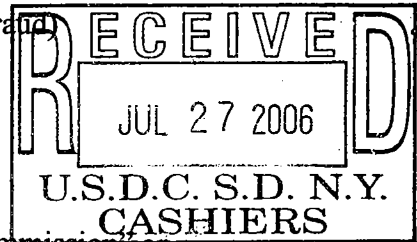
UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

UNITED STATES SECURITIES AND EXCHANGE COMMISSION,	)	
Plaintiff,	)	Civ. No. 06 CV 5660
v.	)	COMPLAINT (Securities Fraud)
MARK P. ABIDE,	)	
Defendant.	)	



The United States Securities and Exchange Commission (the "Commission" or the "SEC") alleges for its Complaint as follows:

SUMMARY

1. WorldCom, Inc. ("WorldCom" or the "Company") was one of the world's largest publicly held telecommunications companies. At its peak in the summer of 1999, WorldCom's market capitalization exceeded $180 billion. Three years later, WorldCom filed for bankruptcy protection, effectively wiping out all shareholder equity in the Company, in the wake of revelations that its reported financial results were falsely inflated due to a long-term fraudulent accounting scheme designed and executed by WorldCom's senior management and certain of its employees to deceive the public as to the Company's true financial performance.

2. Defendant, Mark P. Abide ("Abide" or "Defendant"), worked in WorldCom's corporate accounting department. From approximately 2000 to 2003, Abide's title was Director of Property Accounting. His duties as Director of Property

Accounting included supervising the accurate and correct recording of transactions involving the Company's capital assets in the Company's books and records.

3. From at least as early as April 2001 until late June 2002, Abide, together with other senior WorldCom executives and employees, engaged in a fraudulent scheme involving numerous false and fictitious adjustments and entries in WorldCom's books and records to make WorldCom's reported quarterly and annual financial results meet artificial and unrealistic performance targets set by WorldCom's senior management and the expectations of Wall Street analysts. These adjustments and entries did not accord with generally accepted accounting principles ("GAAP"), and resulted in WorldCom falsely understating its expenses and overstating its earnings by approximately $3.6 billion.

4. In early 2002, at the same time that he was actively participating in the accounting fraud, Abide sold 99% of all WorldCom stock that he owned. By doing so prior to the public revelation of the accounting fraud in which he was engaged and the corresponding drop in the price of WorldCom stock, Abide avoided losses of nearly $58,000.

5. By engaging in this conduct, Abide violated the antifraud, books and records, and internal controls provisions of the federal securities laws, and aided and abetted WorldCom's violations of the reporting, books and records, and internal control provisions of the federal securities laws. The Commission requests that this Court permanently enjoin Abide from further violations of the federal securities laws as alleged herein, order him to disgorge all ill-gotten gains and pay prejudgment interest thereon, pay civil money penalties, order that the amount of such disgorgement and penalties be

added to and become part of the WorldCom Victim Trust, a fair fund benefiting the victims of the fraudulent accounting scheme at WorldCom, and order such other and further relief as the Court may deem appropriate.

JURISDICTION AND VENUE

6. The Commission brings this action pursuant to Sections 20(b) and 20(d) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. §§77t(b) and (d)] and Section 21(d) of the Exchange Act (15 U.S.C. §78u(d)].

7. This Court has jurisdiction over this action pursuant to Section 22(a) of the Securities Act [15 U.S.C. §77u(a)] and Sections 21(e) and 27 of the Exchange Act [15 U.S.C. §§78u(e) and 78aa]. The Defendant, directly or indirectly, used the means or instrumentalities of interstate commerce, or of the mails, or the facilities of a national securities exchange in connection with the transactions, acts, practices, and courses of business alleged in this Complaint.

8. Certain of the acts, practices, and courses of conduct constituting the violations of law alleged in this Complaint occurred within this judicial district, and, therefore, venue is proper pursuant to Section 22 of the Securities Act and Section 27 of the Exchange Act.

9. The Defendant, directly and indirectly, has engaged in, and unless restrained and enjoined by this Court will continue to engage in, transactions, acts, practices, and courses of business that violate Section 17(a) of the Securities Act [15 U.S.C. §77q(a)] and Sections 10(b) and 13(b)(5) of the Exchange Act [15 U.S.C. §§78j(b) and 78m(b)(5)] and Rules 10b-5 and13b2-1 thereunder [17 C.F.R. §§240.10b-5 and 240.13b2-1] and aid and abet violations of Sections 13(a), 13(b)(2)(A) and

13(b)(2)(B) of the Exchange Act [15 U.S.C. §§78m(a), 78m(b)(2)(A) and 78m(b)(2)(B)] and Rules 12b-20, 13a-1 and 13a-13 thereunder [17 C.F.R. §§240.12b-20, 240.13a-1 and 240.13a-13].

