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## PAGE ONE

# Former WorldCom CEO Built An Empire on Mountain of Debt

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In June 1998, Bernard Ebbers, then chief executive of WorldCom Inc., wanted to buy a ranch. It was no ordinary weekend getaway.

The property Mr. Ebbers hankered for was the Douglas Lake Ranch in British Columbia. The largest privately held ranch in Canada, the 500,000-acre property boasts 20,000 head of Hereford and crossbreed cattle, its own general store and a fly-fishing resort, complete with hot tub and yurts. Queen Elizabeth and Prince Phillip have visited.

The price, more than \$65 million, was over Mr. Ebbers's budget, so he went to **Bank of America Corp.** for a loan.

Mr. Ebbers was a favorite client of the bank. Just three months before, it had lent him \$13.8 million to buy a soybean and rice farm in Louisiana. But this new request baffled lending officers, who wondered why Mr. Ebbers so badly wanted another big chunk of real estate. They turned him down.

Into the breach rushed **Toronto-Dominion Bank**, and Mr. Ebbers became the fifth owner in the 114-year history of the ranch. A year later, he refinanced with a \$43.2 million loan from **Citibank**.

The next time Mr. Ebbers asked Bank of America for money, it said yes.

Mr. Ebbers, 61 years old, built WorldCom with a series of daring acquisitions, funded by massive debt, that caught the attention of the rest of the telecommunications industry. Behind the scenes Mr. Ebbers was quietly building a huge personal empire, adopting the strategies he had learned on the job at WorldCom. Some of the same banks that financed WorldCom's ascent fell all over each other to make a mountain of

## EBBERS'S QUESTIONABLE ROLE

- [WorldCom Ex-CFO Fails to Link Ebbers to Fraud](#)<sup>7</sup>  
12/20/02
- [Ebbers May Give Up Pension to Repay WorldCom Loan](#)<sup>8</sup>  
11/11/02
- [Page One: How Three Unlikely Sleuths Exposed Fraud at WorldCom](#)<sup>9</sup>  
10/30/02
- [WorldCom Board Will Consider Rescinding Ebbers's Severance](#)<sup>10</sup>  
09/10/02

## COMPANIES

Dow Jones, Reuters

### [Bank of America Corp. \(BAC\)](#)

PRICE	69.80
CHANGE	0.63
U.S. dollars	12/30

\* At Market Close

## WORLDCOM'S FALL

- Browse quick profiles of the [major WorldCom players](#)<sup>1</sup>.
- See additional coverage of WorldCom's troubles at [wsj.com/WorldCom](#)<sup>2</sup>, including related articles, a clickable stock chart and an online discussion.

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- For continuing coverage of corporate-accounting issues go to [Called to Account](#)<sup>3</sup>.

loans to the company's CEO.

Bank of America ponied up \$253 million. Citigroup lent Mr. Ebbers \$552 million. To help Mr. Ebbers pay back some of those loans, the WorldCom board lent him \$415 million from the company's coffers. The bank loans went to fund a jumble of acquisitions, including timberland, a yacht-building company and a refrigerated trucking firm. Mr. Ebbers planned to manage the companies when he retired from WorldCom.

A close look at the financing of those businesses suggests that when it came to making personal loans to Mr. Ebbers, the banks sometimes were guided by a powerful desire to cultivate and protect their relationship with him. Mr. Ebbers was one of the biggest borrowers from Bank of America's private-banking division. WorldCom was a significant client of Citigroup's Salomon Smith Barney unit, which had orchestrated the company's acquisition of MCI. It was very much in both banks' interests to satisfy the CEO's acquisitive urges.

Throughout Mr. Ebbers's shopping spree, there were evident flaws in his strategy. He sometimes snapped up properties at inflated prices, leaving bankers and WorldCom directors scratching their heads. Over the course of less than a decade, he secured a total of more than \$1.3 billion in loans. Although he sometimes retired old debt with new, it is still a staggering amount for an individual. Mr. Ebbers took out those loans at a dizzying pace. But rather than tightening their purse strings, the banks kept lending him money.

Meanwhile, WorldCom's directors worried that Mr. Ebbers would dump his large holdings of company stock, either to finance his purchases or meet margin calls. If he did, and the stock price plummeted, shareholders and directors stood to lose. So Mr. Ebbers had his banks competing against each other and his directors backed into a corner.



