

CASE 6.3

David Myers, WorldCom Controller

Awaiting his court appearance to be charged with securities fraud, David Myers sat in a jail cell in 2002 and counted the cinder blocks again and again to distract himself.¹ In his pocket was a plastic red dog named Clifford, given to him by his young son. "He'll take care of you," the boy had said, according to his mother.

For Mr. Myers, the former controller of WorldCom Inc., the past four years have been a life-altering journey. It began when the prosperous businessman and father of three put aside his misgivings and agreed to go along with false accounting entries that eventually became part of an \$11 billion fraud.

The scheme Mr. Myers participated in set off a chain of events that had a devastating impact on his company, his colleagues, and his family. The collapse of the telecommunications giant resulted in the loss of more than 17,000 jobs and billions of dollars in pensions and investments.

Hoping to win a lighter sentence, Mr. Myers, 47 years old, pleaded guilty and immersed himself in the government's investigation. He helped prosecutors identify false numbers in WorldCom's financial filings from 2000 to 2002. That evidence, and his court testimony, helped convict WorldCom Chief Executive Officer Bernard Ebbers last week for his role in one of the largest financial frauds in corporate history.

As the U.S. government rolls through a historic wave of prosecutions of business fraud, Mr. Myers is one of the executives watching a successful life come unglued. He and his family are now preparing for his sentencing set for June. Federal guidelines suggest he could serve more than 10 years in prison, though he is expected to receive a shorter sentence because of his cooperation.

"We don't know what is going to happen," says his wife, Lynn, 39. "I don't know if he's going to prison or for how long. I just want him home."

Raised in Jackson, Mississippi, Mr. Myers played basketball and was an honor student in high school. The son of civil servants, he earned degrees in marketing and accounting from the University of Mississippi. He married, had two children, and divorced in 1990.

In 1993, Mr. Myers married his second wife, Lynn, an interior designer and onetime cheerleader, who is also a Jackson native. The couple settled into a suburban life working in the yard and having dinners with friends. They had a son, Jack, now five. Mr. Myers joined WorldCom in 1995 as treasurer—just as the telecom upstart was about to hit a huge growth spurt.

As WorldCom's stock price rose through the late 1990s, the lifestyle [of the Myers family] grew richer. They moved to a house on the edge of a large, bass-filled lake. The couple began traveling to London, Paris, and Bermuda on WorldCom business trips. When WorldCom's share price peaked in 1999, the options held by the Myerses were valued at more than \$15 million, though they cashed in only about \$300,000 worth. "We had a good life and knowing the options were there was nice," says Mrs. Myers. The party ended in 2000 amid the bursting of the Internet bubble and a stiff price war among telecom companies. WorldCom's business began a sharp decline.

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In January 2001, Mr. Myers and Buford Yates, an accountant who worked for him, met in the office of WorldCom's chief financial officer, Scott Sullivan, according to testimony from Mr. Myers. Knowing WorldCom wouldn't meet analyst expectations for the coming quarter, the three agreed, at Mr. Sullivan's behest, to reclassify some of the company's biggest expenses, according to Mr. Myers' testimony. This essentially moved expenses off WorldCom's income statement, erasing their effect on the bottom line. "I didn't think that was the right thing to do, but I had been asked by Scott to do it and I was asking him [Mr. Yates] to do it," Mr. Myers testified.

In an illustration of how huge ethical lapses often begin with small steps, he justified his actions to himself, thinking WorldCom's business would soon improve, people close to the case say. But rather than being a stopgap measure, the improper accounting continued. Mr. Myers helped direct false entries again and again. People close to Mr. Myers say he believed Mr. Sullivan's explanations that eventually the company's problems would be straightened out.

Drawing Away

In the summer of 2001, Mr. Myers realized there was no end to the company's woes. He became depressed. He considered quitting, but realized the scandal would follow him because of what he had already done. On weekends, he withdrew, begging off on evenings out with his friends, blaming the stress of work. He grew increasingly irritable and distant.

Mrs. Myers sought the advice of Buddy Stallings, a priest from their Episcopal church. "She was worried about their life," says Father Stallings. "She felt things were spiraling out of control." He told her that she and Mr. Myers shouldn't be afraid to make changes in their life.

One warm evening in 2001, Mrs. Myers stood by the lake outside their house. When Mr. Myers joined her, she began crying. "You're somewhere else," she recalls telling him. "We have a baby. You work all the time. Why not quit?" Mr. Myers, whose annual salary was about \$240,000 before options, told her he wanted to earn enough to start his own business and that he didn't want to quit, out of loyalty to Mr. Sullivan, the chief financial officer. But he didn't confide that he was also worried about the accounting at WorldCom.

Mr. Myers' thoughts turned to suicide, according to investigators. He began entertaining the idea of staging his own fatal car accident. Over a period of weeks, Mr. Myers began driving his BMW faster and faster through a turn on a highway underpass between Worldcom's Clinton, Mississippi, headquarters and his home, according to a person close to the situation. Trying to determine the speed at which his car would completely lose control, Mr. Myers pushed the speedometer higher each time, reaching 115 miles an hour one night. Eventually, Mr. Myers abandoned the idea.

