated or enforced by any court or other Governmental Authority which prohibits or prevents the consummation of the Merger which has not been vacated, dismissed or withdrawn by the Effective Time. MFS and WorldCom shall use their reasonable best efforts to have any of the foregoing vacated, dismissed or withdrawn by the Effective Time.

6.1.3 Governmental Approvals. All Consents of any Governmental Authority required for the consummation of the Merger and the transactions

contemplated by this Agreement shall have been obtained by Final Order (as hereafter defined), except as may be waived by WorldCom and NPS or those Consents the failure of which to obtain will not have a Surviving Corporation Material Adverse Effect (as defined below). The term "Final Order" with respect to any Consent of a Governmental Authority shall mean an action by the appropriate Governmental Authority as to which: (i) no request for stay by such Governmental Authority of the action is pending, no such stay is in effect, and, if any deadline for filing any such request is designated by statute or regulation, it has passed; (ii) no petition for rehearing or reconsideration of the action is pending before such Governmental Authority, and no appeal or comparable administrative remedy with such or any other Governmental Authority is pending before such Governmental Authority, and the time for filing any such petition, appeal or administrative remedy has passed; (iii) such Governmental Authority does not have the action under reconsideration on its own motion and the time for such reconsideration has passed; and (iv) no appeal to a court, or request for stay by a court, of the Governmental Authority action is pending or in effect, and if any deadline for filing any such appeal or request is designated by statute or rule, it has passed.

6.1.4 ESR Act. Any waiting period applicable to the Merger under the ESR Act shall have expired or earlier termination thereof shall have been granted and no action, suit, proceeding or investigation shall have been instituted by either the United States Department of Justice or the Federal Trade Commission to prevent the consummation of the transactions contemplated by this Agreement or to modify or amend such transactions in any material manner, or if any such action, suit, proceeding or investigation shall have been instituted, it shall have been withdrawn or a final judgment shall have been entered against such Department or Commission, as the case may be.

6.1.5 Required Consents. Any required Consents of any person to the Merger or the transactions contemplated hereby, including, without limitation, the Consents of the respective lenders of WorldCom and NPS, shall have been obtained and be in full force and effect, except for those the failure of which to obtain will not have a material adverse effect on the business, assets (including, but not limited to, intangible assets), prospects, condition (financial or otherwise), properties (including, but not limited to, intangible properties), liabilities or the result of operations of the Surviving Corporation and its



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subsidiaries taken as a whole ("Surviving Corporation Material Adverse Effect") or a WorldCom Material Adverse Effect.

6.1.6 Registration Statement. The Registration Statement shall have been declared effective and no stop order suspending the effectiveness of the Registration Statement shall have been issued and no action, suit, proceeding or investigation for that purpose shall have been initiated or threatened by any Governmental Authority.

6.1.7 Blue Sky. WorldCom shall have received all state securities law authorizations necessary to consummate the transactions contemplated hereby.

6.1.8 Tax Opinion. WorldCom shall have received an opinion from WorldCom's tax counsel and MPS shall have received an opinion from MPS's tax counsel substantially to the effect that, if the Merger is consummated in accordance with the provisions of this Agreement, under current Law, for federal income tax purposes, the Merger will qualify as a reorganization within the meaning of Section 368(a) of the Code.

6.1.9 Quotation of WorldCom Stock. The shares of WorldCom Stock comprising the Merger Consideration shall have been approved for quotation on The Nasdaq Stock Market.

6.2 Conditions to Obligations of MPS. The obligation of MPS to effect the Merger shall be subject to the fulfillment at or prior to the Effective Time of the following additional conditions, any one or more of which may be waived by MPS:

6.2.1 WorldCom Representations and Warranties. The representations and warranties of WorldCom contained in this Agreement that are modified by materiality or WorldCom Material Adverse Effect shall be true and correct in all respects and those that are not so modified shall be true and correct in all material respects, on the date hereof and, except for changes not prohibited by this Agreement, as of the Effective Time as if made at the Effective Time.

6.2.2 Performance by WorldCom. WorldCom shall have performed and complied with all of the covenants and agreements in all material respects and satisfied in all material respects all of the conditions required by this Agreement to be performed or complied with or satisfied by WorldCom at or prior to the Effective Time.



**6.2.3 No Material Adverse Change.** There shall not have occurred after the date hereof any Event that has or reasonably could be expected to have a WorldCom Material Adverse Effect.

**6.2.4 Certificates and Other Deliveries.** WorldCom shall have delivered to MFS (i) a certificate executed on its behalf by its President or another authorized officer to the effect that the conditions set forth in Subsections 6.2.1, 6.2.2 and 6.2.3, above, have been satisfied; (ii) a certificate of existence from the Secretary of State of the State of Georgia stating that WorldCom is a validly existing corporation; (iii) duly adopted resolutions of the Board of Directors of each of WorldCom and the Board of Directors and stockholder of Acquisition Subsidiary approving the execution, delivery and performance of this Agreement, the WorldCom Ancillary Agreements and the instruments contemplated hereby and thereby, and of the WorldCom shareholders approving the WorldCom Proposals, each certified by its Secretary; (iv) the duly executed WorldCom Tax Opinion Certificate; (v) the supplemental agreement referred to in the last sentence of Section 1.6(a) hereof; and (vi) such other documents and instruments as MFS reasonably may request.

**6.2.5 Opinion of WorldCom Counsel.** MFS shall have received an opinion of counsel to WorldCom, in form and substance reasonably satisfactory to MFS, covering the matters set forth in Schedule 6.2.5 attached hereto.

