ORIGINAL FILE COPY

BIZTEL
LONG DISTANCE TELEPHONE COMPANY

1555 PALM BEACH LAKES BLVD. SUITE 1410
WEST PALM BEACH FLORIDA 33401
Telephone: (407) 697-5155

BY OVERNIGHT MAIL:

October 25, 1996

96 1287-TX

Mrs. Blanca Bayo
Director of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399

RE: Biztel Corporation's application for authority to Provide Alternative Local Exchange Telecommunications services within the State of Florida.

Dear Mrs. Bayo:

Pursuant to Section 364.337, F.S., Biztel Corporation hereby files an application for authority to provide alternative local exchange telecommunications services within the state of Florida. Biztel Corporation is a wholly owned subsidiary of WorldCom, Inc. d/b/a LDDS WorldCom and holds certificate number 548 for interexchange services. Enclosed is an original and six copies of Biztel's application (including a check for the application fee).

If you have any questions, please call me at 561-750-2940. Please stamp and return the extra copy of this letter in the enclosed envelope. Thank you for your attention.

MAIL ROOM OCT 28 AM 10:06

Sincerely yours,

Brian Sulmonetti
Director, Regulatory Affairs

CC: Thomas E. Williams, FPSC

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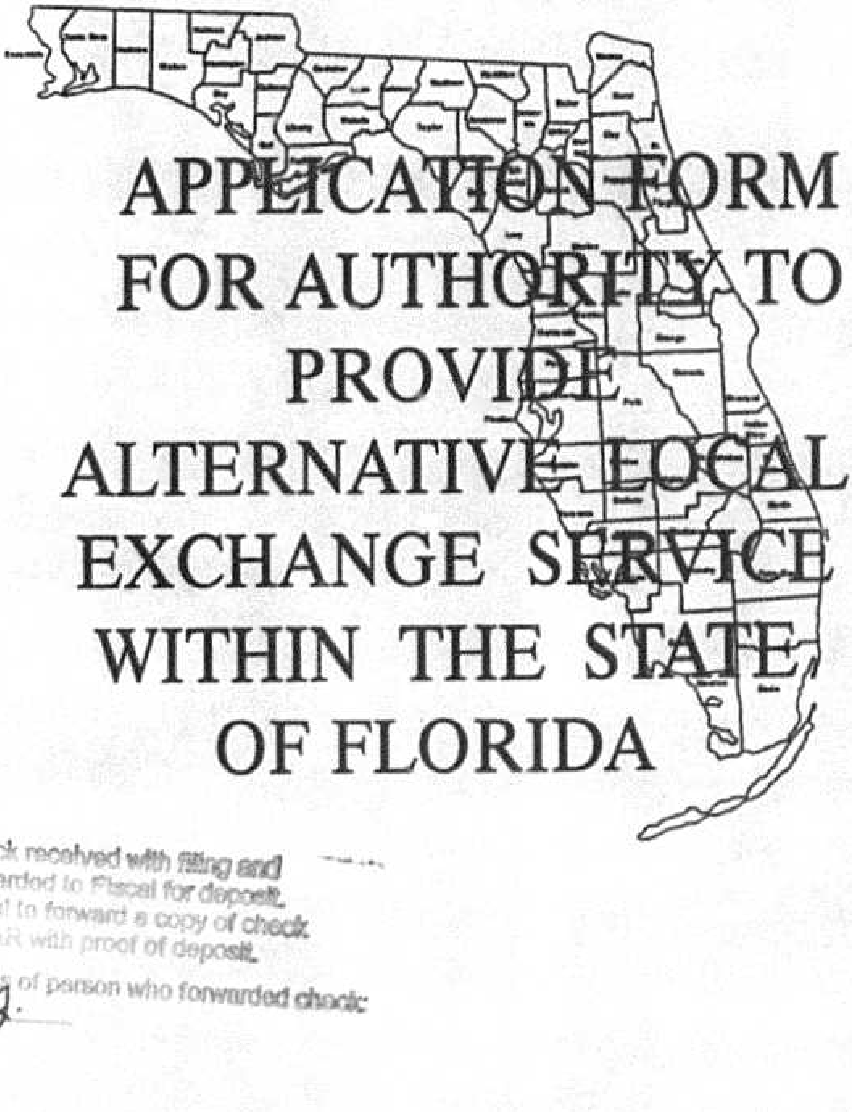

APPLICATION FORM FOR AUTHORITY TO PROVIDE ALTERNATIVE LOCAL EXCHANGE SERVICE WITHIN THE STATE OF FLORIDA

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96 OCT 28 AM 10:06
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Check received with filing and forwarded to Fiscal for deposit. Fiscal to forward a copy of check to RAR with proof of deposit.

Initials of person who forwarded check:
A.J.

1. This is an application for (check one):

   (x) Original authority (new company)

   ( ) Approval of transfer (to another certificated company)
   Example, a certificated company purchases an existing company and desires to retain the original certificate authority.

   ( ) Approval of assignment of existing certificate (to a noncertificated company)
   Example, a non-certificated company purchases an existing company and desires to retain the certificate of authority rather than apply for a new certificate.

   ( ) Approval for transfer of control (to another certificated company)
   Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. Name of applicant:
   Biz-Tel Corporation

3. Name under which the applicant will do business (d/b/a):
   same

4. If applicable, please provide proof of fictitious name (d/b/a) registration.

   Fictitious name registration number: ______________

5. A. National mailing address including street name, number, post office box, city , state, zip code, and phone number.
   1515 South Federal Highway, Suite 400
   Boca Raton, FL 33432
   561-392-2244

   B. Florida mailing address including street name, number, post office box, city , state, zip code, and phone number.
   Same

FORM PSC/CMU 8 (11/95)
Required by Chapter 364.337 F.S.

6. Structure of organization:

( ) Individual
( ) Foreign Corporation
( ) General Partnership
( ) Joint Venture
(X) Corporation
( ) Foreign Partnership
( ) Limited Partnership
( ) Other, Please explain ______________

7. If applicant is an individual, partnership, or joint venture, please give name, title and address of each legal entity.

N.A.

8. State whether any of the officers, directors, or any of the ten largest stockholders have previously been adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. If so, please explain.

None

9. If incorporated, please provide proof from the Florida Secretary of State that the applicant has authority to operate in Florida.

Corporate charter number: V10813 (Exhibit 1)

10. Please provide the name, title, address, telephone number, internet address, and facsimile number for the person serving as ongoing liaison with the Commission, and if different, the liaison responsible for this application.

Sue Dubeau
Director of Operations
561-697-5155
1555 Palm Beach LAkes Blvd., Suite 1410
West Palm Beach, FL 33401

11. Please list other states in which the applicant is currently providing or has applied to provide local exchange or alternative local exchange service.

None

12. Has the applicant been denied certification in any other state? If so, please list the state and reason for denial.

No.

13. Have penalties been imposed against the applicant in any other state? If so, please list the state and reason for penalty.

No.

14. Please indicate how a customer can file a service complaint with your company.

A Customer can reach Biztel through our 800 number or write us at our West Palm Beach office.

15. Please complete and file a price list in accordance with Commission Rule 25-24.825.

Not available at this time. Biztel will file a price list before offering service to the public.

16. Please provide all available documentation demonstrating that the applicant has the following capabilities to provide alternative local exchange service in Florida.

A. Financial capability.

Regarding the showing of financial capability, the following applies:

The application should contain the applicant's financial statements for the most recent 3 years, including:

1. the balance sheet

2. income statement

3. statement of retained earnings.

Further, a written explanation, which can include supporting documentation, regarding the following should be provided to show financial capability.

1. Please provide documentation that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.

2. Please provide documentation that the applicant has sufficient financial capability to maintain the requested service.

3. Please provide documentation that the applicant has sufficient financial capability to meet its lease or ownership obligations.

NOTE: This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.

See attachment A.

If available, the financial statements should be audited financial statements.

If the applicant does not have audited financial statements, it shall be so stated. The unaudited financial statements should then be signed by the applicant's chief executive officer and chief financial officer. The signatures should attest that the financial statements are true and correct.

B. Managerial capability.

See attachment A.

C. Technical capability.

(If you will be providing local intra-exchange switched telecommunications service, then state how you will provide access to 911 emergency service. If the nature of the emergency 911 service access and funding mechanism is not equivalent to that provided by the local exchange companies in the areas to be served, described in detail the difference.)

See attachment A

AFFIDAVIT

By my signature below, I, the undersigned ~~officer~~ Regulatory Director, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange service in the State of Florida. I have read the foregoing and declare that to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

Further, I am aware that pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.083".

Official: ______ 10/25/96
Signature Date

Title: Director, Regulatory Affairs 561-750-2940
Telephone Number

Address: 1515 S. Federal Highway, Suite 400
Boca Raton, FL 33432

FORM PSC/CMU 8 (11/95)
Required by Chapter 364.337 F.S.

ATTACHMENT A

Summary of BIZTEL's Financial, Technical, and Managerial Capabilities

Biztel Corporation is a wholly owned subsidiary of WorldCom, Inc., the fourth largest long distance carrier in the nation. Biztel provides a wide range of long distance services billed through the end users' local exchange carrier (LEC). Biztel provides a niche service for those end users that want "one bill" for their local and interLATA long distance. Biztel relies on the technical and managerial strength of WorldCom, Inc. to provide high quality service. Biztel has been a certified IXC in Florida for over 6 years (#548). The company provides a good quality product at competitive rates. Biztel now wants to expand its product line and offer local exchange services.

As previously stated, WorldCom is one of the four largest long distance telecommunications companies in the United States. It is one of only four companies with a national fiber optic network in the United States. LDDS WorldCom's network (and therefore Biztel's) is known for its leading edge technology, with over 11,000 miles of fiber. Moreover, WorldCom and Biztel have a highly trained technical staff with years of telecommunications experience.

As a wholly owned subsidiary of WorldCom, Inc., the company provides the most recent annual report of WorldCom as proof of Biztel's financial capabilities (Exhibit 2). The Commission has previously authorized WorldCom, Inc. d/b/a LDDS WorldCom to provide local exchange services and would like the same authorization for Biztel. Biztel will provide 911 services in accordance with Commission rules.

EXHIBIT 1

Biztel's Florida Secretary of State certificate

State of Florida

Department of State

I certify from the records of this office that BIZ-TEL CORPORATION, is a corporation organized under the laws of the State of Florida, filed on January 31, 1992.

The document number of this corporation is V10813.

I further certify that said corporation has paid all fees and penalties due this office through December 31, 1996, that its most recent annual report was filed on May 1, 1996, and its status is active.

I further certify that said corporation has not filed Articles of Dissolution.

Given under my hand and the
Great Seal of the State of Florida,
at Tallahassee, the Capital, this the
Sixteenth day of October, 1996

Sandra B. Mortham

Sandra B. Mortham
Secretary of State

GREAT SEAL OF THE STATE OF FLORIDA
IN GOD WE TRUST

CR2EO22 (2-95)

EXHIBIT 2

WorldCom, Inc.'s 1995 Annual Report

big three wouldn't have
given us

Message to Shareholders:

One of WorldCom, Inc.'s primary goals is to create shareholder value, and our company has consistently achieved that goal year after year. We are extremely proud of the fact that in The Wall Street Journal's 1996 "Shareholder Scoreboard" WorldCom, Inc. ranked #1, among 1,000 major corporations, in return to shareholders over the past ten years. The company's extraordinary growth was also recognized in 1995 when WorldCom, Inc. was included in the Fortune 500 list of the nation's largest companies and in 1996 when it was added to the Standard & Poor's 500 index. We take great pride in these accomplishments and see many opportunities to further our commitment to our shareholders in the future.

Our company's first year as WorldCom, Inc. was tremendously successful. The combination of LDDS Communications, WilTel Network Services and IDB Communications Group continues to generate the synergies we expected. The performance of the combined company in 1995 set the stage for an exciting future for WorldCom, Inc.

