UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

IN RE WORLDCOM, INC. SECURITIES LITIGATION	:	MASTER FILE NO. 02 Civ. 3288 (DLC)
This Document Relates to:	:	
02 Civ. 3288 02 Civ. 4973 02 Civ. 8230 02 Civ. 3416 02 Civ. 4990 02 Civ. 8234 02 Civ. 3419 02 Civ. 5057 02 Civ. 9513 02 Civ. 3508 02 Civ. 5071 02 Civ. 9514 02 Civ. 3537 02 Civ. 5087 02 Civ. 9515 02 Civ. 3647 02 Civ. 5108 02 Civ. 9516 02 Civ. 3750 02 Civ. 5224 02 Civ. 9519 02 Civ. 3771 02 Civ. 5285 02 Civ. 9521 02 Civ. 4719 02 Civ. 8226 03 Civ. 2841 02 Civ. 4945 02 Civ. 8227 03 Civ. 3592 02 Civ. 4946 02 Civ. 8228 03 Civ. 6229 02 Civ. 4958 02 Civ. 8229	:	

JOINT DECLARATION OF JEFFREY W. GOLAN AND JOHN P. COFFEY IN SUPPORT OF FINAL APPROVAL OF SETTLEMENT WITH THE CITIGROUP DEFENDANTS, LEAD PLAINTIFF'S PROPOSED PLAN OF ALLOCATION, AND AN AWARD OF ATTORNEY'S FEES AND REIMBURSEMENT OF EXPENSES

We, Jeffrey W. Golan of the law firm of Barrack Rodos & Bacine and John P. Coffey of the law firm of Bernstein Litowitz Berger & Grossmann LLP (collectively with our firms, "Lead Counsel"), submit this Declaration in support of (a) final approval of the settlement ("Settlement") reached between and among Alan G. Hevesi, Comptroller of the State of New York and the sole Trusteee of the New York State Common Retirement Fund ("Lead Plaintiff" or "NYSCRF"), the County of Fresno, California, Fresno County Employees Retirement Association and HGK Asset Management, Inc. (collectively, "Named Plaintiffs" and together with the NYSCRF, "Plaintiffs"), and Defendants Citigroup Inc. ("Citigroup"), Citigroup Global Markets Inc., formerly known as Salomon Smith Barney Inc. ("Salomon"), Citigroup Global

Markets Limited, formerly known as Salomon Brothers International Limited ("Salomon Ltd."), and Jack B. Grubman ("Grubman") (collectively, the "Citigroup Defendants"); (b) approval of Lead Plaintiff's proposed plan of allocation of the settlement proceeds ("Plan of Allocation"); and (c) approval of Lead Counsel's application for an award of attorney's fees and reimbursement of expenses. Unless otherwise indicated, the statements in this declaration are made based on our personal knowledge.

1. The prosecution of the In re WorldCom, Inc. Securities Litigation has been one of the most challenging in the history of securities class actions. The stakes have been large, the risks enormous, and the battles hard-fought. Under the direction of one of the Nation's largest and most proactive institutional investors, we respectfully submit that the results thus far -- a partial settlement of $2.65 billion that is by itself the second largest in the history of securities litigation, and by far the largest recovery ever from a group of defendants who did not issue the underlying securities -- is an extraordinary achievement for the Class.

2. This joint declaration describes (a) the legal efforts overseen by Lead Plaintiff and the results of those efforts (Part I, ¶¶ 3-72); (b) the Settlement and the risks that Lead Plaintiff and Lead Counsel considered in determining that the Settlement provided an excellent recovery for the Class (Part II, ¶¶ 73-103); (c) the proposed Plan of Allocation and the basis for it (Part III, ¶¶ 104-08); and (d) the fee and expense application of Lead Counsel submitted pursuant to the Retainer Agreement between Lead Plaintiff and Lead Counsel dated July 30, 2003 ("Retainer Agreement") (Exhibit 1 hereto), and with the prior approval of Lead Plaintiff (Part IV, ¶¶ 109-32).

Part I -- Prosecution of the Action

3. In this lawsuit (the "Action"), Plaintiffs allege that Defendants (defined in ¶ 8, below) violated the Securities Act of 1933 (the "Securities Act") and the Securities Exchange Act of 1934 (the "Exchange Act") by making a series of materially false and misleading statements and omissions regarding the financial condition of WorldCom, Inc. ("WorldCom" or the "Company") during the period from April 29, 1999 through and including June 25, 2002 (the "Class Period"). Plaintiffs contend that investors were misled by these statements, which appeared in analyst reports, press releases, public statements, in documents filed with the Securities and Exchange Commission ("SEC") during the Class Period, including registration statements and prospectuses issued in connection with WorldCom's May 2000 public offering of $5 billion in debt securities (the "2000 Offering") and May 2001 public offering of $11.9 billion in debt securities (the "2001 Offering") (together, the "Offerings").

4. On June 25, 2002, WorldCom announced that its financial statements for 2001 and the first quarter of 2002 had been materially overstated, and would need to be restated. By late July 2002, WorldCom had filed the largest bankruptcy in United States history. Earlier this year, the Company admitted that WorldCom's reported earnings were overstated by approximately $68 billion over the course of the Class Period, consisting in overstatements of approximately $58 billion based on faulty accounting for acquisitions, goodwill and other assets, and approximately $10 billion generally based on overstatements of revenues and understatements of expenses.

A. The Appointment of Lead Plaintiff and Lead Counsel by the Court

5. Many class action lawsuits asserting federal securities law claims were filed against WorldCom and others in connection with WorldCom's demise. In laet June, the former

Comptroller of the State of New York approached our two firms to represent NYSCRF and requested that we move on behalf of NYSCRF for appointment as lead plaintiff in this Action. On July 1, 2003, NYSCRF, the second largest public pension fund in the United States, filed a motion to consolidate the various securities class actions involving WorldCom, appoint NYSCRF as lead plaintiff, and approve NYSCRF's counsel of our firms as lead counsel. Our firms responded to all other applications, and supplied the Court with detailed information concerning NYSCRF and its losses from its transactions in WorldCom stock and bonds. As stated in the submissions to the Court, NYSCRF suffered a loss of more than $300 million from its purchases and sales of WorldCom stock and bonds during the Class Period.

6. Pursuant to an order of August 15, 2002, this Court consolidated the securities class action cases against WorldCom and other defendants in the above-captioned Consolidated Case, appointed NYSCRF to serve as the Lead Plaintiff, and approved the Lead Plaintiff's choice of Barrack Rodos & Bacine and Bernstein Litowitz Berger & Grossmann LLP to serve as Lead Counsel for Plaintiffs and the then-putative Class.

7. In addition to lawsuits filed in this District, there were numerous other cases brought in state and federal courts throughout the United States.[1] On October 8, 2002, the Judicial Panel on Multi-District Litigation (the "MDL Panel") for the federal court system determined that all such cases pending in federal district courts brought pursuant to the securities laws as well as the Employee Retirement Income Security Act ("ERISA") should be transferred to this District for pre-trial coordination or consolidation. Since that time, the MDL Panel has ordered the transfer to this Court of scores of cases that were filed either in other federal courts

[1] A number of these cases were filed in the District of Mississippi, and lead plaintiff motions were filed. After consultation with NYSCRF, we retained a law firm (now known as Upshaw Williams Biggers Beckham & Riddick LLP) to serve as liaison counsel in connection with the NYSCRF's efforts in that District, including the filing of a lead plaintiff motion pending a ruling from the MDL Panel. The Upshaw Williams firm is one of the Assisting Firms (as defined below) for whom Lead Counsel seeks attorneys' fees and expenses.

or in state courts but subsequently removed to federal courts other than the Southern District of New York. The Court has appointed a separate lead plaintiff and lead counsel to prosecute claims of WorldCom employees and retirees in the ERISA class action case, which claims are not asserted in this Action.

B. Complaint filed by Lead Plaintiff and the Named Plaintiffs

8. On October 11, 2002, Lead Plaintiff and the Named Plaintiffs (described in ¶15 below) filed a consolidated class action complaint (the "Complaint") asserting claims against the following persons and entities: (1) former WorldCom officers and directors Bernard J. Ebbers, Scott D. Sullivan, David F. Myers, Buford Yates, Jr., James C. Allen, Judith Areen, Carl J. Aycock, Max E. Bobbitt, Francesco Galesi, Clifford L. Alexander, Jr., Stiles A. Kellett, Jr., Gordon S. Macklin, John A. Porter, Bert C. Roberts, Jr., John W. Sigdmore, and Lawrence C. Tucker (collectively referred to as the "Individual Defendants"); (2) WorldCom's former outside auditor, Arthur Andersen LLP ("Andersen"); (3) underwriters of the 2000 and 2001 Offerings, Salomon, J.P. Morgan Chase & Co.; Banc of America Securities LLC; Deutsche Bank Securities Inc., now d/b/a Deutsche Bank Alex. Brown Inc.; Chase Securities Inc.; Lehman Brothers, Inc.; Blaylock & Partners, L.P.; Credit Suisse First Boston Corp.; Goldman, Sachs & Co.; UBS Warburg LLC; ABN/AMRO, Inc.; Utendahl Capital; Tokyo-Mitsubishi International plc; Westdeutsche Landesbank Girozentrale (n/d/a WestLB AG); BNP Paribas Securities Corp.; Caboto Holding SIM S.p.A.; Fleet Securities, Inc.; and Mizuho International plc.[2]; and (4) Salomon, Grubman and Citigroup. Because of the filing of a bankruptcy petition by WorldCom, and the automatic stay provisions within the United States Bankruptcy Code, Plaintiffs were barred from asserting claims against WorldCom.

[2] Although the underwriters listed above are collectively referred to as the "Underwriter Defendants" in the Complaint, for purposes of clarity in this declaration the term "Underwriter Defendants" excludes the settling underwriters Salomon and Salomon Ltd.

