

In re WorldCom, Inc. Securities Litigation

COURT: United States District Court for the Southern District of New York
CASE NUMBER: 02-cv-3288
CLASS PERIOD: 04/29/1999 - 06/25/2002
CASE LEADERS: Max W. Berger
CASE TEAM: John C. Browne

BLB&G and Lead Plaintiff the New York State Common Retirement Fund Recover Nearly \$6.2 Billion - Second Largest Recovery in History - for WorldCom Investors.

This action was filed against WorldCom, the second-largest long-distance telephone company in the United States at the time, following its June 2002 revelations that it had overstated billions of dollars in earnings, admitting to booking billions in line cost expenses as capital investments - an accounting gimmick that hid expenses, inflated cash flow and allowed the Company to falsely report profits instead of losses. This improper and fraudulent accounting treatment constituted a blatant violation of Generally Accepted Accounting Principles ("GAAP"). The company subsequently filed for bankruptcy on July 21, 2002, while investors reeled from massive financial losses related to the fraud.

After nearly three years of fierce litigation and four weeks of trial before Judge Denise Cote of the United States District Court for the Southern District of New York, BLB&G and Lead Plaintiff New York State Comptroller and sole Trustee of the New York State Common Retirement Fund, recovered over \$6.15 billion in settlement monies on behalf of the investor class. An additional settlement of \$38 million was obtained in October 2012, satisfying a contingent clause inserted into the 2005 settlement agreement with Arthur Andersen entitling the class to additional future payments if Andersen ever distributed money to its former partners on certain subordinated notes.

The Class includes all investors who purchased or acquired publicly traded shares, bonds or notes of WorldCom, Inc. between April 29, 1999 and June 25, 2002.

**"The magnitude of this settlement is attributable in significant part to Lead Counsel's advocacy and energy..." -
*The Honorable Denise Cote***

Throughout the prosecution of the case, Judge Cote has frequently noted on the record the quality of BLB&G's ongoing representation of the Class. In granting her approval of the Citigroup Settlement and Plaintiffs' plan of allocation, she again praised the efforts of Lead Counsel and Lead Plaintiff:

"The quality of the representation given by Lead Counsel...has been superb...and is unsurpassed in this Court's experience with plaintiffs' counsel in securities litigation. Lead Counsel has been energetic and creative. Its negotiations with the Citigroup Defendants have resulted in a settlement of historic proportions."

"Face-to-face negotiations before Judge Sweet by [the New York State] Comptroller...in the latter stages of the settlement process greatly facilitated the settlement."

"...Staggeringly High Settlement..." - *Securities Class Action Services*

The *WorldCom* litigation has attracted an enormous amount of media attention, particularly since the Citigroup Defendants agreed to pay \$2.575 billion to settle all claims against them on May 11, 2004 - the largest third party

payment ever in a securities class action settlement. When first announced to a worldwide media audience, the settlement was reported across the globe - including the front pages of both *The Wall Street Journal* and *The New York Times*. Securities Class Action Services, a firm which monitors and researches shareholder litigation, told the Dow Jones Newswires at that time: "It is a staggeringly high settlement. This has got to be a huge wake-up call for the other banks."

Case Background

On paper, WorldCom, Inc. was the second-largest long-distance telephone company in the United States.

On June 25, 2002, WorldCom rocked Wall Street when it revealed that it had overstated billions of dollars in earnings. The Company admitted that it had booked billions in line cost expenses as capital investments, an accounting gimmick that hid expenses, inflated cash flow and allowed the Company to falsely report profits instead of losses. This improper and fraudulent accounting treatment, which constitutes a blatant violation of Generally Accepted Accounting Principles ("GAAP"), boosted cash flow because it improperly treated costs as an asset that could be written down over time, not immediately.

On July 21, 2002, WorldCom filed for bankruptcy. The revelations of WorldCom's overstatements continued. Additional misstated results were related to WorldCom's accounting reserves - monies set up to fund future liabilities which may be reversed when management believes they are no longer needed.

Multiple securities lawsuits were filed in numerous jurisdictions against certain former WorldCom directors and officers, WorldCom's former auditor, and numerous investment banks that underwrote WorldCom securities. These cases were consolidated before the Honorable Denise Cote of the United States District Court for the Southern District of New York in August 2002. On August 12, 2002, Judge Cote appointed the New York State Common Retirement Fund as Lead Plaintiff for the Class in *In re WorldCom, Inc. Securities Litigation*, and also appointed BLB&G, the Common Retirement Fund's choice, as Co-Lead Counsel for the Class.

One of the largest securities cases in history, this action was prosecuted on behalf of a court-certified class of all individuals or entities (excluding defendants and related parties) (the "Class") who purchased or acquired publicly traded securities of WorldCom, Inc. during the period from April 29, 1999 through and including June 25, 2002 (the "Class Period") and who were injured thereby.