The strength and growth potential of WorldCom, Inc. are reflected in the company's results for 1995. Compared with the previous year, traffic increased 77 percent and revenues rose 64 percent to a new high of more than $3.6 billion. Net income, before a special preferred dividend payment, increased sharply to a record $249.5 million, or $1.36 per common share. On a pro forma basis, as though the acquisition of WilTel occurred at the beginning of 1994, traffic grew 30 percent and revenues increased 19 percent compared with the previous year.

The success of our sales and customer service professionals in both obtaining new customers and retaining existing ones was demonstrated by the performance of WorldCom, Inc.'s retail group. Compared with pro forma results for 1994, switched retail revenues grew 18 percent in 1995, while retail traffic increased 22 percent. Contributing to this success is our expanding line of leading edge products, which are selling well in today's demanding marketplace. Among our most successful retail products introduced in 1995 is WorldOne, a comprehensive package of long distance and data transmission services designed to meet the changing needs of businesses.

Another factor in the success of the retail segment is the explosive growth of the WorldCom, Inc. prepaid calling card product. These phone cards continue to grow steadily in both applications and popularity, as evidenced by their use in major national programs with Pepsi, Target, Avis Rent A Car, Delta Airlines and the United States military.

To provide our customers with an array of Internet access services, in 1995 we signed an agreement with a leading nationwide Internet access provider. This two-year agreement enables us to provide our customers with an efficient and economical means to access the Internet as a part of their overall voice, data and video package from WorldCom, Inc.

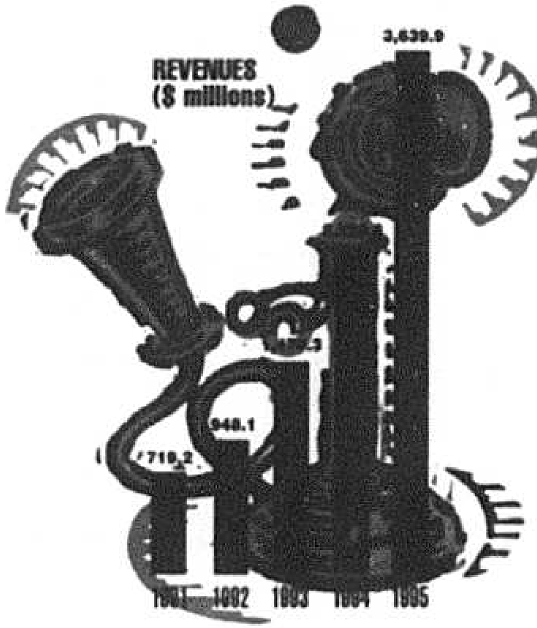
In the rapidly growing wholesale market, WorldCom, Inc.'s 1995 switched revenues and traffic increased 26 percent and 47 percent, respectively, compared with 1994 pro forma results. The company's continuing success in the wholesale market derives from both the healthy growth in this burgeoning market segment and WorldCom, Inc.'s well developed ability to serve the needs of carrier and reseller customers.

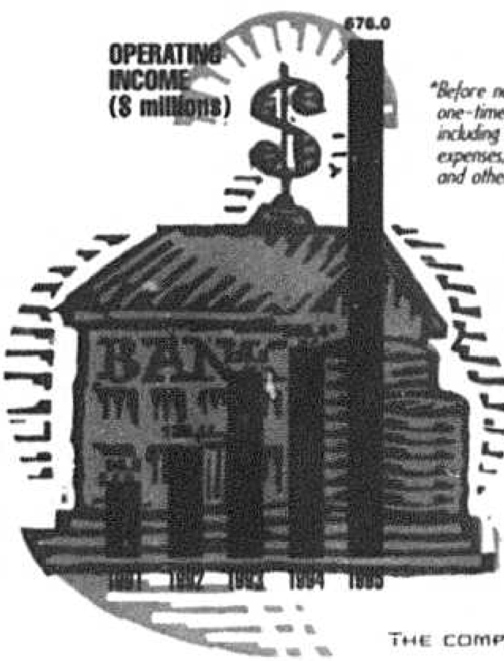
Indicative of our leading position in the wholesale market, we signed a number of large reseller agreements in 1995, including the largest long distance resale commitment in history. In addition, in August we marked our 10 millionth Electronic Data Exchange (EDE) transaction. EDE is a system that allows our carrier and reseller customers to electronically provision customers through a computer software program.

Our commitment to the carrier market was reflected in the introduction of an innovative product called Transcend. In an industry first, the product effectively separates local and long distance billing components. This new product provides carrier customers important new tools to target their products in regions with optimum revenue and profit potential.

Early in 1995, we introduced the WilPak Network-to-Network Interconnection (NNI), an exciting new frame relay product, which received "best of show" recognition at Net World + InterOp '95, a major telecommunications trade show in April. In September, WorldCom, Inc. became the first inter-exchange carrier to interconnect its frame relay network with those of every regional Bell operating company. As a result of these connections, WorldCom, Inc. and Bell company customers can extend their networks outside local regions and still significantly reduce network costs compared with standard frame relay offerings.

WorldCom, Inc., one of the largest long distance telecommunications companies in the United States, offers a comprehensive array of domestic and international voice, data and video products and services to business customers, other carriers and the residential market.





*Before nonrecurring, one-time charges including merger-related expenses, restructuring and other charges.

The company operates a nationwide digital fiber optic network in the United States and has worldwide network capacity.

LDDS
WORLDCOM SM
Voice Data Video

We also introduced Asynchronous Transfer Mode (ATM) Switch-to-Switch service, which allows customers to connect their own ATM equipment to other ATM switches over the wide area network via the WorldCom, Inc. Data Concourse. Having introduced application-specific ATM technology to customers in 1993, our company has remained at the forefront of meeting customer needs with this leading edge technology.

In 1995, WorldCom, Inc. created a new enhanced service data network company, GridNet International. GridNet, a majority-owned subsidiary of WorldCom, Inc., offers user-oriented solutions in the switched-access market. Its products are aimed at customers requiring payment or transaction processing, and others requiring high-speed X.25 or Internet Protocol dial access.

Our international frame relay network continued to grow in 1995 with the turn-up of additional nodes in Paris, France, and Sydney, Australia, complementing our other locations in Europe, North America and the Pacific Rim. In addition, we signed an agreement with Intersys Mexico, S.A. de C.V. to interconnect our WilPak frame relay network to Intersys' InterVan frame relay network, and an agreement with Mitsubishi Electric Information Network Corporation to establish a new Japan-to-U.S. international public frame relay network.

We made our international telecommunications services more attractive than ever when we launched WorldForce, our most flexible international calling plan yet. It offers business customers the opportunity to select the country group of their choice for the best available rates.

WorldCom, Inc. extended its activities into space as well. In June 1995, WorldCom, Inc. provided global communications links between ground controllers in Moscow and Houston and astronauts and cosmonauts aboard the space shuttle Atlantis and Russia's Mir space station.

Because of our vast array of new product offerings, including highly advanced data services and an extensive international network, WorldCom, Inc. can offer complete packages of telecommunications services to meet the needs of even the largest, most demanding business customers. In 1996, the primary focus of our sales force will be directed toward medium- and large-sized businesses. We plan to significantly increase the number of sales professionals dedicated to reaching such major accounts, and to enlarge our customer support groups to expand and maintain strong relationships with major customers.

The passage of the Telecommunications Act of 1996 has made it possible for WorldCom, Inc. to form business associations that should prove profitable for our company in the years ahead. In the first quarter of 1996, we have signed agreements to provide long distance telecommunications services to GTE Long Distance, Ameritech Communications, Inc., and Southwestern Bell Mobile Systems, Inc. We also entered into an agreement to become a major provider of data telecommunications services for EDS, the global information services company. These agreements demonstrate that WorldCom, Inc. is well positioned to take advantage of business opportunities in the rapidly changing telecommunications marketplace.

Also in response to the changing regulatory environment, WorldCom, Inc. has filed applications with public utility commissions in several states to offer customers a full range of local telephone exchange services, an important capability that will serve as a complement to our national and international service offerings. To date, we have received permission to provide local service on a resale basis in California, Connecticut, Florida, Illinois and Texas, and we have applications pending in other states.

To further emphasize our expanding role in a variety of markets, in December we signed a multi-year agreement with Michael Jordan to help promote the company's services as WorldCom, Inc.'s spokesman. Jordan, the best known sports figure in the world, is expected to be instrumental in increasing the company's already strong position in the consumer debit card market, while heightening our visibility both in the United States and internationally.

We are excited about our future in the rapidly changing global telecommunications market and are dedicated to capitalizing on the many opportunities it holds for WorldCom, Inc.

Bernard J. Ebbers

Bernard J. Ebbers
President and Chief Executive Officer

Five percent of the long distance market in the United States may seem an insignificant share, compared to the Big Three — AT&T, MCI and Sprint. But it marks a significant shift.

In the past year, WorldCom, Inc. has reshaped the long distance marketplace. Redefined it. Made everyone take notice.

Today, WorldCom, Inc. operates one of only four nationwide fiber-optic networks. The company is an international leader in frame relay transmission. And in fractional T-1 and switched T-3 service. And Asynchronous Transfer Mode technologies. And in integrating satellite networks.

But as much as anything else, WorldCom, Inc. is a major force because of approximately 8,000 supporting players. The sales and customer service professionals who have enabled the company to achieve double-digit internal growth each year—though their business is telecommunications, they still take the time to deliver old-fashioned, personal service. And the engineers and technicians who have helped WorldCom, Inc. earn a reputation for unsurpassed responsiveness and reliability—a reputation on which all our customers depend.

Through their efforts, and those of other WorldCom, Inc. personnel around the world, the Big Three have been joined by a Fearsome Fourth. There's a new kid on the block. Or, perhaps we should say, one very powerful gnat.

"You build a team carefully.

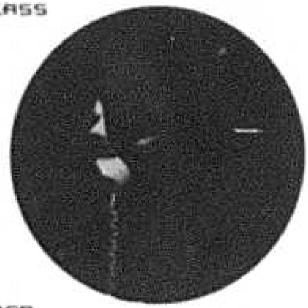
You make sure all the parts fit.

But when the right opportunity to make a deal comes along, you jump on it.

Come to think of it, that works for basketball, too."

Michael Jordan, 1/98

In telecommunications, as in basketball, world-class teams aren't magically born. They're made. They're assembled patiently. Yet opportunistically. With deliberation yet decisiveness.

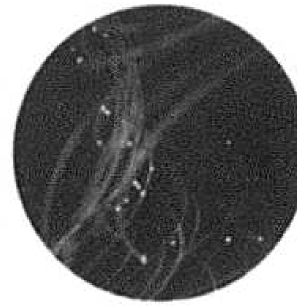


Following that approach, WorldCom, Inc. exploded into the international arena as a superstar — an increasingly powerful competitor in an increasingly important, interconnected (and very profitable) telecommunications marketplace.

By the end of 1995, the company ranked as the largest overseas private network services provider in the United States, with more than 40 percent of the international private line market. From Western Europe and the Pacific Rim to emerging markets in Russia and newly opened frontiers in Cuba, WorldCom, Inc. has gained operating agreements in more than 200 countries — giving customers access to virtually the entire world at competitive rates. Those customers enjoy a complete array of services: private digital voice, on-line transaction data, global inventory control, pre-press data distribution, high-speed facsimile transmission, bulk data transfer, and video conferencing.

As the trend toward deregulation around the world increases, WorldCom, Inc.'s international presence will continue to expand. The ball, as Michael Jordan might say, is in our court. Just where we like it.

By most definitions, WorldCom, Inc. is a long distance carrier. But, especially when you examine the extent and capabilities of its nationwide digital network, it might be more appropriate to describe the company as a long distance runner.