**6.2.6 Election of Nominees.** WorldCom shall have taken all action necessary to cause the Nominees to become members of the Board of Directors of WorldCom as of the Effective Time.

**6.3 Conditions to Obligations of WorldCom.** The obligations of WorldCom to effect the Merger shall be subject to the fulfillment at or prior to the Effective Time of the following additional conditions, any one or more of which may be waived by WorldCom:

**6.3.1 MFS Representations and Warranties.** The representations and warranties of MFS contained in this Agreement that are modified by materiality or MFS Material Adverse Effect shall be true and correct in all respects, and those that are not so modified shall be true and correct in all material respects, on the date hereof and, except for changes not prohibited by this Agreement, as of the Effective Time as if made at the Effective Time.

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6.3.2 Performance by MFS. MFS shall have performed and complied with all the covenants and agreements in all material respects and satisfied in all material respects all the conditions required by this Agreement to be performed or complied with or satisfied by MFS at or prior to the Effective Time.

6.3.3 No Material Adverse Change. There shall have not occurred after the date hereof any Event that has or reasonably could be expected to have a MFS Material Adverse Effect or a Surviving Corporation Material Adverse Effect.

6.3.4 Certificates and Other Deliveries. MFS shall have delivered, or caused to be delivered, to WorldCom (i) a certificate executed on its behalf by its Chairman or another duly authorized officer to the effect that the conditions set forth in Subsections 6.3.1, 6.3.2 and 6.3.3, above, have been satisfied; (ii) a certificate of good standing from the Secretary of State of the State of Delaware stating that MFS is a validly existing corporation in good standing; (iii) duly adopted resolutions of the Board of Directors and stockholders of MFS approving the execution, delivery and performance of this Agreement, the MFS Proposals, the MFS Ancillary Agreements and the instruments contemplated hereby and thereby, certified by the Secretary of MFS; (iv) a true and complete copy of the Certificate of Incorporation certified by the Secretary of State of the State of Delaware, and a true and complete copy of the Bylaws of MFS certified by the Secretary thereof; (v) the duly executed MFS Tax Opinion Certificate; and (vi) such other documents and instruments as WorldCom reasonably may request.

6.3.5 Opinion of MFS Counsel. WorldCom shall have received the opinion of counsel to MFS, in form and substance reasonably satisfactory to MFS, covering the matters set forth in Schedule 6.3.5 attached hereto.

6.3.6 Affiliate Agreements. Each person who is or may be an "affiliate" of MFS within the meaning of Rule 145 of the rules and regulations of the SEC promulgated under the Securities Act shall have entered into an agreement in the form attached hereto as Schedule 6.3.6.

**ARTICLE VII  
TERMINATION AND ABANDONMENT**

7.1 Termination. This Agreement may be terminated at any time prior to the Effective Time, whether before or after approval of the stockholders of NFS and the shareholders of WorldCom described herein:

(a) by mutual written consent of WorldCom and NFS;

(b) by either WorldCom or NFS if:

(i) the Merger shall not have been consummated on or prior to the first anniversary of the date hereof; ~~provided, however,~~ that the right to terminate this Agreement pursuant to this Section 7.1(b)(i) shall not be available to any party whose failure to perform any of its obligations under this Agreement results in the failure of the Merger to be consummated by such time;

(ii) the approval of NFS's stockholders required by Section 6.1.1 shall not have been obtained at a meeting duly convened therefor or at any adjournment or postponement thereof;

(iii) the approval of WorldCom's shareholders as required by Section 6.1.1 shall not have been obtained at a meeting duly convened therefor or at any adjournment or postponement thereof; or

(iv) any Governmental Authority shall have issued an order, decree or ruling or taken any other action permanently enjoining, restraining or otherwise prohibiting the consummation of the Merger and such order, decree or ruling or other action shall have become final and nonappealable;

(c) by WorldCom, if NFS shall have breached in any material respect any of its

representations, warranties, covenants or other agreements contained in this Agreement, which breach or failure to perform is incapable of being cured or has not been cured within 20 days after the giving of written notice to NPS;

(d) by WorldCom in accordance with Section 5.8(b), provided that it has complied with all provisions thereof, including the notice provisions therein, and that it complies with applicable requirements relating to the payment (including the timing of any payment) of the Termination Fee;

(e) by WorldCom, if Section 4.8 shall be breached by NPS in any material respect and NPS shall have failed to promptly terminate the activity giving rise to such breach and use best efforts to cure such breach upon notice thereof from WorldCom, or NPS shall breach Section 4.8 by failing to promptly notify WorldCom as required thereunder;

(f) by WorldCom if (i) the Board of Directors of NPS or any committee thereof shall have withdrawn or modified in a manner adverse to WorldCom its approval or recommendation of the NPS Proposals, or failed to reconfirm its recommendation within fifteen business days after a written request to do so, or approved or recommended any NPS Takeover Proposal or (ii) the Board of Directors of NPS or any committee thereof shall have resolved to take any of the foregoing actions;

(g) by WorldCom, if NPS or any of its officers, directors, employees, representatives or agents shall take any of the actions referenced in the proviso to the second sentence of Section 4.8(a);

(h) by NPS, if WorldCom shall have breached in any material respect any of its representations, warranties, covenants or other agreements contained in this Agreement, which breach or failure to perform is incapable of being cured or has not been cured within 20 days after the giving of written notice to WorldCom;

(i) by NPS in accordance with Section 4.8(b), provided that it has complied with all provisions thereof, including the notice provisions therein, and that it complies with applicable requirements relating to the payment (including the timing of any payment) of the Termination Fee;

