

Compensation and Governance at WorldCom

Revised: August 28, 2002

On June 25, 2002, WorldCom, Inc. announced that an internal audit discovered that \$3.1b in expenses had been transferred to capital accounts in 2001, and another \$0.8b in the first quarter of 2002, in an apparent effort to increase earnings. Even in a year plagued by scandal, many observers were stunned. Certified public accountant John Fahy remarked: “The magnitude of this is just mind-boggling. Auditors cannot miss something like this. It is just inexcusable” (*New York Times*, July 27, 2002). Short-seller James Chanos added: “I’m kind of shaken by that [and] I’m about as cynical as they come” (*New York Times*, June 26, 2002). Later investigations suggested that earnings might have been overstated in earlier years, as well.

What went wrong? How could CEO Bernie Ebbers, other senior management, the board of directors, and the outside auditors have overlooked errors of this magnitude?

A Short History of WorldCom

At the end of 2001, WorldCom was a diversified telecommunications company, providing long-distance and local voice service, data services, and a wide range of internet-related services to corporate and individual clients. The company traces its roots to the golden age of US telecommunications regulation, when regulators overpriced long distance to subsidize local service. Both MCI and WorldCom began by targeting segments of the lucrative long-distance market.

Microwave Communications, Inc. (MCI) was the pioneer competitor to AT&T for long-distance voice service. It was started in 1963 to offer bulk service between St Louis and Chicago to business customers. After working its way through the regulatory bureaucracy that grew up around AT&T, its application was approved by the FCC in 1971 (for the spectrum used by the microwave transmitters on which the service was based). Over the next decade, it battled AT&T in the market and in court, eventually building the second largest long-distance network in the US. In the mid-1990s, MCI made major investments in related businesses. The most important of these was local service, which has remained effectively a collection of local monopolies. British Telecom bought a 20% stake in MCI in 1993 and offered to buy the remaining 80% in 1996. The stated logic for the merger was synergies from serving global corporate clients and combining their local service operations. The deal fell apart in late 1997 when BT lowered its offer price.

WorldCom was started in 1983 in Hattiesburg, Mississippi, as LDDS, a long-distance reseller, selling time on other companies’ lines (AT&T’s in particular) to its own retail and business customers. (A quirk of telecom regulation, then and now, is that it creates opportunities to arbitrage between markets.) Ebbers took over as CEO in 1985 to stem

the red ink that flowed after AT&T raised its wholesale rates. After cutting costs, revamping the sales force, and changing the business model from arbitrage to adding value, he launched an aggressive acquisition strategy, buying dozens of similar firms over the next five years. Ebbers continued to expand aggressively throughout the 1990s, but moved well beyond his roots in long distance. Acquisitions moved the company into local service in the US and Europe and made it a major provider of internet-related services. This strategy was both well-liked by Wall Street analysts and financially successful, with the stock price increasing by a factor of 50 between 1990 and 1998. The company changed names to WorldCom in 1995.

The 1998 MCI merger made WorldCom one of the leading players in the global telecom industry. In November 1996, British Telecom offered \$21b for the 80% of MCI it did not already own. The proposed deal was a combination of stock and cash. In August 1997, after MCI reported increasing losses from its troubled entry into local service, BT reduced its bid to an estimated \$18b. In October, WorldCom made an unsolicited offer of \$30b in stock and GTE followed with a \$28b all-cash offer. When WorldCom increased its offer to \$37b, MCI accepted. MCI chairman Bert Roberts was named chairman of the new MCI WorldCom (later renamed WorldCom) and Ebbers was appointed president and CEO. Meanwhile, WorldCom's debt rose from \$5b at yearend 1996 to \$20b at yearend 1998.

