

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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UNITED STATES OF AMERICA	:	<u>INDICTMENT</u>
-v-	:	S3 02 Cr. 1144 (BSJ)
BERNARD J. EBBERS,	:	
Defendant.	:	

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COUNT ONE

(Conspiracy To Commit Securities Fraud)

The Grand Jury charges:

RELEVANT PERSONS AND ENTITIES

1. At all times relevant to this Indictment, WorldCom, Inc. ("WorldCom") was a corporation organized under the laws of the State of Georgia with its headquarters in Clinton, Mississippi.

2. At all times relevant to this Indictment, WorldCom's common stock was listed under the symbol "WCOM" on the NASDAQ National Market System, an electronic securities market system. As of May 31, 2002, WorldCom's largest institutional shareholders included Bernstein Investment Research and Management, Oppenheimer Capital, Merrill Lynch Investment Managers, and College Retirement Equities Fund, all of which maintained offices in New York, New York.

3. At all times relevant to this Indictment, BERNARD J. EBBERS, the defendant, served as Chief Executive Officer,

President, and a director of WorldCom. At all times relevant to this Indictment, EBBERS signed the Annual Reports on Form 10-K that WorldCom filed with the United States Securities and Exchange Commission (the "SEC"). At all times relevant to this Indictment, EBBERS owned millions of shares, and options to purchase shares, of WorldCom common stock.

4. At various times relevant to this Indictment, Scott D. Sullivan, a co-conspirator not named as a defendant herein, served as Chief Financial Officer, Treasurer, and Secretary of WorldCom. At all times relevant to this Indictment, Sullivan directed the preparation of and signed the Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q that WorldCom filed with the SEC.

BACKGROUND

WorldCom's Business

5. At all times relevant to this Indictment, WorldCom provided to businesses and consumers around the world a broad range of communications services, including, among other things, data transmission services, Internet-related services, commercial voice services, international communication services, long distance service, and other telecommunication services. WorldCom owned and operated extensive global network facilities, which spanned six continents, reached every major city center in the world, and connected more than 60,000 buildings. WorldCom's

global network included more than 90,000 route miles of terrestrial and undersea fiber-optic cable. This network was designed to support the largest array of data communication products and services in the world.

6. At all times relevant to this Indictment, to serve customers that were not directly connected to its network, WorldCom paid fees to use or lease facilities and connections from other telecommunication companies. These fees, known as "line costs," were WorldCom's largest expense.

WorldCom's Communications With The Investing Public

7. At all times relevant to this Indictment, BERNARD J. EBBERS and Scott D. Sullivan, on behalf of WorldCom, provided members of the investing public with information concerning WorldCom's financial results and operating performance. EBBERS and Sullivan provided such information through various methods, including in WorldCom's public filings with the SEC, in periodic news releases and other corporate announcements, in statements made in conference calls with professional securities analysts and investors, and in meetings and conferences held with analysts and investors in New York, New York and elsewhere. Members of the investing public considered and relied upon the information provided by EBBERS and Sullivan in deciding whether to purchase, hold, or sell WorldCom securities.

8. Part of the information routinely provided by BERNARD J. EBBERS and Scott D. Sullivan to members of the investing public was so-called "guidance" concerning WorldCom's operational and financial results for upcoming reporting periods. The "guidance" provided by EBBERS and Sullivan concerned various measures of WorldCom's operational and financial performance, including its expected cash earnings per share ("EPS"), "Earnings Before Interest, Taxes, Depreciation, and Amortization" ("EBITDA"), net income, expenses, revenue growth, and capital expenditures.

9. At all times relevant to this Indictment, numerous securities analysts and investors relied on the "guidance" provided by BERNARD J. EBBERS and Scott D. Sullivan to gauge WorldCom's performance, to predict WorldCom's expected earnings, and to disseminate estimates of WorldCom's expected performance to the larger investing public. Members of the investing public closely followed such "earnings estimates" or "analysts' expectations" because, historically, when company earnings fail to meet such estimates, company stock prices typically decline, and when company earnings exceed such estimates, company stock prices typically rise.

WorldCom's Financial Reporting Process

10. At all times relevant to this Indictment, at the close of each month and each quarter of WorldCom's fiscal year,

employees in WorldCom's financial and accounting departments collected and summarized information reflecting WorldCom's operating performance and financial results for the particular period in question. This information was reflected in various financial statements and reports.