**Bernard J. Ebbers**

Mr. Ebbers's world fell apart when he was fired from WorldCom in April and the company filed for bankruptcy-court protection in July. He is now under investigation for his role in the company's \$9 billion accounting scandal.

### Modest Beginnings

Mr. Ebbers, who grew up in Canada, began a business career focused on acquiring properties and debt when he quit teaching high school and bought a motel in Mississippi. By the early 1980s he owned eight motels, including some Hampton Inns and Courtyards by Marriott.

Mr. Ebbers's big move came when he joined forces with other motel investors and formed Long Distance Discount Service, which eventually was renamed WorldCom.

As chief executive, Mr. Ebbers was obsessed with WorldCom's stock price. He began staff meetings with a prayer and a discussion of how to boost the price of the company's shares. At a 1998 meeting, when WorldCom shares were hovering around \$65, Mr. Ebbers told about 20 senior WorldCom and MCI managers that they had to figure out a way to push the stock to \$100 a share. He was adamant that executives shouldn't sell their stock. Top managers who wanted to sell had to seek his permission and were usually denied.

## IN DEEP

Over about seven years, Bernard J. Ebbers, the former WorldCom chief executive, racked up huge personal debts from a variety of lenders. He used some of his loans to pay off others.

Lender	Amount (In millions)	STATUS
Citigroup	\$552.0	About \$88 million has been repaid
WorldCom	\$415.0*	Company has seized collateral backing the loans
Bank of America	\$253.0	Repaid
UBS PaineWebber	\$51.0	Repaid
Toronto-Dominion	about \$40.0	Repaid
Morgan Keegan	\$11.6	Repaid
J.P. Morgan Chase	\$10.8	Repaid
Bank of North Georgia	\$10.8	Repaid

\*Including accrued interest

Source: Bank of America documents and public filings; WSJ research

But to a few close associates, Mr. Ebbers confided that he was planning to sell part of his own stake when the stock price hit \$100. Meanwhile, he used his stock to collateralize a mountain of personal debt. But because he often bought properties with margin loans backed by WorldCom stock, he put his stock at risk. If the loans were called, and he was forced to sell large numbers of shares, it was likely that WorldCom's stock price would drop as well.

Mr. Ebbers learned early on that if he ran afoul of one lender, another would likely bail him out of trouble. In 1994, he borrowed \$10 million from Citibank so that he could purchase two million shares of WorldCom stock. It was a margin loan, which meant that if the shares dropped below a certain price, Citibank could call the loan.

When that happened later the same

year, Mr. Ebbers appealed to WorldCom's compensation committee. The company stepped up to the plate with a \$10 million loan for its chief executive.

## Special Relationship

The next year Mr. Ebbers found himself a new personal banker. At the time, Bank of America Corp. was building its private client division, which catered to wealthy individuals. Mr. Ebbers asked the bank, formerly known as NationsBank Corp., for a \$800,000 loan to finance his purchase of a troubled 52-year old lumberyard in Brookhaven, Miss., according to documents the bank has turned over to the Securities and Exchange Commission.

Columbus Lumber appealed to Mr. Ebbers in part because he enjoyed bolstering the fortunes of his adopted home town. About 50 miles south of Jackson, Brookhaven has fewer than 10,000 residents. Mr. Ebbers taught Sunday school at a local church. Because of WorldCom, stately brick homes had begun to

spring up in the otherwise working-class area, and he was becoming something of a local hero.

Within Bank of America's private-banking division, there were concerns about Mr. Ebbers's loan request because nobody in the division had any experience with saw mills, according to a person familiar with Mr. Ebbers's account. The bank made the loan only after Mr. Ebbers pledged collateral. It is not clear what assets backed the loan.

David Kaufman, an attorney for Mr. Ebbers, says that his client came to the aid of the lumber firm and a refrigerated-trucking company he acquired with another Bank of America loan when they were facing hostile buyouts. "He was trying to do his best to help these local companies out and keep local people on the payroll," Mr. Kaufman says. "He's a very generous guy; he's given to numerous charities and civic endeavors."