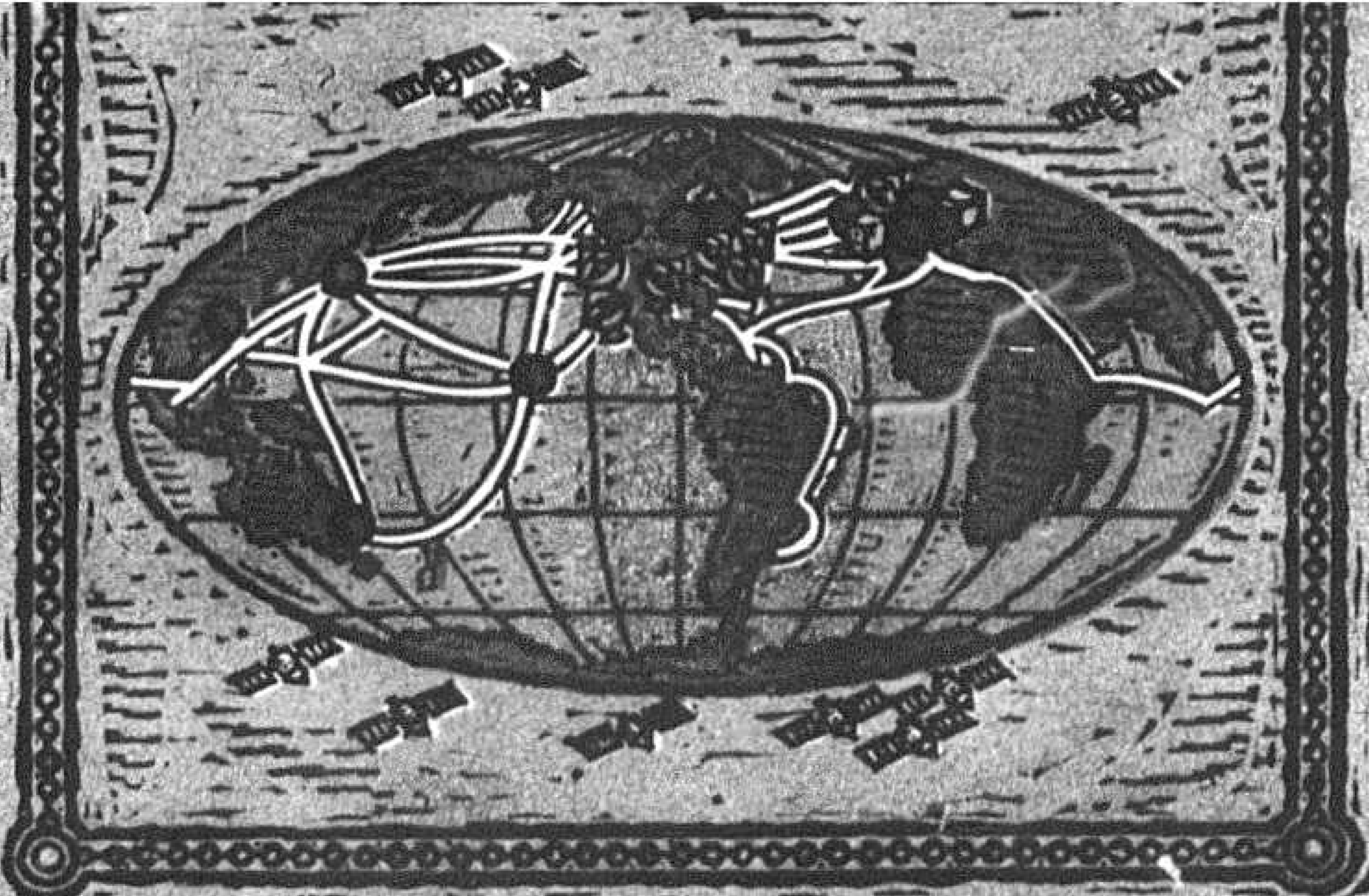


WorldCom, Inc.'s owned fiber facilities, after all, run more than 11,000 miles. Add in its microwave transmission facilities and the company's digital network runs more than 15,000 miles. And with access to another 30,000 route miles of fiber, there's ample capacity to expand.

To keep track of it all, WorldCom, Inc. possesses the world's most advanced telecommunications monitoring system that oversees the functional integrity of every millimeter of the network.

Even more than fiber optic cable, however, WorldCom, Inc. runs on an attitude — an unwavering commitment to provide the best service, at the most cost-effective rates, to the most rewarding segments of the long distance marketplace.

So you could say that WorldCom, Inc. can run with the best and biggest of them. But the reverse is equally true: Only the biggest can stay up with WorldCom, Inc.



Artist's rendering is a generalized representation of WorldCom, Inc.'s current and projected network and is not meant to accurately depict specific details.

Selected Financial Data

The following is a summary of selected financial data of the Company as of and for the five years ended December 31, 1995. The historical financial data as of December 31, 1995 and 1994 and for the years ended December 31, 1995, 1994, and 1993 have been derived from the historical financial statements of the Company, which financial statements have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their report included elsewhere herein. The report of Arthur Andersen LLP on the Consolidated Financial Statements of the Company as of and for the three years ended December 31, 1995 refers to their reliance on the report of other auditors in rendering an opinion on those financial statements. This data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's Consolidated Financial Statements appearing elsewhere in this document.

	Years Ended December 31,				
	1995	1994	1993	1992	1991
	(In thousands, except ratios and per share data)				
Operating Results:					
Revenues	$3,639,875	$2,220,765	$1,474,257	$ 948,060	$719,214
Operating income	676,048	69,738	238,833	51,983	96,197
Income (loss) before extraordinary item	267,660	(122,158)	124,321	8,344	39,592
Extraordinary item	—	—	(7,949)	(5,800)	(1,283)
Net income (loss)	267,660	(122,158)	116,372	2,544	38,309
Preferred dividend requirement	33,191	27,766	11,683	2,112	—
Earnings (loss) per common share:					
Income (loss) before extraordinary item—					
Primary	1.30	(0.95)	0.82	0.06	0.39
Fully diluted	1.28	(0.95)	0.80	0.06	0.38
Net income (loss)—					
Primary	1.30	(0.95)	0.76	0.00	0.37
Fully diluted	1.28	(0.95)	0.74	0.00	0.37
Net income (loss) before special dividend payment to Series 1 preferred shareholder:					
Primary	1.37	(0.95)	0.76	0.00	0.37
Fully diluted	1.36	(0.95)	0.74	0.00	0.37
Weighted average shares—					
Primary	193,449	157,805	137,927	112,653	102,658
Fully diluted	201,495	157,805	140,796	113,053	103,103
Financial position:					
Total assets	$6,634,571	$3,430,192	$3,236,718	$1,241,278	$959,909
Long-term debt	3,391,281	794,001	730,[illegible]	448,496	457,767
Shareholders' investment	2,187,286	1,827,170	1,911,800	478,823	347,940
Ratio of earnings to combined fixed charges and preferred stock dividends	2.31:1	0.[illegible]	4.14:1	1.40:1	2.53:1
Deficiency of earnings to combined fixed charges and preferred stock dividends	$ —	$ (78,068)	$ —	$ —	$ —

Notes to Selected Financial Data:

(1) In 1995, Metromedia Company ("Metromedia") converted its Series 1 Preferred Stock into 21,876,976 shares of Common Stock and exercised warrants to acquire 3,106,976 shares of Common Stock and immediately sold its position of 30,849,548 shares of Common Stock in a public offering. In connection with the preferred stock conversion, WorldCom made a non-recurring payment of $15.0 million to Metromedia, representing a discount to the minimum nominal dividends that would have been payable on the Series 1 Preferred Stock prior to the September 15, 1996 optional call date of approximately $26.6 million (which amount includes an annual dividend requirement of $24.5 million plus accrued dividends to such call date).

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

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

(3) In connection with certain debt refinancing, the Company recognized in 1993 and 1992 extraordinary items of approximately $7.9 million and $5.8 million, respectively, net of income taxes, consisting of unamortized debt discount, unamortized issuance cost and prepayment fees. See Note 4 of Notes to Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis relates to the financial condition and results of operations of the Company for the three years ended December 31, 1995 after giving effect to the IDB Merger, which was accounted for as a pooling-of-interests. This information should be read in conjunction with the "Selected Financial Data" and the Company's Consolidated Financial Statements appearing elsewhere in this document.

General

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

On January 5, 1995, the Company completed the acquisition of the network services operations of Williams Telecommunications Group, Inc. ("WilTel"), a subsidiary of The Williams Companies, Inc. ("Williams"), for approximately $2.5 billion in cash (the "WilTel Acquisition"). Through this purchase, the Company acquired a nationwide common carrier network of approximately 11,000 miles of fiber optic cable and digital microwave facilities. The WilTel Acquisition was accounted for as a purchase transaction for financial reporting purposes. The funds paid to Williams were obtained by the Company under new credit facilities entered into on December 21, 1994. See Note 4 of Notes to Consolidated Financial Statements.

The Company's long distance revenues are derived principally from the number of minutes of use billed by the Company. Minutes billed are those conversation minutes during which a call is actually connected at the Company's switch (except for minutes during which the customer receives a busy signal or the call is unanswered at its destination). The Company's profitability is dependent upon, among other things, its ability to achieve line costs that are less than its revenues. The principal components of line costs are access charges and transport charges. Access charges are expenses incurred by IXCs for accessing the local networks of the LECs in order to originate and terminate calls and payments made to PTTs to complete international calls made from the U.S. Transport charges are the expenses incurred in transmitting calls between or within LATAs.

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, that: will, without limitation, permit the Bell Operating Companies (the "BOCs") to provide domestic and international long distance services upon a finding by the FCC that the 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; removes existing barriers to entry into local service markets; significantly changes the manner in which carrier-to-carrier arrangements are regulated at the federal and state level; establishes procedures to revise universal service standards; and, establishes penalties for unauthorized switching of customers. The enactment of this legislation has made it possible for the Company to form business associations to provide long distance telecommunications services with certain LECs and the Company expects to pursue resale of local service in those markets where it is both economically and technically feasible. While the effects of this legislation on the Company and the industry remain uncertain, the Company believes that it is positioned to take advantage of business opportunities in the rapidly changing telecommunications marketplace.

In the first quarter of 1996, the Company signed agreements to provide long distance telecommunications services to GTE Long Distance, Ameritech Communications, Inc., and Southwestern Bell Mobile Systems, Inc. WorldCom also entered into an agreement to become a major provider of data telecommunications services for EDS, a global information services company.

Additionally, in response to the changing regulatory environment, WorldCom has filed applications with public utility commissions in several states to offer customers a full range of local telephone exchange services, an important capability that will serve as a complement to the Company's national and international service offerings. To date, WorldCom has received permission to provide local service on a resale basis in California, Connecticut, Florida, Illinois and Texas.

Results of Operations

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

	For the Year Ended December 31,		
	1995	1994	1993
Revenues	100.0%	100.0%	100.0%
Line costs	54.7	65.2	59.8
Selling, general and administrative	18.1	[illegible]	16.7
Depreciation and amortization	8.6	7.4	6.9
Direct merger costs, restructuring and other charges	—	4.8	0.4
Operating income	18.6	3.1	16.2
Other income (expense):			
Interest expense	(6.8)	(2.1)	(2.4)
Shareholder litigation settlement	—	(3.4)	—
Miscellaneous	0.3	0.2	0.5
Income (loss) before income taxes and extraordinary item	12.1	(2.2)	14.2
Provision for income taxes	4.7	3.3	5.8
Net income (loss) before extraordinary item	7.4	(5.5)	8.4
Extraordinary item	—	—	(0.5)
Net income (loss)	7.4	(5.5)	7.9
Preferred dividend requirement	1.0	1.3	0.8
Net income (loss) applicable to common shareholders	6.4%	(6.8)%	7.1%

Year Ended December 31, 1995 Vs. Year Ended December 31, 1994:

Revenues for 1995 increased 64% to $3.64 billion on 19.37 billion revenue minutes as compared to $2.22 billion on 10.97 billion revenue minutes for 1994.