11. At all times relevant to this Indictment, WorldCom tracked its revenue on a monthly basis through the use of a report referred to internally as "MonRev." BERNARD J. EBBERS designed MonRev to allow himself, Scott D. Sullivan, and other WorldCom officers to review the revenue generated by each of WorldCom's sales channels, including "Major Nationals," "Wholesale," "Global," "Mass Markets," "International," and "Specialized Sales." Revenue that was not generated through these sales channels was tracked separately and classified in MonRev as "Corporate Unallocated." Members of WorldCom's Revenue Accounting Department prepared MonRev each month and provided it to EBBERS, Sullivan, and others. EBBERS carefully scrutinized every MonRev report. Unlike all other recipients of MonRev, EBBERS demanded that his copy be printed on a special "green-bar" computer paper to facilitate his review. EBBERS and Sullivan regularly met to discuss the results reported in MonRev.

12. At all times relevant to this Indictment, WorldCom tracked its Selling, General, and Administrative expenses ("SG&A") on a monthly and quarterly basis through its "Management

Budget Variance Report." Members of WorldCom's General Accounting Department prepared the Management Budget Variance Report each month and provided it to BERNARD J. EBBERS, Scott D. Sullivan, and others. EBBERS and Sullivan regularly met to discuss the results reported in the Management Budget Variance Report.

13. At all times relevant to this Indictment, WorldCom tracked expenses relating to its line costs on a quarterly basis through the preparation of a preliminary income statement. Members of WorldCom's General Accounting Department prepared a preliminary income statement each quarter and provided it to Scott D. Sullivan and others. Sullivan, in turn, provided these preliminary income statements to BERNARD J. EBBERS. At the close of each financial reporting period, EBBERS and Sullivan met to discuss WorldCom's preliminary operating results, including WorldCom's line cost expenses.

14. At all times relevant to this Indictment, WorldCom's senior management participated in periodic meetings to discuss expectations regarding WorldCom's operating results for the upcoming months. In connection with these so-called "Outlook" meetings, BERNARD J. EBBERS and Scott D. Sullivan, among others, reviewed documents that summarized anticipated events that would affect WorldCom's revenues in the following months. EBBERS and Sullivan regularly met to discuss the

financial results and projections reflected in the various documents presented during the "Outlook" meetings.

THE SCHEME TO DEFRAUD

Introduction

15. As set forth more fully below, from in or about September 2000 through in or about June 2002, BERNARD J. EBBERS, Scott D. Sullivan, and their co-conspirators engaged in an illegal scheme to deceive members of the investing public, WorldCom shareholders, securities analysts, the SEC, and others, concerning WorldCom's true operating performance and financial results.

16. As BERNARD J. EBBERS, Scott D. Sullivan, and their co-conspirators knew, by no later than in or about September 2000, WorldCom's true operating performance and financial results were in decline and had fallen materially below analysts' expectations. EBBERS nevertheless insisted that WorldCom publicly report financial results that met analysts' expectations. As a result, rather than disclosing WorldCom's true condition and suffer the ensuing decline in the price of WorldCom's common stock, Sullivan, with EBBERS's knowledge and approval, directed co-conspirators to make false and fraudulent adjustments to WorldCom's books and records.

17. Thereafter, from in or about September 2000 through in or about June 2002, for the purpose of disguising

WorldCom's true operating performance and financial results, EBBERS, Sullivan, and their co-conspirators caused WorldCom's reported figures for revenue, SG&A and line cost expenses, EBITDA, depreciation expense, net income, and EPS to be falsely and fraudulently manipulated. As EBBERS, Sullivan, and their co-conspirators knew, the aggregate effect of these adjustments, which were made in round-dollar amounts and consistently totaled hundreds of millions of dollars per quarter, was to present a materially false and misleading picture of WorldCom's true operating performance and financial results.

18. From in or about September 2000 through in or about June 2002, in furtherance of the scheme, BERNARD J. EBBERS, Scott D. Sullivan, and their co-conspirators made repeated public statements in which they (a) falsely described WorldCom's operating performance and financial results, (b) omitted to disclose material facts necessary to make the statements that they made about WorldCom's operating performance and financial results complete, accurate, and not misleading, and (c) caused WorldCom to file financial statements with the SEC that presented a materially false and misleading description of WorldCom's operating performance and financial results. Through this scheme, EBBERS, Sullivan, and their co-conspirators inflated and maintained artificially the price of WorldCom common stock.

