STATEMENT OF

JOHN W. SIDGMORE

PRESIDENT & CHIEF EXECUTIVE OFFICER

WORLDCOM, INC.

BEFORE THE

COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION

UNITED STATES SENATE

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My name is John Sidgmore. I am the President and Chief Executive Officer of WorldCom, Inc. I am proud to be leading a team of 60,000 people who are working hard to support our 20 million-plus customers.

I am here this morning to discuss the state of the telecommunications industry, including the events that led up to WorldCom's recent filing under Chapter 11 of the Bankruptcy Code. WorldCom has obviously been through a difficult period recently, but we are determined to overcome our problems and to move forward. We are intensely focused on ensuring that all of our customers – consumer, business and government -- continue to receive the highest quality service without disruption. At the same time, we are planning for the future. We are committed to emerging from this process a stronger company with its competitive spirit intact.

Mr. Chairman, I've spent over twenty years in the information services and telecommunications industries. I've been honored to serve in several senior posts during that time, including a stint as Vice President at General Electric Information Services in the days before the Internet and as CEO of UUNET Technologies, which was the first commercial provider of Internet services.

That 20-year span has marked a tumultuous time in the industry's history, with many ups and downs. What we're witnessing today, however, is unprecedented. Clearly, the entire industry is experiencing severe problems. While many competitive companies have experienced difficulties – many have gone out of business – it's important to emphasize that competition is alive. I strongly believe that those companies that survive this bleak period will, as the result of vigorous competition, continue to bring product innovation and consumer savings to the marketplace. That will be true, however, only if federal and state regulators complete their implementation of the Telecommunications Act of 1996 and fully enforce this historic law.

INTRODUCTION

In April, when I agreed to take over as CEO of WorldCom, it was clear that both our industry and our company faced significant challenges. I knew then that, among other things, the company was struggling under the weight of $30 billion in debt. But I never imagined what else was in store for us. I could not have imagined that in June we would uncover and publicly disclose significant, past accounting irregularities. Nor could I have imagined that about one month later WorldCom would file for relief under Chapter 11. As I will explain, there was a direct link between these events.

WorldCom announced on June 25, 2002 that the company misstated its earnings for 2001 and the first quarter of 2002. While the misdeeds we uncovered occurred before I became CEO, I want to apologize again on behalf of everyone at WorldCom. WorldCom's new management team and our employees share the public's outrage over these events. You have my commitment to continue to do everything possible to obtain the facts, to fully cooperate with investigators' efforts to bring wrongdoers to justice, to develop safeguards to prevent such an event from recurring in the future, and to operate this company according to the highest commercial and ethical standards. Every effort will be made to ensure the long-term viability of this great company.

Saving this company is what led to the decision to file a voluntary petition under Chapter 11 on July 21. We fought hard to avoid doing so, but our need to restate earnings virtually eliminated other debt restructuring options previously available to us. Of all the options we examined, none could accomplish our goal of restoring corporate health as effectively. In the end, we believe that this process, while painful, is the best way to help the most people. Most importantly, it enables us to maintain quality customer service without disruption and it provides the best alternative for preserving the maximum number of jobs.

We have every intention of overcoming the challenges now facing us. We will operate our business normally while focusing on our business plan and getting our finances in order. We intend to emerge from Chapter 11 as soon as possible as a strong and healthy competitor.

TELECOMMUNICATIONS INDUSTRY: COMPETITION ALIVE BUT AT RISK

Any analysis of the telecommunications industry today must begin with an acknowledgment of the significance of the 1996 Act, which created a sea change in the regulatory paradigm governing the telecommunications sector in this country. For the first time, the last-mile monopolies were opened to all forms of local competition -- facilities-based, elements-based, and resale-based -- and the competitive industry responded in kind. Hundreds of new competitors entered the marketplace and the capital markets financed their entry.

