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CHAPTER NINE

WorldCom/MCI: Massive Accounting Fraud

By Cindy Claycomb, Wichita State University

INTRODUCTION

At a hearing before the House Financial Services committee, Bernard J. Ebbers made a statement professing his innocence, then invoked the Fifth Amendment of the U.S. Constitution to protect himself against self-incrimination. One congressman told Ebbers, "Your silence may have saved you today but we're going to get answers. If you flush down the drain the retirement savings of millions of investors, you will and you should go to jail."[1]

Bernard Ebbers was once known as the person who set the tone for the global telecommunications industry. He attained cult-like devotion among shareholders for his takeover ability and his passion for making investors wealthy. But on April 30, 2002, he was forced to resign as CEO of WorldCom, the company he founded as a small reseller of long-distance telephone service, and built to a $40-billion-a-year telecom giant by piecing together more than five dozen companies.[2] The scandal that followed set the stage for a loss of a half a million jobs in the United States, three of the ten largest bankruptcies in U.S. history, and more than $1 trillion in market value wiped out.[3] WorldCom, the nation's second largest long-distance company, imploded under the scandal. How could this happen?

BACKGROUND

Bernard J. Ebbers was born in 1942 in Edmonton, Alberta. After flunking out of college and working as a bar bouncer, he ended up leaving his native Canada to get a fresh start in Mississippi, where he attended Mississippi College, a small Baptist college in

1. Pulliam, Susan, Deborah Solomon, and Randall Smith, "WorldCom is Denounced at Hearing," *Wall Street Journal*, (July 9, 2002), p. A3, Leading the News.

2. Mehta, Stephanie N., "Can Bernie Bounce Back?" *Fortune* (January 22, 2001), http://www.fortune.com/fortune/subs/print/O,15935,36996,00.html.

3. Mehta, Stephanie N., "Telecom: Birds of a Feather," *Fortune* (October 2, 2002), http://www.fortune.com/fortune/subs/print/O, 15935,372075,00.html.

Clinton, Mississippi. After college, he bought several hotels, and by the early 1980s he owned eight hotels, including several Hampton Inns and Courtyards by Marriott. His motel management company operated out of a converted Texaco station in Brookhaven, Mississippi. He discovered telecommunications when one of the hotels he bought had a side business reselling long-distance telephone service. In 1983, he and some friends had an idea to take advantage of the AT&T breakup and started a long-distance telephone company named LDDS (which stands for Long-Distance Discount Service, a name suggested to Ebbers and his partners by a waitress).[4] Ebbers was a passive investor in LDDS until the company began to lose money in 1984. The founders pushed Ebbers to step in as CEO, which he did in early 1985. After that, there was little doubt about who ran the company and the board of directors.

In 1995, LDDS bought Williams Telecommunications Group Inc. for $2.5 million and changed its name to WorldCom Inc. Ebbers, as WorldCom's CEO, specialized in buying up and merging with other companies related to telecommunications. Other major acquisitions included MFS Communications Company, a company that ran fiber-optic lines directly into office buildings; Brooks Fiber Properties Inc., a company that owned networks in big cities; UUNet, the largest Internet backbone company that carried traffic for online businesses (a backbone is a high-speed network that carries Internet traffic around the world); and Compuserve's and AOL's Internet backbones. Ebbers's mode of operation was to buy a company principally for its customer base and sales force, and drive profits by cutting overhead and transferring the customers and their traffic onto WorldCom's network. That meant new sales force, more customers, and lower costs. [5]

The beginning of the telecom boom was marked by Bernie Ebbers's success with investors. But his escalating series of thrusts and parries led to its crash. Every time Ebbers announced one of his acquisitions, Wall Street rewarded WorldCom; over the course of the 1990s, WorldCom stock rose substantially.[6] (See Figure 9.1 for a History of WorldCom Stock Price.)

Purchase of MCI

In 1998, WorldCom bought MCI for $37 billion. This was the largest deal in business history. MCI, a consumer long-distance carrier and wholesaler, had almost three times WorldCom's revenues and nearly four times the number of employees. The merger was somewhat of a surprise. British Telecommunications PLC had made an initial offer for MCI, but then had cut its offer when MCI announced a financial set-back. WorldCom pounced on the opportunity with a counteroffer, and then fended off a rival bid from GTE Corporation. [7]

With the MCI acquisition, Ebbers believed he could overcome the lock the Baby Bells had on local phone service, control the cellular airwaves across the United States,

4. *Ibid.*, Mehta, "Telecom: Bird of a Feather." and Lewis, Mark, "WorldCom: Is Bernie Still Bulletproof?" *Forbes.com* (February 6, 2002), http://www.forbes.com/2002/02/06/0206ebberstrike.html.

5. Mehta, "Can Bernie Bounce Back?"

6. Mehta, "Telecom: Bird of a Feather."

7. Kupfer, Andrew, "MCI WorldCom," *Fortune* (April, 27, 1998), http://www.fortune.com/fortune/subs/print/0,15935,379117,00.html., and Shawn Young and Eva Perez, "Finance Chief of WorldCom Got High Marks on Wall Street," *Wall Street Journal* (June 27, 2002) p. Bl.

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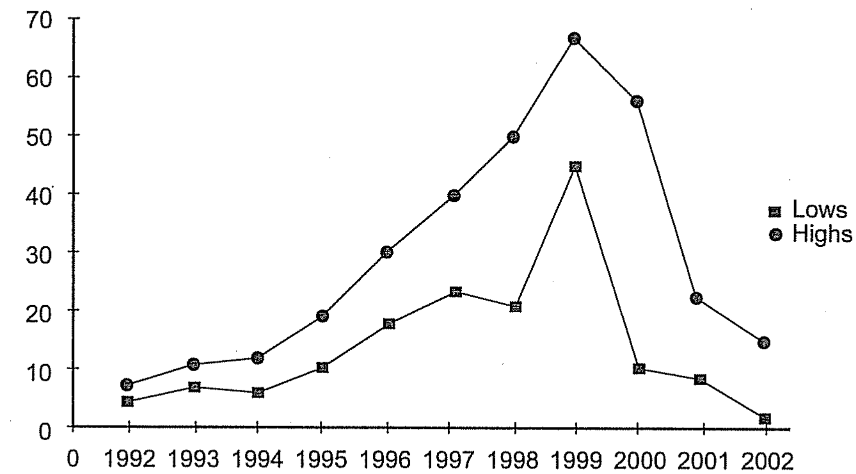

Figure 9.1 History of WorldCom Stock Price

Sources: Susan Pulliam, Deborah Solomon, and Carrick Mollenkamp, "Easy Money: Former WorldCom CEO Built an Empire on Mountain of Debt," *Wall Street Journal* (December 31, 2002), Al; Net-Advantage (2004), *Standard & Poor's:* Retrieved March 10, 2004 from index.do; Anonymous(April 13, 2003), *The Clarion-Ledger:* Retrieved February 1, 2004 from http://*www*.clarionledger.com/news/0304f13/b01b.html; WorldCom Annual Reports.