19. On or about June 25, 2002, WorldCom announced that, as a result of an internal investigation, it would have to issue restated financial statements. In the days following this announcement, the price of WorldCom's common stock plummeted more than 90%, resulting in an aggregate decline in shareholder value of more than \$2 billion.

The Fraudulent Adjustments To WorldCom's Books And Records

20. In or about September 2000, after reviewing MonRev and other documents summarizing WorldCom's financial results and operating performance for July and August 2000, Scott D. Sullivan advised BERNARD J. EBBERS that WorldCom's operating performance and financial results had deteriorated, and that WorldCom's earnings for the upcoming reporting period would not meet analysts' expectations. Sullivan further advised EBBERS that WorldCom should issue an "earnings warning" to alert the investing public about WorldCom's deteriorating financial performance. EBBERS refused to issue an earnings warning. Instead, EBBERS and Sullivan agreed to take steps to conceal WorldCom's true financial condition and operating performance from the investing public.

21. In or about October 2000, rather than disclosing WorldCom's true financial condition and operating performance, BERNARD J. EBBERS and Scott D. Sullivan instructed subordinates, in substance and in part, to falsely and fraudulently book

certain entries in WorldCom's general ledger, which were designed to increase artificially WorldCom's reported revenue and to decrease artificially WorldCom's reported expenses, resulting in, among other things, artificially-inflated figures for WorldCom's EPS, EBITDA, and revenue growth rate. The adjustments included (a) reductions made to line cost expense accounts by debiting certain reserve and liability accounts, which reductions lacked any business justification or supporting documentation, and (b) increases to revenue, which in light of their departure from prior revenue recognition policies, and in light of their aggregate amount, made WorldCom's reported revenue materially misleading. EBBERS and Sullivan instructed others to make these adjustments solely in an effort to report results that would satisfy analysts' expectations, even though EBBERS and Sullivan knew that WorldCom's true results in fact failed to meet those expectations.

22. In or about January 2001, BERNARD J. EBBERS and Scott D. Sullivan again determined that WorldCom's financial results for the fourth quarter of 2000 would not meet analysts' expectations. Rather than disclose WorldCom's true financial condition and operating performance, in or about February 2001, EBBERS and Sullivan instructed subordinates, in substance and in part, to falsely and fraudulently book certain entries in WorldCom's general ledger, which were designed to increase

artificially WorldCom's reported revenue and to decrease artificially WorldCom's reported expenses, resulting in, among other things, artificially-inflated figures for WorldCom's EPS, EBITDA, and revenue growth rate. These adjustments included (a) reductions made to line cost expense accounts by debiting certain reserve and liability accounts, which lacked any business justification or supporting documentation, and (b) increases to revenue, which in light of their departure from prior revenue recognition policies, and in light of their aggregate amount, made WorldCom's reported revenue materially misleading. EBBERS and Sullivan instructed others to make these adjustments solely in an effort to report results that would satisfy analysts' expectations, even though EBBERS and Sullivan knew that WorldCom's true results in fact failed to meet those expectations.

23. In or about March 2001, BERNARD J. EBBERS and Scott D. Sullivan determined that WorldCom's financial results for the first quarter of 2001 would not meet analysts' expectations. Sullivan advised EBBERS, in substance and in part, that members of WorldCom's General Accounting Department could no longer reduce line cost expense accounts by debiting certain reserve and liability accounts, as they had done previously. Instead, Sullivan advised EBBERS, in substance and in part, that members of WorldCom's General Accounting Department would

transfer line cost expenses to capital expenditure accounts. Sullivan advised EBBERS, in substance and in part, that these transfers were being made to keep WorldCom's expenses-to-revenue ratio in line with figures reported in previous periods and in an effort to meet analysts' expectations for WorldCom's net income, EPS, and EBITDA.