During that period, Mr. Ebbers's empire began to mushroom, and Bank of America was faced with other perplexing loan requests from the WorldCom CEO. He had acquired a 46-foot yacht in 1988. He started trading up, and Bank of America provided some of the financing. There was a 60-footer, then a 92-footer and then a 121-footer and finally, in 1996, a 132-footer. Christened "Aquisition," it featured five staterooms and a remote control so that it could be steered from the hot tub on deck. Mr. Ebbers commissioned three other yachts, which he planned to sell, from shipyard Intermarine LLC of Savannah, Ga.

In 1998, during the MCI Heritage golf tournament in Hilton Head, S.C., he met with an Intermarine executive. Sitting on the deck of the Aquisition, and chewing on a cigar, Mr. Ebbers pummeled him with shipbuilding questions. Soon he decided he wanted to buy the shipyard company.

Inside Bank of America, there was a good deal of eye rolling. First he "was doing a yacht," says the person familiar with Mr. Ebbers's account. "Then he decided he was doing a speculative yacht. The next thing you knew, he was buying a boatyard." The bank lent him \$14 million for the shipyard anyway.

Most of Bank of America's private-banking clients applied for a single loan, rarely exceeding \$20 million, so Mr. Ebbers's mounting appeals were unusual. Still

## RETIREMENT PLAN

Bernard Ebbers amassed holdings in timberland, farming, trucking, lumber and boat building. He hoped to run the businesses once he retired from WorldCom.

Company	Location	Acquired In	Assets (Millions)
Angelina Plantation (rice farm)	Monterey, La.	1998	\$14.00
Columbus Lumber	Brookhaven, Miss.	1995	0.8
Douglas Lake Ranch	Alberta Province, Canada	1998	43
Intermarine (Shipyard)	Savannah, Ga.	1998	14
KLLM Trucking	Richland, Miss.	2000	28.5
Timberland	Mississippi, Alabama, Tennessee	1999	400
	Louisiana	2000	258

the bankers were hesitant to reject his requests because they worried he would take his business elsewhere, according to the person familiar with Mr. Ebbers's account.

The bank says that loans to Mr. Ebbers met lending standards and no exceptions were made. "We did what a bank is in business to do -- that is, make loans and get repaid," says Catherine Bessant, chief marketing executive at Bank of America. "That is what shareholders expect, and we've met their expectations."

Bank officials also had their eyes on WorldCom's business. Bank of America had acted as lead bank on the \$2.5 billion financing of WorldCom's acquisition of WorldTel Network Services in 1995, and it hoped to snag more deals like it.

Mr. Ebbers, meanwhile, cultivated his relationships with the corporate and private sides of the bank. He called a lead telecommunications banker "Big Dog," and another banker, "Little Dog." For his personal lending he had the attention of Jayne Hammond, known inside the bank for her skill assessing credit risk. She handled only one other client besides the WorldCom CEO and was always "promoting" his deals, according to the person familiar with Mr. Ebbers's account. Ms. Hammond declined to comment.

Just before WorldCom's 1998 annual meeting, Mr. Ebbers told outside directors that he wanted to retire by 2000. Mr. Ebbers's brother John owned a large cattle ranch in Brookhaven and Mr. Ebbers wanted a farm, too. He wanted to live like a cowboy, says a person close to Mr. Ebbers. On weekends, he "spent time riding around on his tractor. There was nothing he liked better," the associate says.

Mr. Ebbers found his dream property in Monterey, La., two hours from Brookhaven. The Angelina Plantation grows soybeans and rice, and its huge grain elevators stand out on the flat farmland. Bank of America lent Mr. Ebbers \$13.8 million to buy the property. As usual, the loan was backed with WorldCom shares.

Three months later Mr. Ebbers went back to Bank of America for more money to buy the massive Douglas Lake ranch in Canada. This time, Bank of America said no. The amount he wanted, more than \$40 million, was staggering. The bankers thought the ranch was just too far away to worry about.

### **Citibank Enters the Picture**

Other big banks were eager to lend to Mr. Ebbers. He ended up getting about \$40 million to buy the ranch from Toronto-Dominion Bank. The bank declined to comment about why it made the loan. A year later, Mr. Ebbers went in search of a better interest rate, and got one from Citibank, which made him the \$43.2 million loan. It was backed with 2.3 million of Mr. Ebbers's roughly 18 million WorldCom shares.