On a pro forma basis, as though the acquisition of WilTel occurred at the beginning of 1994, revenues and traffic for 1995 increased 19% and 30%, respectively, compared with pro forma revenues of $3.07 billion on 14.60 billion revenue minutes for 1994. Revenue growth for 1995 was driven by strong performance from the Company's retail and wholesale switched services offset insignificantly by declines in operator services revenue. Switched retail revenues and traffic rose 18% and 22%, respectively. Wholesale revenues and traffic rose 26% and 47%, respectively. Operator services revenues and traffic decreased 6% and 15%, respectively, yet represented less than 5% of total Company revenues for 1995.

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

Line costs as a percentage of revenues decreased to 54.7% in 1995 compared to 65.2% for 1994. These decreases are attributable to changes in product mix, rate reductions resulting from favorable contract negotiations and synergies and economies of scale resulting from network efficiencies achieved from the assimilation of the IDB Merger and the WilTel Acquisition into the Company's operations. Additionally, through the WilTel Acquisition, the Company has been able to achieve further network efficiencies associated with owning the WilTel nationwide fiber optic cable network rather than leasing similar capacity from other providers at a higher cost.

Selling, general and administrative ("SG&A") expenses for 1995 increased to $660.1 million or 18.1% of revenues as compared to $432.4 million or 19.4% of revenues for 1994. The increase in selling, general and administrative expenses results from the Company's expanding operations, primarily through the WilTel Acquisition and internal growth. The decrease in expense as a percentage of revenues reflects the assimiliation of recent acquisitions into the Company's strategy of cost control.

Depreciation and amortization expense for 1995 increased to $311.3 million or 8.6% of revenues from $163.0 million or 7.4% of revenues for 1994. This increase reflects depreciation and amortization of the additional property and equipment and goodwill from the WilTel Acquisition.

Interest expense in 1995 was $249.1 million or 6.8% of revenues, as compared to $47.3 million or 2.1% of revenues in 1994. The increase in interest expense was due primarily to an increase in the average debt outstanding by the Company to finance the WilTel Acquisition. Also, higher interest rates were in effect on the Company's long-term debt, reflecting higher prevailing interest rates in the market generally. For the years ended December 31, 1995 and 1994, weighted average annual interest rates were 7.2% and 6.2%, respectively. For the years ended December 31, 1995 and 1994, weighted average annual levels of borrowing were $3.51 billion and $795.8 million, respectively.

The effective income tax rate for 1995 was 39% of income before taxes versus a 1994 rate in excess of 100%. The 1995 effective rate of 39% includes the effect of a $7.0 million decrease in the Company's valuation allowance. The valuation allowance decreased due to the Company's ability to utilize net operating losses that management had previously determined would not be utilized under a "more likely than not" scenario. This is mainly attributable to the profitability of individual operating units in 1995. The remaining valuation allowance as of December 31, 1995 is $101.7 million. The unusually high income tax rate in 1994 was due to permanent items not deductible for tax purposes as well as a $90.0 million valuation allowance placed on the deferred tax asset in connection with IDB net operating losses.

In the third quarter of 1995, Metromedia converted its Series 1 Preferred Stock into 21,876,976 shares of Common Stock and exercised warrants to acquire 3,106,976 shares of Common Stock and immediately sold its position of 30,849,548 shares of Common Stock in a public offering. In connection with the preferred stock conversion, WorldCom made a non-recurring payment of $15.0 million to Metromedia, representing a discount to the minimum nominal dividends that would have been payable on the Series 1 Preferred Stock prior to the September 15, 1996 optional call date of approximately $26.6 million (which amount includes an annual dividend requirement of $24.5 million plus accrued dividends to such call date).

Net income applicable to common shareholders was $234.5 million for 1995 versus a $149.9 million loss in the comparable 1994 period. Operating results for 1995 include the non-recurring payment of $15.0 million to Metromedia. Excluding this payment, earnings for 1995 would have been $249.5 million or $1.36 per common share.

Year Ended December 31, 1994 Vs. Year Ended December 31, 1993:

Revenues increased by 50.6% to $2.22 billion on 10.97 billion revenue minutes in 1994 from $1.47 billion on 6.94 billion revenue minutes in 1993. The overall increase in total revenues was primarily attributable to the inclusion of a full year's revenues from the 1993 acquisitions of Dial-Net, MCC, Resurgens and TRT and internal growth. See Note 2 of Notes to Consolidated Financial Statements.

Line costs increased from $881.5 million in 1993 to $1.4 billion in 1994. This increase is due to increased traffic volumes, partially offset by network efficiencies and rate reductions resulting from favorable contract negotiations. As a percentage of revenues, line costs increased to 65.2% in 1994 from 59.8% in 1993. This increase is attributable to the change in product mix including increased international traffic, which carries higher line costs. Additionally, IDB's margins decreased in 1994 as IDB was unable to deliver all of its inbound traffic over its existing facilities and had to use other carriers at a higher cost to deliver this overflow traffic. Also in 1994, IDB's carrier revenue as a proportion of total international traffic increased and these rates are typically lower than rates charged to commercial customers. Certain of these IDB carrier contracts provided either a break even or negative margin to the Company and accordingly, service to these customers was discontinued in December 1994.

SG&A increased to $432.4 million in 1994 from $246.1 million in 1993, and as a percentage of revenues, these expenses increased to [illegible]% in 1994 from 16.7% in 1993. The increase in SG&A as a percentage of revenues is attributable to various IDB-related one-time adjustments which were recorded in 1994. These adjustments included $40.9 million to adjust the provision for doubtful accounts receivable, $8.0 million in accounting and legal expenses incurred in connection with the resignation of IDB's prior auditors and $37.5 million related to various investment write-downs and other balance sheet accruals.

In 1994, the Company determined that adjustments to certain assets of IDB Broadcast were appropriate to properly reflect estimated net realizable values. Accordingly, the Company recorded adjustments of $48.5 million, to reduce the carrying value of these broadcast assets (primarily intangible assets and property and equipment) to the Company's best estimate of the net realizable value. See Note 3 of Notes to Consolidated Financial Statements. Although the Company continues to offer IDB Broadcast services, such services are not a part of the Company's core business operations. Accordingly, subsequent to December 31, 1994, the Company sold its simulcasting operations and entered into an agreement to outsource the management of the remaining IDB Broadcast operations.

As a result of the IDB Merger, the Company initiated plans to reorganize and restructure its management and operational organization and facilities. Accordingly, the Company charged to operations in 1994, the estimated costs of the IDB Merger and restructuring of $15.0 million and $43.7 million, respectively. In 1993, plans were approved to reduce IDB's cost structure and to improve productivity. Such plans included a reduction in the number of employees and the disposition of certain assets. In connection with this plan, $5.9 million was charged to operations in 1993. See Note 3 of Notes to Consolidated Financial Statements.

Depreciation and amortization expense, which includes depreciation of the Company's call transmission facilities, increased to $163.8 million from $101.9 million in 1993 or 7.4% and 6.9% of revenues in 1994 and 1993, respectively. The increase in such expenses was due primarily to depreciation and amortization of the additional property and equipment, customer bases and goodwill resulting from acquisitions by the Company during 1993.

Interest expense in 1994 was $47.3 million or 2.1% of revenues, as compared to $35.6 million or 2.4% of revenues in 1993. This decrease as a percentage of revenues was a result of several factors, including the Company's prepayment of long-term debt with funds obtained through the public offering of IDB common stock in May 1993 and the issuance by IDB in August 1993 of $195.5 million of 5% convertible subordinated notes due 2003. Additionally, as some of the Company's acquisitions were funded by a combination of stock and debt, the interest expense has not grown as rapidly as the revenues.

In the third quarter of 1994, the Company recorded a $76.0 million charge which represents an estimated shareholder litigation settlement of $75.0 million and $1.0 million in related legal costs. This liability was paid by the Company in April 1995.

The Company recorded a provision for income taxes of $73.8 million on a pretax loss of $48.3 million in 1994. Although the Company generated a consolidated pre-tax loss in 1994, permanent items aggregating approximately $113.0 million resulted in the recognition of taxable income. Also, because the current year net operating loss ("NOL") generated by IDB prior to the IDB Merger may be offset only by future taxable income generated at the IDB level of the Company's operations, the Company believed that only a portion of the current year NOL could be utilized under a "more likely than not" scenario. Accordingly, the Company placed a valuation allowance on the deferred tax asset attributable to approximately $90.0 million of the NOL.

Liquidity and Capital Resources

On January 5, 1995, in conjunction with the WilTel Acquisition, the Company utilized its $3.41 billion long-term credit facilities and repaid all debt under the Company's previous credit facilities and $123.0 million in senior notes. Total additional borrowings for 1995 were $2.7 billion. At December 31, 1995, the Company had access to an additional $251.1 million under its long-term credit facilities. The credit facilities are comprised of a $2.16 billion, six-year reducing revolving credit facility (the "Revolving Facility Commitment") and a $1.25 billion, two-year term facility (the "Term Principal Debt"). The maximum principal amount permitted to be outstanding under the Revolving Facility Commitment will be reduced at the end of each fiscal quarter, commencing September 30, 1996, in varying amounts, and the outstanding balance must be paid in full on December 31, 2000. The Term Principal Debt matures in a single installment on December 31, 1996. The Revolving Facility Commitment and the Term Principal Debt bear interest, payable quarterly, at variable rates selected by the Company under the terms of the credit facilities. The Company is permitted to choose from several interest rate options including: a Base Rate plus applicable margin, the London Interbank Offering Rate ("LIBOR") plus applicable margin, or, for the Revolving Facility Commitment only, any Competitive Bid Rate. The applicable margin varies from 0% to 3/8% for Base Rate Borrowings and 1/2% to 1.5% for LIBOR Rate Borrowings from time to time based upon the lower of a specified financial test or the Company's long-term debt rating. The credit facilities are unsecured and require compliance with certain financial and other operating covenants which require the maintenance of certain minimum operating ratios and which limit, among other things, the incurrence of additional indebtedness by the Company and restricts the payment of cash dividends to WorldCom shareholders. See Note 4 to Notes to Consolidated Financial Statements.

In February 1995, to protect against the effect of rising interest rates, the Company entered into financial hedging agreements with various financial institutions, in connection with requirements under the credit facilities. The hedging agreements establish capped fixed rates of interest ranging from 8.25% to 8.3125% on an aggregate notional value of $1.7 billion. If interest rates do not reach this cap, the Company's interest rate remains variable. These contracts range in duration from one to two years with $845.4 million maturing in each of the years ending 1996 and 1997. The $845.4 million which matured in 1996, was replaced with a hedging agreement which caps the fixed interest at 7.43% and matures in 1997.

The Company is committed to a priority plan of accelerating operating cash flow to reduce debt. The Company anticipates that the existing debt balances including the $1.25 billion Term Principal Debt, which matures December 1996, will be refinanced with a new revolving commercial bank credit facility with similar terms. Additional capital availability may be generated through a combination of commercial bank debt and public market debt. Successful execution of the refinancings and the priority plan would provide continued compliance with required operating ratio covenants and would eliminate any type of equity financing other than equity issued in connection with acquisitions. No assurance can be given that the Company will achieve its priority plan or that any refinancing will be available on terms acceptable to WorldCom.

The Company has historically utilized cash flow from operations to finance capital expenditures and a mixture of cash flow, debt and stock to finance acquisitions. The Company will continue to analyze potential acquisitions utilizing primarily equity financing until the additional leverage from the WilTel Acquisition is reduced.

For 1995, the Company's cash flow from operations was $615.7 million, increasing from $246.6 million in 1994 and $159.0 million in 1993. The increase in cash flow from operations was primarily attributable to cash flow from acquired operations, internal growth and the sale of the Company's receivables as noted below.

Cash used in investing activities in 1995 totaled $3.22 billion and included $2.77 billion for acquisitions and related costs and $355.8 million for capital expenditures. Primary capital expenditures include purchases of switching, transmission, communication and other equipment. Current budgeted network capital expenditures for 1996 total approximately $390.0 million.