9. In the Complaint, Plaintiffs asserted claims under Sections 11, 12(a)(2) and 15 of the Securities Act on behalf of purchasers of WorldCom bonds in or traceable to the 2000 and 2001 Offerings against: each of the Individual Defendants except Myers and Yates (who did not sign the registration statements for the Offerings, as the other Individual Defendants did (Counts I and II)); Andersen (Count III); and Salomon and the Underwriter Defendants (Counts IV and V) (collectively the "Securities Act Claim Defendants"). Plaintiffs further asserted claims under Sections 10(b) and 20(a) of the Exchange Act on behalf of purchasers of all publicly traded securities of WorldCom during the Class Period, including purchasers of stock and publicly traded debt securities issued by WorldCom either during or prior to the start of the Class Period. These Claims were asserted against Individual Defendants Ebbers, Sullivan, Myers, Yates, the four WorldCom directors who served during the Class Period on WorldCom's Audit Committee (Allen, Areen, Bobbitt and Galesi), and Kellett, who served as Chairman of the WorldCom's Compensation Committee (Counts VI and VII); Andersen (Count VIII); and the Citigroup Defendants[3] (Counts IX, X and XI) (collectively the "Exchange Act Claim Defendants").

10. Plaintiffs asserted that the Securities Act Claim Defendants are liable to purchasers of the WorldCom bonds issued in the 2000 and 2001 Offerings because: (a) the corresponding offering materials (the "Registration Statements") contained false statements of material fact and omitted facts necessary to make the statements made therein not misleading, including the materially false financial statements for WorldCom for the years 1999, 2000 and the first quarter of 2001; and (b) the 2000 and 2001 Registration Statements failed to disclose numerous conflicts between the Citigroup Defendants and WorldCom, Ebbers and Sullivan.

[3] Salomon Limited was not named as a defendant until the filing of the Corrected First Amended Complaint on December 1, 2003.

11. Plaintiffs further asserted that the Exchange Act Claim Defendants are liable to purchasers of WorldCom stock and publicly traded debt securities during the Class Period because: (1) the statements made by the Company and these Defendants contained false statements of material fact and omitted facts necessary to make the statements made therein not misleading, including the materially false financial statements for the years 1999, 2000, 2001 and the first quarter of 2002; (b) the statements made by the Company and these Defendants failed to disclose numerous, conflicting positions of the Citigroup Defendants with respect to WorldCom, Ebbers and Sullivan, as more fully described below; (c) the statements made by these Defendants, or in which these Defendants participated, contained financial information that they knew or were reckless in failing to know was materially false; (d) these Defendants deceived the investing public regarding WorldCom's improper capitalization of expenses, excessive acquisition write-offs, improper revenue recognition and improper accounting for goodwill; (e) their actions and failures artificially inflated and maintained the market price of WorldCom stock and its publicly traded debt securities, and caused Plaintiffs and other Class members to purchase WorldCom stock and publicly traded debt securities at those inflated prices; and (f) these Defendants had access to accurate non-public financial and other information about the Company and acted either to conceal the same, or recklessly disregarded warning signs the investigation of which would have uncovered the fraud.

12. Plaintiffs alleged in the Complaint that Salomon and the Underwriter Defendants failed to conduct proper due diligence in connection with WorldCom's 2000 and 2001 Offerings, and that the losses suffered by purchasers in the Offerings were causally related to the false and misleading statements in the Registration Statements.

13. With respect to the Citigroup Defendants, Plaintiffs further alleged in the Complaint that these Defendants violated the federal securities laws by, among other things, failing to disclose material conflicts of interest that existed in their relationships with WorldCom and Defendants Ebbers and Sullivan. As alleged in the Complaint, in order to procure WorldCom's lucrative investment banking business, Salomon, its corporate affiliates and Grubman agreed to (a) issue highly favorable research reports regarding WorldCom, (b) allocate shares of hot initial public offerings ("IPOs") to senior WorldCom executives, and (c) provide Ebbers with hundreds of millions of dollars of loans, part of which was secured by his personal holdings in WorldCom. The Complaint further alleges that, based on this unlawful *quid pro quo* relationship, Salomon was selected to be lead underwriter for the 2000 and 2001 Offerings.

14. Plaintiffs alleged that these facts were not disclosed adequately in the 2000 and 2001 Registration Statements or in the research reports issued by Salomon and Grubman during the Class Period. Plaintiffs further alleged that Grubman, who was held out by Salomon as their star independent telecommunications analyst, knew or recklessly disregarded the substantial financial problems at WorldCom.

15. In the course of preparing the Complaint, Lead Plaintiff and Lead Counsel conferred extensively concerning potential class representatives to assist the NYSCRF in representing the interest of the putative Class both in the prosecution of the Action and, no less important, any settlement discussions that might occur. Accordingly, while the Complaint was being drafted, Lead Plaintiff invited three institutional investors that had purchased WorldCom bonds in one or both of the Offerings to serve as "Named Plaintiffs" in the Action: the County of Fresno, California ("Fresno"), which suffered a loss of over $5.5 million from its purchases of bonds in the 2000 Offering; the Fresno County Employees Retirement Association ("FCERA"),

which suffered a loss of more than $11 million from its purchases of WorldCom securities, including $3.5 million of bonds in the 2001 Offering; and HGK Asset Management, Inc. ("HGK"), which suffered a loss of nearly $29 million from purchases of WorldCom bonds, including bonds issued in the 2000 and 2001 Offerings. Lead Plaintiff concluded that permitting independent counsel for the Named Plaintiffs to monitor and, where appropriate, participate in the prosecution and potential settlement of the Action was prudent.[4]

16. At Lead Plaintiff's direction, Lead Counsel undertook an extensive investigation of the WorldCom collapse well before the lead plaintiff motions had been decided. In addition to drawing on facts that were then generally available to the public (for example, WorldCom's public filings; testimony and submissions made by WorldCom and others to Congress; the criminal complaint and indictment handed down in this District; Salomon analyst reports; and news reports), Lead Counsel embarked on a comprehensive effort to identify, locate, and interview potential witnesses with knowledge of the operations of WorldCom and certain of the Defendants; to obtain from such sources documents that were not otherwise publicly available; to locate public (though not readily accessible) filings in various states in which Ebbers and affiliates of certain Defendants had business relationships; to direct the efforts of private investigators; to consult with experts regarding potentially fruitful lines of inquiry; and to engage in other case-building efforts that, given the pendency of proceedings against the non-settling Defendants, Lead Counsel prefers not to specify at this time. Among the more notable results achieved in this pre-filing investigation was establishing rapport with a series of confidential sources who enabled Lead Counsel to refine several of its most promising leads, and piercing the byzantine-like web of public records of mortgages, partnership agreements, certificates of

[4] As described more fully below, counsel for Fresno and FCERA, Berman DeValerio Pease Tabacco Burt & Pucillo, LLP ("Berman DeValerio"), and counsel for HGK, Schoengold & Sporn ("S&S"), are among the Assisting Counsel (as defined in ¶ 50 n.11), whose services are incorporated in the fee and expense application.

incorporations, by-laws, and tax filings for various Ebbers-related entities (some of which were physically retrieved from remote courthouses in rural Tennessee).

17. As a result of the foregoing efforts, Lead Plaintiff's Complaint included a number of allegations that, notwithstanding the media interest in the WorldCom debacle, Congressional hearings, and publicly-filed criminal charges, had never before been disclosed publicly. These included the discovery that Salomon's corporate sibling within Citigroup, The Travelers Insurance Company, had loaned several hundred million dollars to an Ebbers-controlled entity; that certain of Ebbers' loans from Citigroup were secured by Ebbers' holdings in WorldCom shares; and that Grubman had modified his analysis of WorldCom in order to mask the Company's deteriorating financial condition. See Complaint ¶¶ 275-87. Indeed, upon the filing of the Complaint, numerous newspaper articles noted specifically the new information pled in the Complaint. See, e.g., Jonathan Weil, "Ebbers Allegedly Got Big Loans From Citigroup," The Wall Street Journal, October 14, 2002, at A3; Andrew Backover, "Suit Links Loans, WorldCom Stock," USA Today, at B3.

C. The Partial Lifting of Stay of Discovery

18. In addition to its investigation prior to filing the Complaint, Lead Plaintiff pursued a parallel and novel effort to develop its case as expeditiously as possible: seeking an order partially lifting the stay of discovery prescribed by the Private Securities Litigation Reform Act of 1995 ("PSLRA") in order to obtain copies of documents that WorldCom had already produced to the Securities and Exchange Commission ("SEC"), the United States Department of Justice, Congressional committees, and Wilmer, Cutler & Pickering ("Wilmer"), the law firm retained by WorldCom's Audit Committee to conduct a partial internal investigation at the

Company.[5] Lead Plaintiff's effort to obtain access to the foregoing materials before resolution of any motions to dismiss involved motions before two Judges in this District and, as it turned out, significant negotiations with representatives from the SEC and the United States Attorney's Office for this District ("USAO").

19. On October 2, 2002, even before the Complaint was filed, Lead Plaintiff filed a motion in United States Bankruptcy Court for this District seeking an order lifting the bankruptcy stay for the limited purpose of serving a subpoena on WorldCom for the aforementioned documents.[6] The motion stated that actual service of the subpoena would be contingent on Lead Plaintiff obtaining a second order, from this Court, partially lifting the PSLRA discovery stay. Lead Plaintiff's bankruptcy counsel argued the motion on October 29 and, ruling from the bench, Judge Arthur Gonzales granted the motion and directed the parties to prepare the appropriate order.

20. Shortly after the hearing, Lead Counsel received calls from representatives of the USAO and the SEC expressing concern about certain aspects of Lead Plaintiff's efforts to obtain discovery of WorldCom documents. In an effort to address the Government's concerns -- and in particular to head off the possibility that the Government might move to stay this Action -- Lead Counsel attended a meeting at the USAO and had numerous telephonic discussions with representatives of the USAO and the SEC. An accord was reached that would permit Lead Plaintiff to obtain all of the documents at issue in two stages, with most of the documents to be produced immediately and production of the documents given to Wilmer postponed until after

[5] By "partial" we mean that the scope of Wilmer's investigation was circumscribed by an explicit condition that Wilmer (which is co-counsel for the Citigoup Defendants in this Action) would not investigate the role of Salomon or Grubman in the collapse of WorldCom.