Investment in the telecommunications sector was driven by two fundamental factors: vibrant new competition and expectations of burgeoning customer demand. Competitive local exchange carriers (CLECs) poured tens of billions of dollars into the deployment of new telecommunications facilities and services. It's estimated that CLECs invested some $55 billion during the four years following the passage of the Act. While much of this money went into building thousands of miles of new fiber-based networks, CLECs also invested in network elements leased from the incumbents, or purchased retail services at wholesale rates. Moreover, the Bell companies and other incumbent local exchange carriers (ILECs) responded with significant new investment of their own -- over $100 billion during that same time period. Thus, the Act helped spur investment by competitors and incumbents alike.

As the 1990s wound down, however, the sector began to experience some significant problems. The market version of a "perfect storm" – a slowing national economy, plummeting prices and excess network capacity – was brewing and became more real with each passing month. The bursting of the "dot-com" bubble made matters worse. Many of the "dot-com" companies were among the largest users of high-capacity data services.

In sum, an unprecedented number of competitors were fighting for a diminishing number of customers and available revenue. Customer demand never materialized to the extent expected. Dozens of providers began to curtail service or go out of business. It was a case of fundamental, supply-and-demand economics. The downward spiral created by the "storm" remains an issue for the industry.

Aside from pure economics, other factors also were at work. In particular, the incumbent Bell companies fought aggressively to thwart or retard implementation of the 1996 Act -- a statute they had sought and supported. Whether filing court challenges to the very constitutionality of the Act, or slow-rolling the negotiation process for network interconnection, or refusing to pay CLECs for services rendered, the Bells did everything in their power to obstruct the development of competition.

The economic "storm," exacerbated by anticompetitive Bell activity, was further complicated by the incomplete or unsatisfactory implementation of the Act by some regulators. On the positive side, early Federal Communications Commission (FCC) decisions, such as the *Local Competition Order* and the first 271 decisions (regarding approval of Bell company entry into the long distance market), laid out a rational and well-crafted blueprint both for competitive entry into local markets, and for Bell company entry into long distance markets. Many states, such as New York, Texas, California, and Illinois, took the lead in implementing pro-competitive rules.

Unfortunately, just as the "storm" began to hit, public policy progress began to slow, as the Bell companies fought back against these laudable reform efforts. Today, CLECs still lack some of the fundamental tools promised by the 1996 Act, and several proposals at the FCC – as well as legislation pending before this Committee -- threaten to turn back the important progress achieved thus far.

There is some good news: the competitive telecommunications sector, while wounded and bleeding, is far from dead. Amazingly enough, despite the unprecedented economic turmoil engulfing the industry:

- CLECs still managed to invest over $12 billion in 2001, bringing total competitive industry-wide capital investment to over $65 billion since passage of the Act.

- CLEC share of the local market continues to rise, slowly but steadily. According to the FCC's latest figures – released just a week ago and based on end-of-year 2001 numbers -- while the ILECs control some 173 million switched access lines serving end user customers, CLECs now have almost 20 million lines, or 10.2 percent of the total in service. This compares favorably to just under 15 million access lines, and 7.7 percent market share, at the end of 2000.

- Of those CLEC lines, about 30 percent are provisioned over the CLEC's own last-mile facilities, 47 percent by means of unbundled network element ("UNE") loops, including the UNE-Platform, leased from other carriers, and 22 percent by reselling the services of other carriers. Thus, CLECs continue to build out their networks, and sign up new customers, using all three market entry methods stipulated by Congress.

Another positive note: the FCC's critical statutory role in fostering local competition also has been confirmed by the Supreme Court. First in 1999 and again earlier this year, the Court firmly endorsed the FCC's pro-competitive authority under the Act. In particular, the May 2002 decision upholding the so-called "TELRIC" costing standard swept away much of the economic mythology being generated by the incumbents, and confirms that competition is best built on the framework of a forward-looking costing methodology.

In addition, competitive companies continue to bring innovative products to market that benefit all customers. In April, WorldCom's MCI unit launched *The Neighborhood,* a suite of products that offers residential consumers a "bundle" of services – local and long distance calling, plus features such as voice mail, Caller ID and call waiting – all for one flat monthly price: about $50 in most states. Consumer response to *The Neighborhood* has been amazing. It confirms the pent-up demand across the country for the same kinds of value and choices in the local market that they have enjoyed in the long distance and online spaces for many years. Now available in thirty-four states and the District of Columbia, *The Neighborhood* will be available in almost all states by the first quarter of next year.