In the millennial year 2000, the telecom industry imploded. The easy money of the dot-com era financed an enormous increase in capacity, which fueled vicious price wars as startups struggled to survive. A number of firms filed for bankruptcy, dumping their capacity on the market at bargain-basement prices. At the same time, the long-reliable long-distance voice market lost market share to wireless. WorldCom wasn't immune to these events, and its stock price fell by 70% during 2000. In an attempt to focus investor attention on its high-growth businesses, WorldCom issued two "tracking stocks." The MCI Group (retail, long-distance voice) and the WorldCom Group (business, data, internet, and international) would trade as separate "tracking stocks," with each share of the original WorldCom exchanged for 4% of a share of MCITE and one share of WCOME. The MCI stock would pay a dividend. The proposed strategy was to use cash generated by MCI to finance investments in the faster-growing WorldCom businesses. The tracking stocks began trading on Friday, June 8, 2001, closing at 18.06 (MCITE) and 17.85 (WCOME). Debt at the end of 2001 was close to \$30b.

Executive Compensation

Like many companies, WorldCom issued stock and stock options to executives and other employees. WorldCom's compensation program is approved by the board of directors and publicly disclosed to shareholders. The role of the board and biographies of board members are given in Exhibits 1 and 2.

WorldCom is typical in managing compensation issues with a committee of the board of directors. The compensation committee articulated its policy this way:

Our executive compensation policy ... is designed to provide a competitive compensation program that will enable us to attract, motivate, reward and retain executives who have the skills, experience and talents required to promote our short- and long-term financial performance and growth. The compensation policy is based on the principle that the financial rewards to the executive must be aligned with the financial interests of our shareholders. In this manner, we seek to meet our ultimate responsibility to our shareholders.

See Exhibit 3. Stock ownership by directors and executives is reported in Exhibit 4.

Over this period, Ebbers accumulated an enormous amount of stock – roughly a billion dollars by the end of the decade. The amounts were huge for a single individual, but they amounted to less than one percent of the total outstanding shares. Although several of his colleagues cashed in at least some of their shares, Ebbers urged his colleagues to hold onto their stock, which had done extremely well throughout the 1990s. Many of them continued to hold large stakes in the company; see Exhibit 5. Ebbers followed his own advice. Rather than sell his WorldCom shares, he raised cash by taking out loans against the stock. When declines in the stock price triggered margin calls, WorldCom’s board approved loans of over \$300m at interest rates just above 2%. Their logic: without the loans Ebbers would be forced to sell his stock, which they judged not to be in the best interests of WorldCom’s shareholders. Smaller loans were made to other executives and directors. Such loans were not uncommon for large corporations, but the magnitudes in this case dwarfed other examples.

2002

If 2000 and 2001 were bad, 2002 was worse. In January and February, the tracking stocks lost half their value in the first two months of the year. In March, WorldCom reported that the SEC had requested documents related to its accounting policies, loans to officers and directors, and tracking of analysts’ earnings estimates. In April, WorldCom announced the elimination of 3700 US positions, 4% of its workforce.

The 2001 Annual Report and 10-K, including the 2001 financial statements, was filed with the SEC in March. The independent auditor was Arthur Andersen, whose letter to shareholders included this statement: “In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WorldCom, Inc. ... in conformity with accounting principles generally accepted in the United States.” The 2002 proxy statement included a statement by the audit committee of the board (Exhibit 6) and a listing of WorldCom’s business relationships with Andersen. In addition to a \$4.4m fee for the 2001 audit, WorldCom reported paying Andersen \$7.6m for tax services, \$1.6m for non-financial statement audit services, and \$3.2m for other services. None of this was unusual.

In mid-April, WorldCom and MCI tracking stocks resumed their fall. The outside directors met on Friday, April 26, to discuss the situation. On April 30, WorldCom announced that Ebbers had resigned as president, CEO, and director and that vice

chairman John Sidgmore was assuming the roles of president and CEO. Sidgmore announced a 30-day review of the company's assets and stated: "We are going to look at all of our available options. I would not have taken this job if I thought we were going to be out of business in the next week" (*Wall Street Journal*, May 1, 2002). A conference call on May 9 addressed investor concerns over the firm's liquidity, including a line of credit with a consortium of banks. On May 14, Andersen was replaced by KPMG as the company's independent auditor. In early June, the press reported talks between CFO Scott Sullivan and financial institutions to arrange additional financing, either through a secondary issue of stock or a line of credit with a consortium of banks.