Included in cash flows from financing activities are payments of $18.2 million for preferred dividend requirements and $15.0 million for the non-recurring payment to Metromedia. All of the Series 1 Preferred Stock was converted by Metromedia in August 1995 and accordingly, no further dividends will be required on the Series 1 Preferred Stock. A portion of the Company's Series 2 Preferred Stock was also converted during the third quarter of 1995. The Series 2 Preferred Stock remaining is expected to be redeemed by the Company during 1996. Assuming that the redemption of the Series 2 Preferred Stock occurs, as approved by the Company's Board of Directors, on or about June 5, 1996, the 1996 dividend expense is not anticipated to exceed $1.0 million.

During 1995, the Company amended WilTel's existing $80.0 million receivables purchase agreement to include certain additional receivables and received additional proceeds of $215.4 million. The Company used these proceeds to reduce the outstanding debt under the Company's credit facilities and provide additional working capital. As of December 31, 1995, the purchaser owned an undivided interest in a $608.9 million pool of receivables which includes the $295.4 million sold. The aggregate purchase limit under this agreement was $300.0 million at December 31, 1995.

In April 1995, an additional $75.0 million was borrowed against the Company's long-term credit facilities to pay the IDB shareholder litigation settlement liability, which had been recognized by the Company during the third quarter of 1994.

During 1995, Metromedia exercised its right to purchase a total of 6.2 million shares of the Company's Common Stock under purchase warrants. Aggregate proceeds of $64.4 million from these exercises were used to reduce the outstanding debt under the Company's credit facilities.

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

Recently Issued Accounting Standards

In March 1995, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." This Statement establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles and goodwill related to those assets to be held and used and for long-lived assets and certain identifiable intangibles to be disposed of. This Statement is effective for financial statements for fiscal years beginning after December 15, 1995. WorldCom believes that the adoption of this standard will not have a material effect on the Company's consolidated results of operations or financial position.

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation." This Statement establishes financial accounting and reporting standards for stock-based employee compensation plans and is effective for fiscal years beginning after December 15, 1995. The Company expects to continue to apply the accounting provisions of APB Opinion 25 in determining its net income. However, additional disclosures will be made to disclose the estimated value of compensation expense under the method established by SFAS No. 123.

WorldCom, Inc. and Subsidiaries

Consolidated Balance Sheets

	December 31, 1995	December 31, 1994
	(In Thousands of Dollars, Except Per Share Data)	
Assets		
Current assets:		
Cash and cash equivalents	$ 41,679	$ 19,259
Short-term investments	—	1,000
Accounts receivable, net of allowance for bad debts of $57,980 and $52,949 at December 31, 1995 and 1994, respectively	528,763	470,175
Income taxes receivable	17,499	—
Deferred tax asset	16,899	62,687
Other current assets	49,992	51,053
Total current assets	654,832	604,174
Property and equipment:		
Transmission equipment	1,376,242	472,737
Communications equipment	401,454	307,262
Furniture, fixtures and other	278,716	164,266
	2,056,412	944,265
Less—accumulated depreciation	(487,080)	(317,598)
	1,569,332	626,667
Excess of cost over net tangible assets acquired, net of accumulated amortization	4,292,752	2,070,709
Line installation costs, net of accumulated amortization	35,379	28,768
Deferred income taxes	—	14,120
Other assets	82,276	85,754
	$6,634,571	$3,430,192
Liabilities and Shareholders' Investment		
Current liabilities:		
Short-term debt and current maturities of long-term debt	$1,112,853	$ 5,996
Accounts payable	137,342	138,101
Accrued line costs	391,604	258,053
Accrued restructuring costs	5,275	25,837
Shareholder litigation reserve	—	75,000
Income taxes payable	—	11,940
Other current liabilities	331,738	195,728
Total current liabilities	1,978,812	710,655
Long-term liabilities, less current portion:		
Long-term debt	2,278,428	788,005
Deferred income taxes payable	26,172	—
Other liabilities	163,873	104,362
Total long-term liabilities	2,468,473	892,367
Commitments and contingencies		
Shareholders' investment:		
Series 1 preferred stock, par value $.01 per share; authorized, issued and outstanding: none in 1995 and 10,896,785 shares in 1994 (liquidation preference of $544,839 in 1994)	—	109
Series 2 preferred stock, par value $.01 per share; authorized, issued and outstanding: 1,244,048 shares in 1995 and 2,000,000 shares in 1994 (liquidation preference of $31,101 in 1995 and $50,000 in 1994)	12	20
Preferred stock, par value $.01 per share; authorized: 48,755,952 shares in 1995 and 37,103,215 shares in 1994; none issued	—	—
Common stock, par value $.01 per share; authorized: 500,000,000 shares; issued and outstanding: 193,242,639 shares in 1995 and 159,643,312 shares in 1994	1,932	1,596
Additional paid-in capital	1,898,310	1,772,882
Retained earnings	287,032	52,563
Total shareholders' investment	2,187,286	1,827,170
	$6,634,571	$3,430,192

The accompanying notes are an integral part of these statements.

WORLDCOM, INC. AND SUBSIDIARIES

Consolidated Statements Of Operations

	For the Year Ended December 31,		
	1995	1994	1993
	(In Thousands, Except Per Share Data)		
Revenues	$3,639,875	$2,220,765	$1,474,257
Operating expenses:			
Line costs	1,992,413	1,447,633	881,540
Selling, general and administrative	660,149	432,360	246,105
Depreciation and amortization	311,265	163,828	101,659
Provision to reduce carrying value of certain assets	—	48,500	—
Direct merger costs	—	15,002	—
Restructuring and other charges	—	43,704	5,920
Total	2,963,827	2,151,027	1,235,424
Operating income	676,048	69,738	238,833
Other income (expense):			
Interest expense	(249,082)	(47,303)	(35,557)
Shareholder litigation settlement	—	(76,000)	—
Miscellaneous	11,801	5,223	6,644
Income (loss) before income taxes and extraordinary item	438,787	(48,342)	209,920
Provision for income taxes	171,127	73,816	85,599
Net income (loss) before extraordinary item	267,660	(122,158)	124,321
Extraordinary item (net of income taxes of $5,635)	—	—	(7,949)
Net income (loss)	267,660	(122,158)	116,372
Preferred dividend requirement	18,191	27,766	11,683
Special dividend payment to Series 1 preferred shareholder	15,000	—	—
Net income (loss) applicable to common shareholders	$ 234,469	$ (149,924)	$ 104,689
Earnings (loss) per common share—			
Income (loss) before extraordinary item:			
Primary	$ 1.30	$ (0.95)	$ 0.82
Fully diluted	1.28	(0.95)	0.80
Extraordinary item	—	—	(0.06)
Net income (loss):			
Primary	1.30	(0.95)	0.76
Fully diluted	1.28	(0.95)	0.74
Net income (loss) before special dividend payment to Series 1 preferred shareholder:			
Primary	1.37	(0.95)	0.76
Fully diluted	1.36	(0.95)	0.74

The accompanying notes are an integral part of these statements.

WORLDCOM, INC. AND SUBSIDIARIES

Consolidated Statements Of Shareholders' Investment

FOR THE THREE YEARS ENDED DECEMBER 31, 1995

	Series 1 Preferred Stock Shares	Series 1 Preferred Stock Amount	Series 2 Preferred Stock Shares	Series 2 Preferred Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings
				(In Thousands)						
Balances, December 31, 1992	—	$ —	—	$—	534	$ 64,014	116,862	$1,169	$ 308,907	$ 104,733
Exercise of stock options	—	—	—	—	—	—	5,048	50	20,174	—
Conversion of preferred stock	—	—	—	—	(34)	(17,444)	2,937	29	17,415	—
Conversion of preferred stock into Series 2 Preferred Stock	—	—	2,000	20	(500)	(46,570)	—	—	46,550	—
Common stock issued	—	—	—	—	—	—	2,253	23	50,977	—
Common stock issued to repurchase debt	—	—	—	—	—	—	160	2	5,987	—
Tax adjustment resulting from exercise of stock options	—	—	—	—	—	—	—	—	20,770	—
Cash for fractional shares	—	—	—	—	—	—	(3)	—	(76)	—
Shares issued for acquisitions	10,897	109	—	—	—	—	26,197	262	1,230,010	—
Net income	—	—	—	—	—	—	—	—	—	116,372
Cash dividends on preferred stock	—	—	—	—	—	—	—	—	—	(11,683)
Balances, December 31, 1993	10,897	109	2,000	20	—	—	153,454	1,535	1,700,714	209,422
Exercise of stock options	—	—	—	—	—	—	3,209	32	15,895	—
Common stock issued	—	—	—	—	—	—	2,195	22	22,971	(6,935)
Tax adjustment resulting from exercise of stock options	—	—	—	—	—	—	—	—	15,918	—
Shares issued for acquisitions	—	—	—	—	—	—	785	7	17,384	—
Net loss	—	—	—	—	—	—	—	—	—	(122,158)
Cash dividends on preferred stock	—	—	—	—	—	—	—	—	—	(27,766)
Balances, December 31, 1994	10,897	109	2,000	20	—	—	159,643	1,596	1,772,882	52,563
Exercise of stock options	—	—	—	—	—	—	9,483	95	90,437	—
Conversion of Series 1 Preferred Stock	(10,897)	(109)	—	—	—	—	21,877	219	(110)	—
Conversion of Series 2 Preferred Stock	—	—	(756)	(8)	—	—	1,600	16	(8)	—
Tax adjustment resulting from exercise of stock options	—	—	—	—	—	—	—	—	22,280	—
Cash for fractional shares	—	—	—	—	—	—	—	—	(15)	—
Shares issued for acquisitions	—	—	—	—	—	—	640	6	12,844	—
Net income	—	—	—	—	—	—	—	—	—	267,660
Cash dividends on preferred stock	—	—	—	—	—	—	—	—	—	(33,191)
Balances, December 31, 1995	—	$ —	1,244	$12	—	$	—	193,243	$1,932	$1,898,310	$ 287,032

The accompanying notes are an integral part of these statements.

WORLDCOM, INC. AND SUBSIDIARIES

Consolidated Statements Of Cash Flows

	For the Year Ended December 31,		
	1995	1994	1993
	(In Thousands of Dollars)		
Cash flows from operating activities:			
Net income (loss)	$ 267,660	$(122,158)	$ 116,372
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Extraordinary item	—	—	7,949
Depreciation	185,702	97,089	64,239
Amortization	125,563	66,739	37,620
Provision for losses on accounts receivable	39,175	58,952	25,231
Provision for shareholder litigation	—	76,000	—
Provision to reduce the carrying value of certain assets	—	48,500	—
Provision for deferred income taxes	171,463	24,961	53,259
Change in assets and liabilities, net of effect of business combinations:			
Accounts receivable	(77,512)	(148,053)	(79,981)
Income taxes, net	(7,160)	21,215	18,362
Other current assets	2,182	(14,739)	3,622
Accrued line costs	63,830	18,629	49,585
Shareholder litigation reserve	(75,000)	75,000	—
Accounts payable and other current liabilities	(69,684)	26,601	(137,065)
Other	(10,539)	17,905	(185)
Net cash provided by operating activities	615,680	246,641	159,008
Cash flows from investing activities:			
Capital expenditures	(355,841)	(192,162)	(83,957)
Sale (purchase) of short-term investments, net	1,000	11,672	(12,672)
Acquisitions and related costs	(2,766,355)	(91,750)	(284,397)
Increase in intangible assets	(46,062)	(14,877)	(17,070)
Proceeds from disposition of other assets	21,294	—	—
Increase in other assets	(8,171)	(8,585)	(9,161)
Decrease in other liabilities	(62,604)	(30,947)	(7,379)
Payment for line installation costs	(20,949)	(11,071)	(13,936)
Proceeds from sale of property and equipment	13,676	2,000	6,118
Net cash used in investing activities	(3,224,012)	(335,720)	(422,454)
Cash flows from financing activities:			
Borrowings	2,702,650	77,600	391,050
Principal payments on debt	(129,224)	(40,707)	(126,176)
Common stock issuance	90,532	38,431	71,238
Dividends paid on preferred stock	(33,191)	(27,766)	(11,683)
Other	(15)	—	(5,667)
Net cash provided by financing activities	2,630,752	47,558	318,760
Net increase (decrease) in cash and cash equivalents	22,420	(41,521)	55,314
Cash and cash equivalents at beginning of period	19,259	60,780	5,466
Cash and cash equivalents at end of period	$ 41,679	$ 19,259	$ 60,780

The accompanying notes are an integral part of these statements.

