

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

-----X

UNITED STATES OF AMERICA :

-v- : **INDICTMENT**

SCOTT D. SULLIVAN and : 02 Cr.

BUFORD YATES, JR., :

Defendants. :

-----X

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. At all times relevant to this Indictment, WorldCom's common stock was listed on the NASDAQ National Market System, an electronic securities market system administered by the National Association of Securities Dealers ("NASD"), under the symbol "WCOM." 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. From in or about 1989 until on or about May 16, 2002, Arthur Andersen LLP ("Arthur Andersen") served as WorldCom's independent external auditors. Beginning on or about May 16, 2002, KPMG LLP ("KPMG") served as WorldCom's independent external auditors.

2. From in or about December 1994 until on or about June 25, 2002, SCOTT D. SULLIVAN, the defendant, was a certified public accountant ("CPA") who served, at various times, as WorldCom's Chief Financial Officer, Treasurer and Secretary. WorldCom's 2001 10-K and its Form 10-Q for the first quarter of 2002, both of which were filed with the United States Securities and Exchange Commission ("SEC") and which included WorldCom's financial statements for those periods, were prepared under SULLIVAN's direction and bear his signature.

3. From in or about 1997 through the present, BUFORD YATES, JR., the defendant, was a CPA who served as WorldCom's Director of General Accounting. YATES directly supervised Betty L. Vinson and Troy M. Normand, co-conspirators not named as defendants herein.

4. From in or about August 1995 through on or about June 25, 2002, David F. Myers, a co-conspirator not named as a defendant herein, was a CPA who served, at various times, as Senior Vice President and Controller of WorldCom.

5. From in or about 1996 through the present, Betty L. Vinson, a co-conspirator not named as a defendant herein, was a CPA and was an employee in WorldCom's General Accounting department. In or about January 2002, Vinson was promoted to Director of Management Reporting.

6. From in or about 1997 through the present, Troy M. Normand, a co-conspirator not named as a defendant herein, was a CPA and was an employee in WorldCom's General Accounting department. In or about January 2002, Normand was promoted to Director of Legal Entity Accounting.

CERTAIN RELEVANT ACCOUNTING PRINCIPLES

7. Public companies, such as WorldCom, typically report the financial results of their operations in financial statements that include both an Income Statement and a Balance Sheet. A company's Income Statement reports, among other things, revenue recognized, expenses incurred, and income earned during a stated period of time -- usually for a fiscal quarter or a fiscal year. Within an Income Statement, expenses are generally subtracted from revenues to calculate income. A company's Balance Sheet reports, among other things, the assets and liabilities of a company at a point in time, usually as of the end of the company's fiscal quarter or fiscal year.

8. When companies spend money or incur costs, those expenditures can be accounted for in a number of ways. Some types of expenditures, most commonly those incurred by a company in its normal operations, are treated as current or operating expenses. Examples include recurring costs such as salaries and wages, insurance, equipment rental, electricity, and maintenance contracts. In brief, almost all routine expenditures that a company makes are operating expenses. Other types of expenditures, most commonly those which result in the acquisition of, or improvement to, the company's assets, are treated as capital expenditures. Examples include purchases of real estate, manufacturing equipment, and computer equipment.

9. Operating expenses and capital expenditures generally receive different accounting treatment. Operating expenses are generally reported on a company's Income Statement and subtracted from revenues in the period in which the expense is incurred or paid, to derive net income. Capital expenditures, by contrast, are not subtracted from revenues and are not generally reflected on the Income Statement. Instead, capital expenditures are reflected as assets on a company's Balance Sheet and, depending on the nature of the asset and its expected

useful life, are subject to depreciation. When a capital asset is depreciated, a portion of the asset's value is written off over a number of accounting periods. The portion of the asset's value that is depreciated for a given period is reflected as a current expense in each period and deducted from revenues on the Income Statement.