The bomb fell on June 25, when WorldCom admitted that \$3.8b in expenses had been misreported as capital expenditures. The company immediately terminated CFO Sullivan and accepted the resignation of senior vice president and controller David Myers. The company informed Andersen and KPMG of its findings. According to WorldCom, "Andersen advised WorldCom that in light of the inappropriate transfers of line costs, Andersen's audit report on the company's financial statements for 2001 and Andersen's review of the company's financial statements for the first quarter of 2002 could not be relied upon" (WorldCom press release). By the end of June, the stock was trading for pennies. On July 1, President George W. Bush termed WorldCom's behavior "outrageous" and threatened to cancel its government contracts.

Others were left to ponder the wreckage. Executives at AT&T and Sprint wondered whether their desperate attempts to match WorldCom's cost performance had been based on illusion. Non-executive employees at WorldCom saw their stock turn worthless and faced the uncertain prospects of bankruptcy. Pulitzer-price winning reporter Gretchen Morgenson concluded: "It is becoming distressingly clear that the pay-for-performance philosophy that was supposed to align executives' interests with shareholders' has been badly distorted. 'Pay for pretense' may be a better name for it." (*New York Times*, July 14, 2002.)

Postscript

On July 22, WorldCom filed for bankruptcy. Meanwhile, the press reported that emails supplied to Congress described efforts by the company's financial officers to disguise the impact of the telecom meltdown on earnings by, among other things, cutting costs and reclassifying expenses. WorldCom, in turn, sued to recover bonuses previously paid to Sullivan and Myers. When the case went to press, it remained unclear what role Ebbers had played.

Questions for Analysis

- (a) What incentives did management have regarding financial reporting? Would they have been different if executives were paid fixed salaries?
- (b) Why did WorldCom's board members think Ebbers was worth what he was paid? Would he have left if they paid him less? Do you buy their argument for loaning him money?
- (c) With the benefit of hindsight, what (if anything) would you have done differently if you were (i) a member of the board, (ii) the head of Andersen's audit team, or (iii) a major institutional investor?
- (d) If you'd been on Sullivan's financial reporting team and suspected malfeasance, what would you have done?
- (e) Bottom line: Did WorldCom's compensation scheme effectively align management and shareholder interests?
- (f) What changes would you suggest to executive compensation and corporate governance?

Additional Information Sources

- Company web site: <http://www.worldcom.com>
- Patricia Barron, "The hot seat: Corporate directors in the new era of accountability," *SternBusiness*, Fall/Winter 2002; available soon at <http://www.stern.nyu.edu/Sternbusiness>
- Gerald Brock, *Telecommunication Policy for the Information Age*, Cambridge: Harvard University Press, 1994. A terrific source of information about the industry from 1970 to the early 1990s. See especially chapter 7's coverage of MCI's beginnings.

Notes

This case was prepared by Mariagiovanna Baccara, David Backus, and Luis Cabral for the purpose of class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. The authors thank Paul Brown, Jim Coyle, Rob Grecco, Ahmed Ozalp, and George Smith for their comments and insights. Much of the history of WorldCom is based on material from Hoover's Online. © 2002 NYU Stern School of Business.

Exhibit 1

Information Concerning Board of Directors

Committees and Meetings

During 2001, our board of directors held four meetings. Each director attended at least 75% of the meetings of the board of directors and committees on which such director served, except for Clifford L. Alexander, Jr., who missed two of the four meetings in 2001.

Our board of directors has an audit committee currently consisting of Max E. Bobbitt (chairman), James C. Allen, Judith Areen and Francesco Galesi. During 2001, the audit committee held five meetings. The audit committee performs the following functions:

- review of periodic financial statements;
- communications with independent accountants;
- review of our internal accounting controls; and
- recommendation to the board of directors as to selection of independent accountants.