(j) by NPS, if Section 5.8 shall be breached by WorldCom in any material respect and WorldCom shall have failed to promptly terminate the activity giving rise to such breach and use best efforts to cure such breach upon notice thereof from NPS, or WorldCom shall breach Section 5.8 by failing to promptly notify NPS as required thereunder;

(k) by NPS if (i) the Board of Directors of WorldCom or any committee thereof shall have withdrawn or modified in a manner adverse to NPS its approval or recommendation of the WorldCom Proposals, or failed to reconfirm its recommendation within fifteen business days after a written request to do so, or approved or recommended any WorldCom Takeover Proposal or (ii) the Board of Directors of WorldCom or any committee thereof shall have resolved to take any of the foregoing actions;

(l) by NPS, if WorldCom or any of its officers, directors, employees, representatives or agents shall take any of the actions referenced in the proviso to the second sentence of Section 5.8(a); or

(m) by NPS, if any person (other than NPS or any of its affiliates or associates) shall have acquired beneficial ownership (as such term is defined in Rule 13d-3 promulgated under the Securities Exchange Act) or any "group" (as such term is defined in Section 13(d)(3) of the Securities Exchange Act) (other than a group of which NPS or any of its affiliates or associates is a member) shall have been formed which beneficially owns 25% or more of the voting power of WorldCom.

The party desiring to terminate this Agreement pursuant to the preceding paragraphs (b), (c), (d), (e), (f), (g), (h),

(i), (j), (k), (l) or (m) shall give written notice of such termination to the other party in accordance with Section 8.5 below.

7.2 Effect of Termination and Abandonment. (a) In the event of termination of this Agreement and the abandonment of the Merger pursuant to this Article VII, this Agreement (other than as set forth in this Section 7.2, Section 7.3, Section 7.4, Section 8.1 and Section 8.7) shall become void and of no effect with no liability on the part of any party hereto (or of any of its directors, officers, employees, agents, legal or financial advisors or other representatives); provided, however, that no such termination shall relieve any party hereto from any liability for any breach of this Agreement.

(b) In the event that (A) this Agreement is terminated by either WorldCom or MFS pursuant to Section 7.1(b)(ii) above; (B) a bona fide MFS Takeover Proposal shall have been made known to MFS or any of its subsidiaries and made known to its stockholders generally or has been made directly to its stockholders generally or any Person shall have publicly announced an intention (whether or not conditional) to make a bona fide MFS Takeover Proposal and such MFS Takeover Proposal or announced intention shall not have been withdrawn and thereafter this Agreement is terminated by either WorldCom or MFS pursuant to Section 7.1(b)(i), or (C) this Agreement is terminated (x) by MFS pursuant to Section 7.1(i) or (y) by WorldCom pursuant to Section 7.1(e), (f) or (g), then MFS shall promptly, but in no event later than two days after the date of such termination, pay WorldCom a fee equal to \$350 million (the "Termination Fee"), payable by wire transfer of same day funds; provided, however, that no Termination Fee shall be payable to WorldCom pursuant to a termination by WorldCom pursuant to Section 7.1(g) unless and until within 18 months of such termination, MFS or any of its subsidiaries enters into any MFS Acquisition Agreement or consummates any MFS Takeover Proposal. MFS acknowledges that the agreements contained in this Section 7.2(b) are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, WorldCom would not enter into this Agreement; accordingly, if MFS fails to promptly pay the amount due pursuant to this Section 7.2(b), and, in order to obtain such payment, WorldCom commences a suit which results in a judgment against MFS for the Termination Fee set forth in this paragraph (b), MFS shall also pay to WorldCom its costs and expenses (including attorneys' fees) in connection with such suit, together with interest on the amount of the Termination Fee at the prime rate of Citibank N.A. in effect on the date such payment was required to be made. In the event of a termination by WorldCom pursuant to Section 7.1(g), MFS shall promptly pay upon WorldCom's request all out-of-pocket charges and expenses incurred by WorldCom in connection with this Agreement and the transactions contemplated hereby in an amount not to exceed \$10



million, which payments shall be credited against any Termination Fee that may subsequently become payable.

(c) In the event that (A) this Agreement is terminated by either WorldCom or MFS pursuant to Section 7.1(b)(iii) above, (B) a bona fide WorldCom Takeover Proposal shall have been made known to WorldCom or any of its subsidiaries and made known to its shareholders generally or has been made directly to its shareholders generally or any Person shall have publicly announced an intention (whether or not conditional) to make a bona fide WorldCom Takeover Proposal and such WorldCom Takeover Proposal or announced intention shall not have been withdrawn and thereafter this Agreement is terminated by either WorldCom or MFS pursuant to Section 7.1(b)(i), or (C) this Agreement is terminated (x) by WorldCom pursuant to Section 7.1(d) or (y) by MFS pursuant to Section 7.1(f), (k), (l) or (m), then WorldCom shall promptly, but in no event later than two days after the date of such termination, pay MFS the Termination Fee, payable by wire transfer of same day funds; provided, however, that no Termination Fee shall be payable to MFS pursuant to a termination by MFS pursuant to Section 7.1(l) unless and until within 18 months of such termination, WorldCom or any of its subsidiaries enters into any WorldCom Acquisition Agreement or consummates any WorldCom Takeover Proposal. WorldCom acknowledges that the agreements contained in this Section 7.2(c) are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, MFS would not enter into this Agreement; accordingly, if WorldCom fails to promptly pay the amount due pursuant to this Section 7.2(c), and, in order to obtain such payment, MFS commences a suit which results in a judgment against WorldCom for the Termination Fee set forth in this paragraph (c), WorldCom shall also pay to MFS its costs and expenses (including attorneys' fees) in connection with such suit, together with interest on the amount of the Termination Fee at the prime rate of Citibank N.A. in effect on the date such payment was required to be made. In the event of a termination by MFS pursuant to Section 7.1(l), WorldCom shall promptly pay upon MFS's request all out-of-pocket charges and expenses incurred by MFS in connection with this Agreement and the transactions contemplated hereby in an amount not to exceed \$10 million, which payments shall be credited against any Termination Fee that may subsequently become payable.