JUDGE COTE LIFTS THE PSLRA DISCOVERY STAY

On November 21, 2002, the Judge Cote granted the request of Lead Plaintiff the Common Retirement Fund for a partial lifting of the PSLRA discovery stay in the action which allowed. Judge Cote's opinion required WorldCom to produce the approximately one million pages it had previously produced to Congress, the SEC, and the grand jury in the government's criminal investigation into the alleged fraud surrounding the Company's bankruptcy.

THE COMPLAINT

As discussed in more detail below, the consolidated complaint of Lead Plaintiff, the New York State Common Retirement Fund, was filed on behalf of the Class - investors who purchased or acquired publicly traded shares, bonds or notes of WorldCom, Inc. between April 29, 1999 and June 25, 2002 - in the fall of 2002 (the "Class Action Complaint" or the "Initial Complaint"), and updated in August 2003 (the "First Amended Class Action Complaint"), and in December 2003 (the "Corrected First Amended Class Action Complaint").

The Class Action Complaint was filed on October 11, 2002 and asserted on behalf of the Class claims for violations of federal securities laws against members of WorldCom's Board of Directors and/or senior executives, including former CEO Bernard J. Ebbers, former CFO Scott D. Sullivan, former Controller David F. Myers, and former accounting supervisor Buford Yates; investment banks which acted as WorldCom's underwriters and financial advisors during the Class Period, including Salomon Smith Barney, Inc.; Jack Grubman, a former Salomon Smith Barney telecommunications analyst who issued numerous analyst reports about WorldCom during the Class Period; and Arthur Andersen LLP, which acted as WorldCom's auditors during the Class Period, Andersen's former partners Melvin Dick and Mark Schoppet and two entities affiliated with Andersen. WorldCom is not a defendant in this action because it is in bankruptcy. For a list of all current defendants in this action, click on Parties .

On December 13, 2002, certain defendants moved to dismiss either all or parts of the claims asserted against them in the Class Action Complaint. On January 24, 2003, Lead Plaintiff filed its opposition to defendants' motions to dismiss. On May 19, 2003, Judge Cote denied, in major part, those defendants' motion to dismiss the Class Action Complaint, finding that the Complaint for the most part adequately pleaded claims asserted therein, and granting Lead Plaintiff leave to re-plead certain dismissed claims. On June 24, 2003, the Court denied the separate motion to dismiss the Class Action Complaint filed by Arthur Andersen LLP and granted motions to dismiss brought by Arthur Andersen (United Kingdom), Andersen Worldwide Societe Cooperative, and former Arthur Andersen partners Melvin Dick and Mark Schoppet.

On August 1, 2003, Lead Plaintiff filed the First Amended Class Action Complaint on behalf of the Class. The First Amended Class Action Complaint re-pleaded with more specificity or corrected certain factual allegations against certain defendants. On September 5, 2003, the Salomon Defendants (Salomon Smith Barney, Inc., Citigroup, Inc., and Jack Grubman) and the Audit Committee Defendants (James Allen, Judith Areen, Max Bobbitt and Francesco Galesi) moved to dismiss the Amended Complaint; the other defendants did not move against the Amended Complaint. On October 24, 2003, Judge Cote denied Salomon's motion to dismiss the Amended Complaint finding that Lead Plaintiff adequately pleaded claims against the Salomon Defendants. On December 1, 2003, Judge Cote granted the Audit Committee Defendants' motion to dismiss the Section 10(b) securities fraud claim asserted against them.

On December 1, 2003, Lead Plaintiff filed a Corrected First Amended Class Action Complaint to name six foreign affiliates of certain underwriter defendants as additional underwriter defendants in Securities Act claims arising from the May 2001 public offering of WorldCom's bonds. The Corrected First Amended Class Action Complaint also clarifies the relationship between defendants JP Morgan Chase & Co. and JP Morgan Securities, Inc.

The Complaint alleges that WorldCom and others disseminated false and misleading statements to the investing public regarding the Company's earnings and financial condition, artificially inflating the value of WorldCom's securities, in violation of federal securities laws. WorldCom accomplished this fraud, in part, by manipulating and, later in the class period, fabricating its accounting, in violation of generally accepted accounting principles.

The Complaint further alleges a nefarious relationship between Salomon Smith Barney and WorldCom, carried out primarily by Salomon employees involved in providing investment banking services to WorldCom (most notably, Jack Grubman, Salomon's star telecommunications analyst), and by WorldCom's former CEO and CFO, Bernard J. Ebbers and Scott Sullivan, respectively.

Additionally, based on information made publicly available through various congressional and other investigations, the Complaint alleges that Salomon Smith Barney, Grubman, WorldCom, Ebbers and Sullivan all had vested interests in maintaining WorldCom's high stock price and ability to raise capital with its "investment grade" credit rating, Worldcom's ability to make acquisitions of other telecommunications companies, and Salomon's position as manager of WorldCom's employee stock option plan. Moreover, the Plaintiffs' investigation has led to the discovery that in the fall of 1999, a unit of Citigroup, the parent company of Salomon Smith Barney, lent approximately a half billion dollars to an entity controlled by former WorldCom CEO Bernard Ebbers several months before WorldCom selected Salomon as lead underwriter for the issuance of \$17 billion in WorldCom bonds.