DEFENDANT

10. Mark P. Abide, age 44, resides in Richardson, Texas. He served as the Director of Property Accounting at WorldCom and, during the relevant time period, reported to Buford Yates, Jr., Director of General Accounting. From March 1993 through February 28, 2006, Abide was licensed as a CPA in Texas. On July 24, 2003, Abide signed a non-prosecution agreement with the government in exchange for cooperating in the criminal investigation of the WorldCom accounting fraud.

THE ISSUER

11. At all times relevant to this Complaint, WorldCom was incorporated in Georgia and based in Clinton, Mississippi. It provided a broad range of communication services to businesses and consumers in more than 65 countries. During the relevant time period, the common stock of WorldCom was registered with the Commission pursuant to Section 12(g) of the Exchange Act and was listed and traded on the Nasdaq National Market System. WorldCom was required to file periodic reports with the Commission pursuant to Section 13 of the Exchange Act. The company's common stock, bonds, and notes were covered by Wall Street analysts who routinely issued quarterly and annual earnings estimates. On July 21, 2002, WorldCom and substantially all of its active U.S. subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code. When WorldCom emerged from bankruptcy in April 2004, it merged with and into MCI, Inc., whereby the separate existence of WorldCom ceased and MCI

became the surviving company. Verizon Communications acquired MCI on January 6, 2006.

FACTUAL ALLEGATIONS

A. Relevant Accounting Principles

12. 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.

13. When companies spend money or incur costs, those expenditures can be accounted for in a variety of ways depending on the nature of the transaction. Some types of expenditures, most commonly those incurred by a company in its normal operations, are treated as current period costs or "operating expenses." Examples of operating expenses include recurring costs such as salaries and wages, insurance, equipment rental, electricity, and maintenance contracts. Generally, almost all routine expenditures that a company makes are operating expenses.

14. Other types of expenditures, most commonly those that result in the acquisition of, or improvement to, the company's assets, are treated as "capital expenditures." Examples of capital expenditures include purchases of real estate, manufacturing equipment, and computer equipment.

15. 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, resulting in the company's pretax net income for that period. Capital expenditures, by contrast, are not subtracted from revenues and generally are not reflected on the income statement. Instead, capital expenditures are reported as capital assets on a company's balance sheet.

16. If a company makes entries in its accounts that effectively reclassify or transfer a given expenditure from an "operating expense" to a "capital asset," that action will have the following effects on the company's financial statements: (a) the reclassification or transfer will reduce the company's operating expenses, and the company's pretax net income consequently will increase by the amount reclassified or transferred; (b) the value of the company's capital assets and total assets will increase by the amount reclassified or transferred; and (c) the value of the company's net worth will increase.

17. One of WorldCom's major operating expenses reported on its income statements, which were periodically filed with the Commission, was its so-called "line costs." Line costs represented the various fees WorldCom paid to third-party telecommunications carriers for WorldCom's right to access the third-party's network facilities in order to serve customers who were not directly connected to WorldCom's own network. Under GAAP, these fees must be reported as an expense on a company's income statement.

B. Capitalization of Line Costs to Fraudulently Inflate Income

18. Starting in about 1999, WorldCom entered into a large number of long-term lease agreements with various third-party carriers to gain access to facilities beyond WorldCom's own networks. At the time, WorldCom anticipated that Internet businesses would proliferate rapidly and increase the demand for WorldCom services. 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 used all or part of the capacity of the leased facility. These fixed payments to third parties were part of WorldCom's line costs.

19. By early 2001, it was plain to CEO Bernard Ebbers, CFO Scott Sullivan, Controller David Myers, and other senior officers at WorldCom that much of the capacity WorldCom leased from third parties would be underutilized by its customers and, therefore, would not produce sufficient revenue in the future to justify the cost of the leases. This underutilization of leased lines increased WorldCom's expenses as a percentage of revenue, hurt WorldCom's bottom line, and endangered WorldCom's ability to meet its performance targets and analyst and market expectations.