Mr. Ebbers already had a close relationship with Citibank, mostly because Salomon Smith Barney, its sister Citigroup Inc. unit, was WorldCom's principal investment banker. Salomon handled WorldCom's acquisition of MCI in 1997, the year before the ranch purchase. Salomon received \$32.5 million in fees from WorldCom, according to Thomson Financial.

Mr. Ebbers also had a close relationship with Jack Grubman, Salomon's lead telecom analyst, a bull when

it came to WorldCom. When Mr. Grubman visited WorldCom in Jackson, he and Mr. Ebbers ate burgers, drank beer and played pool at the Cherokee Inn. The analyst attended Mr. Ebbers's wedding when he married his second wife, Kristi, in 1999.

The private side of the bank began to court Mr. Ebbers in 1996. "It wasn't lost on anyone that Bernie was a good customer," says a former Salomon executive. David Trautenberg, of Citigroup's private client division, handled his brokerage accounts. Mr. Trautenberg tried to sell Mr. Ebbers on various investments and he was frustrated that they passed on most, according to people familiar with his efforts. Mr. Trautenberg declined to comment.

What Mr. Ebbers really wanted were loans, and he returned to the Citibank well again in 1999. That year Mr. Ebbers was approached by Richard Molpus, a former Mississippi secretary of state and a timber investor, about 460,000 acres of timberland in Mississippi, Alabama and Tennessee. Mr. Ebbers also wanted to buy another 88,000 acres in Louisiana. The total price for the two purchases was \$658 million. Mr. Molpus liked to tell clients that timber was a good value because trees grow. Mr. Ebbers bought the pitch. He told WorldCom directors that the timberland would someday be worth \$1 billion.

Mr. Molpus contacted Mr. Ebbers only after the first buyer he'd recruited to buy the 460,000-acre tract from **Kimberly Clark** backed out of the deal. Southstar Timber had planned to buy the property with a \$500 million loan from Citigroup, but decided the price was too high. The bank also was lined up to be lead underwriter on an initial public offering by Strategic Timber Trust, which owned the 88,000-acre Louisiana tract of land. That deal also fell apart.

Mr. Ebbers filled the breach for Citibank and Mr. Molpus. He bought the land with a \$499 million loan from the bank.

A Citigroup spokeswoman declined to comment about its business with Mr. Ebbers. Citigroup previously said in a prepared statement that "agricultural and timber financing is a more than 100-year-old business for Travelers," Citigroup's big insurance unit, and that the company's discussions about financing a sale of the timberland properties predated Mr. Ebbers involvement.

## Unraveling Fortunes

From a high of \$64.50 a share, WorldCom's stock price slid to \$45 a share in July 2000, and then to \$33.50 in September. The effect was to decrease sharply the value of the collateral backing the loans. Inside Bank of America, officials were worried. Typically the bank grew concerned when a loan equaled more than 70% of the stock backing a financing. But with WorldCom's stock price dropping, Mr. Ebbers's \$253 million in loans were equal to 75% of the value of the 12.3 million shares he had put up as collateral.

Bankers are usually reluctant to issue margin calls for fear of jeopardizing client relationships. In this case, such a move would likely trigger a vicious cycle: When news got out that Mr. Ebbers had to meet a margin call, the stock price was likely to drop. That would potentially lead to more margin calls.

But after performing a margin analysis on Sept. 5, 2000, Bank of America officials felt they had no choice.

They told Mr. Ebbers to prepare for a margin call, according to two people familiar with the situation.

Faced with the possibility of having to dump large amounts of stock, Mr. Ebbers met with WorldCom director and compensation committee member Stiles Kellett at a Washington hotel. Mr. Ebbers said he needed a one-time loan of \$50 million to cover the margin call. The committee agreed to the loan, because members felt it was a small amount given the value of Mr. Ebbers's WorldCom shares, says Stuart Pierson, Mr. Kellett's lawyer. At the time Mr. Ebbers's shares were valued at about \$450 million.

Mr. Kaufman, an attorney for Mr. Ebbers, disputes that version of events and says his client was asked by WorldCom's compensation committee to take a loan to protect the company's share price. "Based on what I've seen, it is clear to me that the company approached Mr. Ebbers about the loan, and not the other way around," he says.