7.3 Procedure Upon Termination. In the event of termination and abandonment pursuant to this Article VII, this Agreement shall terminate and the Merger shall be abandoned without further action by MFS or WorldCom, provided that the agreements contained in Sections 7.2, 8.1 and 8.7 hereof shall remain in full force and effect. If this Agreement is terminated as provided herein, each party shall use its reasonable best efforts to redeliver all documents, work papers and other material (including any copies thereof) of any other party relating to the transactions contemplated hereby, whether

obtained before or after the execution hereof, to the party furnishing the same. Nothing contained in this Agreement shall relieve any party from any liability for any inaccuracy, misrepresentation or breach of this Agreement prior to termination.

7.4 Services Agreement. In the event that this Agreement is terminated under circumstances in which either WorldCom or NPS is entitled to receive the Termination Fee pursuant to Section 7.2 hereof, the party entitled to receive the Termination Fee shall also be entitled to receive, at its sole election, the services described in that agreement of even date herewith between NPS and WorldCom, on the terms and conditions described in such agreement.

#### ARTICLE VIII MISCELLANEOUS

8.1 Confidentiality. Unless (i) otherwise expressly provided in this Agreement, (ii) required by applicable Law or any listing agreement with, or the rules and regulations of, any applicable securities exchange or the NASD, (iii) necessary to secure any required Consents as to which the other party has been advised, or (iv) consented to in writing by WorldCom and NPS, any information or documents furnished in connection herewith shall be kept strictly confidential by NPS, WorldCom and their respective officers, directors, employees and agents. Prior to any disclosure pursuant to the preceding sentence, the party intending to make such disclosure shall consult with the other party regarding the nature and extent of the disclosure. Nothing contained herein shall preclude disclosures to the extent necessary to comply with accounting, SEC and other disclosure obligations imposed by applicable Law. To the extent required by such disclosure obligations, WorldCom or NPS, after consultation with the other party, may file with the SEC a Report on Form 8-K pursuant to the Securities Exchange Act with respect to the Merger, which report may include, among other things, financial statements and pro forma financial information with respect to the other party. In connection with any filing with the SEC of a registration statement or amendment thereto under the Securities Act, NPS or WorldCom, after consultation with the other party, may include a prospectus containing any information required to be included therein with respect to the Merger, including, but not limited to, financial statements and pro forma financial information with respect to the other party, and thereafter distribute said prospectus. WorldCom and NPS shall cooperate with the other and provide such information and documents as may be required in connection with any such filings. In the event the Merger is not consummated, each party shall return to the other any documents furnished by the other and all copies thereof any of them may have made and will hold in absolute confidence any information obtained from the other party except to the extent (i) such party is required to disclose such information by

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Law or such disclosure is necessary or desirable in connection with the pursuit or defense of a claim, (ii) such information was known by such party prior to such disclosure or was thereafter developed or obtained by such party independent of such disclosure, or (iii) such information becomes generally available to the public or is otherwise no longer confidential. Prior to any disclosure of information pursuant to the exception in clause (i) of the preceding sentence, the party intending to disclose the same shall so notify the party which provided the same in order that such party may seek a protective order or other appropriate remedy should it choose to do so.

**8.2 Amendment and Modification.** This Agreement may be amended, modified or supplemented only by a written agreement among NPS, WorldCom and Acquisition Subsidiary.

**8.3 Waiver of Compliance; Consents.** Any failure of NPS on the one hand, or WorldCom on the other hand, to comply with any obligation, covenant, agreement or condition herein may be waived by WorldCom on the one hand, or NPS on the other hand, only by a written instrument signed by the party granting such waiver, but such waiver or failure to insist upon strict compliance with such obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure. Whenever this Agreement requires or permits consent by or on behalf of any party hereto, such consent shall be given in writing in a manner consistent with the requirements for a waiver of compliance as set forth in this Section 8.1.

**8.4 Survival of Representations and Warranties.** The respective representations, warranties, covenants and agreements of NPS and WorldCom contained herein or in any certificates or other documents delivered prior to or at the Closing shall survive the execution and delivery of this Agreement, notwithstanding any investigation made or information obtained by the other party, but shall terminate at the Effective Time, except for those contained in Sections 5.11, 5.12 and 5.13, above and except for the agreements delivered pursuant to Section 6.1.6 hereof and the certificates referred to in Sections 6.2.4(iv) and 6.3.4(iv) hereof.