In WorldCom's view, there is a light at the end of this tunnel; there will be a return to prosperity in this industry. Our view assumes that Congress does not undermine the pro-competition policies of the Act by adopting legislation that would effectively repeal them. It further assumes that the FCC accepts the overwhelming consensus of both consumers and competitors regarding ILEC "deregulation" proposals now pending before the Commission. The 1996 Act sets the right policy direction. It is critical that the FCC finish the job of implementing the Act and enforce the Act aggressively. If it does, the industry will once again flourish and consumers will continue to benefit.

WORLDCOM: OVERCOMING CHALLENGES & MOVING FORWARD

Again, Mr. Chairman, I am confident that if the visionary policies embodied in the Act are carried forward, the telecommunications marketplace of the future will be characterized by vigorous competition and even greater benefits for consumers. To fully appreciate the promise of the future, it's often helpful to consider the experience of the past. WorldCom's legacy – and that of its key operating units, MCI and UUNET – is unmatched.

WorldCom's Pro-Competition Legacy and Industry Leadership

MCI and UUNET literally changed the face of an entire industry. MCI pioneered competition in the long distance industry, the first company to attack the old Bell System's monopoly. UUNET was the first commercial provider of Internet services. Indeed, both companies played leading roles in the development of the Internet. No other company in the world has the legacy that we do in promoting competition.

Unlike virtually every other major telecom firm, WorldCom was never a monopoly. Our company had to compete for every customer we have and today we have the privilege of serving over 20 million customers. A company with $30 billion in annual revenues and 60,000-plus employees, WorldCom is:

- The second largest long distance company in the U.S.;
- The largest competitive provider of local telephone services;
- The largest carrier of international voice traffic; and
- The world's largest Internet services provider.

WorldCom clearly has been, and continues to be, an industry leader. We have been blessed with world-class employees whose great ideas and marketing savvy have produced innovative services and consumer savings. *The Neighborhood* is the latest innovation we've brought to the marketplace. Our competitors are scrambling to match us. And that really makes the point – when we innovate, all consumers benefit. Savings may be the ultimate measure of our success and our continuing value to the marketplace. Since MCI introduced competition to the old Bell System, residential, business and government users have saved many tens of billions of dollars.

Millions of people have a real stake in WorldCom's survival – our customers, our employees, our suppliers and our creditors. It is worth noting that WorldCom is a provider of network services for critical applications for the United States government. These applications include the provision of customer service to 80 million Social Security beneficiaries, air traffic control applications for the Federal Aviation Administration, network management for the Department of Defense, and critical data network services for the U.S. Postal Service. In addition, WorldCom provides long distance voice and data communications services for the House, the Senate, and the General Accounting Office. Our company provides those same kinds of services for virtually every government agency under its FTS2001 contract. In addition, WorldCom provides support for law enforcement and homeland security agencies, as well as agencies concerned with national security.

In other words, WorldCom is a key component of our nation's economy and communications infrastructure. Both commercial and national security interests rely upon WorldCom's operations continuing without disruption.

In that regard, I would like to commend FCC Chairman Michael Powell for his efforts to reassure a nervous marketplace. The FCC has a critical role to play in ensuring the continuing integrity of the nation's communications network. WorldCom takes its own legal and regulatory responsibilities very seriously. I can assure this Committee that we will continue to work closely with the Commission to ensure that customers will not suffer adverse consequences as a result of our current financial status.

Financial Crisis at WorldCom

Despite all the good things WorldCom had going for it, when I became CEO in April, WorldCom was a very troubled company. The sluggish economy and a variety of industry issues had caused a steep decline in the company's revenues, and the company was struggling to deal with its massive $30 billion debt load. The debt load alone required more than $2 billion a year in interest payments.

Notwithstanding these financial challenges, I truly felt that WorldCom could get back on the right track through a series of aggressive moves designed to reshape the company and restructure our debt without the need for a Chapter 11 proceeding. On June 14, at the annual meeting of WorldCom's shareholders, I set forth my blueprint for the future.