24. In or about March 2001, Scott D. Sullivan instructed members of the General Accounting Department to make journal entries in WorldCom's general ledger, which resulted in the transfer of hundreds of millions of dollars from line cost expense accounts to capital expenditure accounts. Sullivan's instructions were communicated, and the journal entries affecting the transfers were made, after WorldCom's field offices' books were closed for the quarter. EBBERS and Sullivan instructed others to make these adjustments solely in an effort to satisfy analysts' expectations, including those regarding WorldCom's net income, EPS, and EBITDA, even though EBBERS and Sullivan knew that WorldCom's true results in fact failed to meet those expectations. As described more fully below, Sullivan directed similar line cost transfers in each of the quarters from March 2001 through March 2002, resulting in improper transfers totaling approximately \$3.8 billion.

25. In or about June 2001, BERNARD J. EBBERS and Scott D. Sullivan determined that WorldCom's financial results for the

second quarter of 2001 would not meet analysts' expectations. In or about July 2001, rather than disclose WorldCom's true operating performance and financial condition, EBBERS and Sullivan instructed subordinates, in substance and in part, to falsely and fraudulently book certain entries in WorldCom's general ledger, which were designed to increase artificially WorldCom's reported revenue and to decrease artificially WorldCom's reported expenses, resulting in, among other things, artificially inflated figures for WorldCom's EPS, EBITDA, and revenue growth rate. These adjustments included (a) the improper capitalization of line cost expenses, and (b) increases to revenue, which in light of their departure from prior revenue recognition policies, and in light of their aggregate amount, made WorldCom's reported revenue materially misleading. With respect to these revenue adjustments, WorldCom created a process, referred to internally as "Close the Gap," designed solely to identify adjustments that would increase reported revenue in an effort to satisfy analysts' expectations. EBBERS and Sullivan both participated extensively in the "Close the Gap" process. EBBERS and Sullivan instructed others to make these adjustments solely in an effort to report results that would satisfy analysts' expectations, even though EBBERS and Sullivan knew that WorldCom's true results in fact failed to meet those expectations.

26. In or about September 2001, BERNARD J. EBBERS and Scott D. Sullivan determined that WorldCom's financial results for the third quarter of 2001 would not meet analysts' expectations. Rather than disclose WorldCom's true operating performance and financial condition, in or about October 2001, EBBERS and Sullivan instructed subordinates, in substance and in part, to falsely and fraudulently book certain entries in WorldCom's general ledger, which were designed to increase artificially WorldCom's reported revenue and to decrease artificially WorldCom's reported expenses, resulting in, among other things, artificially inflated figures for WorldCom's EPS, EBITDA, and revenue growth rate. The adjustments included (a) the improper capitalization of line cost expenses, and (b) increases to revenue, which in light of their departure from prior revenue recognition policies, and in light of their aggregate amount, made WorldCom's reported revenue materially misleading. With regard to the revenue adjustments, EBBERS and Sullivan, through the "Close the Gap" process, caused WorldCom to report publicly revenue growth of approximately 12 percent, even though WorldCom's true operating performance yielded revenue growth of approximately 6 percent. EBBERS and Sullivan instructed others to make these adjustments solely in an effort to report results that would satisfy analysts' expectations, even though EBBERS and Sullivan knew that WorldCom's true results in

fact failed to meet those expectations.

27. In or about January 2002, BERNARD J. EBBERS and Scott D. Sullivan determined that WorldCom's financial results for the fourth quarter of 2001 would not meet analysts' expectations. Rather than disclose WorldCom's true operating performance and financial condition, in or about February 2002, EBBERS and Sullivan instructed subordinates, in substance and in part, to falsely and fraudulently book certain entries in WorldCom's general ledger, which were designed to increase artificially WorldCom's reported revenue and to decrease artificially WorldCom's reported expenses, resulting in, among other things, artificially inflated figures for WorldCom's EPS, EBITDA, and revenue growth rate. These adjustments included (a) the improper capitalization of line cost expenses, and (b) increases to revenue, which in light of their departure from prior revenue recognition policies, and in light of their aggregate amount, made WorldCom's reported revenue materially misleading. EBBERS and Sullivan instructed others to make these adjustments solely in an effort to report results that would satisfy analysts' expectations, even though EBBERS and Sullivan knew that WorldCom's true results in fact failed to meet those expectations.