**8.5 Notices.** All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given when delivered in person, by facsimile, receipt confirmed, or on the next business day when sent by overnight courier or on the second succeeding business day when sent by registered or certified mail (postage prepaid, return receipt requested) to the respective parties at the following addresses (or at such other address for a party as shall be specified by like notice):

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(i) if to MPB, to:

11808 Miracle Hills Drive  
Omaha, Nebraska 68154  
Attention: Terrence J. Ferguson, Esq.  
Telecopy: (402) 231-3545

with a copy to:

Willkie Farr & Gallagher  
One Citicorp Center  
153 East 53rd Street  
New York, NY 10022  
Attention: John S. D'Alimonte, Esq. and  
Steven J. Gartner, Esq.  
Telecopy: 212-821-8111

and

(ii) if to WorldCom or Acquisition Subsidiary, to:

515 East Amite Street  
Jackson, Mississippi 39201  
Attention: Bernard J. Ehbers  
Telecopy: (601) 360-8616

with copies to:

WorldCom, Inc.  
10777 Sunset Office Drive, Suite 330  
St. Louis, Missouri 63127  
Attention: P. Bruce Borghardt, Esq.  
Telecopy: (314) 909-4101

and

Bryan Cave LLP  
One Metropolitan Square  
211 North Broadway, Suite 3600  
St. Louis, Missouri 63102  
Attention: Don G. Lents, Esq. and  
E. Randall Wang, Esq.  
Telecopy: (314) 259-2020

**8.6 Binding Effect; Assignment.** This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto prior to the Effective Time without the prior written consent of the other party hereto, except that Acquisition Subsidiary may assign to WorldCom or any other direct subsidiary of WorldCom any and all rights, interests and

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obligations of Acquisition Subsidiary under this Agreement; provided that any assignment by Acquisition Subsidiary of any or all of its rights, interests and obligations under this Agreement to WorldCom shall require that the Merger contemplated by this Agreement shall then be structured as a direct merger of MFS with and into WorldCom or any other structure approved by MFS.

8.7 Expenses. All costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such costs or expenses, subject to the rights of such party contemplated under Section 7.2, above.

8.8 Governing Law. This Agreement shall be deemed to be made in, and in all respects shall be interpreted, construed and governed by and in accordance with the internal laws of, the State of Delaware, except as otherwise required by the Georgia Business Corporation Code.

8.9 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

8.10 Interpretation. The article and section headings contained in this Agreement are solely for the purpose of reference, are not part of the agreement of the parties and shall not in any way affect the meaning or interpretation of this Agreement. As used in this Agreement, (i) the term "person" shall mean and include an individual, a partnership, a joint venture, a corporation, a limited liability company, a trust, an association, an unincorporated organization, a Governmental Authority and any other entity; (ii) the term "affiliate," with respect to any person, shall mean and include any person controlling, controlled by or under common control with such person; and (iii) the term "subsidiary" of any specified person shall mean any corporation 50 percent or more of the outstanding voting power of which, or any partnership, joint venture, limited liability company or other entity 50 percent or more of the total equity interest of which, is directly or indirectly owned by such specified person.

8.11 Entire Agreement. This Agreement and the documents or instruments referred to herein including, but not limited to, the Schedules attached hereto and the Disclosure Letters referred to herein, which Schedules and Disclosure Letters are incorporated herein by reference, embody the entire agreement and understanding of the parties hereto in respect of the subject matter contained herein. There are no restrictions, promises, representations, warranties, covenants, or undertakings, other than those expressly set forth or referred to herein. This Agreement supersedes all prior agreements and the



93310411

understandings between the parties with respect to such subject matter.

**8.12 Severability.** In case any provision in this Agreement shall be held invalid, illegal or unenforceable in a jurisdiction, such provision shall be modified or deleted, as to the jurisdiction involved, only to the extent necessary to render the same valid, legal and enforceable, and the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby nor shall the validity, legality or enforceability of such provision be affected thereby in any other jurisdiction.

**8.13 Specific Performance.** The parties hereto agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. Accordingly, the parties further agree that each party shall be entitled to an injunction or restraining order to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof in any court of the United States or any state having jurisdiction, this being in addition to any other right or remedy to which such party may be entitled under this Agreement, at law or in equity.

**8.14 Third Parties.** Nothing contained in this Agreement or in any instrument or document executed by any party in connection with the transactions contemplated hereby shall create any rights in, or be deemed to have been executed for the benefit of, any person or entity that is not a party hereto or thereto, or, a successor or permitted assign of such a party; ~~provided~~ however, that the parties hereto specifically acknowledge that the provisions of Sections 5.12 and 5.13, above, are intended to be for the benefit of, and shall be enforceable by, the employees, officers and directors of MFS and/or the MFS Subsidiaries affected thereby and their heirs and representatives.

**8.15 Schedules and Disclosure Letters.** MFS and WorldCom acknowledge that the Schedules to this Agreement, the MFS Disclosure Letter and the WorldCom Disclosure Letter (i) relate to certain matters concerning the disclosures required and transactions contemplated by this Agreement, (ii) are qualified in their entirety by reference to specific provisions of this Agreement, (iii) are not intended to constitute and shall not be construed as indicating that such matter is required to be disclosed, nor shall such disclosure be construed as an admission that such information is material with respect to MFS or WorldCom, as the case may be, except to the extent required by this Agreement, and (iv) disclosure of the information contained in one MFS or WorldCom Schedule shall be deemed as proper disclosure for all MFS or WorldCom Schedules, as the case may be.



93310411

IN WITNESS WHEREOF, WorldCom, Acquisition Subsidiary and MFS have caused this Agreement to be signed and delivered by their respective duly authorized officers as of the date first above written.

WORLD.COM, INC.

By Bernard J. Ebers  
Name: Bernard J. Ebers  
Title: President and Chief Executive Officer

HIJ CORP.

By Bernard J. Ebers  
Name: Bernard J. Ebers  
Title: President and Chief Executive Officer

MFS COMMUNICATIONS COMPANY, INC.