Commentary: Investors rewarded WorldCom during the 1990s. WorldCom's stock hit a high of $64.50 a share in 1999. The price slid to $45 a share in July 2000, and then to $33.50 in September 2000. The stock continued to tumble, and by the time Bernie Ebbers was ousted in April 2002, WorldCom's battered shares had fallen to $4.03 a share. WorldCom's lowest stock price in 2002 was $0.06 per share.

and show the Europeans how to sell phone service in Europe. The purchase of MCI meant that Ebbers would control 30 percent to 50 percent of the Internet backbone, the high-speed network that carries data around the country. Ebbers would now rely less on the other Internet companies, but they would need him more.[8]

Following the merger of WorldCom and MCI, Ebbers cut costs. He sold off corporate jets; he cut expense accounts; he cut 2,000 jobs. The biggest chunk of savings—$1.2 billion—was to come from shifting phone traffic to WorldCom's proprietary network rather than leasing outside lines. He also focused on the hottest areas in telecom—such as local and international calling and data—to guarantee long-term revenue and profit growth. Market analysts believed these actions provided strong evidence that Ebbers was delivering the kind of savings and synergies he promised when WorldCom prevailed over British Telecom and GTE to acquire MCI.[9]

8. Kupfer, Andrew, "Fortune 500: Bernie's Big Gamble," *Fortune* (April 17, 2000), http://www.fortune.com/fortune/subs/print/0,15935,370882,00.html, and Andrew Kupfer, "Why Bernie Ebbers Wants to be the Internet's Mr. Big," *Fortune* (December 8, 1997), htm://www.fortune.com/fortune/subs/print/0.15935.376902.00.html.

9. Schwartz, Nelson, "How Ebbers is Whipping MCI WorldCom into Shape," *Fortune* (February 1, 1999), http://www.fortune.com/fortune/subs/print/0,15935,378233,00.html.

WorldCom didn't know it at the time, but this would be their last major acquisition before scandal hit.

THE BEGINNING OF PROBLEMS

After the purchase of MCI, WorldCom's dial-around and consumer long-distance businesses eroded as price-conscious consumers switched among competitors and increasingly used their wireless phones to make long-distance calls. Even worse, WorldCom's wholesale revenues from selling service to other carriers fell by 16 percent.[10] WorldCom's long-distance wholesale business—once the very heart of the company—was shrinking. Even its data business faced stiff competition from carriers such as Level 3 and Qwest, which had newer technology and lots of extra capacity, and thus priced their products and services aggressively. Amid this bleak outlook, WorldCom slashed revenue and cash-earnings estimates.[11]

Attempted Purchase of Sprint

Facing this dismal scenario, in late 1999, WorldCom tried to buy Sprint for $129 billion. How would this benefit WorldCom? Global corporate customers were being wooed by most of the telecom firms, and WorldCom had an advantage because it owned its own international high-speed network. However, wooing global corporate customers had become a marketing game rather than a network game. That's where Sprint came in. Sprint was stronger than WorldCom in marketing to corporate customers and already had a presence in Latin America. WorldCom also needed consumers. Ebbers estimated that the cost of beefing up the network with electronics and software by 2005 would cost WorldCom $100 billion. He needed residential customers who make most of their calls after business hours to help fund this investment, and Sprint could offer access to these consumers. Finally, when WorldCom customers used cell phones to make calls, WorldCom saw none of that revenue because it had no cellular systems. Buying Sprint would have plugged this leak because it had a nationwide cellular network, Sprint PCS.[12] In 2000, however, the Justice Department, put a stop to the WorldCom/Sprint transaction, arguing that the combined company "would control an unacceptable share of long-distance voice and data traffic."[13]

After the collapse of the deal, WorldCom's situation worsened. Ebbers tried to address issues of slower than expected revenue growth and cash earnings by announcing plans to break the company into two parts, each with its own tracking stock (see Information Box: "What is a Tracking Stock?"). WorldCom would own the network, serve corporate customers, and cultivate fast-growing businesses such as data services; MCI would be a repository for slow-growing operations such as consumer long-distance, paging, and wholesale. MCI focused entirely on generating a cash

10. Kupfer, "Fortune 500: Bernie's Big Gamble."
11. Mehta, "Can Bernie Bounce Back?"
12. Kupfer, "Fortune 500: Bernie's Big Gamble."
13. Mehta, "Can Bernie Bounce Back?"

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dividend for its shareholders. The WorldCom business anticipated that it would be able to achieve strong growth rates, thus attracting growth investors. [14]

Ebbers's Personal Financial Problems

By 2000, Bernie Ebbers faced serious problems. He had funded his personal stock market activities by borrowing on margin (see the Information Box: "Borrowing on Margin and Margin Calls"). When the value of those investments, including long bets on WorldCom, plunged, Ebbers had to pay up. The WorldCom board of directors came to his rescue, temporarily. By the time he was ousted in April 2002, the board had lent him $415 million. Although the money was intended to help him cover margin calls on bank loans that he had collateralized with WorldCom stock, a bankruptcy court examiner found that Ebbers used $27 million of the proceeds for other personal reasons including construction of his new house, $2 million to a family member for personal expenses, loans to his family, friends, and a WorldCom officer, and payments to his own business interests.[15]

In addition, Ebbers borrowed more than $1 billion from banks and brokerages, either personally or for his personal businesses, and the loans were secured by his WorldCom stock. He used this money to acquire businesses that he said he planned to manage when he retired (e.g., a timber operation, a Canadian ranch, a soybean farm, and a yacht builder). The banks lent him money because they did not want to lose his or WorldCom's business. Eventually, the banks issued margin calls because the value of WorldCom's stock had sunk so low. In some cases, Ebbers pledged the same stock to different lenders.[16]

Ebbers put the interests of WorldCom shareholders at risk because WorldCom's share price could plummet if he tried to sell his stock. Furthermore, by using WorldCom shares to collateralize his massive debt obligation, Ebbers placed himself under intense pressure to keep WorldCom's share price high.[17] By April of 2002, Ebbers's personal financial problems were so threatening to the company that the WorldCom board of directors asked for his resignation. They gave him a $1.5 million annual pension payment for the rest of his life, limited access to WorldCom's fleet of corporate aircraft, and a below-market interest rate of 2.32 percent on the $415 million he borrowed to be paid back in five years.[18] This was very generous when you consider the fraud and scandal that Ebbers foisted on WorldCom.

14. *Ibid.*; "Ebbers Out at WorldCom," *CNN Money* (April 30, 2002): http://money.cnn.com/2002/04/03/technology/ebbers.