Mrs. Myers says she urged her husband to see a doctor. He did, and began taking an antidepressant. His depression lifted. But he still didn't share the root of his troubles, Mrs. Myers says. "I knew something was wrong but I couldn't pull out of him what it was."

On a Sunday in June 2002, the phone rang at the [Myers family home]. Mr. Myers listened to a WorldCom employee who worked for Cynthia Cooper, head of internal audits. She was looking into accounting entries that she found suspicious. The employee said Ms. Cooper had focused in on certain large expense items—ones Mr. Myers knew would lead to his office.

Mr. Myers plopped on the stairs at the back of his house, watching his wife and son play in the yard. He mulled over the enormity of the problem. He vowed to come clean if Ms. Cooper confronted him.

On June 17, 2002, Ms. Cooper entered Mr. Myers' office. She peppered him with questions, according to regulatory filings. Did he know about the entries? Was there any support for them? Were other companies doing the same thing?

Mr. Myers confessed. He calmly explained that he knew about the entries but there was no support for them. An auditor accompanying Ms. Cooper asked what he had planned to tell the Securities and Exchange Commission if officials asked about the bookkeeping. He said he hoped they wouldn't ask. As the meeting broke up, Mr. Myers felt better than he had for months, as though a cloud over him had lifted, Mrs. Myers said he told her later.

Inside WorldCom, panic erupted as the company grappled with the explosive news that billions in profits had been manufactured through improper accounting. But initially, Mr. Myers was told by one WorldCom director that his job would probably be safe, people close to the situation say.

That changed a few days later, when he and Mr. Sullivan flew to Washington on the company plane for a meeting with the board's audit committee. The two men, seated at opposite ends of the plane, barely spoke. At one point, Mr. Sullivan offered Mr. Myers a chocolate-covered doughnut, telling him it was the only thing he could force himself to eat since the news broke. Mr. Myers declined.

It finally dawned on Mr. Myers that he was in trouble. He and Mr. Sullivan were excluded from a hastily called meeting of WorldCom's management and board. When Mr. Myers attempted to talk to a WorldCom lawyer, he was told he should hire his own lawyer and stop confiding in the WorldCom legal staff, people close to Mr. Myers say. On his way out that day, another WorldCom lawyer wished him the best. Mr. Myers knew he was going to lose his job.

Later that evening, Mr. Myers, staying at Embassy Suites hotel in Washington, got a call from a lawyer appointed for him by WorldCom; the lawyer told him that no one would believe Mr. Sullivan had pulled off the fraud alone. The board was offering him the chance to resign.

Mr. Myers, stricken, called his wife. He told her about his role in the bogus accounting entries. The usually restrained Mr. Myers cried as he asked what their friends and neighbors would say about him. Mrs. Myers, also crying, told him he was a good man and nothing would change that, she recalls. Mr. Myers later told her that he clung to those words in the weeks that followed. The next morning, he flew home and faxed in his letter of resignation.

In the days that followed, Mr. and Mrs. Myers drew the blinds, pulled the car in the garage and went into hiding, people close to them say. Because he had acted on orders, Mr. Myers still didn't think he would face personal liability for the fraud, Mrs. Myers says. When two agents with the Federal Bureau of Investigation showed up at the door and flashed their badges, Mrs. Myers let them in.

"I was shocked, but I thought they were there to talk about Bernie and Scott," she says. "I didn't think we were in trouble."

Mr. Myers led the agents to the sun porch. Mrs. Myers ran upstairs to call her father, a lawyer, who instructed her to tell Mr. Myers not to answer any questions without an attorney. As Mrs. Myers watched the agents drive away, she recalls thinking, "Oh my God, this is huge."

"Helpless Feeling"

During a meeting with Richard Janis, the lawyer her husband later hired, Mrs. Myers recalls sobbing as he told them political pressure was high to make an example of WorldCom employees involved in the fraud. This was the first time she realized her husband might go to prison. "It was a helpless feeling," she says, realizing her husband could miss a big part of their son's childhood.

Mr. and Mrs. Myers moved to her parents' house in another part of Jackson to escape the media throng that had begun to gather at their own home. Once, when they saw a police car cruising the neighborhood, they froze, thinking the police might be looking for them, Mrs. Myers says. Mr. Myers began looking around when he took the trash out to see if anyone was watching him, Mrs. Myers says he told her.

On July 30, 2002, Mr. and Mrs. Myers prepared to go to New York, where he would be charged with securities fraud. Mrs. Myers cried as she kissed their son goodbye. "He didn't know why I was sad," she says. Jack, clutching a small plastic "Clifford" dog, handed the toy to his father, Mrs. Myers recalls. "That was his favorite toy and he gave it to David."

In New York, the couple met with Father Stallings, their former priest, who had relocated to a church on Staten Island. During a walk, Mr. Myers said he had been told he would have to turn over his shoelaces, belt and tie when he turned himself in the next day. Father Stallings gave Mr. Myers a pair of loafers so he wouldn't have to remove any laces. Afterward, he took the couple to the church and gave them communion. He thinks that gave Mr. Myers solace. "I believe it made a difference," he says.