[6] Pursuant to discussions concerning the importance of this motion, as well as safeguarding the interests of the putative Class in the WorldCom bankruptcy proceedings in general, Lead Plaintiff authorized the retention of the law firm of Lowenstein Sandler as bankruptcy counsel. Lowenstein Sandler is one of the Assisting Firms (as defined in ¶50 n.11 below) whose services are included in Lead Counsel's fee and expense application.

the Company made the firm's report public. A proposed order making this modification was submitted to Judge Gonzales, who approved it on November 8, 2002. Notably, the USAO agreed to Lead Counsel's request that it provide this Court with written assurance that it had no objection to the relief sought by Lead Plaintiff.

21. Lead Plaintiff learned of Judge Gonzales' approval of the order late on Friday, November 9, 2002. The following business day, November 12, Lead Plaintiff filed a motion in this Court seeking an order partially lifting the PSLRA stay. The Court issued a scheduling order the following day that provided for expedited consideration of the motion. Andersen, Salomon, the Underwriter Defendants, and the former outside WorldCom directors all submitted papers in opposition to the motion on November 18. On November 21, the Court granted Lead Plaintiff's motion. Lead Counsel served its subpoena on WorldCom that same afternoon.

22. On or about December 21, 2002, weeks before the motions to dismiss had been fully briefed and six months before the PSLRA stay was lifted generally, WorldCom produced to Lead Plaintiff the first of what would ultimately be in excess of a million pages of documents. These documents contained many (if not most) of the relevant internal WorldCom documents relating to the fraud, as well as numerous e-mails among various Defendants. Obtaining these materials early in the litigation advanced the very points that the Court had emphasized in its November 21 opinion: these documents helped "level the playing field" for the WorldCom investors, thereby enabling Lead Plaintiff to make better informed judgments about litigation strategy – and the settlement negotiations that had been ordered by the Court in a November 5, 2002 order. It also enabled all the parties – Lead Plaintiff and Defendants – to begin the process of evaluating the strengths and weaknesses of the claims and defenses in the Action at a substantially earlier time. As would become clear later in 2003, this in turn justified a

substantially shorter discovery period than might have been expected for a case of this size, since all concerned had early access to many of the core documents at issue in the Action.

D. The Orders Denying in Large Part the Motions to Dismiss the Complaint

23. On December 13, 2002, the Defendants against whom the lawsuit was not stayed[7] – Ebbers, the remaining Individual Defendants (the "Director Defendants"), Andersen, the Citigroup Defendants, and the Underwriter Defendants – filed motions to dismiss certain of the claims against them in the Complaint. On January 24, 2003, Lead Plaintiff filed its consolidated opposition to the five sets of motions to dismiss. The opposition challenged each of the numerous grounds cited by Defendants in support of their motions, and provided an extensive analysis of the pleading requirements for the various claims in the Complaint. Defendants replied on February 14. The Court thereafter set a hearing for May 16 and directed counsel to be prepared to address specified topics identified by the Court. Lead Counsel prepared for the hearing on the matters identified by the Court (and indeed all matters at issue on the motions), and argued in favor of Plaintiffs' positions at the hearing. Comptroller Hevesi and his general counsel, Alan P. Lebowitz, attended the hearing.

24. On May 19, 2003, the Court issued an opinion that denied, in major part, the motions to dismiss the Complaint filed by Ebbers, the Director Defendants, the Underwriter Defendants, and the Citigroup Defendants. The Court upheld all claims brought on behalf of purchasers of the WorldCom bonds issued in the 2000 and 2001 Offerings, and further upheld all Section 10(b) claims against Individual Defendants Ebbers and Kellett, and the Citigroup Defendants. The Court granted without prejudice the portion of the motion of defendants Allen, Areen, Bobbitt and Galesi (the "Audit Committee Defendants") to dismiss the Section 10(b)

[7] By Orders of December 5, 2002 and May 6, 2003, the Action was stayed with respect to Individual Defendants Sullivan, Myers and Yates, stemming from their having been named in indictments filed by the USAO.

claims against them, and permitted Plaintiffs leave to re-plead with greater specificity their claims against these Defendants in an amended complaint.

25. On June 24, 2003, the Court denied the motion to dismiss filed by Andersen, but granted motions to dismiss the claims brought against certain Defendants affiliated with Andersen: Arthur Andersen (United Kingdom), Andersen Worldwide Societe Cooperative, and individual audit partners Melvin Dick and Mark Schoppet.

26. In a motion filed with this Court on August 18, 2003, the Citigroup Defendants sought permission to appeal to the Second Circuit Court of Appeals concerning the Court's denial of the Citigroup Defendants' motion to dismiss the Complaint. Lead Counsel prepared and filed its brief in opposition to the motion. The Court denied the Citigroup Defendants' motion on November 6, 2003.

E. The Order Denying the Citigroup Defendants' Motion to Sever Certain Claims

27. On November 21, 2002, the Citigroup Defendants moved to sever what they characterized as the "analyst" claims in the Complaint (Counts IX – XI), and to transfer those claims to actions being consolidated before another Judge in this District in what ultimately came to be known as the Salomon Analyst Litigation (Master Dkt No. 02 Civ. 3687 (GEL)).[8] Among other things, the Citigroup Defendants pointed out that this Court had already segregated the analyst-related cases against Salomon and Grubman in a proceeding separate and apart from the WorldCom Class Action, and that the MDL panel had purportedly vouched for that distinction in its October 8, 2002 ruling. They also argued that they should not be required to move against these claims by the December 13, 2002 deadline for motions to dismiss -- a request that Lead Plaintiff immediately opposed and the Court promptly denied. Lead Plaintiff filed papers in

[8] These cases were originally assigned to Judge Kaplan, but later re-assigned to Judge Martin, then Judge Jones, and ultimately to Judge Lynch.

opposition to motion on December 10, 2002, and participated in oral argument on that motion on February 13, 2003. Among other things, Lead Plaintiff argued that it was illogical to have to prove in two different courtrooms the conduct of Salomon and Grubman that was common both to the Securities Act Claims which the Citigroup Defendants were not seeking to sever (Counts IV and V) and the Exchange Act Claims that were the subject of the severance motion (Counts IX – XI).

28. On March 24, 2003, the Court issued an Order denying the Citigroup Defendants' motion to sever the so-called "analyst" claims from this Action. The Court found that the claims could not be differentiated along the lines sought by the Citigroup Defendants, and that given the totality of the allegations in the Complaint, severance of some but not all of the claims against the Citigroup Defendants was not justified.

29. Meanwhile, NYSCRF had filed a motion before Judge Lynch for appointment as lead plaintiff for the subset of cases concerning Grubman's reports about WorldCom (the "Salomon WorldCom Analyst Litigation"). By Orders of March 28 and April 3, 2003, Judge Lynch appointed NYSCRF as lead plaintiff and approved its selection of our two firms as lead counsel for the litigation. Significantly, Judge Lynch also granted Lead Plaintiff's request that, in the event this Court denied the Citigroup Defendants' motion to sever certain claims from this Action, the Salomon WorldCom Analyst Litigation would be stayed pending the outcome of this Action. That case has been stayed since April 2003, and the Class has been spared the expense of having to litigate in two separate proceedings.

30. Lead Plaintiff respectfully submits that defeating the motion to sever had another, more important benefit. It significantly advanced one of the core principles of Lead Plaintiff's

prosecution strategy, which is to proceed to trial as expeditiously as possible on all claims that the Class may have.

E. The First Amended Complaint of Lead Plaintiff and the Named Plaintiffs

31. On August 1, 2003, Plaintiffs filed their First Amended Complaint. Drawing in significant part on Lead Counsel's continuing investigation and documents obtained from WorldCom pursuant to the order partially lifting the PSLRA stay, the First Amended Complaint amplified the allegations pertaining to virtually all the claims in the Action. Plaintiff also had the benefit of access to the Report of the Special Investigation Committee of WorldCom's Board of Directors (the "Wilmer Report"), the First and Second Interim Reports of the Examiner for WorldCom's bankruptcy proceeding, and the materials disclosed as a result of the April 2003 settlement between various Wall Street banks and regulators such as the NYAG and the SEC.[9]

32. The Audit Committee Defendants moved to dismiss the Section 10(b) claims against them in the First Amended Complaint, which Lead Counsel opposed in a submission of October 17, 2003. On December 1, 2003, the Court ruled in favor of the Audit Committee Defendants, and dismissed with prejudice the Section 10(b) claims against them in their individual capacities, although continuing to allow the Section 20(a) claims against them, as well as the other Director Defendants, to proceed.

33. On October 9, 2003, Plaintiffs moved to file a Corrected First Amended Complaint to clarify that Plaintiffs are asserting Securities Act Claims against foreign affiliates of certain Underwriter Defendants (the "Foreign Underwriters") who participated in the underwriting of the foreign currency components of the 2001 Offering. That motion was fully

[9] As explained in note 5 above, the Wilmer Report could not and did not offer any facts concerning the Citigroup Defendants' interaction with WorldCom. As explained in ¶¶ 66-72 below, at least some of the facts revealed in the first two Examiner Reports were, on information and belief, based in part on documents and leads provided to the Examiner by Lead Counsel prior to publication of those reports.

briefed by the parties, and permission to file a corrected pleading was granted by the Court by Order of December 1, 2003.

34. On December 1, 2003, Plaintiffs filed their Corrected First Amended Complaint in which Plaintiffs, among other things, explicitly identified the Foreign Underwriters as defendants in Counts IV and V. Lead Counsel thereafter responded to motions to dismiss the First Correct Amended Complaint filed by the Foreign Underwriters. By Order of March 19, 2004, the Court denied the motions to dismiss filed by Salomon Ltd. and the foreign affiliate of Defendant J.P. Morgan, but granted the motions filed by the other Foreign Affiliates.

35. With the exception of the dismissed Foreign Underwriters, all Defendants in the Corrected First Amended Complaint have filed Answers to the Complaint denying liability on the claims asserted against them, and raised numerous Affirmative Defenses in their responses to the Complaint.