15. Susan Pulliam and Jared Sandberg, "WorldCom Seeks SEC Accord as Report Claims Wider Fraud," *Wall Street Journal* (November 5, 2002), A1; and Andrew Backover, "Report Slams Culture at WorldCom," *USA Today* (November 4, 2002), http://www.usatoday.com/money/industries/telecom/2002-11-04-worldcom-report_x.htm.

16. Deborah Solomon and Jared Sandberg, "WorldCom's False Profits Climb," *Wall Street Journal* (November 6, 2002), A3.

17. *Ibid.*, Pulliam and Sandberg, "WorldCom Seeks SEC Accord as Report Claims Wider Fraud."

18. Christopher Stern, "WorldCom Battles Founder on Pension," *Washington Post* (October 17, 2003), E01.

INFORMATION BOX

WHAT IS A TRACKING STOCK?

Tracking stocks are shares issued by a company that pay a dividend determined by the performance of a specific portion of the whole company. Tracking stock differs from a spin-off in that it does not represent or require any change in business structure. A tracking stock is a separate stock created by a parent company to "track" the financial progress of a particular piece of its business. Tracking stock is often set up by companies that have several diverse divisions, both so that investors can take a share in a division of their interest, and so that the performance of these divisions can be tracked in terms of shareholder interest. Despite being part of a publicly traded entity, tracking stocks trade under their own ticker symbols. A company will sometimes issue a tracking stock when it has a very successful division that it feels is underappreciated by the market and not fully reflected in the company's stock price. Tracking stocks are meant to create opportunities for investors to buy into a fast-growing unit without investing in the whole company; however, tracking stocks do not lend shareholders ownership in the parent company, nor do they include voting rights.

WorldCom Inc. issued tracking stock for its two divisions: WorldCom and MCI. Ebbers believed that the slow-growing operations of MCI resulted in the entire company being undervalued by the market. He hoped that without the burden of MCI, the supposedly faster-growing operations of WorldCom would flourish and be rewarded by investors.

INVITATION TO DISCUSS

Do you agree with Ebbers's idea? Why or why not? Do you think it would have worked if the accounting fraud had not taken place?

Sources: investorwords.com (2004), "Tracking Stock," *Web Finance*, Retrieved February 23, 2004 from http://www.investorwords.com/5013/tracking_stock.html; Change Wave Glossary (2004), "Tracking Stock," *ChangeWave Research:* Retrieved February 23, 2004, from http://www.changewave.com/Glossary.html#T.

Fraudulent Accounting

Amid Ebbers's personal financial difficulties, rumors circulated that WorldCom might have some questionable accounting, that its debt might be downgraded, that the company was on the verge of bankruptcy, and that it was a takeover candidate for a Bell or an overseas carrier.[19] The Securities and Exchange Commission launched an investigation of WorldCom in February 2002.[20] In the meantime, a small team of WorldCom internal auditors suspected that WorldCom's financial statements were fraudulent. In secret, they began an investigation. Cynthia Cooper, the vice-president of internal audit, discovered the accounting fraud on her own initiative. (WorldCom executives initially took credit for launching an internal audit that discovered the errors.[21]) Cooper found that each quarter Scott Sullivan, WorldCom's chief financial

19. Stephanie N. Mehta, "Feature: WorldCom's Bad Trip," *Fortune* (February 19, 2002), http://www.fortune.com/fortune/subs/print/0,15935,374157,00.html.

20. Jared Sandberg, Rebecca Blumenstein, and Shawn Young, "WorldCom Admits $3.8 Billion Error in its Accounting," *Wall Street Journal* (June 26, 2002), A1.

21. Susan Pulliam, Jared Sandberg, and Dan Morse, "Prosecutors Gain Key Witness in Criminal Probe of WorldCom," *Wall Street Journal* (July 3, 2002), A1.

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INFORMATION BOX

BUYING ON MARGIN AND MARGIN CALLS

Buying on margin is borrowing money from a broker to buy a stock and using your investment as collateral. Investors typically use margin trading to buy more stock than they would be able to normally afford without fully paying for it. The margin is the difference between the market value of a stock and the loan a broker makes.

To buy on margin, you need a *margin account*, not merely a cash account in which you trade just with the money in the account. By law, an initial investment of at least $2,000 is required for a margin account (some brokerages require more). This deposit is known as a *minimum margin*. With an operational margin account, you can borrow up to 50 percent of the purchase price of a stock. The portion of the purchase price that you deposit in a margin account is known as the *initial margin*. Investors do not have to margin all the way up to 50 percent. They can borrow less, say, 10 percent or 25 percent.

An Example

Let's say you buy a stock for $100 and the stock rises to $150. If you bought the stock in a cash account and paid for it in full, you will earn a 50 percent return on your investment; however, if you bought the stock on margin—paying $50 in cash and borrowing $50 from your broker—you will earn a 100 percent return on the money you invested. Of course, you will still owe the brokerage firm $50 plus interest.

The downside to using margin is that if the stock price decreases, substantial losses can mount quickly. For example, let's say the stock you bought for $100 drops to $50. If you fully paid for the stock, you will lose 50 percent of your money; however, if you bought on margin, you will lose 100 percent, and you still owe the broker firm the interest on the loan.

Margin Call

There is a restriction imposed on a margin account regarding the amount the brokerage firm needs you to maintain after you trade (i.e., a *maintenance margin*). Margin calls are concerned with the maintenance margin. In unstable markets, prices can fall very quickly. If the *equity* (value of the securities minus what you owe the brokerage firm) in your account falls below the maintenance margin, the brokerage will issue a dreaded *margin call*. A margin call requires you (the investor) to either liquidate your position in the stock or add more cash to the account. If you do not meet a margin call for any reason, the brokerage firm has the right to sell your securities to increase your account equity until you are above the maintenance margin. Your broker may not even be required to consult you before selling.

INVITATION TO DISCUSS

What are the advantages of buying on margin? What are the risks of using a margin account? Do you think Bernie Ebbers placed too much pressure on himself by buying on margin? Why or why not?

Sources: Fiscal Reference (2004), "Investor Tips: Margin—Borrowing Money to Pay for Stocks," *FiscalReference.com*, retrieved February 23, 2004 from www.fiscalreference.com/sec/margin.htm; Investopedia.com (2004); "Margin Call," *Equade Internet Ltd.*, retrieved February 23, 2004 from www.investopedia.com/tenus/m/margincall.asp.

officer, would move operating costs to capital accounts so as to keep WorldCom's profits high. Sullivan's goal was to keep line costs—the access charges and transport fees paid to local telephone carriers to use their networks to complete calls—to 42 percent of WorldCom's revenue. Any costs above that 42 percent mark were transferred to the capital accounts as prepaid capacity costs, where they were depreciated over time. This boosted cash flow and profit and transformed a net loss in 2001 into a net profit.[22] Cooper found that for five quarters covering 2001 and 2002, WorldCom had buried $3.9 billion in expenses.