20. Instead of lowering WorldCom's financial performance targets and adjusting analyst and market expectations downwards due to these expenses, with the full knowledge and consent of CEO Ebbers, CFO Sullivan directed Controller Myers and the General Accounting department to begin capitalizing line costs—essentially reclassifying as "assets" what were in fact operating expenses.

21. At the end of each quarter, beginning with the first quarter of 2001, Sullivan and Myers would determine the size of what they cryptically called the "non-

cash" or "on top" adjustment (i.e. the amount of capitalized line cost expenses) needed to hide the shortfall between WorldCom's actual financial results and the Wall Street estimates. Myers would then go to Buford "Buddy" Yates, Jr., WorldCom's Director of General Accounting, (or sometimes directly to those persons reporting to Yates, such as Troy Normand, a manager within General Accounting) and tell him to record entries of a certain size. A manager in the General Accounting Department, usually Betty Vinson, then credited specific line cost expense accounts on the general ledger and correspondingly debited either an asset holding account called "Construction in Progress" ("CIP") with the lump sum or several in-service asset accounts that Defendant Abide would select with smaller sums.

22. In an attempt to conceal the improper capitalization from WorldCom's auditors and the investing public, Abide consistently spread the fraudulent "capital" expenditures among three of WorldCom's largest asset accounts—Transmission Equipment, Communications Equipment, and Furniture, Fixtures & Other—and ensured that the resulting bogus "assets" were given depreciable lives typical for the type of asset in each account.

23. Once General Accounting had booked the capitalization entries, Abide altered previously prepared quarterly reports to include the improperly capitalized line costs. Specifically, Abide would revise the Property, Plant & Equipment ("PP&E") Roll Forward schedule, a report that tracked all of WorldCom's assets and documented their acquisition, disposition, and transfer dates during the quarter. Abide was responsible for preparing the PP&E Roll Forward schedule and knew that it was routinely provided to

both Financial Reporting (which was responsible for preparing WorldCom's SEC filings) and WorldCom's auditors.

24. Later, often several months after the close of the quarter, Abide would further bury and disguise the improperly capitalized amounts by taking the sums debited to the in-service asset accounts and breaking them down into specific assets.

C. Abide's Specific Actions in Furtherance of WorldCom's Fraud

25. In April 2001, General Accounting Manager Normand informed Abide that pursuant to a directive from CFO Sullivan and Controller Myers, General Accounting was booking an entry of $544 million to the CIP asset holding account to reflect under-utilized capacity. Normand asked Abide for the CIP account number and instructed him to adjust accordingly the PP&E Roll Forward schedule. Despite Abide's initial concerns about the high dollar amount of the adjustment, the unusual source of the directive (CFO Sullivan and Controller Myers as opposed to the field), the fact that he had never before been asked to make an "adjustment" that large to the PP&E Roll Forward schedule, and the fact that there was no support for the adjustment, Abide instructed his subordinate to update the Roll Forward schedule with the $544 million addition to the CIP account and ensure that all the numbers on the PP&E Roll Forward schedule tied back to the general ledger.

26. After the end of the second quarter, in July 2001, General Accounting Manager Normand again informed Abide that Controller Myers and General Accounting were booking an entry, this time for $560 million. Again, Abide received no support for the entry other than the fact that CFO Sullivan and Controller Myers had decided on the number. Despite his increasing concern about the "on top," "non-cash" adjustments,

Abide directed his subordinates to make parallel adjustments to the PP&E Roll Forward schedule. In fact, after the PP&E Roll Forward schedule had once again been updated pursuant to his orders, Abide was so troubled that he asked another member of his team to discover what actually was being capitalized through these adjustments. Thereafter, Abide learned that WorldCom was improperly capitalizing line costs. Despite this knowledge, Abide did nothing to stop the fraud, and in fact continued to make the improper adjustments as directed.

27. In August 2001, Abide learned that Arthur Andersen, WorldCom's auditors, would be conducting an annual audit of WorldCom's property accounts, including the CIP account, to test and verify the accounts' numbers and balances. This alarmed Abide because over $1.1 billion of capitalized line costs from prior quarters were being held in the CIP account without any support. He knew that such an audit could reveal the entries that he and General Accounting had made. Therefore, Abide spoke with Controller Myers and General Accounting Manager Normand to discuss what they should do. In response, Myers directed Abide to transfer the capitalized line costs out of the CIP account and into in-service accounts because the in-service accounts would be subject to less scrutiny during the audit.