F. The Order Granting Plaintiffs' Motion for Class Certification

36. On June 4, 2003, Plaintiffs filed their motion asking the Court to permit this Action to proceed on behalf of a Class consisting of all persons and entities, except for Defendants and their affiliates, who purchased or otherwise acquired publicly traded stocks, bonds or notes of WorldCom during the Class Period, and suffered damages thereby. The Class for which certification was sought by Plaintiffs includes purchasers of WorldCom bonds issued in or traceable to the 2000 and 2001 Offerings, as well as purchasers of all publicly traded securities (stock and bonds) during the Class Period. Throughout the summer of 2003, Plaintiffs responded to numerous document requests and interrogatories from Defendants, and further produced witnesses from each Plaintiff and various investment advisors to provide deposition testimony. In all, Plaintiffs produced four witnesses from the NYSCRF, including one of its

investment managers (defended by Lead Counsel); five witnesses from FCERA and Fresno, including three outside investment advisors (defended by their counsel, Berman DeValerio Pease Tabacco Burt & Pucillo, LLP); and three witnesses from HGK (defended by their counsel, Schoengold & Sporn, P.C.).

37. Lead Counsel, with assistance from counsel for the Named Plaintiffs, responded to the two sets of oppositions to the class motion filed by the Citigroup Defendants and the Underwriter Defendants. On September 26, 2003, Lead Counsel submitted to the Court a 116-page Memorandum of Law in further support of the class motion; an expert affidavit of Frank Torchio, of Forensic Economics; and volumes of exhibits, including other documents and excerpts of deposition testimony. After full briefing of the motion, by Opinion and Order of October 24, 2003, the Court certified this lawsuit to proceed as a Class Action pursuant to Fed. R. Civ. P. 23 (the "Class Order"). In the Opinion, the Court found that Plaintiffs had satisfied each of the elements for the case to proceed as a Class Action, and rejected arguments made by the Underwriter Defendants and Citigroup Defendants in opposition to the class motion. The Court certified the Lead Plaintiff and the Named Plaintiffs as representatives of the Class, finding their claims to be typical of claims of other Class members, and further finding them adequate to represent the interests of the Class.

38. On November 12, 2003, the Underwriter Defendants and Citigroup Defendants filed petitions for permission pursuant to Fed. R. Civ. P. 23(f) to appeal the Class Order to the United States Court of Appeals for the Second Circuit, which motion was opposed by Plaintiffs. By Order of December 31, 2003, the Court of Appeals denied the motions of the Underwriter Defendants, but granted the Citigroup Defendants' motion.

39. After the Court of Appeals granted the Citigroup Defendants' Rule 23(f) petition on December 31, 2003, one of the actions undertaken by Lead Counsel was to try to persuade the SEC to file an amicus brief supporting the Class before the merits panel. Specifically, we sought the SEC's support in opposing what Lead Counsel viewed as the Citigroup Defendants' unduly narrow view of how fraud-on-the-market principles applied to analyst reports. This effort included numerous discussions (and an in-person meeting) with staff attorneys at the SEC, during which Lead Counsel briefed the SEC on the legal landscape for the appeal and the import of the issue. Lead Counsel's effort was successful. After the appellate brief of Lead Plaintiff was filed on April 12, 2004 in opposition to the Citigroup Defendants' appeal, the SEC filed its brief on April 16, 2004, taking issue with the Citigroup Defendants' application of fraud-on-the-market principles to analyst reports. While the concerns expressed in the Court of Appeals' May 7, 2004 opinion explaining their acceptance of the Rule 23(f) petition suggested there might be difficulty in sustaining the class certification order as originally entered, we believe that the support of the SEC before the merits panel would have aided the Class's position. The Citigroup Defendants filed their reply brief on April 22, 2004, and the Court of Appeals thereafter set the appeal for argument on Monday, May 10, 2004.

40. The parties reached this Settlement on Friday, May 7, and immediately thereafter jointly petitioned the Court of Appeals to withdraw the petition pending approval of the Settlement. On May 7, 2004, the Court of Appeals issued the aforementioned opinion explaining its December 31, 2003 decision allowing the Citigroup Defendants' Rule 23(f) appeal and denying the Underwriter Defendants' Rule 23(f) petition, but did not reach any determination of the merits of the appeal.

G. Other Significant Actions Taken by Lead Counsel

1. Coordination Among Plaintiffs' Counsel

41. Among the more challenging aspects of this Action has been coordination of the many WorldCom-related cases that had been transferred to this Court's docket but not consolidated with this Action. These included the dozens of lawsuits brought on behalf of individual plaintiffs with securities claims (the "IAs"), the ERISA class action; the GOALs plaintiffs; the TARGETS plaintiffs; and the "holder" plaintiffs (collectively, the "Other Cases"). The matter of how these cases should be coordinated for pre-trial purposes was the subject of substantial briefing in early 2003, by Plaintiffs and Defendants alike. Pursuant to the Court's order of May 28, 2003 ("Consolidation Order"), the Court directed Lead Counsel to coordinate the discovery efforts on the plaintiffs' side. Among other duties, Lead Counsel was required to consult with the other plaintiffs' counsel concerning a discovery plan and take the lead in the consolidated securities litigation on written and deposition discovery. The Court appointed Neil Selinger of Lowey Dannenberg, counsel for one of the IA actions, as Liaison Counsel to assist in this coordination in the securities cases.

42. On August 7, 2003, certain of the IAs filed a writ of mandamus to the Second Circuit seeking to vacate the Consolidation Order as unduly restrictive and an abuse of the Court's discretion. Lead Counsel filed papers in opposition to that writ on October 9, 2003, and argued in support of the Consolidation Order in oral argument before the Court of Appeals on October 24, 2003. On November 4, 2003, the Second Circuit issued an order denying the writ.

43. Promptly after the Consolidation Order was entered, Lead Counsel put in place procedures to ensure that counsel in the Other Cases had full opportunity to participate in the preparation of written discovery and development of the deposition plan. Early on, this primarily

involved sharing with counsel drafts of document requests and interrogatories that had been prepared by Lead Counsel, and considering suggestions and comments on that written discovery. Later, though well before the beginning of depositions, Lead Counsel distributed a highly proprietary proposed deposition plan for comment by counsel in the Other Cases. Comments were received and considered, and a consensus as to the identification, duration, and sequence of depositions to be taken by plaintiffs in the consolidated securities litigation was quickly achieved. This process was fine-tuned in large measure at an "all hands" strategy conference hosted by Lead Counsel in New York on January 20, 2004.

44. Beginning in November 2003, Lead Counsel began to host routine conference calls with counsel for the Other Cases, including any counsel for any IA who wished to participate. These calls, which were held virtually every Monday afternoon through July 2004, proved critical to the smooth execution of the Coordination Order. During a typical weekly call, Lead Counsel would brief counsel on developments in the litigation (and solicit news from other call participants); brief counsel on upcoming depositions and the goals for those depositions; facilitate coordination among Lead Counsel and IA counsel as to assignments for examination of witnesses; discuss which depositions should be noticed next and what, if any, modifications to the deposition plan should be made in light of developments in the case; and lead discussions on how to deal with discovery disputes and other pre-trial matters. Counsel went to significant lengths to avoid duplication of efforts in depositions. For example, Lead Counsel typically paired up with an attorney for an IA action to coordinate which attorney would cover which topic in a particular deposition, and what exhibits might be used. Early in the deposition phase, Lead Counsel often distributed draft deposition outlines and/or briefed counsel on potential exhibits in advance of depositions.

45. As indicated above, Lead Counsel carefully considered all comments it received on written and deposition discovery matters. Virtually all comments were adopted. In those few instances in which they were not, Lead Counsel accommodated counsel, for example, by appending their desired document requests as a separate section within Lead Plaintiff's request, or by exercising the discretion afforded Lead Counsel to authorize counsel in the Other Cases to contact Defendants directly to pursue discovery matters that were unique to their action. Consolidation Order ¶13(l). Lead Counsel notes that the Consolidation Order included a "safety valve" provision which entitled counsel in any of the Other Cases to apply to the Court for relief should they feel that Lead Counsel had taken a position in discovery with which they disagreed. Id. ¶18. Lead Counsel is especially pleased that, notwithstanding the occasionally divergent interests and accelerated pace of this litigation, with but one exception, no appeal of Lead Counsel's actions was ever filed.[10]

46. In addition to coordinating with counsel for the Other Cases, Lead Counsel also ensured that counsel for the two remanded cases in active discovery, the IMRF and RSA actions, were consulted and that we accommodated the circumstances unique to their cases. This was of course relatively easy in the case of the IMRF action, since their counsel was also counsel to many of the IA actions. Although it took time to work out the process of consulting with RSA's counsel, Lead Counsel did so. By the time fact depositions began in earnest in February 2004, all plaintiffs' counsel had agreed on how best to coordinate depositions with minimal duplication both in preparation and execution.

[10] After the July 9, 2004 discovery cut-off had passed, counsel in one IA action asked Lead Counsel to pursue additional discovery. Lead Counsel denied that request as untimely under the Court's scheduling order. Counsel sought relief from the Court; that request was denied.

2. Formal Discovery Efforts of Lead Counsel

47. Upon the denial of the motions to dismiss the Complaint in May 2003, the Court lifted the general stay of discovery imposed by the PSLRA. Immediately thereafter, and pursuant to the consultation with counsel for the Other Cases described above, Lead Counsel served extensive document requests and interrogatories upon all Defendants, and further served subpoenas seeking documents from more than forty non-parties. Lead Counsel prepared and filed the Initial Disclosures of Plaintiffs, and thereafter submitted Supplements to the Initial Disclosures as new information came to the attention of Lead Counsel. Lead Counsel further responded to the voluminous document requests and first set of interrogatories addressed to Lead Plaintiff and the Named Plaintiffs as part of the class discovery sought by Defendants. Together with counsel for the Named Plaintiffs (who dealt with the substantial requests put to their clients), Lead Counsel began to review and produce voluminous records of the Plaintiffs.

48. Lead Counsel participated in numerous series of meet and confers with Defendants' counsel, beginning with meet and confers in June 2003 concerning class discovery, and continuing through the spring (and even into the summer) of 2004 concerning merits discovery. Lead Counsel have written and responded to hundreds of letters to and from defense counsel, and scores of letters to the Court with respect to disputed discovery issues. Lead Counsel has also prepared for and participated in scores of meet and confers and attended dozens of conferences with the Court concerning class and merits discovery issues.