28. In or about March 2002, BERNARD J. EBBERS and Scott D. Sullivan determined that WorldCom's financial results

for the first quarter of 2002 would not meet analysts' expectations. Rather than disclose WorldCom's true operating performance and financial condition, in or about April 2002, EBBERS and Sullivan instructed subordinates, in substance and in part, to falsely and fraudulently book certain entries in WorldCom's general ledger, which were designed to increase artificially WorldCom's reported revenue and to decrease artificially WorldCom's reported expenses, resulting in, among other things, artificially inflated figures for WorldCom's EPS, EBITDA, and revenue growth rate. These adjustments included (a) the improper capitalization of line cost expenses, and (b) increases to revenue, which in light of their departure from prior revenue recognition policies, and in light of their aggregate amount, made WorldCom's reported revenue materially misleading. EBBERS and Sullivan instructed others to make these adjustments solely in an effort to report results that would satisfy analysts' expectations, even though EBBERS and Sullivan knew that WorldCom's true results in fact failed to meet those expectations.

False Statements And Misleading Omissions
In WorldCom's SEC Filings

29. To sell securities to members of the public and maintain public trading of its securities in the United States, WorldCom was required to comply with provisions of the federal securities laws, including the Securities Exchange Act of 1934

and regulations promulgated thereunder, that were designed to ensure that the company's financial information was accurately recorded and disclosed to the public.

30. Under these securities laws and regulations, WorldCom was required to, among other things (a) file with the SEC annual financial statements audited by an independent accountant; (b) file with the SEC quarterly updates of its financial statements that disclosed its financial condition and the results of its business operations for each three-month period; (c) devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that the company's transactions were recorded as necessary to permit preparation of financial statements in conformity with Generally Accepted Accounting Principles and other applicable criteria; and (d) make and keep books, records, and accounts that accurately and fairly reflected the company's business transactions.

31. At all times relevant to this Indictment, WorldCom's quarterly and annual financial statements were transmitted to the New York, New York offices of Merrill Communications LLC ("Merrill"), a filing agent that assisted companies in electronically filing periodic reports with the SEC, and were thereafter transmitted electronically by Merrill or a Merrill subcontractor, located in New York, New York, to the SEC for filing.

32. The quarterly and annual reports filed by WorldCom for the third quarter of 2000 through the first quarter of 2002 included financial statements that reflected the above-described fraudulent adjustments to WorldCom's expenses and revenue, which had been made solely in an effort to satisfy analysts' expectations.

33. BERNARD J. EBBERS, Scott D. Sullivan, and their co-conspirators failed to disclose in WorldCom's SEC filings, or in any other public statement, the artificial adjustments to WorldCom's expenses and revenue. By directing these adjustments to be made, and falsely concealing the adjustments from the SEC and members of the investing public, EBBERS, Sullivan, and their co-conspirators disguised WorldCom's true operating performance and financial condition from the SEC and the investing public. As a result, EBBERS, Sullivan, and their co-conspirators caused WorldCom to report financial results, which, as EBBERS, Sullivan, and their co-conspirators knew, exceeded by material amounts WorldCom's actual financial results in each reporting period.

False Statements And Misleading Omissions
In WorldCom's Public Statements

34. In statements and presentations made on behalf of WorldCom to members of the investing public, securities analysts, and others, BERNARD J. EBBERS, Scott D. Sullivan, and their co-conspirators falsely described WorldCom's true operating performance and financial condition, and omitted to disclose

facts necessary to make those statements complete, accurate, and not misleading. EBBERS and Sullivan (a) made statements about WorldCom's operating performance and financial condition which, as they knew, reflected the above-described fraudulent adjustments to WorldCom's expenses and revenue, and (b) failed to disclose that they had caused others to manipulate artificially WorldCom's expenses and revenue in an effort to meet analysts' expectations.

35. Following the close of each reporting period from the third quarter of 2000 through the first quarter of 2002, BERNARD J. EBBERS, Scott D. Sullivan, and their co-conspirators made statements to the investing public, including on conference calls held with analysts and investors. In these statements, EBBERS and Sullivan made materially false statements concerning WorldCom's financial results and operating performance and omitted to state facts necessary to make the statements that were made complete, accurate, and not misleading. Among the materially false statements and misleading omissions made by EBBERS and Sullivan were the following:

a. On or about October 26, 2000, during a conference call with analysts, EBBERS made the following statement, which he knew was false:

We are pleased with our industry-leading incremental revenue growth of \$1.1 billion this quarter. Commercial services revenues of \$6.4 billion is up 19% year-over-year.