WORLDCOM, INC. AND SUBSIDIARIES

Notes To Consolidated Financial Statements

DECEMBER 31, 1995

(1) The Company and Significant Accounting Policies

Description of Business and Organization:

WorldCom, Inc., a Georgia corporation ("WorldCom" or the "Company"), is one of the four largest long distance telecommunications companies in the United States, serving customers domestically and internationally. The Company provides long distance telecommunications services to business, consumer and other carrier customers, through its network of fiber optic cables, digital microwave, and fixed and transportable satellite earth stations, with service to points throughout the nation and the world. The products and services provided by WorldCom include: switched and dedicated long distance products, 800 services, calling cards, operator services, domestic and international private lines, broadband data services, debit cards, conference calling, advanced billing systems, enhanced faxed and data connections, television and radio transmission, and mobile satellite communications.

The Mergers:

On December 30, 1994, WorldCom, Inc., through a wholly-owned subsidiary, merged with IDB Communications Group, Inc., a Delaware corporation ("IDB"), and in connection therewith issued approximately 35,881,000 shares of WorldCom common stock (the "Common Stock"), for all of the outstanding shares of IDB common stock (the "IDB Merger"). In addition, WorldCom assumed, on a subordinated basis, jointly and severally with IDB, the obligations of IDB to pay the principal of and interest on $195.5 million 5% convertible subordinated notes due 2003, issued by IDB. The IDB Merger was accounted for as a pooling-of-interests and, accordingly, the Company's financial statements for periods prior to the IDB Merger have been restated to include the results of IDB for all periods presented.

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

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

Principles of Consolidation:

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

Fair Value of Financial Instruments:

The carrying amounts for cash, short-term investments, accounts receivable, notes receivable, accounts payable and accrued liabilities approximate their fair value. The fair value of the long-term debt is determined based on the cash flows from such financial instruments discounted at the Company's estimated current interest rate to enter into similar financial instruments. At December 31, 1995, the fair value of the 5.0% convertible subordinated notes was $244.1 million. The recorded amounts for all other long-term debt of the Company approximate fair values.

Property and Equipment:

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

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

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

The Company constructs certain of its own transmission systems and related facilities. All internal costs directly related to the construction of such facilities, including interest and salaries of certain employees, are capitalized. Such costs were $14.7 million ($4.9 million in interest), $6.8 million ($1.2 million in interest), and $8.3 million ($3.1 million in interest) in 1995, 1994, and 1993, respectively.

Excess of Cost over Net Tangible Assets Acquired:

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

	Amortization Period	December 31, 1995	December 31, 1994
Goodwill	40 years	$4,417,964	$2,076,174
Customer acquisition cost	7 to 10 years	82,539	75,245
Other intangibles	5 years	96,147	61,290
		4,596,650	2,212,709
Less accumulated amortization		303,898	142,000
		$4,292,752	$2,070,709

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

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

Customer acquisition costs represent costs incurred as a result of purchase business combinations and are recorded based upon the estimated value of the customer bases acquired. See Note 2.

Line Installation Costs:

The Company defers the costs associated with the installation of local access lines and other network facilities. Amortization of these costs is provided over five years using the straight-line method. Accumulated amortization on line installation costs was $41.0 million and $29.5 million as of December 31, 1995 and 1994, respectively.

Other Long-term Liabilities:

At December 31, 1995 and 1994, other long-term liabilities includes $149.3 million and $80.1 million, respectively, related to estimated costs of closing duplicate facilities, and other non-recurring duplicative costs expected to be incurred as the result of various acquisitions and mergers. See Note 2.

Recognition of Revenues:

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

Accounting for International Long Distance Traffic:

The Company enters into operating agreements with telecommunications carriers in foreign countries under which international long distance traffic is both delivered and received. Under these agreements, the foreign carriers are obligated to adhere to the policy of the Federal Communications Commission ("FCC") whereby traffic from the foreign country is routed to international carriers, of which the Company is one, in the same proportion as traffic carried into the foreign country. Mutually exchanged traffic between the Company and foreign carriers is settled in cash through a formal settlement policy that generally extends over a six-month period at an agreed upon tariff rate. Although the Company can estimate the amount of inbound traffic it will receive, under the FCC's proportional share policy, it generally must wait up to six months before it actually receives the inbound traffic.

The Company utilizes the net settlement concept that is inherent in the operating agreements as the basis for its accounting policy for international long distance traffic. Under this approach, the margin on outbound calls (recognizing that the proportionate return of the actual inbound call is received generally on a six-month lag) is normalized to reflect the implicit overall earning rate concept of the contract. Accordingly, a portion of the outbound call fee due the foreign carrier is deferred and accounted for as a cost attributable to the revenue associated with the inbound call. All costs deferred are expensed six months later and offset against the revenues recognized upon receipt of return traffic.

Line Costs:

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

Income Taxes:

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes. SFAS 109 has as its basic objective the recognition of current and deferred income tax assets and liabilities based upon all events that have been recognized in the consolidated financial statements as measured by the provisions of the enacted tax laws. See Note 9.

Earnings Per Share:

For the years ended December 31, 1995 and 1993, earnings per share are calculated based on the weighted average number of shares outstanding during the period plus the dilutive effect of stock options and warrants determined using the treasury stock method. For the year ended December 31, 1994, earnings per share were calculated based on the weighted average number of shares outstanding during the period. The effect of common stock equivalents was not considered in the 1994 period because the effect of such options and warrants would have been anti-dilutive.

Average common shares and common equivalent shares utilized were 193,449,000; 157,805,000; and 137,927,000, respectively, for primary earnings per share and 201,495,000; 157,805,000; and 140,796,000, respectively, for fully diluted earnings per share, for the years ended December 31, 1995, 1994 and 1993.

Stock Splits:

On December 7, 1992, the Board of Directors authorized a 3-for-2 stock split in the form of a 50% stock dividend which was distributed on January 14, 1993 to shareholders of record on December 21, 1992. On November 18, 1993, the Board of Directors authorized a 2-for-1 stock split in the form of a 100% stock dividend which was distributed on January 6, 1994, to shareholders of record on December 7, 1993. Upon effectiveness of the Prior Mergers on September 15, 1993, each share of the outstanding common stock of LDDS-TN was converted into the right to receive 0.9595 shares of the Common Stock.

All per share data and numbers of common shares have been retroactively restated to reflect the effect of the stock splits, stock dividends and the exchange ratio of 0.9595.

Cash Equivalents and Short-Term Investments:

The Company considers cash in banks and short-term investments with original maturities of three months or less as cash and cash equivalents. Highly liquid investments with original maturities beyond three months are classified as short-term investments and carried at fair value, which approximates cost. Short-term investments principally consist of tax exempt municipal bonds and corporate bonds.

Recently Issued Accounting Standards:

In March 1995, the Financial Accounting Standards Board ("FASB") issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." This Statement establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles and goodwill related to those assets to be held and used and for long-lived assets and certain identifiable intangibles to be disposed of. This Statement is effective for financial statements for fiscal years beginning after December 15, 1995. WorldCom believes that the adoption of this standard will not have a material effect on the Company's consolidated results of operations or financial position.

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation." This Statement establishes financial accounting and reporting standards for stock-based employee compensation plans and is effective for fiscal years beginning after December 15, 1995. The Company expects to continue to apply the accounting provisions of APB Opinion 25 in determining its net income. However, additional disclosures will be made to disclose the estimated value of compensation expense under the method established by SFAS No. 123.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the period reported. Actual results could differ

FROM THOSE ESTIMATES. ESTIMATES ARE USED WHEN ACCOUNTING FOR LONG-TERM CONTRACTS, ALLOWANCE FOR DOUBTFUL ACCOUNTS, DEPRECIATION AND AMORTIZATION, TAXES, RESTRUCTURING RESERVES AND CONTINGENCIES.

Reclassifications:

CERTAIN CONSOLIDATED FINANCIAL STATEMENT AMOUNTS HAVE BEEN RECLASSIFIED FOR CONSISTENT PRESENTATION.

(2) Business Combinations

ON JANUARY 5, 1995, WORLDCOM COMPLETED THE ACQUISITION OF WILLIAMS TELECOMMUNICATIONS GROUP, INC. ("WILTEL"), A SUBSIDIARY OF THE WILLIAMS COMPANIES, INC. ("WILLIAMS"), FOR APPROXIMATELY $2.5 BILLION IN CASH (THE "WILTEL ACQUISITION"). THROUGH THIS PURCHASE, THE COMPANY ACQUIRED A NATIONWIDE COMMON CARRIER NETWORK OF APPROXIMATELY 11,000 MILES OF FIBER OPTIC CABLE AND DIGITAL MICROWAVE FACILITIES. THE FUNDS PAID TO WILLIAMS WERE OBTAINED BY WORLDCOM UNDER A NEW CREDIT FACILITY ENTERED INTO ON DECEMBER 21, 1994. SEE NOTE 4.

IN 1993, UPON EFFECTIVENESS OF THE PRIOR MERGERS, EACH SHARE OF THE OUTSTANDING COMMON STOCK OF LDDS-TN WAS CONVERTED INTO THE RIGHT TO RECEIVE 0.9595 SHARES OF COMMON STOCK. THE 500,000 SHARES OF LDDS-TN SERIES B 6.5% CUMULATIVE SENIOR PERPETUAL CONVERTIBLE PREFERRED STOCK OUTSTANDING WERE CONVERTED INTO 2,000,000 SHARES OF WORLDCOM SERIES 2 6.5% CUMULATIVE SENIOR PERPETUAL CONVERTIBLE PREFERRED STOCK HAVING A LIQUIDATION VALUE OF $25 PER SHARE AND A CONVERSION PRICE OF $11.81171 PER SHARE (THE "SERIES 2 PREFERRED STOCK"). AS A RESULT OF THE CONSUMMATION OF THE PRIOR MERGERS, METROMEDIA COMPANY ("METROMEDIA"), THE SOLE STOCKHOLDER OF MCC, RECEIVED 2,758,620 SHARES OF THE COMMON STOCK, 10,896,785 SHARES OF WORLDCOM SERIES 1 $2.25 CUMULATIVE SENIOR PERPETUAL CONVERTIBLE PREFERRED STOCK HAVING A LIQUIDATION VALUE OF $50 PER SHARE AND A CONVERSION PRICE OF $24.9046875 PER SHARE (THE "SERIES 1 PREFERRED STOCK"), WARRANTS TO PURCHASE 5,000,400 SHARES OF THE COMMON STOCK, AND $150.0 MILLION IN CASH. THE COMMON STOCK OF RESURGENS WAS UNCHANGED IN THE PRIOR MERGERS.

FOR ACCOUNTING PURPOSES, LDDS-TN WAS THE SURVIVOR BECAUSE THE FORMER SHAREHOLDERS OF LDDS-TN ACQUIRED MAJORITY OWNERSHIP OF THE COMPANY. THE PRIOR MERGERS HAVE BEEN ACCOUNTED FOR AS PURCHASES, AND THE EXCESS PURCHASE PRICE OVER NET TANGIBLE ASSETS ACQUIRED HAS BEEN RECORDED BASED UPON AN ESTIMATE OF FAIR VALUES OF ASSETS ACQUIRED AND LIABILITIES ASSUMED.