The next day, Mr. Myers was fingerprinted in FBI offices in Manhattan and had his mug shot taken. He was led outside and handcuffed, in what is known as a "perp walk." Wearing a blue suit and a red tie, Mr. Myers appeared emotionless as he walked to a car waiting to take him to the federal courthouse. He wasn't allowed in the car for a few minutes, as an FBI agent sat inside with the door locked. Cameras flashed. The agent unlocked the door and Mr. Myers was let in.

Before returning home, the Myerses visited the World Trade Center site and Mr. Myers placed the plastic toy dog on an informal memorial there.

On September 25, 2002, Mr. Myers was the first of four WorldCom managers to plead guilty to securities fraud. Standing under an umbrella, his lawyer said: "Myers was a reluctant participant in the events that have led us here. . . . He recognizes that as a corporate officer, those facts do not relieve him of responsibility in this matter."

The Myerses returned to Jackson and tried to pick up their lives. Mr. Myers began volunteering as a bookkeeper at their church and worked on an archaeology dig nearby. Once, while on a treadmill at his gym, he looked up to see his own image in handcuffs on television. He put his head down and moved faster, Mrs. Myers says he told her. Driving around Jackson, he often thought he was recognized at stoplights, she says.

With the support of friends, the Myerses slowly began to emerge from their isolation. They received more than 200 letters from people who sympathized with their situation, Mrs. Myers says.

A turning point for Mr. Myers came in June 2003 when he borrowed a bicycle and signed up to chaperone a 500-mile bike ride with a group of youngsters, including some from troubled homes. Mr. Myers struggled to make the long rides each day. Often alone, he contemplated the future and his past actions, Mrs. Myers says. He strained to climb one particularly steep hill—and the exhilaration of riding down the other side made him believe good times still lay ahead, she says.

He returned home more optimistic. He bought a necklace with a cross on it at the gift shop of a Jackson church and began wearing it daily. Their priest reminded him that everyone makes mistakes but it's how a person deals with them that matters, Mrs. Myers says.

Anticipating a prison sentence, Mr. Myers began preparing. The family moved to a smaller house that shared a backyard with the couple's best friends. He started a real estate company with Mr. Yates, the accountant who worked for him and also

pleaded guilty to securities fraud. They hoped the company, which buys residential real estate, would produce profits to help them tide their wives over if they were sent to prison.

Mr. Myers' work as a witness for the government increased. In December 2003, he spent most of a weekend in a New York hotel room, poring over WorldCom documents. Every five hours, he would take a break, walking across the street to grab some pizza and a soda. That Sunday, he handed prosecutors a computer disk detailing every false number he recognized in WorldCom's financial filings from 2000 to 2002.

Around that time, prosecutors were working to win a plea agreement from Mr. Sullivan, the former chief financial officer. Ultimately, they hoped to get Mr. Sullivan to testify against Mr. Ebbers, the chief executive.

On March 2, 2004, Mr. Sullivan pleaded guilty to three counts of securities fraud—and agreed to testify against Mr. Ebbers. In testimony, Mr. Sullivan said one of the reasons he decided to plead guilty was Mr. Myers' statements to investigators about him. The same day, Mr. Ebbers was indicted on fraud charges.

In January, Mr. Myers stood in the witness room at the courthouse in Manhattan, waiting to testify against Mr. Ebbers. Looking out the window at St. Andrew's church, he noticed an ornate cross on the rear peak of the roof, similar to the one he wears around his neck. As his testimony proceeded over the next several days, he often looked out at the cross at St. Andrew's, while holding the one around his neck, Mrs. Myers says.

On February 3, the day after Mr. Myers completed his testimony, the couple returned to Jackson. Their son was sleeping, and Mrs. Myers laid down beside him. He woke up and asked where his father was. He raced to the bedroom and jumped into the bed with Mr. Myers, crying "my Daddy," Mrs. Myers recalls.

Mrs. Myers says she hasn't told Jack his father may have to spend time in prison. "He doesn't understand what's going on," she says. "He loves his Daddy. What do you say when Daddy doesn't come home?"²

Questions

1. Does the fact that David Myers' superior, Scott Sullivan, asked him to make the false accounting entries in WorldCom's accounting records diminish Myers' responsibility for his improper conduct? Defend your answer.
2. What punishment, if any, do you believe David Myers should have been given for his role in the WorldCom fraud?
3. Is it appropriate for federal law enforcement authorities "to make an example" of individuals involved in high-profile financial frauds, such as WorldCom and Enron? Explain.

2. On August 10, 2005, a federal judge sentenced David Myers to one year and one day in federal prison for his role in the WorldCom fraud. On October 10, 2005, Myers surrendered to federal authorities to begin serving his prison term at the federal correctional facility in Yazoo City, Mississippi. Because he received credit for good behavior while in prison, Myers was released in August 2006. One month earlier, the SEC had ruled that Myers should repay more than \$1 million of bonuses that he had received from WorldCom over the course of the fraud. However, the federal agency subsequently waived that repayment when Myers demonstrated that he was incapable of making it. The SEC also permanently prohibited Myers from serving as an officer, director, or accountant of a public company.