Our board of directors has a compensation and stock option committee currently consisting of Stiles A. Kellett, Jr. (chairman), Max E. Bobbitt and Gordon S. Macklin. Lawrence C. Tucker serves as an advisory member. The compensation and stock option committee held eleven meetings during 2001. The duties of the compensation and stock option committee are as follows:

- to make determinations regarding the annual salary, bonus and other benefits of our executive officers;
- to administer our stock option and other equity plans, including a determination of the individuals to whom options or awards are granted and the terms and provisions of options and awards under such plans; and
- to review and take actions, including submission of recommendations to the board of directors, concerning compensation, stock plans and other benefits for our directors, officers and employees.

Our board of directors has a nominating committee currently consisting of Carl J. Aycock (chairman) and Stiles A. Kellett, Jr. The nominating committee did not meet during 2001. The duties of the nominating committee include recommending to the board, if so requested by the board, nominees for director, successors to the chief executive officer in the event there is a vacancy in that office, and nominees for committee chairpersons and members. The nominating committee if it meets, or the board will give due consideration to written recommendations for nominees from shareholders for election as directors in 2003 which are received prior to December 24, 2002. Under our bylaws, shareholders are entitled to nominate persons for election as directors only if, among other things, written notice has been given as specified therein to our Secretary, 500 Clinton Center Drive, Clinton, Mississippi 39056, not earlier than 150 days and not later than 120 days prior to the anniversary of the preceding year's meeting. Such notice must set forth information about the proposed nominee and the consent of the nominee, among other things. See "Future Proposals of Security Holders."

Compensation of Directors

Directors are paid fees of \$35,000 per year and \$1,000 per meeting of the board attended plus certain expenses. Committee members are paid a fee of \$750 for any committee meeting attended on the same day as a board meeting and \$1,000 for any other committee meeting attended, plus certain expenses. The chairman of each committee receives an additional \$3,000 per year.

Additionally, under a program implemented in May 1999, each director may elect to receive some or all of his or her annual fees in the form of WorldCom group stock or MCI group stock, based on the respective fair market value of the stock at the election date. Under this program, no more than an aggregate of 39,000 shares of our common stock may be issued.

Pursuant to our 1999 Stock Option Plan, each non-employee director is eligible to receive an annual grant of options. The timing, terms and number of shares under options awarded to directors is left to the discretion of the compensation and stock option committee. During 2001, each non-employee director received a grant of options to purchase 10,000 shares of WorldCom group stock at \$15.6265 per share. Such options are immediately exercisable and expire on the earliest to occur of:

- ten years following the date of grant;
- one year following termination of service due to disability or death;
- upon cessation of service for reasons other than death or disability; or
- the date of consummation of a specified change in control transaction defined generally to include the dissolution or liquidation of WorldCom, a reorganization, merger or consolidation of WorldCom in which we are not the surviving corporation, or a sale of substantially all of the assets or 80% or more of the outstanding stock of WorldCom to another entity.

The exercise price may be paid in cash or, in the discretion of the compensation and stock option committee, WorldCom group stock. In the discretion of the compensation and stock option committee, shares receivable on exercise may be withheld to pay applicable taxes on the exercise.

Pursuant to the terms of Mr. Sidgmore's employment agreement with UUNET Technologies, Inc., a wholly owned subsidiary of WorldCom, if Mr. Sidgmore's employment is terminated without cause, he will receive severance payments totaling \$300,000.

Source: 2002 proxy statement.

Exhibit 2

WorldCom's Board of Directors (March 2002)

James C. Allen, 55, has been a director of WorldCom since March 1998. Mr. Allen is currently an investment director and member of the general partner of Meritage Private Equity Fund, a venture capital fund specializing in the telecommunications industry. Mr. Allen is the former Vice Chairman and Chief Executive Officer of Brooks Fiber Properties where he served in such capacities from 1993 until its merger with WorldCom in January 1998.

Judith Areen, 57, has been a director of WorldCom since September 1998. Ms. Areen has been Executive Vice President for Law Center Affairs and Dean of the Law Center, Georgetown University, since 1989. She has been a Professor of Law, Georgetown University, since 1976.

Carl J. Aycock, 53, a nominee, has been a director of WorldCom since 1983. Mr. Aycock served as Secretary of WorldCom from 1987 to 1995 and was the Secretary and Chief Financial Officer of Master Corporation, a motel management and ownership company, from 1989 until 1992.