And while we continued to hit bumps in the road in the dial-up Internet business, we did produce good results in dedicated Internet and our consumer services businesses. All in all, this was a solid quarter for WorldCom.

b. On or about October 26, 2000, during a conference call with analysts, Sullivan made the following statement, which he knew was false:

This was another solid quarter for WorldCom. Cash earnings per share increased 21% to \$0.57 per share. Earnings per share increased 27% to \$0.47 per share.

c. On or about February 8, 2001, during a conference call with analysts, EBBERS made the following statement, which he knew was false:

On the WorldCom side of the business, we are sticking with our 12% to 15% revenue growth guidance for 2001. Let me restate that. On the WorldCom side of the business we are sticking with our 12% to 15% revenue guidance for 2001. That's the range of the average that we will achieve throughout the year, and we will be increasing that revenue growth rate between the first quarter and the end of the year.

d. On or about April 26, 2001, during a conference call with analysts, EBBERS made the following statement, which he knew was false:

WorldCom is certainly not immune to the effects of the economy. We are being impacted like everyone else. But, with the visibility we have in our significant growth engines, we continue to have confidence in our ability to achieve our 12 to 15% 2001 growth target on the WorldCom tracker. And I guess the thing that always frustrates me

when I hear people talk about visibility as it's kind of like landing a plane - how much visibility do you really have? And so I thought I would just compare it to a weather forecast and say that if we look out for the remainder of 2001, we do not see any storms on the horizon at this time.

e. On or about October 25, 2001, during a conference call with analysts, Sullivan made the following statement, which he knew was false:

Let me reiterate the main points Bernie [EBBERS] made. First, we reported a solid quarter of double-digit revenue growth in a challenging economic climate WorldCom Group posted 12% revenue growth in the third quarter, with Data & Internet growing at a combined rate of 22% this quarter. Data revenues were \$2.3 billion and grew 18% in the third quarter.

f. On or about February 7, 2002, during a television interview on a CNBC program, EBBERS made the following statement, which he knew was false:

The new day is that we're going, we have, finally this morning had a chance to put to rest all the rumors that have been circulating about us. None of which have been true. We have been a very sound financial company. We've been very conservative on our accounting practices and we wanted an opportunity for the last couple of weeks when we've seen this tremendous loss of market capitalization in our stock to be able to address the issues.

As EBBERS and Sullivan knew, these statements were materially false and misleading when they were made, because WorldCom's true financial condition and operating performance, including its

revenue growth rate and EPS, were not as represented.

THE CONSPIRACY

36. From in or about September 2000 through in or about June 2002, in the Southern District of New York and elsewhere, BERNARD J. EBBERS, the defendant, and others known and unknown, unlawfully, willfully, and knowingly did combine, conspire, confederate, and agree together and with each other to commit offenses against the United States, namely (a) to commit fraud in connection with the purchase and sale of securities issued by WorldCom, in violation of Title 15, United States Code, Sections 78j(b) and 78ff, and Title 17, Code of Federal Regulations, Section 240.10b-5; (b) to make and cause to be made false and misleading statements of material fact in applications, reports, and documents required to be filed under the Securities Exchange Act of 1934 and the rules and regulations thereunder, in violation of Title 15, United States Code, Sections 78m(a) and 78ff; and (c) to falsify books, records, and accounts of WorldCom, in violation of Title 15, United States Code, Sections 78m(b)(2)(A), 78m(b)(5) and 78ff, and Title 17, Code of Federal Regulations, Section 240.13b2-1.

Objects Of The Conspiracy

Fraud In Connection With The Purchase And Sale Of Securities

37. It was a part and an object of the conspiracy that BERNARD J. EBBERS, the defendant, and others known and unknown,

unlawfully, willfully, and knowingly, directly and indirectly, by use of the means and instrumentalities of interstate commerce, the mails, and the facilities of national securities exchanges, would and did use and employ manipulative and deceptive devices and contrivances in connection with the purchase and sale of securities issued by WorldCom, in violation of Title 17, Code of Federal Regulations, Section 240.10b-5, by (a) employing devices, schemes, and artifices to defraud; (b) making and causing WorldCom to make untrue statements of material facts and omitting to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; and (c) engaging in acts, practices, and courses of business which operated and would operate as a fraud and deceit upon the purchasers and sellers of WorldCom securities, in violation of Title 15, United States Code, Sections 78j(b) and 78ff.