10. If a company transfers or reclassifies a given expenditure from an operating expense to a capital expenditure, that transfer will have the following effects in the reporting period for which the transfer is made: (a) the company's operating expenses will be reduced, and the company's net income will be increased by the amount reclassified or transferred; and (b) the value of the company's capital assets will increase by the amount reclassified.

WORLDCOM'S NETWORKS AND THIRD-PARTY ACCESS FEES

11. At all times relevant to this Indictment, WorldCom provided a broad range of communications services to United States and foreign-based businesses and consumers, including, among other things, data transmission services, Internet-related services, commercial voice services, international communication services, long distance service, and other telecommunication services.

12. At all times relevant to this Indictment, WorldCom generally employed an "on-net" business strategy, pursuant to which WorldCom sought to develop the ability to provide service through its own proprietary communications networks and related facilities. To carry out this "on-net" business strategy, WorldCom maintained extensive network facilities to connect metropolitan centers and various regions throughout the world. To serve customers that were not directly connected to its networks, WorldCom paid fees to use or lease so-called "off-net"

facilities and connections from other telecommunication companies.

13. The various fees that WorldCom paid to use or lease facilities belonging to third-parties were generally referred to by WorldCom in its internal reports, publicly filed financial reports, and elsewhere as "line costs" or "telco" expenses. Prior to the first quarter of 2001, WorldCom did not capitalize line costs paid to lease facilities from third parties but treated such costs as operating expenses on WorldCom's Income Statement.

14. From time to time, WorldCom established reserves for various expenses to ensure that it had adequate funds available to make required payments. Among the reserves that WorldCom established were reserves for line costs and deferred taxes. Line cost reserves were established, in substance, by estimating the level of line cost expenses that WorldCom had incurred for a given period but had not yet paid and by estimating the level of disputed claims related to line cost expenses. Deferred tax reserves were established, in substance, by estimating the amount of taxes that WorldCom would owe in a given future period. Line cost reserves and deferred tax reserves were listed on WorldCom's balance sheet as liabilities.

WORLDCOM'S EXPANDED RELIANCE ON THIRD-PARTY LEASES

15. In or about 1999, WorldCom entered into a large number of long-term lease agreements with various third-party carriers to gain access to out-of-network facilities. WorldCom secured these leases in anticipation that a proliferation of various Internet-related business ventures likely would increase future demand for WorldCom services, although such demand did not then exist.

16. Many of these leases required WorldCom to pay a fixed sum to the third-party carrier over the full term of the lease regardless of whether WorldCom and its customers

actually made use of all or part of the capacity of the leased facility. As described in paragraph 13 above, these fixed payments to third parties were part of WorldCom's "line costs."

WORLD.COM'S COMMUNICATIONS WITH INVESTORS

17. At all times relevant to this Indictment, the management of many public companies provided "guidance" to the investing public regarding anticipated earnings for upcoming reporting periods. Relying in part on the company's "guidance," many professional securities analysts then disseminated to the public their own estimates of the company's expected performance. These "earnings estimates" or "analysts expectations" were closely followed by investors. Typically, if a company announced earnings that failed to meet or exceed analysts' expectations, the price of the company's securities declined.

18. At all times relevant to this Indictment, numerous analysts of major Wall Street investment firms followed WorldCom's performance and "guidance" estimates regarding its expected earnings. These analysts considered, among other things, WorldCom's management's "guidance" concerning estimated EBITDA ("Earnings Before Interest, Taxes, Depreciation, and Amortization"), earnings per share, net income, and capital expenditures to gauge WorldCom's performance and predict WorldCom's expected earnings. Similarly, market participants and members of the investing public considered and relied upon WorldCom's periodic financial reports concerning actual operating results.

19. Beginning at least in or about July 2000, WorldCom's expenses as a percentage of its total revenue began to increase, resulting in a decline in the rate of growth of WorldCom's earnings. As SCOTT D. SULLIVAN and BUFORD YATES, JR., the defendants, and their co-conspirators recognized, the decline in earnings created a substantial risk that, unless

WorldCom's performance improved, its earnings would fail to meet analysts' expectations and the market price of WorldCom's securities would therefore decline.