When Cooper confronted Sullivan with the questionable accounting practice, he told her to delay her audit. By the end of the second quarter of 2002, Sullivan planned to wash the $3.9 billion through the company's books with a large write-down WorldCom had previously announced. Cooper decided to take her findings to Max Bobbitt, chairman of the audit committee of WorldCom's board. At that point, Bobbitt notified the newly hired accountants, KPMG LLP, of the discrepancy. On June 20, 2002, WorldCom's audit committee met at KPMG's Washington office and asked Scott Sullivan and David Myers (senior vice-president and controller) to justify their accounting treatment. Sullivan explained his position, but the KPMG partner in charge of the WorldCom account was skeptical and gave Sullivan the weekend to produce a so-called white paper that would clearly set out his justification. At a board meeting the night of June 24, 2002, at WorldCom's offices, Sullivan again made his case. A national practice specialist at KPMG said, however, that the issue was "an open-and-shut case" against Sullivan's position.[23] The board members concluded that they would have to restate earnings, and they asked Sullivan and Myers to resign. Scott Sullivan maintained that what he was doing was legitimate, and refused to resign because he did not want to imply guilt. The board then fired him. After WorldCom announced the findings, the Securities and Exchange Commission filed civil fraud charges, and the Justice Department filed criminal charges against WorldCom and several of its executives (including Ebbers, Sullivan, and Myers). An additional $3.3 billion in improper accounting was uncovered by August 9, 2002, bringing the total fraud to $7.2 billion.[24]

Consequences

By the end of 2002, four employees had pleaded guilty in the WorldCom accounting scandal. David Myers, WorldCom's former controller, pleaded guilty to three felony counts in federal court, saying he helped manufacture profits at the behest of "senior management" as part of a massive scheme to defraud investors and meet Wall Street

22. Stephanie N.Mehta, "Telecom: Is There Any Way Out of the Telecom Mess?," *Fortune* (July 8, 2002), http://www.fortune.com/fortune/subs/print/0,15935,367241,00.html.

23. Jared Sandberg, Deborah Solomon, and Rebecca Blumenstein, "Disconnected: Inside WorldCom's Unearthing of a Vast Accounting Scandal," *Wall Street Journal* (June 27, 2002), A1.

24. Susan Pulliam, Jared Sandberg, and Deborah Solomon, "WorldCom Board Will Consider Rescinding Webbers's Severance," *Wall Street Journal* (September 10, 2002), A1; and Jared Sandberg and Deborah Solomon, "WorldCom Board to Begin Search for New CEO," *Wall Street Journal* (September 11, 2002), A3, Leading the News.

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expectations. The guilty plea, the first in the WorldCom case, came as part of his agreement to cooperate with the government's investigation into the scandal at WorldCom.[25] Also indicted by a federal grand jury in New York were the former directors of general accounting, management accounting, and legal accounting: Buford "Buddy" Yates Jr., Betty Vinson, and Troy Normandy. Federal prosecutors also won an indictment against Scott Sullivan, once one of the most celebrated chief financial officers on Wall Street. He was accused of orchestrating WorldCom's $7.2 billion fraud. Sullivan did not cooperate with officials, making it difficult to prove a link to Ebbers.[26] In April 2003, WorldCom announced plans to change its name to MCI. WorldCom had used the MCI moniker for its consumer long-distance operations after its purchase of MCI in 1998. The MCI name was seen as not suffering from the stigma associated with the WorldCom name. Creating an entirely new name would have cost hundreds of millions of dollars and would have wasted the widespread recognition that the MCI name already had. (See Information Box: "Reputation and Brand Recognition.")

But MCI still faced escalating problems. WorldCom had filed for bankruptcy court protection in July 2002. WorldCom had to disclose all of the accounting problems and create a reorganization plan for emerging from bankruptcy. By 2003, WorldCom's accounting fraud, dating back to 1999, had mounted to $11 billion.[27] It faced additional civil charges from the SEC for misleading investors for more years than previously disclosed. Competitors were claiming that MCI engaged in a variety of schemes to avoid paying access charges, including dumping calls onto AT&T's network by routing them through Canada and disguising long-distance calls as local traffic. MCI denied any wrongdoing and said that access charge disputes are routine and have existed between local and long-distance carriers for decades.[28] The company also faced charges of avoiding hundreds of millions of dollars in state taxes through a special shelter created by KPMG for WorldCom. MCI said it conducted its own review and concluded that the tax program recommended by KPMG in 1997 and 1998 was appropriate.[29]

ANALYSIS

The telecom industry of today is very different from the stable, regulated, slow-growing industry Ebbers entered in 1983. Competition is intense, prices have decreased,

25. Susan Pulliam and Jared Sandberg, "Two WorldCom Ex-Staffers Plead Guilty to Fraud," *Wall Street Journal* (October 11, 2002), A3, Leading the News, and Deborah Solomon, "WorldCom's Ex-Controller Pleads Guilty to Fraud," *Wall Street Journal* (September 27, 2002), A3, Leading the News.

26. Deborah Solomon and Susan Pulliam, "U.S., Pushing WorldCom Case, Indicts Ex-CFO and His Aide," *Wall Street Journal* (August 29, 2002), A1.

27. Kara Scannell, "WorldCom Ex-Chief of Finance Faces New Bank-Fraud Charges," *Wall Street Journal* (April 17, 2003), B2.

28. Almar Latour, Yochi J. Dreazen, and Laurie Hays, "MCI, Hoping to Exit Bankruptcy, Faces New Investigation of Fraud," *Wall Street Journal* (June 28, 2003), A1, A6, and "New Fraud Inquiry for WorldCom," *BBCNews* (July 28, 2003), http://news.bbc.co.uk/l/hi/business/3100975.stm.

29. Nick Baker, "Richard Thornburgh Releases Third Report on WorldCom," *Wall Street Journal Online* (January 26, 2004), http://online.wsj.com/article_print/O,BT_CO_20040126_003 920,00.htm.

INFORMATION BOX

REPUTATION AND BRAND RECOGNITION

In 1968, Microwave Communications Inc. was incorporated. Later to become MCI, this spunky little company was one of the first to attack AT&T and stop Ma Bell's dominance of the telecommunications industry. In 1969, the FCC approved an application from Microwave Communications, Inc. (MCI) to build a private-line microwave communications system between Chicago and St. Louis that competed with AT&T. Then, without quite realizing what it had done, the FCC approved MCI's actions to provide the first competitive long-distance service for U.S. businesses. These actions ultimately stimulated full competition in the long-distance phone business. The price of long-distance telephone service is one illustration of this increasing competitiveness. When MCI was first incorporated, the average long-distance telephone call was 24 cents a minute. By 1984, the price had risen to 32 cents a minute. In 2000, the price was down to 12 cents per minute. MCI had a reputation as an important private institution that engaged in competition and succeeded.