**False Statements In
Annual And Quarterly SEC Reports**

38. It was further a part and an object of the conspiracy that BERNARD J. EBBERS, the defendant, and others known and unknown, unlawfully, willfully, and knowingly, in applications, reports, and documents required to be filed under the Securities Exchange Act of 1934 and the rules and regulations thereunder, would and did make and cause to be made statements that were false and misleading with respect to material facts, in

violation of Title 15, United States Code, Sections 78m(a) and 78ff.

False Books And Records

39. It was further a part and an object of the conspiracy that BERNARD J. EBBERS, the defendant, and others known and unknown, unlawfully, willfully, and knowingly would and did, directly and indirectly, falsify and cause to be falsified books, records, and accounts subject to Section 13(b)(2) of the Securities Exchange Act of 1934, namely books, records, and accounts of WorldCom, an issuer with a class of securities registered pursuant to the Securities Exchange Act of 1934, which WorldCom was required to make and keep, accurately and fairly reflecting, in reasonable detail, the transactions and dispositions of the assets of WorldCom, in violation of Title 15, United States Code, Sections 78m(b)(2)(A), 78m(b)(5) and 78ff, and Title 17, Code of Federal Regulations, Section 240.13b2-1.

Means And Methods Of The Conspiracy

40. Among the means and methods by which BERNARD J. EBBERS, and his co-conspirators would and did carry out the conspiracy were the following:

a. EBBERS and Sullivan directed members of WorldCom's Revenue Accounting Department to book entries that increased revenue, solely in an effort to satisfy analysts' expectations, thereby causing, among other things, figures for

WorldCom's publicly reported EPS, EBITDA, revenue growth rate, and net income to be false and materially misleading.

b. With EBBERS's knowledge and approval, Sullivan directed members of WorldCom's General Accounting Department to book entries that reduced liability and reserve accounts without supporting documentation or proper business rationale, thereby falsely inflating, among other things, figures for WorldCom's publicly reported EPS, EBITDA and net income.

c. With EBBERS's knowledge and approval, Sullivan directed members of WorldCom's General Accounting Department to transfer expenses from line cost accounts to capital expenditure accounts without business justification or supporting documentation, thereby falsely inflating, among other things, figures for WorldCom's publicly reported EPS, EBITDA, net income, and current assets.

d. EBBERS, Sullivan, and their co-conspirators caused WorldCom to file publicly with the SEC quarterly and annual reports that materially misstated, among other things, figures for WorldCom's EPS, EBITDA, net income, assets, and liabilities.

e. EBBERS, Sullivan, and their co-conspirators provided false and misleading financial information to the investing public and analysts.

Overt Acts

41. In furtherance of the conspiracy and to effect its illegal objects, BERNARD J. EBBERS and his co-conspirators committed the following overt acts, among others, in the Southern District of New York and elsewhere:

a. In or about October 2000, EBBERS and Sullivan discussed WorldCom's deteriorating financial health and poor operating performance, and the improper adjustments required to meet analysts' expectations.

b. On or about October 26, 2000, EBBERS and Sullivan provided false and misleading financial information to securities analysts and the investing public.

c. In or about March 2001, EBBERS and Sullivan discussed WorldCom's deteriorating financial health and poor operating performance, and agreed to capitalize line costs solely in an effort to satisfy analysts' expectations for WorldCom's EPS, EBITDA, and net income.

d. In or about April 2001, with EBBERS's knowledge and approval, Sullivan directed members of WorldCom's General Accounting Department to transfer approximately \$771 million in line cost expenses to capital accounts in WorldCom's general ledger.

e. On or about April 26, 2001, EBBERS and Sullivan provided false and misleading financial information to securities analysts and the investing public.

f. On or about June 19, 2001, Sullivan left a voicemail message for EBBERS which stated, in part:

This MonRev just keeps getting worse and worse. The copy, the latest copy that you and I have already has accounting fluff in it . . . all one time stuff or junk that's already in the numbers. With the numbers being, you know, off as far as they were, I didn't think that this stuff was already in there. . . .

g. In or about July 2001, with EBBERS's knowledge and approval, Sullivan directed members of the General Accounting Department to transfer approximately \$560 million in line cost expenses to capital accounts in WorldCom's general ledger.