As part of that plan, WorldCom would sell or eliminate unprofitable lines of business. To that end, we began the sale of WorldCom's wireless resale service, largely by selling our customers to the underlying carrier providing the service.

We also continued to bring expenses in line with revenue. For a number of years, WorldCom's workforce had been increasing in anticipation of continued growth and we had, frankly, gotten far too big for the revenues that we were generating. Thus, we embarked on a plan to eliminate 17,000 from our workforce, including through attrition, the sale of non-core assets, and the discontinuation of contract services that were no longer required.

Together, shutting down our wireless resale unit and reducing our employee base will save WorldCom about $1.8 billion per year.

Even with those savings, however, WorldCom still needed to restructure its debt. Although not easy, we were beginning to have some success in accomplishing this as well. We negotiated a $1.5 billion accounts receivable securitization program with several of our lenders to replace a similar facility that was expiring. We were also engaged in productive negotiations with a consortium of banks on providing us with a new $5 billion credit facility that would have enabled us to operate without concern of bankruptcy for at least several more years while we got the rest of our financial house in order.

Unfortunately, WorldCom's world changed for the worse on June 25th.

Disclosure of Accounting Irregularities and the Need to Restate Earnings

When we disclosed the need to restate earnings for 2001 and the first quarter of 2002 on June 25, we committed to deal with this matter openly, expeditiously and responsibly. As I will outline below, we have done so.

Let me remind you at the outset, however, that WorldCom uncovered this problem internally. Our external auditor at that time was Arthur Andersen. In effect, we audited our external auditor and we found what they missed.

WorldCom is being proactive. Our actions are guided by our commitment to restore public confidence in this great company and to operate WorldCom according to the highest standards of ethics and integrity. To that end, we have taken several specific actions:

- When this matter was brought to its attention, our Board of Directors moved swiftly and decisively. Its actions included terminating our Chief Financial Officer and promptly reporting the matter to the Securities and Exchange Commission (SEC) and to the public.

- We are cooperating fully with the various official investigations – by the SEC, the Department of Justice and the Congress. For example, on July 1, 2002, we filed a written statement with the SEC that included a summary of key events, known to us at that time, that led to our June 25th announcement. At the SEC's request, a revised statement was filed on July 8. A copy of the revised statement is available on two websites: the SEC's [www.sec.gov/] and ours [www.worldcom.com/]. It details how the accounting irregularities were discovered by our internal audit team, led by Ms. Cynthia Cooper. The kind of initiative demonstrated by our internal audit group is to be applauded and will continue to be encouraged.

- William McLucas, a former Chief of the Enforcement Division of the SEC, was retained to perform an independent investigation of the facts and circumstances underlying the transfers. He will investigate not only our past and current management team, but also our Board regarding any individual involvement. His report will identify the wrongdoers and, in addition, will enable us to put into place new or modified internal procedures to prevent any recurrence of this type of event.

- Coincident with our Chapter 11 filing, WorldCom announced the election of two new members to its Board of Directors: Nicholas deB. Katzenbach and Dennis R. Beresford. Mr. Katzenbach is a former Attorney General of the United States. Mr. Beresford has served as Chairman of the Financial Accounting Standards Board (FASB). Both were appointed to a Special Investigative Committee of the Board to conduct an independent review of the company's accounting practices and preparation of financial statements. They will assume an oversight role with respect to Mr. McLucas' investigation.

- If we are to be a model for corporate behavior going forward, we must be transparent and above reproach. Therefore, in our July 1 SEC statement, we clearly stated that we were examining whether additional earnings restatements might be required for periods going back to 1999 with respect to the accounting for reserves established by the company. We are committed to completing this analysis, with the assistance of our new external auditors, KPMG, at the earliest possible date and to announcing the results of that analysis promptly.

Many questions still remain. We won't know the answers until the conclusion of the pending investigations. We will continue to cooperate fully with the various agencies and the Congress to answer those questions.