THE SCHEME TO DEFRAUD

20. As more fully set forth below, from in or about October 2000 through in or about June 2002, SCOTT D. SULLIVAN and BUFORD YATES, JR., the defendants, and their co-conspirators, engaged in an illegal scheme to inflate artificially WorldCom's publicly reported earnings by falsely and fraudulently reducing reported line cost expenses. To effect this illegal scheme, SULLIVAN, YATES, and their co-conspirators made entries in WorldCom's general ledger, crediting line costs and debiting, among other accounts, various reserve and capital accounts. As SULLIVAN, YATES, and their co-conspirators well knew, there was no justification in fact, or under Generally Accepted Accounting Principles ("GAAP"), for these entries. SULLIVAN, YATES, and their co-conspirators made these false and fraudulent journal entries in WorldCom's general ledger knowing, and intending (1) that such journal entries would ultimately be reflected in WorldCom's financial statements and public filings with the SEC; (2) that WorldCom's financial statements and public filings would falsely overstate WorldCom's earnings; and (3) that the investing public would rely upon such overstated earnings.

21. In or about October 2000, after reviewing preliminary financial statements for the third quarter of 2000, SCOTT D. SULLIVAN, the defendant, and others known and unknown, determined that WorldCom's expenses as a percentage of revenue were too high to meet analysts' expectations and were substantially higher than management's previous "guidance" to professional securities analysts and members of the investing public. To meet analysts' expectations, SULLIVAN instructed David F. Myers, and his subordinates, including

BUFORD YATES, JR., the defendant, Betty L. Vinson, and Troy M. Normand, in substance and in part, to falsely and fraudulently book certain entries in WorldCom's general ledger, which were designed to reduce WorldCom's reported line costs and thereby increase WorldCom's reported earnings. Specifically, SULLIVAN instructed Myers, YATES, Vinson, and Normand, in substance and in part, to make journal entries crediting line cost expense accounts. To make these entries balance on WorldCom's general ledger, SULLIVAN instructed Myers and his subordinates, including YATES, Vinson, and Normand to debit, in amounts corresponding to the line cost credits, various reserve accounts on WorldCom's balance sheet, such as accrued line costs, deferred tax liability, and other long-term liabilities. Neither SULLIVAN nor Myers provided YATES, Vinson, or Normand with any supporting documentation or any proper business rationale for the entries. Nevertheless, YATES, Vinson, Normand, and others booked certain entries in WorldCom's general ledger, which had the net effect of reducing line costs by approximately \$828 million, and thereby increasing WorldCom's publicly reported earnings for the third quarter of 2000 by the same amount. As SULLIVAN, Myers, YATES, Vinson, and Normand well knew, there was no justification in fact or under GAAP for these entries.

22. In or about February 2001, after reviewing WorldCom's preliminary financial statements for the fourth quarter of 2000, SCOTT D. SULLIVAN, the defendant, and others known and unknown, again determined that WorldCom's expenses as a percentage of revenue were too high to meet analysts' expectations and were substantially higher than management's earlier "guidance." SULLIVAN again instructed David F. Myers and his subordinates, including BUFORD YATES, JR., the defendant, Betty L. Vinson, and Troy M. Normand, in substance and in part, to falsely and fraudulently book certain entries in

WorldCom's general ledger, which were designed to reduce WorldCom's reported line costs and thereby increase WorldCom's reported earnings. Specifically, SULLIVAN instructed Myers, YATES, Vinson, and Normand, in substance and in part, to make journal entries crediting line cost expense accounts. To make these entries balance on WorldCom's general ledger, SULLIVAN instructed Myers and his subordinates, including YATES, Vinson, and Normand to debit, in amounts corresponding to the line cost credits, various reserve accounts on WorldCom's balance sheet, such as deferred tax liability. Neither SULLIVAN nor Myers provided YATES, Vinson, or Normand with any supporting documentation or any proper business rationale for the entries. Nevertheless, YATES, Vinson, Normand, and others booked certain entries in WorldCom's general ledger, which had the net effect of reducing line costs by approximately \$407 million, and thereby increasing WorldCom's publicly reported earnings for the fourth quarter of 2000 by the same amount. As SULLIVAN, Myers, YATES, Vinson, and Normand well knew, there was no justification in fact or under GAAP for these entries.