After the 1998 purchase of MCI by WorldCom, the MCI name continued to be used only for WorldCom's consumer long-distance operations. In 2003, WorldCom decided to change its name to MCI amid its image crisis associated with its accounting scandal. WorldCom believed that the MCI reputation wasn't as tarnished as the WorldCom brand. Former MCI employees say that they feel a deep sadness. "For years, we all felt like we were making a difference in the world, that we were always on the right side of competition," stated Frank Walter, former vice president of corporate relations for MCI. "I think anyone who worked for MCI is devastated" (Blumenstein, Dreazen, and Chittum 2002, A9).

INVITATION TO DISCUSS

How important is reputation? Do you think, like the WorldCom executives, that MCI's brand is still intact, or like the former MCIer that the brand has been tarnished? WorldCom could have created a new name (like Philip Morris's change to Altria Group Inc. "to better clarify its identity as the owner of both food and tobacco companies that manage some of the world's most successful brands" [see http://www.philipmorris.com]). Do you think WorldCom should have created a new name? Why or why not? How important is name recognition? Can MCI return to its former reputation?

Sources: "WorldCom to Take MCI as New Name Amid Image Crisis," *Wall Street Journal* (April 11, 2003), B6; Mitch Betts, "The Story So Far," *Computerworld* (January 20, 2003), retrieved February 25, 2004 from http://www.compuerworld.com/printthis/2003/0,4814,77644,00.html; and Rebecca Blumenstein, Yochi J. Dreazen, and Ryan Chittum, "Questioning the Books: MCI, a Company with a Cause, Has Reputation Hurt by Scandal," *Wall Street Journal* (June 28, 2002), A9.

technology is in constant flux, and the capital markets have deteriorated. It is a world that favors new products and customer care over cost cutting, and expects growth in sales as well as the bottom line. WorldCom and Ebbers never excelled at product evolution and customer care and service, partly because they didn't have to. Take customer relations. Though Ebbers's cost cutting won kudos from investors, neither Wall

Street nor Ebbers seemed concerned that slashing expense budgets made it nearly impossible for high-end sales reps to entertain customers and prospective clients. One WorldCom executive remembers meeting with Ebbers during a particularly good year for his division. Ebbers looked up from a spreadsheet and admonished him, saying, "I see you spent $3,000 taking customers to a Cubs game."[30] Customers had come to expect these types of perks, but Ebbers wasn't interested in providing them.

WorldCom was far from a leader in developing new products and services, either. For example, Ebbers formed an interest in owning wireless assets only after many purses and pockets already had cell phones in them. Even as it became the nation's number-one carrier of Internet traffic, WorldCom ignored such trends as high-end corporate Web site management.[31]

By early 2001, WorldCom's growth had started to slow. The thriving telecommunications market itself was beginning to falter after a frenzied investment in fiber-optic networks. Multibillion-dollar contracts had been signed with third-party telecommunications firms such as Baby Bells to ensure that WorldCom would be able to complete calls for its customers. WorldCom found that roughly 15 percent of these costs weren't producing revenue. But WorldCom was not alone in this situation. Suddenly, telecom firms found that there was too much fiber, too much capacity, and too much inventory across the whole telecommunications industry. How WorldCom handled the situation is what distinguished it. Instead of reducing profits by the costs of the access charges that were not producing revenue, WorldCom accounting irregularities spread those costs to a future time when the anticipated revenue might arrive. This violated one of accounting's most fundamental rules—capital costs should be connected to long-term investments, not ongoing activities.[32]

Unfortunately, WorldCom had few ways to compensate for the slowing growth. Although overcapacity in the telecom industry prevented price increases, it tried to at least maintain prices. It could cut costs, but was already running very lean—a trademark of Ebbers's management style. Consequently, WorldCom needed to sell more sophisticated and pricier services, such as Web hosting and private-line services that route calls over the Internet. However, it had been promising heady results from new services for years, but those results never materialized.[33]

WorldCom's bookkeeping abuses revealed the difficulty even large telecom firms had to make money amid a vast oversupply of network capacity, and intense price competition. To competitors it seemed that WorldCom had some secret formula for producing decent margins when they could not. Such deception put additional pricing pressure on other carriers, made investors and lenders apprehensive of anything telecom related, and forced telecom firms to cut back orders and cannibalize their capital expenditure budgets to survive.[34]

30. Stephanie N.Mehta, "MCI: Is Being Good Good Enough?" *Fortune* 148 (9) (October 27, 2003), p. 117–124.

31. Mehta, "Can Bernie Bounce Back?"

32. Sandberg, Solomon, and Blumenstein, "Disconnected: Inside WorldCom's Unearthing of a Vast Accounting Scandal."

33. Mehta, "Feature: WorldCom's Bad Trip."

34. Mehta, "Telecom: Is There Any Way Out of the Telecom Mess?"

The collapse of WorldCom demonstrates how a single earnings number at the bottom of an income statement can be built on a collection of manipulations that produce deceptive results.[35] By merely tweaking assumptions, WorldCom exactly met analysts' earnings expectation, avoiding the penalty that investors were imposing on other companies that failed to meet or beat their numbers.

Did Bernie Ebbers Know?

To be found guilty of criminal charges, prosecutors had to prove that Bernie Ebbers willfully or recklessly violated securities laws that prohibit the dissemination of materially false financial statements. Prosecutors needed to demonstrate not only that Ebbers knew of the accounting in question but also that he knew it was illegal or fraudulent. That left room for Ebbers to argue that he didn't know that what Scott Sullivan was doing was wrong.[36]

Did Bernie Ebbers know what was going on? He had an eye for numbers. He cut budgets and managed minutiae. Some people close to the company said Ebbers must have known about Sullivan's actions. The two men were inseparable and had adjoining offices. Other WorldCom officials found it hard to believe that Ebbers was schooled enough in accounting to understand what Sullivan was doing.[37] Some casual observers and insiders of the telecom industry argued that Bernie Ebbers did not understand the telecom industry—he wasn't even a telecom guy, "just a stingy motel operator." But that wasn't quite true. Ebbers had been the CEO of WorldCom for seventeen years.

If no evidence directly implicating Ebbers in the fraud is uncovered, investigators could build a circumstantial evidence case against Ebbers, driven by the size of the fraud and the fact that he was in charge of the company. There is some evidence that Ebbers knew about the methods that artificially inflated the company's earnings. First, Scott Sullivan, ex-CFO of WorldCom, gave federal prosecutors a broad outline of discussions he had had with Ebbers about the company's fraudulent accounting practices. Although the outline did not directly link Ebbers to the company's fraudulent accounting practices it did make it clear that he knew about them.[38]

Accounts of meetings, e-mails, and voice mails also suggest that Ebbers knew about the accounting improprieties. While Ebbers did not use e-mail, a memo written by Ebbers to Ron Beaumont, the company's chief operating officer, indicated that Ebbers knew about the accounting entries used to meet analysts' revenue expectations. Ebbers allegedly knew about a double set of books kept by WorldCom's accountants

35. Henry Sender, "Inside the WorldCom Numbers Factory," *Wall Street Journal* (August 21, 2002), Cl, Heard on the Street.