49. As described more fully below, Plaintiffs have obtained over four million pages of documents as a result of the document requests and subpoenas, and Lead Counsel undertook a diligent and extensive process of reviewing and analyzing such documents in preparation for further discovery efforts and a trial of the Action.

50. In August 2003, Lead Plaintiff and Lead Counsel conferred about a mounting challenge to the strategy of getting to trial as expeditiously as possible, namely, the enormous number of documents that would have to be reviewed in anticipation of deposition discovery (and in connection with settlement discussions). At a conference with the Court on September 22, 2003 (which was held in camera at the request of Lead Plaintiff and Lead Counsel to protect Lead Counsel's litigation strategy from Defendants' view), Lead Counsel – accompanied by Mr. Lebowitz, General Counsel to the New York State Comptroller – requested the Court's permission to have counsel for the Named Plaintiffs and six other plaintiffs' firms in the consolidated case assist in the review and analysis of the millions of documents that Lead Counsel expected to review in the case.[11] Based on the representations made by Lead Counsel and answers to questions posed by the Court to Mr. Lebowitz, and given the prior approval of Lead Plaintiff, the Court authorized Lead Counsel to utilize other firms to assist in the discovery process, but directed that all such efforts must be under the strict control of Lead Counsel. Lead Counsel has heeded the admonition of the Court and Lead Plaintiff, and maintained a strict system of controls over the services rendered by the Assisting Firms.

51. Under the Court's Scheduling Order, Defendants were to substantially complete their productions of documents by October 10, 2003. Plaintiffs' Counsel immediately began to review and analyze all documents that Defendants produced to that point, and further conducted numerous meet and confer conferences with Defendants' counsel concerning documents that had not been produced to that point. With the prior approval of Lead Plaintiff, Lead Counsel engaged the services of an expert consultant in electronic discovery matters, to ensure that Lead Counsel requested, and Defendants produced, all relevant documents maintained either on

[11] Together with the Mississippi local counsel at Upshaw Williams and the bankruptcy firm of Lowenstein Sandler, these firms are called the "Assisting Firms" in this declaration.

Defendants' active databases or from what Defendants represented were "inaccessible" computer files. In discussions with Defendants' counsel, and at Court hearings, Lead Counsel identified which of the "due diligence" witnesses (at least those that had been identified to that point by Defendants) whose e-mails Plaintiffs required for the litigation. Lead Counsel agreed to pay up to one-half of the Underwriter Defendants costs in replicating its "inaccessible" electronic documents.

52. Lead Counsel also carefully considered, and thereafter suggested to the Court, a novel deposition discovery program that would allow each side (collectively) to take 60 days of deposition testimony, which could be split into half days (4 hours of questioning of a witnesses) and last up to two full days without the opposing side's consent or leave of Court. Lead Counsel developed this plan after a careful review of the Defendants' initial disclosures, and with an eye toward a full, but efficient, prosecution of the case. Defendants opposed such a limit on the number of deposition days, suggesting that many more depositions (on the order of hundreds) should be permitted. At a hearing on November 13, 2003, the Court adopted in large part Lead Counsel's suggestion, and entered its Order of November 14, 2003, which set the parameters of the deposition protocol for the case.[12]

53. Plaintiffs' Counsel undertook enormous efforts to gain a complete understanding of the facts underlying the claims in this case, and to obtain the deposition testimony necessary to fully prepare the case for trial. As part of this effort, Lead Counsel immediately issued forty-three non-party subpoenas for the production of documents to various non-parties to the litigation, and began planning its deposition program. As noted above, Lead Counsel implemented weekly calls with counsel for the Named Plaintiffs and IAs to ensure, to the

[12] In contrast, Lead Counsel are informed that the parties in the Enron litigation will be permitted to take 1,200 depositions – ten times the number allotted in this Acion.

greatest extent possible, a close coordination among all plaintiffs' counsel concerning the selection, preparation and execution of depositions.

54. As noted in the letter of Lead Counsel to the Court of September 17, 2004, Lead Counsel served as the lead examiner in each of the seventy depositions taken jointly by plaintiffs in this Action. Lead Counsel, after consultation with other plaintiffs' counsel, issued ten deposition notices in December 2003 (as soon as the Court allowed such notices to be issued), and thereafter issued eight deposition notices in January 2004, two in February 2004, forty-one in March 2004, ten in April 2004, and seventeen in the remaining months until the discovery deadline of July 9, 2004. Lead Counsel took one deposition in January, eight in February, eight in March, six in April, two in May (before the three-week "hiatus" of discovery issued as a result of the Citigroup Settlement), thirty-three in June, and eight in July. To facilitate scheduling, virtually every deponent was afforded four or more weeks' notice before his or her deposition was scheduled to take place by Plaintiffs.

55. By the time the Memorandum of Agreement was entered into between and among Lead Plaintiff, the Named Plaintiffs and the Citigroup Defendants (May 7, 2004), plaintiffs had taken two dozen depositions, of which fifteen were of witnesses associated with the Citigroup Defendants or underwriters' counsel, and defendants had taken twelve depositions of plaintiffs or their representatives during the class motion phase of the case, and another two depositions of fact discovery witnesses.

3. Responding to Defendants' Attempts to Postpone the Trial

56. Throughout the course of pre-trial proceedings in this case, Defendants have sought to extend these proceedings and postpone the trial of the case. In a series of motions and arguments made to the Court, each of the Defendants – the Citigroup Defendants, the

Underwriter Defendants, and Andersen, most particularly – sought rulings that would have (a) stayed discovery pending resolution of the criminal proceedings against former WorldCom CEO Ebbers, former CFO Sullivan and others; (b) extended the fact discovery deadline pending a completion of the production of documents by WorldCom and KPMG, pursuant to belated subpoenas issued by defendants to those entities; (c) extended the fact discovery deadline pending the availability of witnesses that the USAO anticipated calling at the trial of Sullivan and, thereafter, at the trial of Ebbers; and (d) continued indefinitely the trial of the case. At each turn, Lead Counsel vigorously opposed the motions, with detailed legal and factual submissions, and at argument before the Court.

57. The Court denied each of the defendants' motions to extend the discovery deadline and continue the trial of this case. *See, e.g.*, Orders of March 25, 2004, April 27, 2004. On May 12, 2004, certain of the Defendants filed a petition for mandamus, seeking an immediate review and reversal of the Court's Scheduling Order. Lead Counsel filed its opposition to the mandamus petition on June 21, and the Court of Appeals thereafter denied the petition without argument on July 8, 2003. The rulings obtained as a result of Lead Counsel's efforts in this regard were vital to maintaining the January 10, 2005 trial date established by the Court.

4. Establishment of WorldCom Litigation Website

58. During the spring of 2003, Lead Counsel suggested to the Court, and thereafter established, a comprehensive website for the case. The website was designed to provide an accessible place for Class members, the parties to the case, other interested non-parties and even the Court to view Court rulings, Court-approved Notices, Lead Plaintiff's pleadings, and other documents filed and submitted in this Action and in various related actions.

59. The website, found at www.worldcomlitigation.com, was created and established by April 2003. Since that time, the Court has specifically referred to the website in the Orders of December 12, 2003 and July 16, 2004, as a place for posting Court Orders and the Class Notices. Lead Counsel has further placed on the website pleadings, announcements of developments in the case, the status of the opt out deadline, and the eventual setting of the September 1, 2004 deadline, and now the proof of claim form and other notices to Class members. As noted by many Class members in communications with our two firms, the website has been a tremendous resource for Class members, and an important part of our being able to keep Class members informed of developments in the case. Among other "buttons" on the website's homepage is one entitled "Retainer Agreement," which has permitted Class members to review the terms fo the agreement between Lead Plaintiff and Lead Counsel since early August 2003.

5. Efforts On Behalf of Individual Plaintiffs with Dismissible Claims

60. After the Court issued its opinion of November 21, 2003 that, among other things, described the statute of limitations law application to certain claims asserted in many of the Individual Actions and dismissed the claims pleaded in one Individual Action complaint relating to an August 1998 bond offering by WorldCom and a private placement of WorldCom debt securities conducted in December 2000, see In re WorldCom, Inc. Sec. Litig., 2003 WL

22738546 (S.D.N.Y. Nov. 21, 2003), many of the IA plaintiffs were facing dismissal of some or all of their claims in the round of motions scheduled to follow. Consistent with what it viewed as its obligation to all Class members who had yet to opt out, Lead Plaintiff proposed a means for IA plaintiffs with "dismissible" claims to retain the opportunity to participate in any potential recovery that the Class might obtain on similar claims (namely, the Securities Act claims pertaining to the Offerings). Specifically, Lead Plaintiff proposed that IA plaintiffs with dismissible claims be permitted to move to dismiss their cases voluntarily pursuant to Rule 41(a), on condition that they not later seek to opt out of the Class. The Underwriter Defendants opposed this proposal. The Court approved Lead Plaintiff's proposal.

61. Prior to the September 1, 2004 opt out deadline, approximately forty IA Plaintiffs filed Rule 41(a) motions (all of which were granted) and thereby will be able to participate in this Settlement and any other recoveries that may be achieved for the Class.

6. Expert and Other Pre-Trial Work

62. Pursuant to a schedule adopted by the Court, fact discovery in the Action was concluded on July 9, 2004, and trial is set to begin on January 10, 2005. On August 20, 2004, Plaintiffs moved for summary judgment as to liability against the Underwriter Defendants, Andersen and Roberts on the Securities Act claims based on the 2000 and 2001 Offerings. On that same date, the Underwriter Defendants, Andersen and Roberts moved for summary judgment on various claims asserted against them.[13] Plaintiffs' summary judgment papers included a memorandum of law, a Local Rule 56.1 Statement, and an affidavit that included a volume of exhibits, including the initial report of the Plaintiffs' accounting and auditing expert, Harris L. Devor.

[13] The schedule for summary judgment motions for the remaining Director Defendants is presently suspended.