23. In or about April 2001, after reviewing WorldCom's preliminary financial statements for the first quarter of 2001, SCOTT D. SULLIVAN, the defendant, and others known and unknown, again determined that WorldCom's expenses as a percentage of revenue were too high to meet analysts' expectations. SULLIVAN, David F. Myers, and BUFORD YATES, JR., the defendant, agreed that it was no longer possible to disguise WorldCom's rising ratio of expenses to revenue by reducing various reserves on WorldCom's general ledger. Therefore, the conspirators discussed a scheme to hide WorldCom's increasing expenses by causing substantial portions of WorldCom's line costs to be transferred from current expense accounts into capital expenditure accounts. This transfer would allow WorldCom to defer

recognizing a substantial portion of its current operating expenses, thereby allowing WorldCom to report higher earnings.

24. To implement this scheme, SCOTT D. SULLIVAN, the defendant, instructed David F. Myers to direct employees of WorldCom's general accounting department to make various journal entries necessary to transfer certain line costs from expense accounts on WorldCom's general ledger to capital expenditure accounts on WorldCom's general ledger.

25. In furtherance of this plan, SCOTT D. SULLIVAN, the defendant, and David F. Myers instructed certain subordinates, including BUFORD YATES, JR., the defendant, Betty L. Vinson, and Troy M. Normand to make journal entries transferring certain line costs from expense accounts in WorldCom's general ledger to certain general ledger accounts for capital expenditures. As a result of these transfers, billions of dollars of WorldCom's current expenses were transferred from expenses on its Income Statement to assets on its Balance Sheet. Contrary to WorldCom's usual practices and prevailing accounting industry norms, no documentary support existed for any of these entries, which reclassified certain line costs as capital expenditures.

26. Beginning at the end of the first quarter of 2001 and continuing through the first quarter of 2002, BUFORD YATES, JR., the defendant, Betty L. Vinson, and Troy M. Normand executed the instructions of SCOTT D. SULLIVAN, the defendant, and David F. Myers by making certain journal entries in the general ledger to transfer, in total, approximately \$3.8 billion from line cost expense accounts to capital expenditure accounts. SULLIVAN and Myers's instructions were generally communicated, and the journal entries affecting the transfers were generally made, after WorldCom's field offices' books were closed for each quarter.

27. In or about April 2001, Troy M. Normand telephoned WorldCom's Director of Property Accounting (the "DPA") and instructed him to adjust the schedules he maintained for certain Property, Plant & Equipment capital expenditure accounts (the "PP&E Roll-Forward") by increasing certain capital accounts for "prepaid capacity." Normand advised the DPA that these entries had been ordered by SCOTT D. SULLIVAN, the defendant, and David F. Myers. Correspondingly, a subordinate of Normand made journal entries in WorldCom's general ledger, transferring approximately \$771 million from certain line cost expense accounts to certain PP&E capital expenditure accounts.

28. In or about July 2001, Troy M. Normand called the DPA and again instructed him to adjust the PP&E Roll-Forward by increasing certain capital accounts for "prepaid capacity." Normand again advised the DPA that these entries had been ordered by SCOTT D. SULLIVAN, the defendant, and David F. Myers. Correspondingly, Betty L. Vinson made journal entries in WorldCom's general ledger that effectively transferred approximately \$560 million from certain line cost expense accounts to certain PP&E capital expenditure accounts.

29. In or about October 2001, Troy M. Normand called the DPA and again instructed him to adjust the PP&E Roll-Forward by increasing certain capital accounts for "prepaid capacity." Normand again advised the DPA that these entries had been ordered by SCOTT D. SULLIVAN, the defendant, and David F. Myers. Correspondingly, a subordinate of Betty L. Vinson made journal entries in WorldCom's general ledger that effectively transferred approximately \$743 million from certain line cost expense accounts to certain PP&E capital expenditure accounts.