36. Laurie P. Cohen, Susan Pulliam, and Deborah Solomon, "WorldCom Report Suggests Ebbers Knew of Accounting Irregularities," *Wall Street Journal* (March 12, 2003), A3, and Yochi J. Dreazen, Shawn Young, and Carrick Mollenkamp, "Sullivan Says Ebbers Knew of WorldCom Methods," *Wall Street Journal* (July 12, 2002), A3, Leading the News.

37. Jared Sandberg, "Was Ebbers Aware of Accounting Move at His WorldCom?" *Wall Street Journal* (July 1, 2002), A3, Leading the News.

38. Laurie P. Cohen, and Deborah Solomon, "Ex-Finance Chief at WorldCom Outlines Talks," *Wall Street Journal* (December 20, 2002), A3.

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and made it clear that he wanted sales commissions paid on the true revenue figures rather than the adjusted ones.[39]

Who Can Be Blamed?

Many share the blame. Richard Thornburgh, former U.S. Attorney General, was appointed the bankruptcy court examiner in charge of investigating the WorldCom fraud. Thornburgh's three reports describe a company culture rampant with conflicts of interests and lacking proper controls. With the speedy acquisition of more than seventy companies, WorldCom's management and internal controls could not keep pace. He found fault with WorldCom's board of directors, external accountants, lawyers, and investment bankers.

The board of directors and its audit committee were ineffective and abdicated many of their responsibilities to Ebbers. Consequently, they were often kept in the dark. The board agreed to extend more than $400 million in loans to Ebbers at rates far below commercial interest rates without checking his ability to repay the loans.[40] Ebbers argued that stockholders benefited from these loans. He had already agreed to sell 3 million WorldCom shares to meet a margin call, and the loans kept him from having to sell even more, which would have hurt the share price. Critics of such corporate loans, however, protested that they diverted company resources to benefit executives at the expense of shareholders.[41]

Arthur Andersen, the company's external auditor, somehow missed WorldCom's senior management's override of internal controls to hide its true financial condition. This was despite warnings from suspicious WorldCom employees as far back as 2000. Andersen stated that they brought the issue to the attention of senior financial management at WorldCom and were informed that the issue would be corrected in the third quarter of 2000.[42] This suggests, however, that Arthur Andersen was too lackadaisical, especially given its own maximum-risk client label for WorldCom.[43] WorldCom executives kept Andersen in the dark by altering crucial documents and denying access to a database in which the most sensitive financial numbers were stored. Why didn't Andersen complain to the company's board or its audit committee? Instead, the accounting firm kept signing off on WorldCom's numbers, which company executives used to silence questions from its critics about its financial situation.

Criticism of WorldCom general counsel, Michael Salsbury, occurred because of his lack of advice which allowed the fraud to occur in the first place.[44] In most corporate contexts, counsel takes the responsibility of advising management and a board of directors on corporate governance structure. Salsbury did not see this as his

39. Cohen, Pulliam, and Solomon, "WorldCom Report Suggests Ebbers Knew of Accounting Irregularities."

40. Nick Baker, "Update: WorldCom Report Critical of KPMG Plan, Citigroup," *Wall Street Journal* (January 26, 2004), http://online.wsj.com/article_print/0,BT_CO_20040126_006195,00.htm.

41. Mehta, "Can Bernie Bounce Back?"

42. Yochi J. Dreazen, and Deborah Solomon, "WorldCom Alerts about Accounting Went Unheeded," *Wall Street Journal* (July 15, 2002), A3.

43. Pulliam and Sandberg, "WorldCom Seeks SEC Accord as Report Claims Wider Fraud."

44. Rebecca Blumenstein and Jesse Drucker, "MCI's Treasurer, Counsel Resign after Disclosures," *Wall Street Journal* (June 11, 2003), A3, A12.

responsibility and did not advise on such matters. The board hence did not benefit from expert advice that might have helped to avoid some of the monitoring and governance problems WorldCom faced.

Conflicts of interest were prevalent in WorldCom's relationship, and more specifically Bernie Ebbers's relationship with its investment banker Salomon Smith Barney. There is substantial evidence that Ebbers steered investment banking business to Salomon Smith Barney in return for personal financial favors. Ebbers dominated the selection of WorldCom's investment bankers, steering the group to Citigroup's Salomon Smith Barney division. Over a six-year span ending in 2002, WorldCom paid Salomon more than $100 million in fees. During the same time, Salomon allowed Ebbers to buy huge stakes in several companies before shares were sold on the open market. The deals allowed Ebbers to garner a personal profit of $12 million.[45]

EPILOGUE

At its peak, shareholders of WorldCom held stock worth $118 billion. These shareholders who lost money as a result of the massive accounting fraud at WorldCom will receive $750 million in compensation under a plan to settle fraud charges filed against WorldCom by the Securities and Exchange Commission. The settlement includes a $500 million cash payment and an additional $250 million in shares of the company once it emerges from bankruptcy-court protection. Investors who are compensated through the fund will still be able to pursue separate legal action against the company in court. In addition, MCI was mandated ethics training and stringent accounting controls. WorldCom's reorganization plan, approved on October 31, 2003, by U.S. Bankruptcy Judge Arthur J. Gonzalez reduced WorldCom's total debt from $42 billion to about $5.5 billion. It was also freed of interest payments during 2003, allowing it to hoard cash. When WorldCom entered bankruptcy, it had about $200 million in cash on hand. In late 2003 it had more than $5 billion in the bank. The company also used the bankruptcy process to get out of onerous contracts with other companies. For example, WorldCom got out of contracts for tens of thousands of square feet of office space around the country.[46]

When WorldCom emerges from bankruptcy court protection, using the revived name of MCI, it will have a smaller debt load than many of its competitors. (See Figure 9.2: MCI's Debt versus Debt of Competitors.) Its debt will be about $5.5 billion compared to others. SBC's chief financial officer summed up the feelings of rivals, by saying, "We're appalled." Verizon's chairman echoed this by saying, "Crime pays."

45. Christopher Stern, "Report Reveals More WorldCom Problems," *Washington Post* (January 26, 2004), http://www.washingtonpost.com/ac2/wp-dyn/A49019-2004Jan26?language=printer., and Christopher Stern, "WorldCom May Owe Millions in State Taxes," *Washington Post* (January 27, 2004), E01.