h. On or about July 10, 2001, EBBERS sent a memorandum to a senior WorldCom officer requesting information concerning "those one time events that had to happen in order for us to have a chance to make our numbers."

i. In or about October 2001, with EBBERS's knowledge and approval, Sullivan directed members of WorldCom's General Accounting Department to transfer approximately \$743 million in line cost expenses to capital accounts in WorldCom's general ledger.

j. On or about October 25, 2001, EBBERS and Sullivan provided false and misleading financial information to

securities analysts and the investing public.

k. In or about February 2002, with EBBERS's knowledge and approval, Sullivan directed members of WorldCom's General Accounting Department to transfer approximately \$941 million in line cost expenses to capital accounts in WorldCom's general ledger.

l. On or about February 7, 2002, EBBERS and Sullivan provided false and misleading financial information to securities analysts and the investing public.

m. On or about March 13, 2002, EBBERS and Sullivan signed WorldCom's Annual Report on Form 10-K for the Year Ending December 31, 2001.

n. On or about March 13, 2002, EBBERS and Sullivan caused WorldCom's Annual Report on Form 10-K for the Year Ending December 31, 2001 to be filed with the SEC from New York, New York.

o. In or about April 2002, with EBBERS's knowledge and approval, Sullivan directed members of WorldCom's General Accounting Department to transfer approximately \$818 million in line cost expenses to capital accounts in WorldCom's general ledger.

p. On or about April 25, 2002, EBBERS and Sullivan provided false and misleading financial information to securities analysts and the investing public.

(Title 18, United States Code, Section 371.)

COUNT TWO

(Securities Fraud)

The Grand Jury further charges:

42. The allegations contained in paragraphs 1 through 35 and paragraphs 40 and 41 of this Indictment are repeated and realleged as if fully set forth herein.

43. From in or about September 2000 up to and including in or about June 2002, in the Southern District of New York and elsewhere, BERNARD J. EBBERS, the defendant, unlawfully, willfully and knowingly, directly and indirectly, by the use of the means and instrumentalities of interstate commerce, and of the mails, and of facilities of national securities exchanges, in connection with the purchase and sale of securities, used and employed manipulative and deceptive devices and contrivances in violation of Title 17, Code of Federal Regulations, Section 240.10b-5 by (a) employing devices, schemes and artifices to defraud; (b) making untrue statements of material fact and omitting to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; and (c) engaging in acts,

practices and courses of business which operated and would operate as a fraud and deceit upon purchasers and sellers of WorldCom securities.

(Title 15, United States Code, Sections 78j(b) and 78ff;
Title 17, Code of Federal Regulations, Section 240.10b-5;
Title 18, United States Code, Section 2.)

COUNTS THREE THROUGH NINE

(False Filing With The SEC)

The Grand Jury further charges:

44. The allegations contained in paragraphs 1 through 35 and paragraphs 40 and 41 of this Indictment are repeated and realleged as if fully set forth herein.

45. On or about the dates listed below, in the Southern District of New York and elsewhere, BERNARD J. EBBERS, the defendant, unlawfully, willfully, and knowingly, made and caused to be made statements in reports and documents required to be filed with the SEC under the Act and the rules and regulations promulgated thereunder, which statements were false and misleading with respect to material facts, to wit, EBBERS caused others to submit in New York, New York, the filings listed below to the United States Securities and Exchange Commission:

COUNT	FILING	APPROXIMATE DATE OF FILING
THREE	Form 10-Q for WorldCom, Inc., for the Third Quarter of 2000	11/14/00

FOUR	Form 10-K for WorldCom, Inc., for the year ending December 31, 2000	3/30/01
FIVE	Form 10-Q for WorldCom, Inc., for the First Quarter of 2001	5/15/01
SIX	Form 10-Q for WorldCom, Inc., for the Second Quarter of 2001	8/14/01
SEVEN	Form 10-Q for WorldCom, Inc., for the Third Quarter of 2001	11/14/01
EIGHT	Form 10-K for WorldCom, Inc., for the Year Ending December 31, 2001	3/13/02
NINE	Form 10-Q for WorldCom, Inc., for the First Quarter of 2002	5/15/02

(Title 15, United States Code, Sections 78m(a) and 78ff;
Title 17, Code of Federal Regulations, Section 240.13a-1;
and Title 18, United States Code, Section 2.)

FOREPERSON

DAVID N. KELLEY
United States Attorney