28. Shortly after his discussion with Myers and Normand, Abide personally prepared and booked the entry in the general ledger transferring the $544 million first quarter corporate adjustment out of the CIP account and into an asset clearing account. That same day, August 22, 2001, Abide went into the property accounting asset subledger, took the $544 million out of the asset clearing account, split it up into ten separate amounts of $54.4 million each, and booked these ten bogus "assets" into an in-

service asset account for Fiber Optic Cable. Because Abide still had no support for these entries and there was no actual "Fiber Optic Cable" asset, Abide named each of the ten assets he had just created, "SS capacity," meaning Scott Sullivan prepaid capacity.

29. After concealing the first quarter capitalization amount of $544 million, Abide moved out of the CIP account the second quarter adjustment of $560 million on September 20, 2001, though through a slightly different process. Myers had instructed Abide to spread the transferred amounts among different asset categories and to give the resulting "assets" a useful life (for depreciation purposes) that approximated the average life of the asset base. Thus, instead of dividing the lump sum into 10 equal amounts and placing them into one asset account, as he did with the first quarter adjustment, Abide directed his subordinates to split the $560 million into different dollar amounts and place them into various asset accounts. Ultimately 12 different journal entries were made spreading the $560 million among three asset accounts: the Ocean Cable account, the Fiber Optic Cable account, and the Computer Equipment account. Each of the 12 bogus "assets" created were labeled "SS number 2 per Mark Abide," indicating that these were again Scott Sullivan prepaid capacity entries that Abide allocated to asset accounts without any support.

30. The following month, in October 2001, CFO Sullivan and Controller Myers determined that they needed to capitalize approximately $743 million of line costs for the third quarter in order to make WorldCom's desired numbers. As had been done during the quarter closing process for the first and second quarters, General Accounting Manager Normand told Abide to update the PP&E Roll Forward schedule. Because they were no longer using the CIP account to hold the capitalization amounts, General

Accounting also needed Abide and his group to prepare the entries and provide the asset account numbers to be debited. General Accounting then took the prepared entries and booked them on the general ledger.

31. By at least October 2001, Abide was fully aware that the "on top," "non-cash" adjustments were not true assets, but line cost expenses capitalized to meet earnings targets. Despite this knowledge, Abide directed his subordinates to draft the journal entries dividing the $743 million capitalized line cost entry into the Transmission Equipment and Communications Equipment asset accounts and to update the PP&E Roll Forward schedule to reflect the entries. In doing so, Abide again attempted to conceal the fraudulent accounting by burying the improper entries within WorldCom's asset accounts. Later, in approximately March 2002, Abide directed a subordinate to further submerge the improper line cost capitalization amounts by creating fixed assets within the Transmission Equipment and Communications Equipment accounts on the property accounting subledger.

32. In late January 2002, Sullivan and Myers determined the adjustments that needed to be made to meet their desired numbers for the fourth quarter of 2001, and General Accounting Manager Normand provided Abide with the capitalization amount of $941 million. Abide directed his subordinates: to provide General Accounting with the asset account numbers to be debited, to update the PP&E Roll Forward schedule accordingly, and then later (in March) to create the requisite assets tagged with an "SS" (indicating a Scott Sullivan prepaid capacity entry) on the property accounting subledger in an attempt to hide the improper capitalization.

E. Imposing civil monetary penalties on Abide in the amount of $57,947.22 pursuant to Section 21A(a)(2) of the Exchange Act;

F. Ordering Abide to disgorge ill-gotten gains in the amount of $57,947.22, together with prejudgment interest in the amount of $12,912.20;

G. Ordering, pursuant to Section 308 of the Sarbanes-Oxley Act of 2002, that the amount of civil penalties ordered against and paid by Abide be added to and become part of the WorldCom Victim Trust, a fair fund for the benefit of the victims of the fraudulent accounting scheme at WorldCom; and

H. Granting such other and additional relief as this Court may deem just and proper.

Respectfully submitted,

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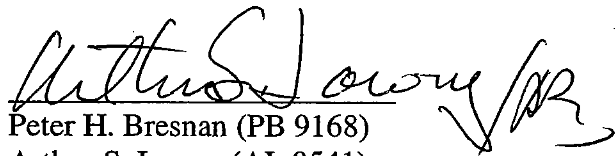

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