THE COMPANY HAS ACQUIRED OTHER LONG DISTANCE COMPANIES OFFERING SIMILAR OR COMPLEMENTARY SERVICES TO THOSE OFFERED BY THE COMPANY. SUCH ACQUISITIONS HAVE BEEN ACCOMPLISHED THROUGH THE PURCHASE OF THE OUTSTANDING STOCK OR ASSETS OF THE ACQUIRED ENTITY FOR CASH, NOTES, SHARES OF THE COMPANY'S COMMON STOCK, OR A COMBINATION THEREOF. THE CASH PORTION OF ACQUISITION COSTS HAS GENERALLY BEEN FINANCED THROUGH THE COMPANY'S BANK LOAN AGREEMENTS. SEE NOTE 4.

MOST OF THE ACQUISITIONS HAVE BEEN ACCOUNTED FOR AS PURCHASES AND RESULTED IN AN EXCESS OF THE PURCHASE COSTS OVER THE NET TANGIBLE ASSETS ACQUIRED. THESE COSTS, COMPOSED PRIMARILY OF GOODWILL, ARE AMORTIZED OVER 40 YEARS USING THE STRAIGHT-LINE METHOD. THE RESULTS OF THOSE PURCHASED BUSINESSES HAVE BEEN INCLUDED SINCE THE DATES OF ACQUISITION. BUSINESS COMBINATIONS WHICH HAVE BEEN ACCOUNTED FOR AS POOLINGS-OF-INTERESTS HAVE BEEN INCLUDED IN ALL PERIODS PRESENTED. THE TABLE BELOW SETS FORTH INFORMATION CONCERNING CERTAIN OTHER RECENT ACQUISITIONS WHICH WERE ACCOUNTED FOR AS PURCHASES.

Acquired Entity	Acquisition Date	Purchase Price: Cash	Shares Issued: Number	Shares Issued: Value	Allocation of Excess Costs Over Tangible Assets Acquired: Customer Acquisition Cost	Allocation of Excess Costs Over Tangible Assets Acquired: Goodwill
		(In thousands)				
Dial-Net, Inc. ("Dial-Net")	March 1993	$ 31,200	2,746	$ 50,096	$10,139	$ 91,255
MCC/Resurgens	September 1993	150,000	*	1,097,915	—	1,269,105
TRT Communications, Inc. ("TRT")	September 1993	1,000	6,760	79,000	—	39,000
Williams Telecommunications Group, Inc. ("WilTel")	January 1995	2,500,000	—	—	—	2,216,909

* See the second paragraph of Note 2 for a description of the common and preferred shares and warrants issued.

In addition to those acquisitions listed above, the Company or its predecessors completed several smaller acquisitions during 1993 through 1995.

The following unaudited pro forma combined results of operations for the Company assume that the WilTel Acquisition as well as the 1993 acquisitions of Dial-Net, Resurgens, MCC and TRT were completed on January 1, 1993.

	For the Year Ended December 31, 1994	1993
	(In thousands, except per share data)	
Revenues	$3,067,994	$2,631,740
Loss before extraordinary item	(202,933)	(3,365)
Loss applicable to common shareholders	(202,933)	(11,334)
Loss per common share:		
Loss before extraordinary item	(1.29)	(0.02)
Net loss	(1.29)	(0.08)

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

(3) Direct Merger Costs, Restructuring and Other Charges

Restructuring and Other Charges:

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

During 1993, plans were approved to reduce IDB's cost structure and to improve productivity. Such plans included a reduction in the number of employees and the disposition of certain assets.

The following table reflects the components of the significant items shown as restructuring and other charges in 1994 and 1993 (in thousands):

	For the year ended December 31,	
	1994	1993
Severance costs	$18,702	$ 691
Duplicate facilities and other restructuring	13,990	—
Provision for settlement of certain legal issues	8,000	—
Reduction in carrying amount of certain assets	2,423	4,954
Other	589	275
	$43,704	$5,920

As of December 31, 1995 and 1994, the accompanying consolidated financial statements reflect $5.3 million and $25.8 million, respectively, in accrued restructuring costs and $5.6 million and $14.7 million, respectively, in other long-term liabilities, in connection with the IDB Merger.

Direct Merger Costs:

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

Provision to Reduce the Carrying Value of Certain Assets:

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

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

(4) Long-term Debt

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

	December 31,	
	1995	1994
Reducing revolving credit agreements	$3,171,500	$468,850
Convertible subordinated notes	195,500	195,500
Senior notes	—	123,000
Other debt (maturing through 2000)	24,281	6,651
	3,391,281	794,001
Less: Short-term debt and current maturities	1,112,853	5,996
	$2,278,428	$788,005

In December 1994, WorldCom entered into new credit facilities to finance the WilTel Acquisition, refinance WorldCom's existing credit facilities and provide additional working capital. The credit facilities are comprised of a $2.16 billion, six-year reducing revolving credit facility (the "Revolving Facility Commitment") and a $1.25 billion, two-year term facility (the "Term Principal Debt"). The maximum principal amount permitted to be outstanding under the Revolving Facility Commitment will be reduced at the end of each fiscal quarter, commencing September 30, 1996, in varying amounts, and the outstanding balance must be paid in full on December 31, 2000. The Term Principal Debt matures in a single installment on December 31, 1996. The Revolving Facility Commitment and the Term Principal Debt bear interest, payable quarterly, at variable rates selected by the Company, under the terms of the credit facilities. The Company is permitted to choose from several interest rate options including: a Base Rate plus applicable margin, the London Interbank Offering Rate ("LIBOR") plus applicable margin, or, for the Revolving Facility Commitment only, any Competitive Bid Rate. The applicable margin varies from 0% to 3/8% for Base Rate Borrowings and 1/2% to 1.5% for LIBOR Rate Borrowings from time to time based upon the lower of a specified financial test or WorldCom's long-term debt rating. 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 facilities are also subject to an annual commitment fee not to exceed 0.375% of any unborrowed portion of the credit facilities.

The credit facilities were utilized by the Company on January 5, 1995, in conjunction with the WilTel Acquisition and all debt outstanding under WorldCom's previous credit facilities and the $123.0 million in senior notes was repaid. For the year ended December 31, 1995, the weighted average interest rate under the credit facilities was 7.3%. The aggregate principal repayments and reductions required in each of the years ending December 31, 1995 through December 31, 2000 and thereafter are as follows (in thousands):

1996	$1,112,853
1997	300,868
1998	513,738
1999	500,783
2000	767,539
Thereafter	195,500
	$3,391,281

In February 1995, in the event of rising interest rates, the Company entered into financial hedging agreements with various financial institutions, in connection with requirements under the credit facilities. The hedging agreements establish capped fixed rates of interest ranging from 8.25% to 8.3125% on an aggregate notional value of $1.7 billion. If interest rates do not reach this cap, the Company's interest rate remains variable. These contracts range in duration from one to two years with $845.4 million maturing in each of the years ending 1996 and 1997. The $845.4 million which matured in 1996 was replaced with a hedging agreement which caps the fixed rate of interest at 7.43% and matures in 1997.

On August 20, 1993, IDB issued $195.5 million of convertible subordinated notes (the "Notes"), proceeds of which were approximately $189.6 million net of direct fees and expenses. Interest on the Notes is payable semiannually on February 15 and August 15 of each year at an interest rate of 5% per annum.

The Notes are convertible at the option of the holder at anytime prior to maturity into WorldCom Common Stock at approximately $38.07 per share. The Notes include certain anti-dilution rights and rights with regard to certain changes in control. At its option, the Company may redeem the Notes at any time after August 1996, but will incur a redemption premium which ranges from 103.5% in 1996 declining to 100% on the maturity date. The Notes mature and are due in full on August 15, 2003.

IDB used the proceeds of this issue, together with the proceeds of a May 1993 common stock issuance to repay and defease substantially all of its then existing debt. The repayment and defeasance of this debt resulted in an extraordinary charge of $7.9 million, net of income tax benefit of $5.6 million, which represents payment of debt redemption premiums and the write-off of unamortized debt issuance costs.

(5) Preferred Stock

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

In May 1992, the Company issued 500,000 shares of no par, 6.5% cumulative senior perpetual convertible preferred stock for $50 million. The net proceeds of the issue ($46.6 million after issuance costs) were used to reduce outstanding indebtedness. These shares were converted into 2,000,000 shares of the Series 2 Preferred Stock upon effectiveness of the Prior Mergers.

The Series 2 Preferred Stock has a liquidation value of $25 per share, a conversion price of $11.81171 per share and pays dividends at the rate of 6.5% annually, payable quarterly. There is no established public trading market for the Series 2 Preferred Stock. Except under certain circumstances, the Series 2 Preferred Stock may not be redeemed by the Company prior to June 5, 1996. Thereafter, the Series 2 Preferred Stock may be redeemed in whole or in part in integral multiples of $10.0 million, at prices which include premiums over the liquidation preference of $25 per share, which prices range from 108% in 1996 declining to 100% on and after June 5, 2002.

In March 1996, the Company's Board of Directors approved a resolution authorizing the Company to redeem on June 5, 1996 or such later date as the president of the Company may determine, all outstanding shares of the Series 2 Preferred Stock, including all accrued and unpaid dividends thereon.

In August 1995, Metromedia converted its Series 1 Preferred Stock into 21,876,976 shares of WorldCom Common Stock. In connection with the preferred stock conversion, WorldCom made a non-recurring payment of $15.5 million to Metromedia, representing a discount to the minimum nominal dividends that would have been payable on the Series 1 Preferred Stock prior to the September 15, 1996 optional call date of approximately $26.6 million (which amount includes an annual dividend requirement of $24.5 million plus accrued dividends to such call date).

The holders of the Series 2 Preferred Stock generally have the right to vote together as a single class with holders of Common Stock based on one vote for each share of Common Stock issuable upon conversion of the respective series of preferred stock. The approval of the holders of two-thirds of the shares of Series 2 Preferred Stock is required for certain extraordinary transactions or, alternatively, such shares must be redeemed at a specified premium.

(8) Leases and Other Commitments

The Company leases office facilities and certain equipment under noncancellable operating leases having initial or remaining terms of more than one year. In addition, the Company leases a right-of-way from a railroad company under a fifteen-year lease with three fifteen-year renewal options. Rental expense under these operating leases was $45.1 million, $30.9 million, and $29.9 million in 1995, 1994 and 1993, respectively.

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

At the end of 1995, minimum lease payments under noncancellable operating leases and commitments were as follows (in thousands):

	Minimum Lease Payments		
Year	Office Facilities and Equipment	Telecommunication Facilities	Total
1996	$43,442	$53,963	$97,405
1997	37,539	37,495	75,034
1998	33,904	35,519	69,423
1999	28,962	29,792	58,754
2000	22,047	29,519	51,566

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

WorldCom also has agreements with a company that installs, operates and maintains certain WorldCom data processing, telecommunications and billing systems. The agreements expire in 2000 and are renewable on an annual basis thereafter. The agreements require minimum annual payments of approximately $16.6 million.

During 1995, the Company amended WilTel's existing $80.0 million receivables purchase agreement to include certain additional receivables and received additional proceeds of $215.4 million. The Company used these proceeds to reduce the outstanding debt under the Company's credit facilities and provide additional working capital. As of December 31, 1995, the purchaser owned an undivided interest in $608.9 million pool of receivables which includes the $295.4 million sold. The aggregate purchase limit under this agreement was $300.0 million at December 31, 1995.

(7) Contingencies

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

The U.S. Attorney's Office for the Central District of California has issued grand jury subpoenas to IDB seeking documents relating to IDB's first quarter of 1994 results, the Deloitte & Touche LLP resignation, trading in IDB securities and other matters, including information concerning certain entities in which certain former officers of IDB are personal investors and transactions between such entities and IDB. IDB has been informed that a criminal investigation has commenced. The U.S. Attorney's Office has issued a grand jury subpoena to WorldCom arising out of the same investigation seeking certain documents relating to IDB.

AT&T Patents. AT&T has claimed that a number of long distance carriers, including the Company, make unauthorized use of AT&T patents in the provision of some of the carrier's long distance services. Effective December 15, 1995, the Company and AT&T entered into a two-year patent licensing agreement which, among other things, released all claims by AT&T against the Company relating to any alleged patent infringement.

