

## Salomon Faces Questions on Shots At IPOs WorldCom Officials Got

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Two members of Congress have asked Salomon Smith Barney whether the Wall Street firm doled out hard-to-get shares of hot IPOs to top executives of WorldCom Inc., including former Chairman Bernard J. Ebbers, to curry favor with WorldCom.

One key focus of congressional interest, according to people familiar with the request, is Rhythms NetConnections Inc., a dot-com company whose stock soared 229% in its first day of trading in April 1999. Its shares peaked a week later, briefly trading as high as \$111.50, or 431% above the initial-public-offering price of \$21, before the company ran into financial problems as the stock-market bubble burst and it filed for bankruptcy protection last year.

Mr. Ebbers was among the investors who bought shares of Rhythms NetConnections at the IPO or thereafter, said a person familiar with the stock offering, though the number of shares and the price couldn't immediately be determined. It isn't known if, or when, he sold the shares.

Getting IPO shares during the dot-com boom was akin to being handed a windfall profit, on paper at least. Thus, it was very difficult for most investors to get shares. Wall Street firms, which have great leeway in deciding who gets the shares, generally reserved much of the stock for their most favored customers, typically wealthy investors and big mutual funds.

The written query to Salomon, a unit of Citigroup Inc., came from Pennsylvania Democrat Paul E. Kanjorski and Connecticut Republican Christopher Shays. Dated Monday, it was addressed to star Salomon telecommunications analyst Jack Grubman, who testified on Monday at the House Financial Services Committee hearing investigating the massive earnings overstatement by WorldCom.

A Salomon Smith Barney spokeswoman said the firm has received the representatives' letter, and "we are reviewing the request for information." Outlining the firm's policy on IPO allocations, she said that "the firm allocates IPO shares broadly among institutional and retail customers based on a variety of factors. To the extent any WorldCom executives had personal accounts at SSB, they, like other SSB individual clients, could have been able to seek IPO investments through their financial consultants, and shares in IPOs would have been allocated consistent with regulatory requirements and internal policies."

However, she said the firm couldn't comment on specific client relationships, client accounts or IPO allocations, but added, "neither the research department nor a specific analyst has responsibility for making allocations of IPOs."

Rhythms NetConnections, an Englewood, Colo., provider of high-speed Internet service, was the hottest IPO led by Salomon during the Internet stock mania of 1999 and 2000. It had substantial business ties to WorldCom, which had designated Rhythms NetConnections as a preferred provider of high-speed business Internet phone lines; WorldCom had invested \$30 million and held an 8.6% stake in Rhythms NetConnections at the time of the IPO. Last year, WorldCom bought most of the assets of Rhythms.

The request ratchets up the pressure on Salomon over its close ties to WorldCom, which has quickly come to rival Enron Corp. as a major business scandal. Salomon not only served as WorldCom's

lead investment banker, but its star telecom analyst, Mr. Grubman, was the company's biggest booster on Wall Street, recommending the stock through most of its steep decline in the past few years. Salomon and Mr. Grubman are also under the microscope of New York Attorney General Eliot Spitzer, who is investigating whether the firm and Mr. Grubman misled small investors with overly optimistic recommendations.

The congressional request for information gives Salomon until the close of business Thursday to reply to whether Salomon has permitted any past or present officers, directors or other employees of WorldCom to buy stock in any IPO that Salomon led or helped underwrite in the past five years. The letter asks for the name of such individuals who got the stock, the number of shares and the date and price of both the purchase and sale.

When he was asked by Mr. Kanjorski during Monday's hearing whether Salomon had given or steered hot IPO shares to senior WorldCom executives under "friends and family" programs, Mr. Grubman's reply was vague: "I don't recall. I'm not saying 'no.' I'm not saying 'yes.'" Mr. Kanjorski responded, "For an analyst, brilliant as you are, you have a terrible recollection." Friend and family stock refers to shares set aside for both relatives of employees and executives of their key business customers and suppliers.

**Merrill Lynch & Co.** and Salomon were the co-lead underwriters of Rhythms's IPO, which raised \$197 million, and a subsequent stock offering for the same company in August 1999, which raised \$115 million. At that time, Mr. Grubman rated the stock a "speculative buy," but in December 2000, he downgraded the stock several notches to a "speculative neutral" rating, a spokeswoman for the firm confirmed. A WorldCom spokeswoman said the company has "no information" about any possible allocation by Salomon of friends-and-family stock to either Mr. Ebbers or Scott Sullivan, WorldCom's former chief financial officer, who was fired last month when WorldCom disclosed the earnings overstatement that led to the hearings.

In an interview, Mr. Kanjorski said he decided to look into the matter after "some conversations with folks who said there might be something out there." He added that he expects Mr. Grubman to provide more details than he did in his testimony on Monday. Mr. Kanjorski said, "I suspect he won't say that he doesn't know. His response to us was that he can't recall, and now we've given him an opportunity to find out."

As Mr. Grubman's presence at Monday's hearing demonstrated, Salomon Smith Barney had a close relationship with WorldCom. Mr. Grubman and the firm's investment bankers were the telecom company's top advisers on a string of acquisitions, and Salomon led most of the firm's major securities sales.

What's more, Mr. Ebbers had a personal brokerage account with a Salomon Smith Barney broker. Mr. Ebbers's attorney, Reid Weingarten, didn't return a call for comment. Mr. Ebbers, who declined to testify at the hearing, citing his constitutional right against self-incrimination, didn't return a call either.