Worldcom: The Fall of a Telecom Titan
Nailed for the biggest bookkeeping deception in history, a fallen telecom giant gives investors one more reason to doubt corporate integrity

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Soon after WorldCom CEO John Sidgmore revealed the most sweeping bookkeeping deception in history, a marked-up copy of his internal memo on the scandal was e-mailed to folks around the telecom industry. Under his predecessor, Sidgmore announced, WorldCom had overstated a key measure of earnings by more than $3.8 billion over five quarters, dating back to January 2001. The company's reported profits, it turned out, were really losses. In his memo to employees explaining America's latest corporate disgrace, Sidgmore wrote last Wednesday, "Our customers can count on WorldCom to meet their communications needs today and tomorrow." The memo that circulated included one wag's cynical addition: "Friday is sort of doubtful." Sidgmore went on to write, "I know I can count on you to be with me." To which the wag had tacked on: "Don't bother with a resume; no other telecoms are hiring."

As WorldCom — once big and rich enough to swallow No. 2 long-distance carrier MCI — struggles to survive, it is laying off 17,000 workers. Its stock, which peaked at $64.50 three years ago, stopped trading last Tuesday at 83[cents], having all but wiped out employee retirement accounts. The plunge in WorldCom shares has cost investors upwards of $175 billion — nearly three times what was lost in the implosion of Enron. WorldCom is not yet financially bankrupt, but it's clear that it — like a fat slice of corporate America — has been ethically bankrupt for years. We're only now getting a look at the red ink on the moral balance sheets, and new revelations of malfeasance in one company after another are sending shocks around the globe.

The dollar is falling. Stocks are in a swoon. Foreigners are calling home capital. Corporate insiders are dumping shares by the bucketful. Individuals are redeeming mutual-fund shares. Pension funds are getting socked. Banks are taking loan-portfolio hits. This is all a direct result of the spreading collapse of confidence in U.S. companies and the executives and board members who run them — a crisis that threatens to untrack a fragile economic recovery. Speaking at an economic summit in Canada, President Bush said he was "concerned about the economic impact of the fact that there are some corporate leaders who have not upheld their responsibility." The Federal Reserve seems concerned as well. At a meeting last week, it left interest rates unchanged — signaling that the recovery isn't firmly rooted. Some economists speculate that the Fed will soon cut rates to guard against a "double-dip" recession.
In the context of recent developments, President Bush's musings on CEO responsibility are as understated as the expenses in WorldCom's financial statements, the flashpoint for new worries of widespread accounting abuse. WorldCom said that an internal review uncovered huge hidden expenses — mostly line charges that it pays to other telecom carriers — that were characterized as capital investments, a gimmick that boosted its profits.

The company fired its longtime chief financial officer, Scott Sullivan, 40, and is turning over its findings to the Securities and Exchange Commission. The SEC has filed fraud charges and is launching an investigation — as is the Justice Department, at least two congressional committees and the state of Mississippi, where WorldCom is based. All current and former employees, along with WorldCom's ex-accounting firm, Arthur Andersen, have been ordered to refrain from Enron-like paper shredding. Investigators are especially eager to hear from WorldCom founder Bernie Ebbers, who resigned as CEO in April, not long after it was revealed that he owed the company $366 million in low-interest loans. Ebbers had worked closely with Sullivan, whose office adjoined the CEO's. Ebbers could not be reached for comment.

In the same week that the veil was lifted from WorldCom's books:

* Xerox restated $6.4 billion in revenues dating to 1997. A restatement had been expected under an agreement Xerox reached with the SEC three months ago, over the company's practice of immediately booking revenue from long-term leases of copiers and other equipment. But the amount turned out to be more than triple what investors had expected and sparked a 13% sell-off of Xerox's stock.

* Tyco's former CEO, Dennis Kozlowski, already charged with evading $1 million of sales tax, was indicted anew, accused of tampering with evidence. He allegedly lifted a shipping document from a file before turning it over to prosecutors in New York City. He pleaded not guilty to the latest charges.

* Martha Stewart faced fresh doubts about her explanation of why, after buying stock in a drug company run by a close friend, she sold her shares just ahead of bad news about the company's cancer drug. Stewart, recently appointed a director of the New York Stock Exchange, denies wrongdoing, but shares in her Martha Stewart Omnimedia have declined 40% in the past month over fears of damage to her image.

* The Justice Department charged three former bankers in Britain with wire fraud in a $7.3 million scheme involving Enron-related partnerships.

* Minneapolis-based supermarket chain Supervalu revealed that, like WorldCom, it has been overstating profits — in its case, for four years.
A federal grand jury in Harrisburg, Pa., indicted three former Rite Aid executives on fraud charges.