By James O. Crowe  
Name: James O. Crowe  
Title: Chairman of the Board and Chief Executive Officer

**EXHIBIT C**

**WORLDCOM, INC.  
FINANCIAL INFORMATION**

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 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)

515 East Amite Street, Jackson, Mississippi  
(Address of principal executive offices)

58-1521612  
(I.R.S. Employer Identification No.)

39201-2702  
(Zip Code)

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

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 whether the registrant has filed all documents and reports required to be filed by Sections 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

The number of outstanding shares of the registrant's Common Stock, par value \$.01 per share, was 396,210,381 on July 31, 1996.

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

	June 30, 1996	December 31, 1995
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 16,584	\$ 41,679
Accounts receivable, net of allowance for bad debts of \$75,139 in 1996 and \$57,980 in 1995	673,910	528,763
Income taxes receivable	17,887	17,499
Deferred tax asset	32,573	16,899
Other current assets	71,375	49,992
Total current assets	<u>812,329</u>	<u>654,832</u>
Property and equipment:		
Transmission equipment	1,438,091	1,378,242
Communications equipment	277,370	401,454
Furniture, fixtures and other	251,755	278,716
	<u>1,967,216</u>	<u>2,058,412</u>
Less - accumulated depreciation	(333,620)	(487,080)
	<u>1,633,596</u>	<u>1,571,332</u>
Excess of cost over net tangible assets acquired, net of accumulated amortization	4,059,911	4,292,752
Other assets	167,416	117,655
	<u>\$ 6,673,252</u>	<u>\$ 6,634,571</u>
<b>LIABILITIES AND SHAREHOLDERS' INVESTMENT</b>		
Current liabilities:		
Short-term debt and current maturities of long-term debt	\$ 998	\$ 1,112,853
Accounts payable	184,970	137,342
Accrued line costs	478,415	391,604
Other current liabilities	329,316	337,013
Total current liabilities	<u>993,699</u>	<u>1,978,812</u>
Long-term liabilities, less current portion:		
Long-term debt	3,346,596	2,278,428
Deferred income taxes payable	77,407	26,172
Other liabilities	159,500	163,873
Total long-term liabilities	<u>3,583,503</u>	<u>2,468,473</u>
Commitments and contingencies		
Shareholders' investment:		
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: 50,000,000 shares in 1996 and 48,755,952 shares in 1995; none issued		
Common stock, par value \$.01 per share; authorized: 750,000,000 shares; issued and outstanding: 395,920,528 shares in 1996 and 386,485,278 shares in 1995	3,959	3,865
Additional paid-in capital	1,942,490	1,896,377
Unrealized holding gain on marketable securities	46,032	
Retained earnings	103,569	287,032
Total shareholders' investment	<u>2,096,050</u>	<u>2,187,286</u>
	<u>\$ 6,673,252</u>	<u>\$ 6,634,571</u>

The accompanying notes are an integral part of these statements.

WORLD COM, INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In Thousands of Dollars)

	For the Six Months Ended June 30,	
	1996	1995
Cash flows from operating activities:		
Net income (loss)	\$ (182,602)	\$ 115,778
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Extraordinary items	24,434	-
Provision to reduce carrying value of certain assets	402,000	-
Depreciation and amortization	155,353	151,514
Provision for losses on accounts receivable	27,553	21,113
Provision for deferred income taxes	30,428	28,722
Change in assets and liabilities, net of effect of business combinations:		
Accounts receivable	(172,700)	27,808
Income taxes, net	18,521	39,042
Other current assets	(49,352)	6,810
Accrued line costs	64,811	(7,042)
Shareholder litigation reserve	-	(75,000)
Accounts payable and other current liabilities	15,885	(63,108)
Other	(9,442)	(2,715)
Net cash provided by operating activities	<u>324,889</u>	<u>242,922</u>
Cash flows from investing activities:		
Capital expenditures	(251,581)	(181,196)
Acquisitions and related costs	(580)	(2,689,372)
Increase in intangible assets	(57,547)	(3,653)
Increase in other assets	(9,623)	(13,911)
Decrease in other liabilities	(20,991)	(13,671)
Proceeds from sale of long-term assets	8,724	17,406
Other	-	1,000
Net cash used in investing activities	<u>(331,598)</u>	<u>(2,883,397)</u>
Cash flows from financing activities:		
Borrowings	-	2,748,208
Principal payments on debt	(43,601)	(125,948)
Common stock issuance	26,075	47,531
Dividends paid on preferred stock	(860)	(13,875)
Net cash provided by (used in) financing activities	<u>(18,386)</u>	<u>2,655,916</u>
Net increase (decrease) in cash and cash equivalents	(25,095)	15,441
Cash and cash equivalents at beginning of period	41,679	19,259
Cash and cash equivalents at end of period	<u>\$ 16,584</u>	<u>\$ 34,700</u>

The accompanying notes are an integral part of these statements.

The Credit Facility has a five-year term and bears interest, payable quarterly, at variable 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.

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"), at a price equal to 103.5% of the principal amount, plus accrued and unpaid interest. The conversion price for the Notes is \$19.034975 per share, resulting in the receipt of 52 shares of WorldCom, Inc. common stock per \$1,000 principal amount of the Notes plus cash in lieu of a fractional share. The Company expects that all holders of the Notes (\$195.5 million principal amount) will elect to convert their Notes into common stock prior to the redemption.

#### **(E) STOCK SPLIT**

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. All per share data and numbers of common shares have been retroactively restated to reflect the stock split.