30. In or about February 2002, Troy M. Normand called the DPA and again instructed him to adjust the PP&E Roll-Forward by increasing certain capital accounts for "prepaid capacity." Normand again advised the DPA that these entries had been ordered by SCOTT D. SULLIVAN, the defendant, and David F. Myers. Correspondingly, Betty L. Vinson made journal entries in WorldCom's general ledger that effectively transferred approximately \$941 million from certain line cost expense accounts to certain PP&E capital expenditure accounts.

31. In or about April 2002, Troy M. Normand called the DPA and again instructed him to adjust the PP&E Roll-Forward by increasing certain capital accounts for "prepaid capacity." Normand again advised the DPA that these entries had been ordered by SCOTT D. SULLIVAN, the defendant, and David F. Myers. Correspondingly, Betty L. Vinson made journal entries in WorldCom's general ledger that effectively transferred approximately \$818 million from certain line cost expense accounts to certain PP&E capital expenditure accounts.

32. In the normal course of closing the books for each quarterly reporting period, the DPA and his subordinates prepared the PP&E Roll-Forward based on documents and information provided from WorldCom field operations reflecting actual business activity. With respect to each of the adjustments described in paragraphs 27 through 31 above, the DPA received no supporting documentation, despite his requests to Troy M. Normand for such support. Moreover, the DPA was directed to make these adjustments after the field offices' books had been closed for each quarter.

33. As SCOTT D. SULLIVAN and BUFORD YATES, JR., the defendants,

and their co-conspirators well knew, there was no basis in fact to capitalize such line costs and the journal entries described in paragraphs 27 through 31 above were made solely for the purpose of falsely and fraudulently reducing WorldCom's publicly reported expenses and increasing its publicly reported earnings. Moreover, as SULLIVAN and YATES and their co-conspirators well knew, the accounting treatment of line costs described above was not in accordance with GAAP.

FAILURE TO DISCLOSE TRANSFERS TO AUDITORS

34. Neither SCOTT D. SULLIVAN, the defendant, nor BUFORD YATES, JR., the defendant, nor any other WorldCom officer, disclosed to members of the Arthur Andersen engagement team, during the course of its audits, that WorldCom had begun to capitalize third-party line costs.

35. Neither SCOTT D. SULLIVAN, the defendant, nor BUFORD YATES, JR., the defendant, nor any other WorldCom officer, disclosed to members of the Arthur Andersen engagement team, during the course of its audits, any of the journal entries summarized in paragraphs 27 through 31 above.

36. Neither SCOTT D. SULLIVAN, the defendant, nor BUFORD YATES, JR., the defendant, nor any other WorldCom officer, disclosed to members of the Arthur Andersen engagement team, during the course of its audits, a list of "top-side" entries -- entries made at the corporate level -- such as the transfers described in paragraphs 27 through 31 above, as Arthur Andersen from time to time requested.

37. Neither SCOTT D. SULLIVAN, the defendant, nor any other WorldCom officer, disclosed to members of the Arthur Andersen engagement team, during the course of its

audits, that WorldCom had changed its accounting practices for certain line costs, namely that certain line costs had been capitalized rather than treated as an expense, even though Arthur Andersen had asked SULLIVAN whether WorldCom had implemented any changes in accounting practices.

FALSE STATEMENTS IN PUBLIC FILINGS

38. 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.

39. Under these 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 GAAP and other applicable criteria; and (d) make and keep books, records, and accounts that accurately and fairly reflected the company's business transactions.

40. At all times relevant to this Indictment, WorldCom's quarterly and year-end financial statements were transmitted to the offices of Merrill Communications LLC ("Merrill") in New York, New York, a filing agent that assists companies in electronically filing periodic reports with the SEC, and were thereafter transmitted electronically by a Merrill

subcontractor, located in New York, New York, to the SEC and were filed electronically with the SEC.