Other. On February 8, 1996, President Clinton signed legislation that: will, without limitation, permit the BOCs to provide domestic and international long distance services upon a finding by the FCC that the 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; removes existing barriers to entry into local service markets; significantly changes the manner in which carrier-to-carrier arrangements are regulated at the federal and state level; establishes procedures to revise universal service standards; and, establishes penalties for unauthorized switching of customers. The Company cannot predict the effect such legislation will have on the Company or the industry. However, the Company believes that it is positioned to take advantage of business opportunities in the rapidly-changing telecommunications market.

The Company is involved in other legal and regulatory proceedings generally incidental to its business. In some instances, rulings by regulatory authorities in some states may result in increased operating costs to the Company.

While the results of these various legal and regulatory matters contain an element of uncertainty, the Company believes that the probable outcome of any of the legal or regulatory matters, or all of them combined, should not have a material adverse effect on the Company's consolidated results of operations or financial position.

(9) Income Taxes

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

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

	1995	1994	1993
Current	$ (336)	$48,855	$32,340
Deferred	171,463	24,961	53,259
Total provision for income taxes	$171,127	$73,816	$85,599

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

	1995	1994	1993
Expected statutory amount	35.0%	(35.0)%	35.0%
Nondeductible amortization of excess of cost over net tangible assets acquired	4.5	37.1	3.8
State income taxes	2.9	5.7	2.0
Effect of Company owned life insurance	(0.4)	(3.4)	(0.6)
Direct merger, restructuring and other charges	—	20.7	—
Writedown of assets	—	26.1	—
Valuation allowance	(1.6)	96.6	—
Other	(1.4)	4.9	0.6
Actual tax provision	39.0%	152.7%	40.8%

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

At December 31, 1995, the Company had unused net operating loss ("NOL") carryforwards of approximately $447.0 million which expire in various amounts during the years 2000 through 2009. These NOL carryforwards which include $53.0 million generated by IDB in 1994 are primarily attributable to the preacquisition operations of acquired companies. These NOL carryforwards result in a deferred tax asset of approximately $168.1 million at December 31, 1995. A valuation allowance of $101.7 million has been established related to deferred tax assets due to the uncertainty of realizing the full benefit of the NOL carryforwards. In evaluating the amount of valuation allowance needed, the Company considers the acquired companies' prior operating results and future plans and expectations. The utilization period of the NOL carryforwards and the turnaround period of other temporary differences are also considered.

Approximately $168.1 million of the Company's deferred tax assets are related to preacquisition NOL carryforwards or temporary differences attributable to entities acquired in transactions accounted for as purchases. Accordingly, any future reductions in the valuation allowance related to such deferred tax assets will result in a corresponding reduction in goodwill. If, however, subsequent events or conditions dictate an increase in the valuation allowance attributable to such deferred tax assets, income tax expense for the period of the increase will be increased accordingly.

The following is a summary of the significant components of the Company's deferred tax assets and liabilities as of December 31, 1995 and 1994 (in thousands).

	December 31,			
	1995		1994	
	Assets	Liabilities	Assets	Liabilities
Allowance for bad debts	$ 22,767	$ —	$ 7,740	$ —
Fixed assets	—	(56,129)	—	(35,926)
Intangible assets	—	(30,777)	—	—
Leases	3,796	—	3,981	—
Line installation costs	—	(13,303)	—	(10,817)
Accrued liabilities	6,790	—	19,164	—
NOL carryforwards	168,057	—	192,309	—
Restructuring and other charges	—	—	11,339	—
Other	3,093	(11,888)	10,604	(8,571)
	204,503	(112,097)	245,137	(55,314)
Valuation allowance	(101,679)	—	(113,016)	—
	$ 102,824	$(112,097)	$ 132,121	$(55,314)

In 1995, the valuation allowance decreased by $11.3 million due to the Company's ability to utilize net operating losses that management had previously determined would not be utilized under a "more likely than not" scenario. This is mainly attributable to the profitability of individual operating units in 1995. Accordingly, the valuation allowance was reduced resulting in reductions to goodwill and the provision for income taxes of $4.3 million and $7.0 million, respectively.

(10) Supplemental Disclosure of Cash Flow Information

Interest paid by the Company during the years ended December 31, 1995, 1994 and 1993 amounted to $224.3 million, $48.5 million, and $35.7 million, respectively. Income taxes paid, net of refunds, during the years ended December 31, 1995, 1994 and 1993 were $7.3 million, $12.8 million, and $10.6 million, respectively.

In conjunction with business combinations during the years ended December 31, 1995, 1994, and 1993 (see Note 2), assets acquired, liabilities assumed and common stock issued were as follows (in thousands):

	December 31,		
	1995	1994	1993
Fair value of assets acquired	$ 805,482	$ 13,522	$ 503,449
Excess of cost over net tangible assets acquired	2,301,567	157,934	1,401,290
Liabilities assumed	(327,844)	(62,322)	(389,961)
Common and treasury stock issued	(12,850)	(17,384)	(1,230,381)
Cash paid	$2,766,355	$ 91,750	$ 284,397

(11) Unaudited Quarterly Financial Data

	Quarter Ended							
	March 31,		June 30,		September 30,		December 31,	
	1995	1994	1995	1994	1995	1994	1995	1994
	(In thousands, except per share data)							
Revenues	$865,035	$523,895	$894,719	$555,318	$933,560	$ 568,558	$946,561	$572,994
Operating income (loss)	150,538	76,313	182,755	56,748	177,811	25,062	184,944	(88,385)
Net income (loss)	53,963	40,091	61,815	19,812	72,613	(111,756)	79,289	(70,305)
Preferred dividend requirement	6,939	6,938	6,936	6,952	3,811	6,936	505	6,938
Special dividend payment to Series 1 preferred shareholder	—	—	—	—	15,000	—	—	—
Earnings (loss) per common share:								
Primary	$ 0.28	$ 0.20	$ 0.33	$ 0.08	$ 0.29	$ (0.75)	$ 0.40	$ (0.49)
Fully diluted	0.28	0.20	0.32	0.08	0.29	(0.75)	0.40	(0.49)
Earnings (loss) per common share before special dividend payment to Series 1 preferred shareholder:								
Primary	$ 0.28	$ 0.20	$ 0.33	$ 0.08	$ 0.37	$ (0.75)	$ 0.40	$ (0.49)
Fully diluted	0.28	0.20	0.32	0.08	0.37	(0.75)	0.40	(0.49)

In August 1995, Metromedia converted its Series 1 Preferred Stock into 21,876,976 shares of WorldCom Common Stock. In connection with the preferred stock conversion, WorldCom made a non-recurring payment of $15.0 million to Metromedia, representing a discount to the minimum nominal dividends that would have been payable on the Series 1 Preferred Stock prior to the September 15, 1996 optional call date of approximately $26.6 million (which amount includes an annual dividend requirement of $24.5 million plus accrued dividends to such call date).

In the fourth quarter of 1994, the Company undertook restructuring and reorganizational activities in connection with the IDB Merger. As a result, direct merger costs of $15.0 million and restructuring charges of $43.7 million were charged to operations. See Note 3.

In the third quarter of 1994, the Company recorded a $76.0 million charge related to a shareholder litigation settlement. See Note 7. Also, in the third and fourth quarters of 1994, the Company recorded adjustments of $35.0 million and $13.5 million, respectively, related to the writedown of certain IDB Broadcast assets. See Note 3.

Report Of Independent Public Accountants

To WorldCom, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of WorldCom, Inc. (a Georgia corporation) and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of operations, shareholders' investment and cash flows for each of the years in the three-year period ended December 31, 1995. We did not audit the financial statements of IDB Communications Group, Inc., a company acquired during 1994 in a transaction accounted for as a pooling-of-interests, for the year ended December 31, 1993. Such statements are included in the consolidated financial statements of WorldCom, Inc. for the year ended December 31, 1993, and reflect 23 percent of consolidated total revenues for that year. These statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for IDB Communications Group, Inc., is based solely upon the report of the other auditors. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of WorldCom, Inc. and subsidiaries as of December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1995, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Jackson, Mississippi,
March 6, 1996.

Board of Directors and Corporate Officers

Board of Directors

John W. Kluge
Chairman of the Board
WorldCom, Inc.
Chairman and President
Metromedia Company

John A. Porter
Vice Chairman of the Board
WorldCom, Inc.
Chairman of the Board
Phillips & Brooks/Gladwin, Inc.
Chairman and Chief Executive Officer
Industrial Electric Manufacturing, Inc.

Bernard J. Ebbers
President and Chief Executive Officer
WorldCom, Inc.

Carl J. Aycock
Financial Administrator

Max E. Bobbitt
Consultant

Francesco Galesi
Chairman and Chief Executive Officer
The Galesi Group

Stiles A. Kellett, Jr.
Atlanta, Georgia

Silvia Kessel
Senior Vice President
Metromedia Company

Stuart Subotnick
Executive Vice President
Metromedia Company

Scott D. Sullivan
Chief Financial Officer
and Secretary
WorldCom, Inc.

Lawrence C. Tucker
General Partner
Brown Brothers Harriman & Co.

Roy A. Wilkens
President and
Chief Executive Officer
WilTel

Corporate Officers

John W. Kluge
Chairman of the Board

John A. Porter
Vice Chairman of the Board

Bernard J. Ebbers
President and Chief Executive Officer

Roy A. Wilkens
President and Chief Executive Officer
WilTel

Charles T. Cannada
Senior Vice President,
Corporate Development,
Investor Relations
and Real Estate Development

Scott D. Sullivan
Chief Financial Officer
and Secretary

Shareholder Information

Corporate Offices

WorldCom, Inc.
515 East Amite Street
Jackson, Mississippi 39201-2702
(601) 360-8600

Transfer Agent

The Bank of New York
(800) 524-4458

Address Shareholder Inquiries to:
Shareholder Relations
Department - 11E
P.O. Box 11258
Church Street Station
New York, New York 10286

Send Certificates for Transfer and Address Change to:
Receive and Deliver Department - 11W
P.O. Box 11002
Church Street Station
New York, New York 10286

Independent Public Accountants

Arthur Andersen LLP
Jackson, Mississippi

Form 10-K

Information about WorldCom, Inc., including the Form 10-K, may be obtained without charge by writing to Mr. Scott D. Sullivan, Chief Financial Officer, at the Company's corporate offices.

Interim Shareholder Reports/Internet Address

Because quarterly reports are costly, WorldCom, Inc. has decided to discontinue mailing quarterly reports to all shareholders, beginning with the first quarter of 1996. In place of quarterly reports, you may obtain a copy of an enhanced version of each of our quarter-end press releases by writing to Beverly Buckley, Director of Investor Relations, at the Company's corporate offices, or call our toll-free fax-on-demand line, (800) 845-0372, to receive copies of our earnings announcements. You also may access press releases, as well as other information about WorldCom, Inc. by visiting our Internet web site at http://www.wcom.com.

Annual Meeting

10:00 a.m. CDT
May 23, 1996
WorldCom, Inc. Corporate Offices
515 East Amite Street
Jackson, Mississippi 39201-2702

Market and Dividend Information

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

1994	High	Low
First Quarter	$29.50	$23.25
Second Quarter	25.25	14.00
Third Quarter	25.00	16.50
Fourth Quarter	24.38	16.38

1995	High	Low
First Quarter	$26.25	$19.13
Second Quarter	27.38	23.13
Third Quarter	34.13	26.75
Fourth Quarter	35.88	29.75

As of March 15, 1996, there were 194,043,449 shares of Common Stock issued and outstanding held by 6,406 shareholders of record.

The Company has never paid cash dividends on its Common Stock. The policy of the Company's Board of Directors has been to retain earnings to provide funds for the operation and expansion of its business. Also, the Company's credit facilities restrict the payment of cash dividends on its Common Stock.