#### **(F) PREFERRED STOCK**

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 (1,244,048 shares) was converted into 5,266,160 shares of common stock of the Company in the second quarter of 1996.

#### **(G) 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, 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 or \$.88 per share. On a pretax 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 within the next twelve months.

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 comprise less than 3% of WorldCom's consolidated revenues.

#### **(H) EXTRAORDINARY ITEMS**

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, as discussed in Note C 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



## ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q may be deemed to include forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risk and uncertainty, including financial, regulatory environment and trend projections. Although the Company believes that its expectations are based on reasonable assumptions, it can give no assurance that its expectations will be achieved. The important factors that could cause actual results to differ materially from those in the forward looking statements herein include, without limitation, the Company's high degree of financial leverage, risks associated with debt service requirements and interest rate fluctuations, risks associated with acquisitions and the integration thereof, risks of international business, dependence on availability of transmission facilities, regulation risks including the impact of the Telecommunications Act of 1996, contingent liabilities, and the impact of competitive services and pricing, as well as other risks referenced from time to time in the Company's filings with the SEC. The following discussion and analysis relates to the financial condition and results of operations of the Company for the three and six months ended June 30, 1996 and 1995, and should be read in conjunction with the consolidated financial statements and notes thereto.

### GENERAL

The Company's continued 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.

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 economies of scale in line cost expenditures and to control and maintain selling, general and administrative overhead costs. The principal components of line costs are access charges and transport charges. Access charges are expenses incurred by all interexchange carriers ("IXCs") for accessing the local networks of the local exchange carriers ("LECs") in order to originate and terminate calls and payments made to foreign telephone administrations to complete calls made from the U.S. by the Company's customers. Transport charges are the expenses incurred in transmitting calls between or within local access and transport areas.

The most significant portion of the Company's line costs is access charges, which are highly regulated. The FCC regulates international communications services and interstate telephone service and certain states, through the appropriate regulatory agency, regulate intrastate telephone service. Accordingly, the Company cannot predict what effect continued regulation and increased competition between LECs and other IXCs 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 legislation, known as the Telecommunications Act of 1996, that: permits, without limitation, 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 regions 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.

On August 8, 1996 the FCC released its First Report and Order in the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996 (the "Order"). In that 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 ("ILEC"), resale of the ILEC's retail services and unbundled network elements. These rules set the groundwork for the statutory criteria

Line costs as a percentage of revenues decreased to 54.4% during the second quarter of 1996 as compared to 55.1% for the same period in the prior year. On a year-to-date basis, line costs as a percentage of revenues decreased to 54.4% in 1996 from 55.3% in 1995. These decreases are attributable to changes in the product mix, rate reductions resulting from favorable contract negotiations 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 the second quarter of 1996 increased to \$195.1 million or 18.4% of revenues as compared to \$162.3 million or 18.1% of revenues for the second quarter of 1995. On a year-to-date basis, these expenses increased to \$384.3 million or 18.4% of revenues from \$322.6 million or 18.3% of revenues for the six months ended June 30, 1995. The increase in selling, general and administrative expenses results from the Company's expanding operations, primarily through internal growth.

Depreciation and amortization expense for the second quarter of 1996 decreased to \$71.6 million or 6.7% of revenues from \$77.1 million or 8.6% of revenues for the second quarter of 1995. This decrease reflects the reduction in depreciation and amortization associated with the second quarter 1996 write-down in the carrying value of goodwill and equipment. On a year-to-date basis, this expense increased to \$155.4 million or 7.4% of revenues versus \$151.5 million or 8.6% of revenues for the comparable 1995 period. This increase reflects additional depreciation related to capital expenditures offset by the reduction in depreciation and amortization associated with the second quarter write-downs. The reduction in the percentage is due to a relatively stable dollar of amortization on a higher revenue base.

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, 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 or \$.88 per share. On a pretax 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.

Interest expense in the second quarter of 1996 was \$55.9 million or 5.3% of revenues, as compared to \$64.6 million or 7.2% of revenues in the second quarter of 1995. For the six months ended June 30, 1996, interest expense was \$112.9 million or 5.4% of revenues, as compared to \$126.9 million or 7.2% of revenues for the first six months of 1995. The decrease in interest expense is attributable to lower interest rates in effect on the Company's long-term debt. For the six months ended June 30, 1996 and 1995, weighted average annual interest rates were 6.4% and 7.3%, respectively, while weighted average annual levels of borrowing were \$3.47 billion and \$3.44 billion, respectively.

In the second quarter 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 second quarter ended June 30, 1996, net income, before non-cash charges, increased 81% to \$99.6 million compared with \$54.9 million for the 1995 second quarter. Fully diluted earnings per common share, before non-cash charges, increased 56% to \$0.25 compared with \$0.16 a year ago. Including the non-cash, after-tax charges, the Company reported a net loss of \$268.5 million or \$0.69 per share, for the second quarter of 1996.

For the six months ended June 30, 1996, net income, before non-cash charges, increased 81% to \$184.6 million compared with \$101.9 million for the 1995 first half. Fully diluted earnings per common share, before non-cash charges increased 53% to \$0.46 compared with \$0.30 a year ago. Including the non-cash, after-tax charges, the Company reported a net loss of \$183.5 million or \$0.47 for the first six months of 1996.

Absent significant capital requirements for other acquisitions, the Company believes that cash flow from operations and funds available under the Credit Facility will be adequate to meet the Company's capital needs for the remainder of 1996.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings.