63. On September 17, 2004, Plaintiffs responded to the Defendants' summary judgment motions, and the Underwriter Defendants, Arthur Andersen and Roberts responded to Plaintiffs' motion. These submissions, prepared by Lead Counsel, including memoranda of law in opposition to each of the summary judgment motions (99 pages with respect to the Underwriter Defendants' motion; 84 pages for the Andersen motion; and 34 pages for the Roberts motion); Responses to the Local Rule 56.1 Statements of each of the moving parties; and Declarations of counsel, to which we appended multi-volume sets of exhibits, again including certain expert and rebuttal expert reports, including the report of former senior investment banker James F. Miller.

64. The deadline for filing reply briefs in further support of summary judgment motions is October 1, 2004.

65. Lead Counsel also worked extensively with experts and consultants in connection with the class motion, in preparing for and taking depositions, and in further preparing the case for trial. The expert reports submitted to date include: Declaration of Frank Torchio, of Forensic Economics (market analysis and fraud on the market report submitted in support of Lead Plaintiff's motion for class certification); Expert Report and Rebuttal Report of Harris L. Devor (Plaintiffs' accounting and auditing expert); Expert Report and Rebuttal Report of Blaine S. Nye (Plaintiffs' damages expert); Expert Report of James F. Miller (Plaintiffs' expert in investment banking and due diligence); and Expert Report of John R. Bise (Plaintiffs' telecom industry expert). Lead Counsel is hesitant to explain in any great detail the scope of its work with experts while the case is continuing against the non-settling defendants, but the extent of Lead Counsel's work with experts can be seen, at least to some extent, by the various expert reports served on August 20 and September 17, 2004, in support of the Plaintiffs' case, as well as the expert report

submitted in connection with the class proceedings during the summer of 2003. As described below, Lead Counsel further worked with Forensic Economics in conjunction with the settlement negotiation process with the Citigroup Defendants (described below) from November 2003 through May 2004.

7. Communications with the Government and the Examiner

66. Since the NYSCRF's appointment as Lead Plaintiff, Lead Counsel have had extensive contact with representatives from various Government agencies (including the SEC, the USAO, the Federal Bureau of Investigation ("FBI"), and the New York Attorney General's Office ("NYAG")), as well as the office of bankruptcy examiner Dick Thornburgh ("Examiner"). In light of our continuing prosecution against the remaining defendants in this case, as well as ongoing criminal and civil proceedings elsewhere, it would not be prudent to describe those contacts in detail at this juncture. Speaking broadly, and without suggesting that each of the following matters were discussed with each of the aforementioned entities, these discussions included:

a. extensive coordination to ensure that Lead Plaintiff's prosecution of this Class Action did not interfere with ongoing law enforcement efforts;

b. sharing fruits of Lead Plaintiff's investigative efforts, including documents and leads on potential witnesses; and

c. emphasizing to pertinent government authorities that the Class was comprised of victims of a fraud, whose interests would be adversely affected by any motion to stay the Class Action that might be brought by the Government.

67. One of the most important steps that Lead Counsel believes it took was establishing early on a procedure whereby we ensured that the USAO would not object to the

witnesses we planned to depose. Typically, after a Monday afternoon call in which the next slate of deponents had been identified, Lead Counsel would advise the USAO of the witnesses we planned to notice, and abstain from serving the deposition notices until the Office had at least one day to get back to us with any concerns. Among other things, we believed that proceeding in this manner avoided needless confrontation with the USAO, and avoided the possible compromise of the Government's investigation that might occur if a notice were publicly issued and an objection then raised. On every occasion on which it was suggested that we consider postponing or foregoing a particular deposition, we did so. In virtually every one of those instances, Lead Counsel and counsel for the Other Cases were able to identify alternative witnesses or await the "release" of such a witness by the USAO before seeking his or her deposition.

68. In December 2002, Lead Counsel met with members of the USAO and FBI investigating the collapse of WorldCom and provided them with certain documents and leads on potential witnesses.

69. Lead Counsel worked extensively, and we believe cooperatively, with the USAO as it and this Court endeavored to find a way in which to protect certain of its potential trial witnesses (the "embargoed witnesses") and yet accommodate the interests of the Court and the parties to this Action in the prompt completion of discovery in this Action.

70. Shortly after filing the Complaint in October 2002, Lead Counsel met with representatives of the NYAG investigating certain alleged misconduct on Wall Street and provided them with certain documents and leads on potential witnesses.

71. One other noteworthy development was the excellent relationship we developed with the Examiner's counsel. In November 2002, shortly after the Complaint was filed, a senior

representative of the Examiner's office and Lead Counsel met to discuss some of the facts first revealed in the Complaint. Lead Counsel provided the Examiner with documents relating to, among other things, the Ebbers-related entities that had received loans from Travelers. Lead Counsel met with the Examiner's team on several occasions, and provided additional documents as well. On at least one occasion Lead Counsel permitted the Examiner to ask questions of two of Lead Counsel's retained consultants. We also agreed to attempt to persuade certain of our confidential sources to speak with the Examiner's investigators. Upon information and belief, Lead Counsel believes that some of these documents and leads provided by Lead Counsel assisted the Examiner in developing some of the facts that were later incorporated into his reports.

72. At no time did any member of the USAO, SEC, FBI, NYAG or Examiner provide Lead Counsel with any information not previously disclosed in a charging instrument or publicly filed report.

Part II - The Settlement with the Citigroup Defendants

73. The process of achieving the Settlement between Lead Plaintiff and the Named Plaintiff, on the one side, and the Citigroup Defendants, on the other side, was a long and arduous one. On November 7, 2002, the Court ordered all of the parties to the Action to commence settlement negotiations under the auspices of Magistrate Judge Michael H. Dolinger. Lead Counsel attended an initial mediation session with Judge Dolinger and counsel for all defendants in December 2002, and thereafter participated in what could be fairly characterized as unfruitful discussions. Nonetheless, Lead Plaintiff asked some of the various experts and consultants it had retained in connection with the Action to develop information relevant to the settlement negotiations. These included experts and consultants in the fields of auditing and

accounting issues, investment banking and due diligence, analyst research reports and valuations, and damages.

74. In September 2003, the subject of renewed settlement discussions was again raised by the Court. On September 22, the Court directed that the parties should continue settlement negotiations under the supervision of District Judge Robert W. Sweet and Magistrate Judge Dolinger (the "Settlement Judges"). Pursuant to the Court's directives, Lead Counsel, on behalf of Lead Plaintiff and the Named Plaintiffs, and counsel for certain Defendants entered into negotiations under the supervision of the Settlement Judges. These discussions were arduous and lengthy but, with regard to the Citigroup Defendants, ultimately successful.

75. Forensic Economics was specifically retained, in connection with the settlement discussions, to provide an estimate of the Class's damages. They performed research concerning WorldCom, including public statements made by or about WorldCom during the Class Period, as well as the market's reaction to such statements and to other public revelations about the Company. Based on this information, and on models of securities trading, Forensic Economics performed various preliminary damage analyses. These analyses assisted Lead Plaintiff and Lead Counsel during the settlement negotiations. The estimates of the damages described in the Notice were calculated by Forensic Economics.

76. Lead Counsel, sometimes by itself and sometimes along with counsel for the Named Plaintiffs, also participated in numerous sessions with counsel for the Citigroup Defendants, and attended a number of sessions with counsel for the Citigroup Defendants under the direct supervision of the Settlement Judges.

77. On the morning of May 6, 2004 (just two business days before the Court of Appeals' argument on the class ruling appeal of the Citigroup Defendants), Lead Counsel and

counsel for the Named Plaintiffs met with counsel for the Citigroup Defendants under the supervision of the Settlement Judges, during which time the Parties made sufficient progress to continue the conference with the principals of Lead Plaintiff and the Citigroup Defendants – Comptroller Hevesi, accompanied by his general counsel, Mr. Lebowitz, and Citigroup Chief Executive Officer Charles O. Prince, accompanied by in-house counsel. These discussions were also undertaken by, and under the supervision of, the Settlement Judges. Throughout the course of the settlement process, the negotiations were undertaken in an arm's- length fashion, between and among experienced counsel, on behalf of well-informed Plaintiffs and Defendants. As a result of the extensive and arduous discussions between the parties, many of which took place under the direct supervision of the Settlement Judges, a "handshake" deal between Comptroller Hevesi, and Mr. Prince was achieved late in the afternoon of May 6.

78. Lead Plaintiff, the Named Plaintiffs and the Citigroup Defendants signed a Memorandum of Agreement on May 7, 2004 (the "Agreement"), a copy of which is attached hereto as Exhibit 2. The Agreement memorialized the settlement that Lead Plaintiff, the Named Plaintiffs and the Citigroup Defendants had reached the day before, which provided for a resolution of all claims of the Plaintiffs and Class Members against the Citigroup Defendants in this Action, and a dismissal of the Salomon WorldCom Analyst Litigation pending before Judge Lynch.

79. The announcement of the Settlement received significant media attention in both the general press and business press. It was reported immediately on all of the business newswire services, and thereafter in newspapers ranging from *The Wall Street Journal* and *The New York Times* to nearly every newspaper in the country to pick up either AP Newswire, Reuters or other national news services. Comptroller Hevesi, accompanied at his request by

former Comptroller McCall (who had been the Comptroller at the time NYSCRF sought appointment as Lead Plaintif) and by the two of us, spoke at a news conference the morning of May 10, 2004, and further called upon us to speak publicly concerning the Settlement as well as answer various questions raised at the news conference. An editorial in *The New York Times* on May 12 termed the Settlement Amount a "staggering" figure.

80. Immediately upon the signing of the Agreement and approval of the Agreement by the Citigroup Board of Directors, Lead Counsel and counsel for the Citigroup Defendants sought, and obtained, a postponement of the argument that was scheduled to take place before the Court of Appeals on the Citigroup Defendants' class appeal. Lead Counsel and counsel for the Citigroup Defendants also immediately informed this Court of the Agreement and, by letter of May 10, 2004, proposed a three-week "hiatus" in the on-going litigation to facilitate the realignment of certain responsibilities among counsel, as well as potential additional settlement discussions. Lead Counsel, along with counsel for the Citigroup Defendants, other Defendants, and certain IA Plaintiffs, attended a hearing before the Court on May 11, 2004, at which the Court granted Lead Counsel's request for the three week hiatus. Lead Counsel thereafter responded to certain demands made for discovery by Defendants during the three-week hiatus period, both during telephonic meet and confers and in letters to other counsel and the Court, and participate in a Court hearing on May 17, 2004, concerning certain discovery sought by Andersen during the hiatus period.