Filing for Protection Under Chapter 11 of the U.S. Bankruptcy Code

As noted earlier, WorldCom had successfully negotiated a new accounts receivable securitization program and was nearing accord on a new $5 billion dollar credit facility when we announced the accounting irregularity and the need to restate earnings. Because of the need to restate, WorldCom no longer had valid, audited financial statements. Within a matter of days, the banks withdrew the receivables program and ended negotiations on the new credit facility. Without audited financial statements, the public debt markets were closed to WorldCom. Our hand was forced – we had no choice but to file a Chapter 11 petition and seek Debtor-In-Possession (DIP) financing.

On July 21, WorldCom filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. Chapter 11 allows a company to continue operating in the ordinary course of business and to maximize recovery for the company's stakeholders. WorldCom's non-U.S. subsidiaries are not included in the filing and will also continue to operate normally.

WorldCom also announced that we had obtained an agreement to arrange up to $2 billion in DIP financing. The company already has secured a commitment of $750 million of this amount from Citibank, N.A., JP Morgan Chase Bank and General Electric Capital Corporation to supplement the company's cash flow during the Chapter 11 proceeding.

We struggled to avoid this outcome. Unfortunately, our need to restate earnings left us few options. In the end, we believe Chapter 11 is the best way to help the most people. The principal reasons for pursuing this option were:

- It allows us to continue our company's high quality service and customer programs. We will work closely with our lenders and federal and state regulators to ensure that there will be no disruption in service to any of our consumer, business or government customers. We have already had significant feedback from customers stating their support for our efforts to move the company forward and their commitment to stay with us through this process.

- It provides the best alternative for preserving jobs for our employees.

- It allows us, post-filing, to pay all suppliers, vendors and employees in the normal course of business. We are a very large customer to most of our suppliers. This action allows them to keep our business. The nation's economy will avoid a negative "ripple effect". We will not, however, be allowed to pay claims arising prior to filing without Bankruptcy Court approval.

- It provides our company with a systematic, legal framework to operate our business normally, while we focus our business plan and get our finances in order. It allows us to reconfigure our capital structure, reduce the unmanageable debt burden, improve cash flows, and deal with legal and financial issues in an organized manner -- all of which are intended to make the company leaner and stronger, and to put it in a position to create future value for our stakeholders. Many companies having nationwide operations - including Continental, Texaco, Federated Department Stores, Southland Corporation -- have emerged from Chapter 11 as stronger, fiercer competitors.

WorldCom's Future

Our intention is that WorldCom emerge from Chapter 11 as quickly as possible. I strongly believe that WorldCom is most valuable as an intact enterprise – clearly an example of the whole being greater than the sum of its parts. I believe that a large number of our creditors recognize this as well.

Unlike many companies entering Chapter 11, WorldCom has significant assets that will help it successfully emerge from the process: a significant customer base that is balanced between large enterprise customers and smaller mass-market consumers, a first-class global network that provides us with a superb platform with which to compete in the marketplace, and talented and dedicated employees.

When we do emerge from Chapter 11, we plan to be a competitive force to be reckoned with in the marketplace. We intend to eliminate a substantial amount of our debt, dispose of unprofitable lines of business, and significantly lower our costs. WorldCom's presence will continue to ensure competition in the rapidly consolidating telecom industry. No other company's legacy matches ours in terms of promoting competition and delivering its benefits to consumers and businesses in both pricing and product innovation. WorldCom is one of the last hopes for America to realize the intended benefits of the 1996 Act.

CONCLUSION

In concluding, I urge this Committee and the Congress to stay the course in promoting competition. The telecom industry, as a whole, is struggling, but competition is alive. The Act provides the right policy direction; to ensure the future vitality of competition, the Act needs to be fully implemented and enforced. Reversing course via legislation or regulation would cause even more harm to the industry and to the economy.

As for WorldCom specifically, our pro-competition legacy will continue.   Mr. Chairman and members of the Committee, we will work hard to regain your trust and that of the American people. We will work hard to rebuild the value of the company. We will continue to be straight about any problems we may discover and act aggressively to solve them. We will operate WorldCom according to the highest commercial and ethical standards.   We will return your faith in us by continuing to make a significant difference in the marketplace – providing industry-leading telecom services and unsurpassed value to all of our customers.