Max E. Bobbitt, 57, has been a director of WorldCom since 1992. Mr. Bobbitt is currently a director of Verso Technologies, Inc., and Metromedia China Corporation. From July 1998 to the present, Mr. Bobbitt has been a telecommunications consultant. From March 1997 until July 1998, Mr. Bobbitt served as President and Chief Executive Officer of Metromedia China Corporation. From January 1996 until March 1997, Mr. Bobbitt was President and Chief Executive Officer of Asian American Telecommunications Corporation, which was acquired by Metromedia China Corporation in February 1997.

Bernard J. Ebberts, 60, has been President and Chief Executive Officer of WorldCom since April 1985.

Francesco Galesi, 71, has been a director of WorldCom since 1992. Mr. Galesi is the Chairman and Chief Executive Officer of the Galesi Group, which includes companies engaged in real estate, telecommunications and oil and gas exploration and production.

Stiles A. Kellett, Jr., 58, has served as a director of WorldCom since 1981. Mr. Kellett has been Chairman of Kellett Investment Corp. since 1995.

Gordon S. Macklin, 73, has been a director of WorldCom since September 1998. Mr. Macklin has been a corporate financial advisor since 1992. From 1987 through 1992, he was Chairman of the Hambrecht and Quist Group, an investment banking and venture capital firm.

Bert C. Roberts, Jr., 59, has been the Chairman of the Board and a director of WorldCom since September 1998. From 1992 until September 1998, Mr. Roberts served as Chairman of the Board of MCI Communications Corporation, or MCI.

John W. Sidgmore, 51, has been the Vice Chairman of the Board and a director of WorldCom since December 1996. From December 1996 until September 1998, Mr. Sidgmore served as Chief Operations Officer of WorldCom. Mr. Sidgmore was President and Chief Operating Officer of MFS Communications Company, Inc. from August 1996 until December 1996, when it merged with WorldCom.

Scott D. Sullivan, 40, has been a director of WorldCom since 1996. Mr. Sullivan has served as Chief Financial Officer, Treasurer and Secretary of WorldCom since December 1994.

Source: 2002 proxy statement and public sources.

Exhibit 3

Report of Compensation and Stock Option Committee on Executive Compensation

General

WorldCom's executive compensation program is administered by the compensation and stock option committee of the board of directors, or the Committee. Since September 14, 1998, the Committee has included Stiles A. Kellett, Jr. (chairman), Max E. Bobbitt and Gordon S. Macklin. Lawrence C. Tucker was also a member until November 1, 2000, when he became an advisory member of the Committee.

Our executive compensation policy as implemented by the Committee is designed to provide a competitive compensation program that will enable us to attract, motivate, reward and retain executives who have the skills, experience and talents required to promote our short- and long-term financial performance and growth. The compensation policy is based on the principle that the financial rewards to the executive must be aligned with the financial interests of our shareholders. In this manner, we seek to meet our ultimate responsibility to our shareholders. Our executive compensation has three elements: base salary, annual incentive compensation and long-term incentive compensation. ...

Base Salary

The Committee determines the salary ranges for each of our executive officer positions, based upon the level and scope of the responsibilities of the office and the pay levels of similarly positioned executive officers in comparable companies. The recommendation of our Chief Executive Officer is of paramount importance in setting base salaries of other executive officers. The Committee's practice has been to establish base salaries for particular offices between the median and high end of the range of such salaries at comparable companies in order to attract and retain the best qualified management team available. In 2001, the Committee believes the base salaries for executive officers were consistent with this policy.

The comparison of compensation levels is based on surveys of various companies both within and outside the telecommunications industry. Certain of these companies are included in the peer group represented in the index used for stock performance comparisons elsewhere in this proxy statement under the caption "Comparison of Five-Year Cumulative Total Returns." The Committee believes it has reasonably accurate information with respect to salary ranges for the surveyed companies. The Committee begins its annual compensation review in November, and it generally acts in the first quarter of each year to set the compensation of our executive officers. The Committee considers the following, with no single factor accorded special weight:

- our performance as evidenced by changes in the price of our common stock during the year as compared to changes in our industry and the broader economic environment;
- our Chief Executive Officer's recommendations with respect to a particular officer;
- the officer's individual performance;
- any significant changes in the officer's level of responsibility; and
- each officer's then-current salary within the range of salaries for such position.