41. Neither SCOTT D. SULLIVAN, the defendant, nor BUFORD YATES, JR., the defendant, nor any of their co-conspirators publicly disclosed the decision to capitalize a substantial portion of WorldCom's line costs in WorldCom's public filings with the SEC from the first quarter of 2001 through the first quarter of 2002, or in any other publicly-issued statement known to the SEC.

42. By falsely concealing line costs and thereby lowering publicly reported expenses, SCOTT D. SULLIVAN and BUFORD YATES, JR., the defendants, and their co-conspirators were able to assure that WorldCom's 2001 Form 10-K reported to the investing public that WorldCom's line costs expressed as a percentage of overall company revenues remained fairly consistent over a three-year period, namely 41.0% for 1999; 39.6% for 2000, and 41.9% for 2001, when, in truth and in fact, as SULLIVAN, YATES, and their co-conspirators well knew, line costs as a percentage of overall company revenue for 2001 had grown to approximately 50%. Moreover, as a result of the fraudulent journal entries described above, SULLIVAN, YATES, and their co-conspirators were able to assure that WorldCom's reported earnings exceeded its actual earnings for the period from October 2000 through April 2002 by approximately \$5 billion.

THE CONSPIRACY

43. From in or about October 2000 through in or about June 2002, in the Southern District of New York and elsewhere, SCOTT D. SULLIVAN and BUFORD YATES, JR., the defendants, 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 (the "Act") and the rules and regulations thereunder, in violation of Title 15, United States Code, Section 78ff; (c) to make and cause to be made false and misleading statements to WorldCom's auditors, in violation of Title 15, United States Code, Section 78ff and Title 17, Code of Federal Regulations, Section 240.13b2-2; and (d) 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 Or Sale Of Securities

44. It was a part and an object of the conspiracy that SCOTT D. SULLIVAN and BUFORD D. YATES, JR., the defendants, 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**

45. It was further a part and an object of the conspiracy that SCOTT D. SULLIVAN and BUFORD D. YATES, JR., the defendants, and others known and unknown, unlawfully, willfully, and knowingly, in applications, reports, and documents required to be filed under the Act and the rules and regulations thereunder, would and did make and cause to be made statements which were false and misleading with respect to material facts, in violation of Title 15, United States Code, Section 78ff.

False Statements to Auditors

46. It was further a part and an object of the conspiracy that SCOTT D. SULLIVAN, the defendant, being a director and officer of WorldCom, an issuer with a class of securities

registered pursuant to Section 12 of the Act, and others known and unknown, unlawfully, willfully, and knowingly, would and did, directly and indirectly (a) make and cause to be made materially false and misleading statements; and (b) omit to state, and cause other persons to omit to state, material facts necessary in order to make the statements made, in the light of the circumstances under which such statements were made, not misleading to accountants in connection with (i) audits and examinations of the Financial Statements of WorldCom; and (ii) the preparation and filing of documents and reports, required to be filed with the SEC pursuant to rules and regulations enacted by the SEC, in violation of Title 17, Code of Federal Regulations, Section 240.13b2-2 and Title 15, United States Code, Section 78ff.

False Books and Records

47. It was further a part and an object of the conspiracy that SCOTT D. SULLIVAN and BUFORD D. YATES, JR., the defendants, 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 Act, namely books, records, and accounts of WorldCom, an issuer with a class of securities registered pursuant to the Act, which WorldCom was required to make and keep in reasonable detail, accurately and fairly reflecting 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

48. Among the means and methods by which SCOTT D. SULLIVAN and BUFORD YATES, JR., the defendants, and their co-conspirators would and did carry out the conspiracy were the following:

a. SULLIVAN and David F. Myers directed WorldCom's accounting staff, including YATES, to book entries crediting line costs and debiting line cost reserves and other liability accounts without supporting documentation or proper business rationale, thereby falsely inflating, among other things, WorldCom's publicly reported EBITDA and net income.

