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Kramer's Corner

Wrestling with the Aftermath of Fraud

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Friday, June 13, 2003
 By Hilary Kramer

FOX NEWS

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ADVERTISEMENT Hulk Hogan is the perfect pitchman for **MCI (search)**. He's one of the stars featured in MCI's silly 10-10-220 ad campaign (10-10-220 is provided by Telecom*USA, a wholly-owned subsidiary of MCI.). What makes him right for the job isn't his star power, though. It's his background as a professional wrestler. You see, just like MCI, he's used to making stuff up, passing it off as real, then benefiting from it in a resurrected life.

MCI's version of it goes something like this: commit accounting fraud, boost share price as a result, declare bankruptcy when caught, and profit from the aftermath. Despite the company's \$11 billion fraud -- the biggest fraud in U.S. history -- MCI (formerly known as WorldCom) was recently rewarded with a Pentagon contract to rebuild Iraq's wireless phone network. The deal is estimated to be about \$45 million and will provide mobile phone services to approximately 10,000 military and aid workers in Baghdad. In addition, a \$900 million contract is pending to rebuild Iraq's entire telecommunication infrastructure, and MCI is in the running.

It's not just current deals, either. In 2002, MCI WorldCom jumped to eighth among all federal technology contractors in total revenue share as prime contractor. And their revenues of \$772 million in this segment don't even include the taxpayer dollars the company has been awarded from state and federal contracts where the company works as a subcontractor.

MCI's bankruptcy plan now calls for a reduction in debt from \$40 billion to \$4 billion. Meanwhile, the rest of the telecom industry who didn't perpetrate fraud continues to carry significantly larger debt loads commensurate with the level necessary to build out telecommunications infrastructure.

Even worse, the SEC fined MCI only \$500 million as settlement for their fraudulent actions -- barely a slap on the wrist considering MCI's \$3.3 billion cash on hand (according to SEC filings) at the end of March. Or considering that WorldCom investors lost pretty much all of the nearly \$180 billion in market capitalization the company enjoyed before their accounting fraud unraveled.

Adding insult to injury, MCI had the audacity to collect tax refunds from the IRS on tax payments they fraudulently reported as income. MCI has collected tax refunds of nearly \$300 million on its now-proven fake profits.

Even aside from this most recent attempt by MCI to profit from fraud, eliminating most of MCI's debt puts the rest of the telecom industry in a worse competitive situation, even though they're the ones who've been playing by the rules.

Do we want to allow companies who commit fraud to use bankruptcy as an instrument that gives them a substantial competitive advantage over those who play fair? And should our federal and state governments continue to reward MCI's deception with lucrative contracts?

Ok, to be fair to Hulk Hogan, most of us know that professional wrestling is supposed to be make believe (sorry, kids— that's the truth!). But how do we know that a post-bankruptcy MCI won't continue to be make believe?

Hilary Kramer serves as a business news contributor at FOX News Channel. She joined the network as a regular guest on **Cashin' In** in May 2001.

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