The Committee includes significant qualitative components in evaluating the individual performance of each executive officer. These components include the officer's leadership, teambuilding and motivational skills, adaptability to rapid change, and assimilation of new technical knowledge to meet the demands of the industry's customers. In this qualitative evaluation, the Committee exercises its collective judgment as to the officer's contributions to our growth and success during the prior year and the expected contributions of such officer in the future. ...

Annual Incentive Compensation

Our executive officers, as well as other management employees, are eligible to receive cash bonus awards. The key components in determining the amount of such awards include our financial performance in the context of the overall industry and economic environment, generally as evidenced by our individual growth

and success as measured primarily by revenues and other performance goals. The judgment of each member of the Committee and our Chief Executive Officer, in the case of other executive officers, as to the impact of the individual on our financial performance are also considered.

In 1997, we adopted the WorldCom, Inc. Performance Bonus Plan which relates to certain cash bonuses for our Chief Executive Officer and such other executive officers as the Committee may determine. The bonuses are predicated on our achievement of one or more quantitative performance goals. Subject to attainment of the specified performance goal(s) and the limitations with respect to the maximum bonus payable under the plan, the Committee exercises its judgment as to individual contributions to our performance, as set forth above under the caption "Base Salary," in determining the actual amount of the bonus.

During 2001, the performance goal under the plan, which was based on the attainment of a specified percentage increase in consolidated gross revenues, was attained. However, due to the performance of our common stock, the Committee determined not to award bonuses under the plan to certain participants in 2001, including Mr. Ebbers, but based on individual performance considerations, did award a bonus to one participant.

The Committee and our board of directors have approved an amended and restated version of the plan, as described below in this proxy statement. The Committee and the board view the amended and restated plan as an important mechanism to align the incentives of designated executive officers closely with our performance and shareholder value, while maximizing the deductibility of compensation, and strongly recommend the requisite approval by our shareholders.

Long-Term Incentive Compensation

The Committee believes that long-term incentive compensation in the form of stock options is the most direct way of making executive compensation dependent upon increases in shareholder value. Our stock option plans provide the means through which executive officers can build an investment in our common stock which will align such officers' economic interests with the interests of shareholders. Historically, the Committee has believed that the grant of stock options has been a particularly important component of its success in retaining talented management employees. The exercise price of each option has generally been the market price of our common stock on the date of grant. The most recent option grants generally provide for delayed vesting and have a term of ten years. The Committee believes that stock options give the executive officers greater incentives throughout the term of the options to strive to operate WorldCom in a manner that directly affects the financial interests of the shareholders both on a long-term, as well as a short-term basis.

In determining the number of option shares to grant to executive officers, the Committee considers on a subjective basis the same factors as it does in determining the other components of compensation, with no single factor accorded special weight. The recommendation of our Chief Executive Officer is of paramount importance in determining awards to persons other than himself.

Compensation of Chief Executive Officer

Mr. Ebbers' base salary, annual incentive compensation and long-term incentive compensation are determined by the Committee based upon the same factors as those employed by the Committee for executive officers generally. The total compensation package of Mr. Ebbers is designed to be competitive while creating awards for short- and long-term performance in line with the financial interests of the shareholders. In 2001, the compensation package for Mr. Ebbers was consistent with this policy; however, due to the decrease in the value of our stock in 2001 and other factors, Mr. Ebbers' salary for 2001 remained unchanged at \$1,000,000 and the Committee did not award a bonus to Mr. Ebbers.