81. Lead Counsel also undertook the process of preparing, discussing and finalizing the Stipulation and Agreement of Settlement ("Stipulation") and thereafter sharing and discussing with other counsel, presenting to the Court, and undertaking further changes to the many exhibits to the Stipulation. Lead Plaintiff and the Named Plaintiffs were provided with

drafts of all such papers, and approved them being submitted to the Court, as submitted by letters of July 1, July 13, and July 15, 2004. Lead Counsel held extensive sessions with counsel for the Citigroup Defendants in this regard, and further discussed and revised the proposed Bar Order based on discussions with counsel for certain of the other defendants.

A. The Settlement

82. The Settlement is the second largest in the history of United States securities class actions, second only to the $3.2 billion that the lead plaintiffs (including NYSCRF), represented by our two firms, achieved in the *Cendant* class action case through settlements reached with Cendant Corporation and certain of its executives and board members ($2.85 billion) and from a corporate predecessor's outside accounting firm, Ernst & Young ($335 million). The Settlement is by far the largest ever achieved from entities that were not issuers of the securities involved in the case. And this is only a partial settlement. Plaintiffs are continuing to pursue claims of the Class against all non-settling Defendants.

83. The Settlement provides that the Citigroup Defendants will pay $2,650,000,000 or, if lower, the sum of the portions of the Settlement Amounts allocated to members of the Class as computed under paragraph 12(i), (ii), and (iii) of the Notice, plus interest at the rate earned by six-month U.S. Treasury Bills beginning forty-five days after the Court grants preliminary approval of the Settlement, until the Settlement is granted Final Approval and no longer subject to appeals. A copy of the Notice is attached as Exhibit 3. The Settlement was granted preliminary approval by Court Order of July 16, 2004. As a result, interest began accruing on the Settlement Amount on September 3, 2004.

84. Under the terms of the Settlement, the Settlement Amount is $2.65 billion in cash; except that: (i) that portion of the Settlement Amount allocated to members of the Class who

purchased shares of WorldCom stock (*see* Section entitled "Plan of Allocation" below) will be reduced by X% — with "X" equal to the sum total of the number of shares of common stock held by Class members who opt out of the Class (the "Stock Opt-Outs"), expressed as a percentage of the number of shares of all publicly held common stock of WorldCom outstanding net of shares held by WorldCom insiders as of June 25, 2002, as reported on WorldCom's most recent report to the Securities and Exchange Commission as of June 25, 2002, minus one and one-half (1½%) percent; provided that, in the foregoing equation, if "X" is a negative number, "X" shall be deemed to be zero (0); (ii) that portion of the Settlement Amount allocated to members of the Class who purchased May 2000 WorldCom notes will be reduced by Y% — with "Y" equal to the sum total of the face value of all May 2000 notes held by Class members who opt out of the Class (the "May 2000 Debt Opt-Outs"), expressed as a percentage of the total face value of all May 2000 notes issued pursuant to the May 2000 offering and not redeemed, minus an amount equal to one and one-half (1½%) percent of the total face value of all May 2000 notes issued by WorldCom pursuant to the May 2000 Offering; provided that in the foregoing equation, if "Y" is a negative number, "Y" shall be deemed to be zero (0); and (iii) that portion of the Settlement Amount allocated to members of the Class who purchased May 2001 WorldCom notes will be reduced by Z% — with "Z" equal to the sum total of the face value of all May 2001 notes held by Class members who opt out of the Class (the "May 2001 Debt Opt-Outs"), expressed as a percentage of the total face value of all May 2001 notes issued pursuant to the May 2001 offering, minus an amount equal to one and one-half (1½%) percent of the total face value of all May 2001 notes issued by WorldCom pursuant to the May 2001 Offering; provided that, in the foregoing equation, if "Z" is a negative number, "Z" shall be deemed to be zero (0). For purposes of the calculations provided for in this paragraph, the WorldCom security

holdings of certain investors that had filed individual cases as of the date of the Stipulation, and who opt out of the Class, are excluded. The parties have not, at this point, determined whether any of the above conditions apply and, therefore, whether there is any reduction in the Settlement Amount.

85. The entire Settlement Amount (after deduction of Court-approved costs, expenses and attorneys' fees), plus interest, will be distributed to Class Members who timely submit valid Proofs of Claim (as described below in the Notice at paragraph 28). There will not be any reversion to the Citigroup Defendants of any portion of the Settlement Amount.

86. The Settlement is conditioned on the Court entering a Bar Order against any claims that other Non-Settling Entities/Individuals (defined to include all the other Defendants in the Action together with any of their foreign affiliates through which May 2001 notes were distributed), or any other person or entity later named as a defendant in the Action may assert against the Citigroup Defendants. A Bar Order is a standard provision for partial settlements of class actions because it allows a settling party to pay once for the claims asserted against it on behalf of Class members and bars any further litigation of claims that could be made against the settling party by any non-settling defendants stemming from their potential liability to the Class. Lead Plaintiff, through Lead Counsel, negotiated a form of the Bar Order with counsel for certain non-settling defendants, and believes that the Bar Order in paragraph 13 of the form of Judgment submitted to the Court on July 13, 2004, accurately states the law in this Circuit and is acceptable to Plaintiffs, the Citigroup Defendants, and the Non-Settling Defendants.

87. If the Settlement is approved, in consideration for the Settlement Amount to be paid by the Citigroup Defendants, the Court will enter a Judgment that will dismiss with prejudice all of the Class Members' claims against the Citigroup Defendants. The Court will bar

and permanently enjoin Lead Plaintiff and each Class Member, whether or not such Class Member has submitted a Proof of Claim, from prosecuting any Released Claims (as defined in the Notice at paragraph 16), and any such Class Member shall be conclusively deemed to have fully, finally and forever released, relinquished and discharged any and all such Released Claims.

88. Each Class Member shall release all "Released Claims," which includes, with respect to the Citigroup Releasees, defined below, the release by Lead Plaintiff, the Named Plaintiffs and all Class Members of all claims of every nature and description, known and unknown, arising out of or relating to investments (including, but not limited to, purchases, sales, exercises, and decisions to hold) in securities issued by WorldCom, and/or in options or derivative instruments based in whole or in part on the value of securities issued by WorldCom (including Targeted Growth Enhanced Terms Securities with respect to MCI WorldCom, Inc. and GOALs issued by UBS AG), including without limitation all claims arising out of or relating to any analyst research reports or other statements made or issued by the Citigroup Defendants concerning WorldCom, any disclosures, registration statements or other statements by WorldCom, as well as all claims asserted by or that could have been asserted by Plaintiffs or any member of the Class in the Action against the Citigroup Releasees, as defined below. Provided, however, that the "Released Claims" described in this paragraph do not operate to preclude any Class Member or Authorized Claimant from making any claim with respect to any funds made available as a result of the WorldCom bankruptcy, WorldCom's settlement with the Securities and Exchange Commission, or any other regulatory agency fund. Moreover, nothing in the proposed Settlement or its approval is intended to, or would release any claims asserted by the Class against any Non-Settling Entity/Individual.

89. The Citigroup Releasees means the Citigroup Defendants, their respective present and former parents, subsidiaries, divisions and affiliates, the present and former employees, officers and directors of each of them, the present and former attorneys, accountants, insurers, and agents of each of them, and the predecessors, heirs, successors and assigns of each (together, the "Citigroup Releasees"), and any person or entity which is or was related to or affiliated with any Citigroup Releasee or in which any Citigroup Releasee has or had a controlling interest and the present and former employees, officers and directors, attorneys, accountants, insurers, and agents of each of them. However, the term "Citigroup Releasees" shall not include any Non-Settling Entity/Individual.

90. The Class that will be bound by the judgment is identical to that certified by the Court by Order dated October 24, 2003, namely, all purchasers or acquirers of publicly traded securities of WorldCom during the period from April 29, 1999 through and including June 25, 2002 (the "Class Period"), and who were injured thereby. The Class consists of all persons who purchased or otherwise acquired publicly traded securities of WorldCom, Inc. ("WorldCom"), during the Class Period, and who were injured thereby, excluding the defendants in the Action, members of the families of the individual defendants in the Action, any entity in which any defendant in the Action has a controlling interest, officers and directors of WorldCom and its subsidiaries and affiliates, and the legal representatives, heirs, successors or assigns of any such excluded party. The Class includes persons or entities who acquired shares of WorldCom common stock by any method, including but not limited to in the secondary market, in exchange for shares of acquired companies pursuant to a registration statement, or through the exercise of options including options acquired pursuant to employee stock plans, and persons or entities who

acquired debt securities of WorldCom in the secondary market or pursuant to a registration statement, and who were injured thereby.

B. The Risks and Other Factors Considered in Reaching the Settlement

91. Because the case is continuing against Defendants other than the Citigroup Defendants, Lead Counsel is reluctant to describe in detail the risks and other factors that were considered by Lead Plaintiff, the Named Plaintiffs, Lead Counsel and counsel for the Named Plaintiffs before agreeing to the settle the claims of the Class for the Settlement Amount. However, in order to present the Settlement to the members of the Class for their consideration, the Notice accurately described many of the risks and other factors that Lead Plaintiff, Named Plaintiffs, Lead Counsel and counsel for the Named Plaintiffs considered in reaching the conclusion that the Settlement provides an excellent recovery for the Class, and that it should be recommended to the Court for approval.