There have been no material changes in the legal proceedings reported in the Company's Annual Report on Form 10-K for the year ended December 31, 1995, filed on March 30, 1996 except as may be reflected in the discussion under Note 1 of the Notes to Consolidated Financial Statements in Part I, Item 1, above.

### Item 2. Changes in Securities.

None

### Item 3. Defaults upon Senior Securities.

None

### Item 4. Submission of Matters to a Vote of Security Holders.

On May 23, 1996, the Company held the Annual Meeting of Shareholders for the purposes of:

1. electing a Board of twelve (12) directors;
2. considering and acting upon a proposal to amend the Company's Amended and Restated Articles of Incorporation to increase the number of authorized shares of common stock, par value \$.01 per share, from 500,000,000 to 750,000,000;
3. considering and acting upon a proposal to approve the Company's Third Amended and Restated 1990 Stock Option Plan; and
4. considering and acting upon a proposal to approve the Company's Special Performance Bonus Plan;

The tabulation of the voting (on a pre-split basis), which includes 2,633,081 equivalent shares for the Series 2 Preferred Stock, is as follows:

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report on Form 10-Q to be signed on its behalf by Scott D. Sullivan, thereunto duly authorized to sign on behalf of the registrant and as the principal financial officer thereof.

WorldCom, Inc.

By 

Scott D. Sullivan  
Chief Financial Officer

Dated: August 14, 1996

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

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	1996	1995	1996	1995
Primary:				
Weighted average shares outstanding	391,160	326,270	389,363	323,532
Common stock equivalents	-	11,352	-	12,052
	<u>391,160</u>	<u>337,622</u>	<u>389,363</u>	<u>335,584</u>
Net income (loss) applicable to common shareholders before extraordinary items	\$ (244,023)	\$ 54,879	(159,028)	101,903
Extraordinary items	(24,434)	-	(24,434)	-
Net income (loss) applicable to common shareholders	<u>\$ (268,457)</u>	<u>\$ 54,879</u>	<u>\$ (183,462)</u>	<u>\$ 101,903</u>
Primary earnings (loss) per share:				
Applicable to common shareholders before extraordinary items	\$ (0.62)	\$ 0.16	\$ (0.41)	\$ 0.30
Extraordinary items	(0.06)	-	(0.06)	-
Applicable to common shareholders	<u>\$ (0.69)</u>	<u>\$ 0.16</u>	<u>\$ (0.47)</u>	<u>\$ 0.30</u>
Fully diluted:				
Weighted average shares outstanding	391,160	326,270	389,363	323,532
Common stock equivalents	-	11,924	-	12,598
Common stock issuable upon conversion of:				
5% convertible notes	-	10,270	-	10,270
Series 1 preferred stock	-	43,754	-	43,754
Series 2 preferred stock	-	8,466	-	8,466
	<u>391,160</u>	<u>400,684</u>	<u>389,363</u>	<u>398,620</u>
Net income (loss) applicable to common shareholders before extraordinary items	\$ (244,023)	\$ 54,879	\$ (159,028)	\$ 101,903
Extraordinary items	(24,434)	-	(24,434)	-
Add back:				
Interest on 5% convertible notes, net of taxes	-	1,491	-	2,982
Series 1 preferred dividend requirement	-	6,124	-	12,250
Series 2 preferred dividend requirement	-	812	-	1,625
Income (loss) applicable to common shareholders	<u>\$ (268,457)</u>	<u>\$ 63,306</u>	<u>\$ (183,462)</u>	<u>\$ 118,760</u>
Fully diluted earnings per share:				
Applicable to common shareholders before extraordinary items	\$ (0.62)	\$ 0.16	\$ (0.41)	\$ 0.30
Extraordinary items	(0.06)	-	(0.06)	-
Applicable to common shareholders	<u>\$ (0.69)</u>	<u>\$ 0.16</u>	<u>\$ (0.47)</u>	<u>\$ 0.30</u>



VERIFICATION

I, David N. Porter, Vice President of Government Affairs for MFS Communications Company, Inc., hereby declare and state that I have reviewed the foregoing application and exhibits thereto and that the information contained therein is correct to the best of my knowledge, information, and belief.

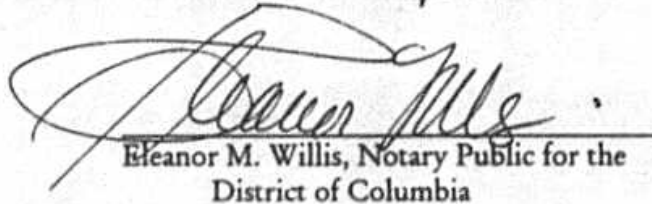
I declare under penalty of perjury that the foregoing is true and correct. Executed this 20<sup>th</sup> day of September, 1996.

By: David N. Porter

Name: David N. Porter

WASHINGTON,  
DISTRICT OF COLUMBIA      SS:

Subscribed and sworn to before me this 20<sup>th</sup> day of Sept., 1996.

  
Eleanor M. Willis, Notary Public for the  
District of Columbia

My commission expires July 31, 1998




**EXHIBIT D**

**VERIFICATION OF THE APPLICANTS**

**VERIFICATION**

I am authorized to represent WorldCom, Inc. d/b/a LDDS WorldCom (formerly LDDS Communications, Inc.) and to make this verification on its 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.

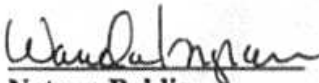
BY: 

NAME: Charles T. Cannada

TITLE: Senior Vice President

DATE: 01/03/96

Sworn and subscribed to  
before me this 3rd  
day of Sept., 1996.

  
Notary Public

My Commission expires: July 16, 1999