During 2001 the Committee granted Mr. Ebbers an option exercisable for an aggregate of 1,238,280 shares of WorldCom group stock, exercisable in three equal annual installments beginning January 1, 2002

through January 1, 2004. In connection with the 2001 award, the vesting schedule for Mr. Ebbers' unvested options from his 1999 and 2000 option grants was redistributed equally over three years beginning January 1, 2002. The Committee believes that options appropriately comprise a significant portion of Mr. Ebbers' compensation for the reasons set forth above. In evaluating the number of option shares awarded, the Committee did not employ a formal valuation formula, but compared the number to the number awarded by comparable companies.

The Committee and our board of directors also reviewed and approved the loan arrangements with Mr. Ebbers, for the reasons and as described below under "Executive Compensation—Certain Relationships and Related Transactions" [see Exhibit 4].

Conclusion

The Committee believes that its compensation policies promote the goals of attracting, motivating, rewarding and retaining talented executives who will maximize value for our shareholders.

THE COMPENSATION AND STOCK OPTION COMMITTEE
April 22, 2002

Stiles A. Kellett, Jr. (Chairman)
Max E. Bobbitt
Gordon S. Macklin
Lawrence C. Tucker (advisory member)

Source: 2002 proxy statement.

Exhibit 4
Stock Ownership by Management and Directors (April 5, 2002)

Owner	WorldCom Shares	MCI Shares
James C. Allen	412,749	14,767
Judith Areen	113,849	1,386
Carl J. Aycock	972,875	37,719
Ronald R. Beaumont	2,063,798	0
Max E. Bobbitt	433,749	13,429
Bernard J. Ebbers	26,946,871	697,528
Francesco Galesi	1,800,393	73,905
Stiles A. Kellett, Jr.	6,120,361	239,885
Gordon S. Macklin	224,387	2,863
Bert C. Roberts, Jr.	1,705,968	79,169
John W. Sidgmore	5,534,544	91,648
Scott D. Sullivan	3,264,438	223

Source: 2002 proxy statement.

Exhibit 5

Loans to Executives and Directors

Certain Relationships and Related Transactions (excerpts)

We have entered into certain loan and guaranty arrangements involving Mr. Ebbers, principally relating to certain obligations to financial institutions secured by Mr. Ebbers' stock in WorldCom. We initially established these arrangements in 2000, and have agreed to certain modifications since January 1, 2001, as described below. We agreed to guarantee \$150 million principal amount of indebtedness owed by Mr. Ebbers to Bank of America, N.A., or Bank of America, as well as certain additional payments and related costs. The additional payments included, among other things, amounts payable to Bank of America by Mr. Ebbers or certain companies controlled by him relating to an approximately \$45.6 million letter of credit secured by a portion of Mr. Ebbers' stock and used to support financing to an unrelated third party; specified amounts, including margin debt, that became payable following stock price declines; and amounts subject to a margin call with respect to certain margin debt.

The scheduled maturity of the Bank of America margin debt was extended in January 2002 for a period of up to two years. However, following declines in the closing price of the WorldCom group stock through early February 2002, we made aggregate payments of approximately \$198.7 million to repay all of the outstanding debt covered by our guaranty and deposited with Bank of America approximately \$35 million to collateralize the letter of credit, which is scheduled to expire on February 15, 2003, subject to renewal, extension or substitution. Our payments, together with any amounts paid or costs incurred by us in connection with the letter of credit, plus accrued interest at a floating rate equal to that under one of our credit facilities, is payable by Mr. Ebbers to us, as modified in April 2002, within 90 days after demand, or within 180 days after demand if subsequent to his death or incapacity. The amount of such interest accrued through March 31, 2002, is approximately \$1.25 million and the interest rate as of that date was 2.21% per annum.

In addition to the guaranty arrangements, during 2000 we agreed to loan up to \$100 million to Mr. Ebbers. Since January 1, 2001, we have agreed to loan him up to an additional \$65 million, for a total maximum principal amount of \$165 million. These loans bear interest at floating rates equal to that under certain of our credit facilities and, as modified in April 2002, are payable within 90 days after demand, or within 180 days after demand if subsequent to Mr. Ebbers' death or incapacity. As of April 19, 2002, the aggregate principal amount of indebtedness owed by Mr. Ebbers to us under these loans was approximately \$160.8 million. Accrued interest on these loans is approximately \$5.75 million through March 31, 2002, at interest rates ranging from 2.18% to 2.19% per annum as of that date.