46. Mehta, "MCI: Is Being Good Good Enough?"; Deborah Solomon and Shawn Young, "MCI to Pay Investors $500 Million," *Wall Street Journal* (May 20, 2003), A3, A13; Shawn Young, "MCI Boosts Payout to Shareholders," *Wall Street Journal* (July 3, 2003), A3, A5; and Christopher Stern, "Judge Backs WorldCom's Bankruptcy Reorganization Plan," *Washington Post* (October 31, 2003), http://www.washingtonpost.com/ac2/wp-dyn/A48350-2003Oct3?language=printer.

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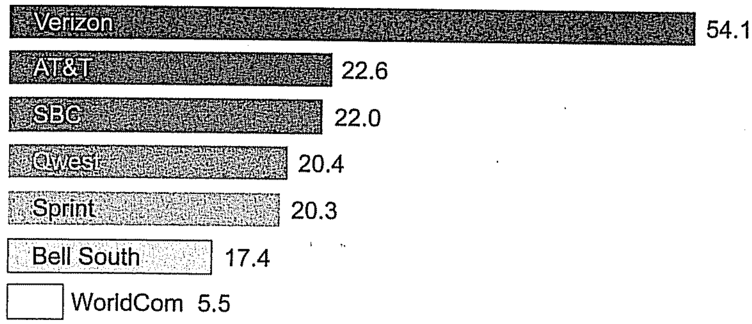
Figure 9.2 MCI's Debt versus Competitor's Debts (dollars in billions).



Source: Rebecca Blumenstein and Gregory Zuckerman, "WorldCom: Hold the Heavyweight's Requiem," *Wall Street Journal* (April 15, 2003), C1, C3.

Commentary: Note that WorldCom's $5.5 billion debt is post-bankruptcy. WorldCom's stock will be "cancelled" when the reorganization is completed. Shareholders of WorldCom will be allocated $250 million in shares of the new MCI stock. Their WorldCom holdings-worth $118 billion at their peak-will be wiped out and replaced by the much lower amount of MCI stock.

Competitors continue to object to the $750 million settlement, saying "it is little more than a slap on the wrist for a company that perpetrated the biggest accounting fraud in U.S. history." MCI is still the nation's second largest long- distance company with 20 million customers. Businesses and government agencies continue to be the backbone of its customer base and the evolution of the Internet a focus for its growth. The only major asset sold during bankruptcy protection was an ailing wireless division.[47]

New Leadership

Michael Capellas took over as CEO of WorldCom on December 2, 2002. He was the former CEO of Compaq and president of Hewlett–Packard (when the two merged). Capellas was viewed as a straight-talking operational professional who thrives on adversity and can soothe the fears of employees, customers, and Wall Street. But, it wasn't clear whether those skills could reverse WorldCom's destruction of its public image.

Capellas signed a three-year contract valued at $20 million. He will receive an annual salary of $1.5 million, a signing bonus of $2 million, a further $1.5 million bonus if he meets certain performance targets, and $12 million in restricted stock with a vesting period of three years. If he exercises any stock options, he cannot sell the WorldCom stock for a twelve-month period.[48]

47. Young, "MCI Boosts Payout to Shareholders,"; Stem, "Judge Backs WorldCom's Bankruptcy Reorganization Plan"; Rebecca Blumenstein and Gregory Zuckerman, "WorldCom: Hold the Heavyweight's Requiem," *Wall Street Journal* (April 15, 2003), C1, C3, Heard on the Street; and Grant Gross, "Critics Slam WorldCom Bankruptcy Plan," *Network World Fusion* (July 22, 2003), http://www.nwfusion.com/cgi-bin/mailto/x.cgi.

48. Colleen DeBaise, "Judges Approve WorldCom CEO's New Pay Package", *Wall Street Journal* (December 17, 2002), B7, Technology.

To fix MCI, Capellas must integrate various units that his predecessor bought, keep the cutthroat competition at bay, and align MCI's costs with those of top rivals (e.g., AT&T's operating profit margins are about 26 percent, while MCI's are about 10 percent). Capellas' theory: The company did some cost cutting around mergers but did not culturally absorb all the acquisitions to benefit from the integration savings. He believes that the restructuring of WorldCom will require more layoffs and deeper cuts in cost structure. He urges employees to place more emphasis on new products and winning small and medium-sized business customers.[49]

UPDATE

After two years of trying to build a case against Ebbers, federal prosecutors indicted him on March 2, 2004, and he was led away in handcuffs. Former WorldCom CFO, Scott Sullivan, pleaded guilty to devising a massive accounting fraud that pushed WorldCom into bankruptcy. He agreed to cooperate with the federal prosecutors in the continuing investigation of WorldCom. Ebbers was charged with conspiracy to commit securities fraud and filing a false statement with the U.S. Securities and Exchange Commission. The government alleged that the two men were well aware of what they were doing. Reid Weingarten, an attorney for Ebbers, stated that Ebbers never intended to mislead investors or to improperly manipulate WorldCom's numbers. In addition, he believes that a "fair-minded jury" will find that Ebbers never acted with criminal intent. Both men face up to twenty-five years in prison.[50]

WHAT CAN BE LEARNED?

Fear and intimidation set the climate for corporate wrongdoing. A few employees challenged Scott Sullivan's actions. For example, Steven Brabbs, who ran a WorldCom international division, reported his suspicions about accounting improprieties to Arthur Andersen. He was reprimanded by his boss and got nowhere with his complaint. Other employees did not disclose accounting problems they discovered because they felt intimidated and feared for their jobs. Bankruptcy court reports indicated that while dozens of people knew about the fraud, it remained hidden from auditors and investors because employees were afraid to speak out. If employees do not have the confidence to challenge their boss when they believe activities are wrong or unethical, corporate wrong-doing is likely to go unchecked.

49. Stephanie N. Mehta, "WorldCom: Can Mike Save WorldCom?" *Fortune* (December 3, 2002): http://www.fortune.com/subs/print/0,15935,395214,00.html; Shawn Young, "WorldCom Plans Deeper Cost Cuts," *Wall Street Journal* (January 15, 2003), B5, Technology; and Neil Weinberg, "Screaming Match," *Forbes.com* (October 13, 2003), http://www.forbes.com/forbes/2003/1013/062_print.html.

50. WorldCom's Ebbers Pleads Not Guilty," *Wichita Eagle* (March 4, 2004), 4B, *Business & Money;* Aude Lagorce, "Ex-World Com CEO Bernie Ebbers Indicted," *Forbes* (March 2, 2004), http://forbes.com/commerce/2004/O3/02/cx_al_ 0302ebbers.html; and Michael Rapoport and Janet Whitman, "Former WorldCom CEO Ebbers Indicted on 3 Counts," *Wall Street Journal* (March 2, 2004), http://online.wsj.com/article_print/O,BT_CO_20040302_004483,00.html.