By mid-September WorldCom's share price was hovering at about \$28. The Bank of America loans had grown to about 80% of the value of their collateral. A \$51 million loan from PaineWebber stood between 60% and 65% of the value of its collateral and the Citibank loan on the Canadian ranch totalled 70% of the market value of the WorldCom shares backing it, according to the Bank of America documents supplied to the SEC. Mr. Ebbers got margin calls from Citibank, PaineWebber and Morgan Keegan, in Memphis, Tenn., which had lent him \$11.6 million, according to the documents. PaineWebber and Morgan Keegan declined to comment.

Mr. Ebbers needed more money, fast. On Sept. 25, he drew down the last \$18.5 million of the \$50 million loan from WorldCom. Shortly afterward, he asked Mr. Kellett for a new loan. Mr. Kellett declined.

Soon afterward, Mr. Ebbers said he would attend a compensation-committee meeting at Mr. Kellett's Atlanta airplane hanger. Mr. Ebbers arrived in the company jet.

As the meeting was breaking up, Mr. Ebbers dropped a bombshell; he was heading to see Bank of America executives to arrange the sale of three million of his 20 million WorldCom shares to raise cash to meet the bank's margin call, according to board members.

The directors were in a panic. If Mr. Ebbers dumped his stock the share price would drop. The two compensation-committee members who stood to lose the most were Mr. Kellett, whose shares were valued at more than \$100 million, and Max E. Bobbitt, who had about \$9 million in stock. Mr. Ebbers proceeded to sell.

During the week ending Oct. 13, the stock lost \$11 billion in market value as investors reacted to news of the sale. Some of Mr. Ebbers's lenders deferred margin calls briefly, but by mid-October he needed another \$25 million to meet new margin calls.

Distraught, Mr. Ebbers called Mr. Kellett with an emotional appeal. If the company didn't help him, he said, he would be forced to declare personal bankruptcy, according to board members.

The next morning, Mr. Ebbers, Mr. Bobbitt and another director flew to Charlotte, N.C., to try to convince

Kenneth Lewis, then Bank of America's president, to give Mr. Ebbers more time and additional loans. Mr. Lewis said no. A spokeswoman says Mr. Lewis, now CEO, doesn't comment on client matters.

To prevent Mr. Ebbers from selling more stock, the directors decided to lend him \$25 million. Soon afterward they made a \$100 million guarantee on his other loans.

In November, Mr. Kellett arranged to sell about 67% of his WorldCom stock in a so-called forward sale that guaranteed him \$53 million, according to a person close to him. Mr. Pierson, the lawyer for Mr. Kellett, says that the sales were publicly disclosed and that there was no adverse impact on WorldCom's stock price.

## Letting Go

By early 2001, Mr. Bobbitt and Mr. Kellett were urging Mr. Ebbers to find buyers for his properties so he could pay back the loans. "We kept thinking we could get \$100 million or so from the sale of assets," says one board member.

But Mr. Ebbers had trouble letting go. In March 2001, appraisers valued his timberland at about \$685 million, \$27 million more than he'd paid for it. He began negotiating to sell some land, but he withdrew from the talks, a director says.

He told the board's compensation committee that he was trying to sell Intermarine, the shipyard. He had paid \$14 million for it and sunk another \$8 million into the business. Intermarine executives thought he might get \$25 million for the business, but Mr. Ebbers thought the shipyard was worth twice that amount, say people involved in the talks.

Twice, Mr. Ebbers received offers for the Douglas Lake ranch. But the offers were for less than Mr. Ebbers had paid and he declined, according to a board member.

Meanwhile, as Mr. Ebbers halfheartedly attempted to unload his properties, he continued to borrow. In April 2002, he borrowed \$10.8 million from the Bank of North Georgia. His banker was Ms. Hammond, who had left Bank of America in 2001. Mr. Ebbers used the loan to pay off another from Morgan Guaranty, now a unit of **J.P. Morgan Chase & Co.**

Then he repaid the Bank of North Georgia loan with proceeds from the sale of two yachts, for \$21 million, by Intermarine. That angered executives at WorldCom -- which had repaid the Bank of America loan on the shipyard. The company seized the shipyard soon afterward, according to people involved.

Mr. Ebbers was fired by WorldCom's board on April 29, in large part because of his outstanding loans. Eight days after the company announced his ouster, Mr. Ebbers called Mr. Kellett and asked if the company would make him one last loan, for \$10 million, to cover a margin call on the Citibank loan for the Canadian ranch.

Mr. Kellett said no.