Since January 1, 2001, through April 19, 2002, the largest aggregate amount outstanding under these loan and guaranty arrangements, in addition to the approximately \$35 million deposit collateralizing the letter of credit, was approximately \$366.5 million, including accrued interest through March 31, 2002 at interest rates as high as 7.0% per annum, which rates have fallen with the general rate decline.

We have been advised that Mr. Ebbers has used, or plans to use, the proceeds of the loans from us principally to repay certain indebtedness under loans secured by shares of our stock owned by him and that the proceeds of such secured loans were used for private business purposes. The loans and guaranty by us were made following a determination that they were in the best interests of WorldCom and our shareholders in order to avoid additional forced sales of Mr. Ebbers' stock in WorldCom. The determination was made by our compensation and stock option committee as a result of the pressure on our stock price, margin calls faced by Mr. Ebbers and other considerations. Such actions were ratified and approved by our board of directors.

In connection with the transactions described above and, as to a portion of the shares, subject to certain limitations and effective upon termination of restrictions under existing lending agreements, Mr. Ebbers pledged to us the shares of our stock currently owned by him or later acquired upon option exercise with respect to his obligations under the loans and guaranty from us. This pledge has been perfected as to

9,287,277 shares of WorldCom group stock and 575,149 shares of MCI group stock. The pledge of the remaining 8,066,266 shares of WorldCom group stock and 118,991 shares of MCI group stock currently owned by Mr. Ebbers will take effect as and to the extent the limitations and restrictions under existing lending arrangements terminate. In addition, Mr. Ebbers has pledged to us security interests in certain equity interests in privately held businesses owned by him. Mr. Ebbers also agreed to indemnify us for any amounts expended or losses, damages, costs, claims or expenses incurred under the guaranty or the loans from us and has provided information demonstrating that the pledged assets are sufficient to cover his outstanding obligations to us.

Source: 2002 proxy statement.

Exhibit 6

Report of the Audit Committee

Our audit committee is composed of four of our outside directors: Max E. Bobbitt (chairman), James C. Allen, Judith Areen and Francesco Galesi. Our board of directors and the audit committee believe that the audit committee's current member composition satisfies the rule of the NASD that governs audit committee composition, including the requirement that audit committee members all be "independent directors" as that term is defined by NASD.

In accordance with its written charter adopted by the board of directors, the audit committee assists the board of directors with fulfilling its oversight responsibility regarding the quality and integrity of our accounting, auditing and financial reporting practices. In discharging its oversight responsibilities regarding the audit process, the audit committee:

- reviewed and discussed the audited financial statements with management;
- discussed with the independent auditors the material required to be discussed by Statement on Auditing Standards No. 61; and
- reviewed the written disclosures and the letter from the independent auditors required by the Independence Standards Board's Standard No. 1, and discussed with the independent auditors any relationships that may impact the auditors' objectivity and independence. In addition, in accordance with the SEC's auditor independence requirements the audit committee has considered the effects that the provision of non-audit services may have on the auditors' independence.

The members of the audit committee are not professionally engaged in the practice of auditing or accounting and are not experts in the fields of auditing or accounting, including in respect of auditor independence. Members of the audit committee rely without independent verification on the information provided to them and on the representations made by management and the independent auditors. Accordingly, the audit committee's oversight does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or appropriate internal control and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the audit committee's considerations and discussions referred to above do not assure that the audit of our financial statements has been carried out in accordance with generally accepted auditing standards, that the financial statements are presented in accordance with generally accepted accounting principles or that our auditors are in fact "independent."

Based upon the review and discussions described in this report, and subject to the limitations on the role and responsibilities of the audit committee referred to above and in the charter, the audit committee recommended to the board of directors that the audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2001, to be filed with the SEC.

THE AUDIT COMMITTEE
March 6, 2002

Max E. Bobbitt, Chairman
James C. Allen
Judith Areen
Francesco Galesi

Source: 2002 proxy statement.