b. SULLIVAN and Myers directed WorldCom's accounting staff, including YATES, to transfer expenses from line cost expense accounts to capital expenditure accounts without supporting documentation and contrary to GAAP, thereby falsely inflating, among other things, WorldCom's publicly reported EBITDA, net income, and current assets.

c. SULLIVAN and his co-conspirators, provided false and misleading information to WorldCom's auditors and concealed from them their falsification of WorldCom's books and records, and manipulation of data recorded in WorldCom's general ledger and subsidiary ledgers.

d. SULLIVAN and YATES and their co-conspirators, caused WorldCom to file publicly with the SEC annual reports, and quarterly reports that materially misstated, among other things, WorldCom's EBITDA, net income, assets, and liabilities in every fiscal quarter from in or about October 2000 to in or about April 2002.

Overt Acts

49. In furtherance of the conspiracy and to effect its illegal objects, SCOTT D. SULLIVAN and BUFORD D. YATES, JR., the defendants, and their co-conspirators, committed the following overt acts, among others, in the Southern District of New York and elsewhere:

a. In or about April 2001, at SULLIVAN and Myers's direction, YATES assisted his subordinates in WorldCom's General Accounting department to transfer approximately \$771 million in "line cost" expenses to various PP&E accounts in WorldCom's general ledger.

b. In or about July 2001, at SULLIVAN and Myers's direction, YATES assisted his subordinates in WorldCom's General Accounting department to transfer approximately \$560 million in "line cost" expenses to various PP&E accounts in WorldCom's general ledger.

c. In or about October 2001, at SULLIVAN and Myers's direction, YATES assisted his subordinates in WorldCom's General Accounting department at WorldCom to transfer approximately \$743 million in "line cost" expenses to various PP&E accounts in WorldCom's general ledger.

d. In or about February 2002, at SULLIVAN and Myers's direction, YATES assisted his subordinates in WorldCom's General Accounting department at WorldCom to transfer approximately \$941 million in "line cost" expenses to various PP&E accounts in WorldCom's general ledger.

e. On or about March 13, 2002, SULLIVAN signed WorldCom's Form 10-K Annual Report for the Year Ending December 31, 2001.

f. On or about March 13, 2002, SULLIVAN caused WorldCom's 2001 Form 10-K to be filed with the United States Securities and Exchange Commission from New York, New York.

g. In or about April 2002, at SULLIVAN and Myers's direction, YATES assisted his subordinates in WorldCom's General Accounting department at WorldCom to transfer approximately \$818 million in "line cost" expenses to various PP&E accounts in WorldCom's general ledger.

h. On or about June 11, 2002, SULLIVAN requested that WorldCom's Vice President for Internal Audit defer an audit of WorldCom's capital expenditure accounts.

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

COUNT TWO

(Securities Fraud)

The Grand Jury further charges:

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

51. From in or about 2001, up to and including in or about June 2002, in the Southern District of New York and elsewhere, SCOTT D. SULLIVAN and BUFORD YATES, JR., the defendants, unlawfully, willfully and knowingly, directly and indirectly, by the use of means and instrumentalities of interstate commerce, and of the mails, and of facilities of national securities exchanges, used and employed, in connection with the purchase and sale of securities, namely WorldCom common stock, 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, Inc. common stock.

(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 SEVEN

(False Filings With The SEC)

The Grand Jury further charges:

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

53. On or about the dates listed below, in the Southern District of New York and elsewhere, SCOTT D. SULLIVAN and BUFORD YATES, JR., the defendants, 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, SULLIVAN and YATES submitted 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 First Quarter of 2001 | 5/15/01 |
| FOUR | Form 10-Q for WorldCom, Inc., for the Second Quarter of 2001 | 8/14/01 |
| FIVE | Form 10-Q for WorldCom, Inc., for the Third Quarter of 2001 | 11/14/01 |
| SIX | Form 10-K for WorldCom, Inc., for the Year Ending December 31, 2001 | 3/13/02 |
| SEVEN | 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.)

/s/

/s/

 FOREPERSON

 JAMES B. COMEY