Overly optimistic or conservative investment decisions can be disastrous. WorldCom overinvested in telecom equipment and services. This led to too much fiber, too much capacity, and too much inventory. However, WorldCom did not invest in corporate computer systems needed to monitor its huge, far-flung business. Bernie Ebbers used to loudly criticize his competitors, bragging about how he spent so little on information technology in his operations—just half what Sprint and AT&T spent.[51] Eventually he paid for his arrogance.

Adequate oversight of accounting requires checks and balances. Scott Sullivan, WorldCom's CFO at the time of the fraud, and a small group of executives were legendary for keeping tight control over WorldCom's books. Lots of corporations allow individual units to do their own accounting, and then consolidate those results for the overall corporation. Sullivan, however, eager to slash costs from the more than seventy companies WorldCom acquired since 1983, decided to centralize all of the U.S. accounting at the corporation's Mississippi headquarters. The centralization proved beneficial early on, as WorldCom did manage to aggressively cut costs. But that tight control resulted in very few checks and balances within WorldCom, and encouraged fraud.

Accounting deception will eventually be found out. It took awhile to find the accounting deceptions and abuses practiced by WorldCom's executives. Auditors could have employed industry diagnostics (not just accounting diagnostics) to recognize that Sullivan disguised operating expenses as long-term investments. Anyone who understood telecom industry norms for capital expenditures should have noticed investments were far out of usual bounds. Eventually, it did catch up with WorldCom, even though the external auditors were not the ones that discovered the fraud.[52] Rather, an astute group of internal auditors who had a sense of ethical purpose uncovered the accounting fraud. A company or individuals can only get by for so long with unethical (or criminal) actions before someone discovers their deceit.

Be wary of matching competitors' actions when their results seem too good to be true. Ken Sichau, president of business sales for AT&T, stated, "It was a mystery to us how WorldCom could report the numbers they did. It just didn't add up. We knew we were performing well in the marketplace, aggressively managing expenses, and pricing prudently. But we were determined to be more competitive with WorldCom's pricing and apparent results, so we made some tough decisions."[53] AT&T's (and other WorldCom rival's) reactions to WorldCom's actions ended up hurting them. When things seem too good to be true, they usually are.

CONSIDER

Can you add any additional learning insights?

51. David Kirkpatrick, "Fast Forward: Savvy Telecom Execs Outpaced Sleepy Auditors," *Fortune* (July 11, 2002), http://www.fortune.com/fortune/subs/print/O,15935,372759,00.html.

52. *Ibid.*

53. Mehta, "Telecom: Bird of a Feather."

QUESTIONS

1. "Crime pays" was stated by an executive of an MCI rival. Discuss.
2. It looks like WorldCom will resurrect itself—under the MCI brand name—from the largest accounting scandal ever, with $36 billion less debt. Do you think MCI should use price as a competitive weapon? Discuss the influence of a price-war on the telecommunications industry.
3. MCI's competitors are particularly bothered by the fact that MCI is scheduled to emerge from bankruptcy with most of its debt cleared off its books. MCI's rivals believe that MCI should be liquidated because it isn't fair for MCI to emerge from bankruptcy nearly debt free and able to create unfair price competition that other companies cannot afford. What do you think?
4. Do you think Bernie Ebbers knew about the accounting fraud? Do you think he should go to jail?
5. Was the $750 million settlement between the SEC and MCI fair?
6. Do you think Michael Capellas can turn around MCI, or will the company be sold off to a competitor?
7. Do you think MCI was guilty of rerouting long-distance calls to illegally reduce costs, or do you think it is sour grapes on the part of MCI's rivals?
8. Who was most to blame for WorldCom's implosion?

HANDS-ON EXERCISES

1. You are the new chief ethics officer for MCI and report directly to CEO Michael Capellas. Design a strategy to ensure ethics compliance by all employees.
2. It is 2002, and Troy Normand, an internal auditor for WorldCom, has discovered that line costs and prepaid capacity have been booked as capital expenditures when they should have been booked as operating expenses. As of yet, he has not received a satisfactory answer to his question about the practice of improperly booking operating expenses. Mr. Normand is concerned about losing his job (he has a family to support). What would you suggest Mr. Normand do in this situation?

TEAM DEBATE EXERCISES

1. It is July 2002. WorldCom has just disclosed that it has uncovered accounting improprieties for 2001 and 2002 of $3.9 billion. John Sidgmore, the CEO of WorldCom, believes that the best course of action for WorldCom is to declare bankruptcy and clear up problems through bankruptcy proceedings. Two vocal WorldCom board members believe that the best course of action for WorldCom is to sell the company to another telecommunications concern. Debate the two sides.

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2. U.S. Bankruptcy Judge Arthur J. Gonzalez said that "Congress and the courts have recognized that the chief function of the bankruptcy process is to prevent the liquidation of a company for the greater economic good of saving jobs and the continued production of goods and services."[54] MCI's rivals and critics object to the SEC settlement ($750 million), saying it is little more than a slap on the wrist for the company that perpetrated the biggest accounting fraud in U.S. history. They believe that WorldCom/MCI should be liquidated. Debate the two sides.

INVITATION TO RESEARCH

1. What is the influence of the "Do Not Call" federal legislation on the telecommunications industry, and, in particular, MCI?
2. MCI's CEO Michael Capellas promised new products. He stated that there were many products and services that MCI had developed, but they had not been introduced to the market. In addition, he said that a new market for MCI would be computer and network security for business customers. Has MCI been successful at bringing new products and services to market?
3. WorldCom was scheduled to emerge from bankruptcy protection by a court-imposed deadline of February 28, 2004.[55] Did MCI emerge from bankruptcy as planned? What has happened to the company since that time?
4. Have customer care and product innovation become more important at MCI after the collapse of WorldCom? If so, what evidence supports this?
5. In July 2003, rivals AT&T, Verizon, and SBC claimed MCI engaged in a variety of schemes to avoid paying access charges, including dumping calls onto AT&T's network by routing them through Canada and disguising long-distance calls as local traffic to avoid paying access fees for use of other operators' networks.[56] Under Federal Communications Commission rules, rerouted calls are not to have the jurisdiction or status of a call changed. These allegations, if proven, would certainly raise questions about the clean-up of MCI's business ethics and practices. What was the outcome of these allegations?
6. Has the introduction of Voice Over Internet Protocol (VOIP) influenced MCI? If so, how? If not, why not?

54. Christopher Stern, "Judge Clears WorldCom's Exit from Bankruptcy," *Washington Post* (November 1, 2003), A01.

55. Christopher Stern, "WorldCom Wraps Up Restatements," *Washington Post* (January 12, 2004), E03.

56. Latour, Dreazen, and Hays, "MCI, Hoping to Exit Bankruptcy, Faces New Investigation of Fraud"; and Stephanie N. Mehta, "Spats: Fighting over the Phone," *Fortune* (August 11, 2003), http://www.fortune.com/fortune/subs/print/O,15935,474476,00.html.