92. While the Notice described the myriad risks confronting Plaintiffs, four factors deserve some special mention here. First, the Citigroup Defendants – like the Underwriter Defendants – vigorously contended that they could not and would not be held liable by a jury for the misstatements asserted by Plaintiffs concerning the Registration Statements for the 2000 and 2001 Offerings because they had conducted due diligence in accordance with all SEC guidelines and in accord with the standard in the industry, and were entitled to rely on the accuracy of the Company's financial statements as audited by Andersen and pursuant to "comfort letters" obtained from Andersen for each offering. Second, the Citigroup Defendants vigorously contended that they did not know, and could not have known, of the fraud involving WorldCom's financial statements, and that Plaintiffs could not prove scienter with respect to the Section 10(b) claims against Salomon and Grubman. Third, the PSLRA provides for the jury in

a federal securities action such as this to attribute relative fault among defendants in cases brought under Section 10(b). While Lead Plaintiff and our firms were confident that we would be able to prove our case against the Citigroup Defendants as to liability, we also recognized that there was a considerable risk that the jury might attribute a relatively small percentage of liability to the Citigroup Defendants compared to other Defendants in the case, as well as the WorldCom entity itself. Fourth, while we were confident that we could sustain the class ruling made by the Court on appeal to the Court of Appeals, the fact that the Citigroup Defendants' Rule 23(f) motion for an immediate appeal of the class ruling had been granted was a significant development, and one that was carefully considered during the negotiations as the Court of Appeals' argument date of May 10, 2004 approached. Indeed, as the opinion ultimately issued after the Parties had agreed to settle showed, there were significant issues of first impression that may have led the Court of Appeals to overturn and/or send back for further proceedings this Court's class ruling with respect to the Grubman research reports. On top of all this, the Citigroup Defendants consistently denied in the litigation, and during settlement negotiations, that they are liable to the Plaintiffs or the Class on their claims relating to WorldCom common stock and denied that Plaintiffs or the Class have suffered any damages attributable to the Citigroup Defendants relating to plaintiffs' investments in WorldCom common stock.

C. Reasons for the Settlement

93. As stated in the Notice, Lead Plaintiff and the Named Plaintiffs strongly endorse this Settlement and recommend that it be approved. See Declaration of Alan P. Lebowitz (Exhibit 4 hereto). Lead Plaintiff decided to accept the Settlement after consultation with Lead Counsel and the experts retained to assist them, and after Lead Counsel's extensive investigation

of the millions of pages of documents, and numerous depositions, provided to Lead Plaintiff in discovery.

94. Lead Plaintiff and the Named Plaintiffs believe that the Settlement is fair, reasonable and adequate, and in the best interests of the Class considering the amount of the Settlement, the percentage of damages recovered, the immediacy of recovery to the Class, the defenses asserted by the Citigroup Defendants in the Action, the appeal that was pending concerning the Class certification ruling, and the claims remaining in the case against the Non-Settling Defendants. Plaintiffs further recognize and acknowledge the expense and length of continued proceedings necessary to prosecute the Action against the Citigroup Defendants through trial and appeals, and have also considered the uncertain outcome and the risk of any further litigation, especially in a complex action such as this Action, as well as the difficulties inherent in any such litigation. Plaintiffs are also mindful of the inherent problems of proof and possible defenses to the federal securities law violations asserted against the Citigroup Defendants. Lead Counsel and counsel for the Named Plaintiffs share this assessment that the Settlement is fair, reasonable and adequate, and in the best interests of the Class.

95. Lead Plaintiff and the Named Plaintiffs considered a variety of factors in negotiating and deciding to accept the Settlement, and to recommend it to the Court. As stated in the Notice of the proposed Settlement, these factors include that:

a. This is, by itself, the second largest securities class action settlement in United States history, and the largest by far with respect to entities that were not the issuers of the subject securities.

b. The Settlement is all cash, and includes interest earned on the Settlement Amount starting forty-five days after the Court granted preliminary approval of the Settlement, and continuing through the date the Settlement Amount is paid, with interest. Further, based on Lead Counsel's experience and survey of claims administrators, it is reasonable to assume that 25-30% of potential claimants will not file claims for a distribution from the Settlement Fund, so the actual distribution may be an even greater

percentage of recoverable damages than the figures noted in the Summary section of this Notice.

c. The risks involved in succeeding at trial against the Citigroup Defendants are significant. The Citigroup Defendants had asserted due diligence defenses with respect to the bonds issued by WorldCom in May 2000 and May 2001; they had asserted that Plaintiffs would not have been able to demonstrate the Citigroup's Defendants' knowing or reckless conduct with respect to statements they made during the Class Period; they had challenged the Plaintiffs' damages theories, and asserted that, in any event, the Citigroup Defendants' conduct was not the cause of WorldCom's stock and bond price declines or the losses of Class Members; they had successfully sought immediate appeal from the Court's class certification ruling with respect to certain claims against the Citigroup Defendants; and they had challenged whether Plaintiffs would have to, and would be able to prove any reliance of the Class Members with respect to the analyst reports they issued. Moreover, with respect to the fraud claims asserted by Plaintiffs against the Citigroup Defendants, the PSLRA's proportionate liability requirements, under which a defendant may be obligated to pay only for the portion of damages that defendant is held responsible for, may have placed a high proportion of liability on other defendants and non-parties such as WorldCom and its officers, a number of whom have pled guilty to fraud, and a correspondingly small proportion of liability on the Citigroup Defendants.

96. Lead Plaintiff NYSCRF – the second largest public pension fund in the United States – which lost over $300 million as a result of investments in WorldCom securities, and the three Named Plaintiffs, each of whom suffered significant losses based on their purchases of WorldCom bonds, were instrumental in negotiating the Settlement, along with Lead Counsel and counsel for the Named Plaintiffs. Significantly, the Named Plaintiffs and their counsel support both the Settlement and proposed Plan of Allocation, described in Part III below, for allocating the Settlement proceeds among Class Members. Further, the settlement negotiations were conducted under the supervision of a senior federal court judge and federal court magistrate judge. As stated by the Settlement Judges:

Statement by the Mediators

Pursuant to appointment by the Honorable Denise L. Cote, United States District Judge, we have presided over the extensive negotiations between the Parties that led to this Agreement. We can state based on our discussions with the Parties and the information made available to us, that this Settlement was negotiated in good faith and the Settlement and the allocation between the Securities Act and Exchange Act claims are in the public interest.

Robert W. Sweet, U.S.D.J. Michael H. Dolinger, U.S.M.J.

D. The Notice

97. The Court granted preliminary approval of the Settlement and approved, *inter alia*, the Notice to be sent to all potential Class members by Hearing Order of July 16, 2004. In accord with the Hearing Order, beginning on August 2, 2004, the Notice (Exhibit 3 hereto) was sent to inform all potential Class members of the Settlement with the Citigroup Defendants for $2,650,000,000 in cash, plus interest, as more fully described above. *See* Affidavit of Shandarese Garr, submitted to Court on September 14, 2004, attached hereto without its exhibits as Exhibit 5. The Notice explained that if approved, the Settlement will resolve all of the claims of Class Members against the Citigroup Defendants in the Action completely and with prejudice, and that all of the claims Class Members filed or that could have filed against the Citigroup Defendants will be released against the Citigroup Defendants, and others, as identified in the section entitled "Release." The Notice further made clear that no claims will be released against any of the remaining defendants in the action, including the sixteen remaining Underwriter Defendants, Arthur Andersen LLP, and certain former officers and directors of WorldCom.

98. The Notice made explicit that if a person is a member of the Class and wishes to pursue an arbitration or an individual lawsuit against Citigroup Defendants or any of the parties identified in paragraph 17 of the Notice as the Citigroup Releasees, they must opt out of the

Class, and that the mere filing of an arbitration or an individual lawsuit does not operate as an exclusion from the Class.

99. The Notice further stated that a hearing (the "Settlement Hearing") will be held on November 5, 2004, at 2:00 p.m. before the Hon. Denise Cote in the United States District Court for the Southern District of New York, Daniel Patrick Moynihan United States Courthouse, 500 Pearl Street, Courtroom 11-B, New York, New York 10007. It stated that at the Hearing, the Court will consider (i) the fairness, reasonableness and adequacy of the proposed settlement; (ii) the fairness and reasonableness of the proposed Plan of Allocation; and (iii) the application by Lead Counsel for an award of attorneys' fees and reimbursement of expenses.

100. The Notice further described, *inter alia,* that the deadline for persons to exclude themselves from the Class was set for September 1, 2004 (as was the deadline for persons who had earlier filed exclusion requests to seek to re-join the Class) and the various defenses raised by the Citigroup Defendants, as follows:

> The defenses raised by the Citigroup Defendants, their denial of the allegations asserted in the Complaint, and their belief that the evidence would demonstrate, among other things, that: (i) the Citigroup Defendants relied on the integrity of WorldCom's financial statements and had no knowledge of or involvement in any fraud by WorldCom management; (ii) the Citigroup Defendants did not make any false or misleading statement concerning WorldCom; (iii) all research reports issued by the Citigroup Defendants concerning WorldCom had a good faith and reasonable basis; (iv) the Citigroup Defendants conducted appropriate due diligence in connection with the issuance by WorldCom of bonds in May 2000 and May 2001; (v) the research reports issued by the Citigroup Defendants during the Class Period did not cause any damages to the Class; and (vi) WorldCom's stock price decline was due to a combination of market forces that impacted the entire telecommunications industry and the revelation of the fraud by WorldCom executives, not by any conduct of the Citigroup Defendants.

101. The Notice also noted that since the summer of 2002, Lead Plaintiff, through Lead Counsel, conducted extensive pretrial discovery, and thoroughly analyzed the facts and

claims in the Action against the Citigroup Defendants. It summarized many of the actions taken by Lead Counsel, assisted by the Assisting Firms, described in Part I, above.

102. The Notice further stated that any Class Member or Defendant in the Action may appear at the Settlement Hearing and be heard on any of the foregoing matters, provided that no such person will be heard, unless his, her or its objection or opposition is made in writing and filed with the Court and served for *receipt* by either of the Lead Counsel no later than October 8, 2004. Although recognizing that the time for objections has not yet run, to date, Lead Counsel has not received any objection to the Settlement, plan of allocation or fee request.

103. The Notice further noted that Lead Plaintiff retained the services of various experts and consultants in connection with the Action, including experts and consultants in the fields of auditing and accounting issues, investment banking and due diligence, analyst research reports and valuations, and damages, and the services that Forensic Economics provided in connection with the settlement discussions, as stated above.

Part III - Plan of Allocation

104. The Stipulation provides for an allocation of the Settlement Fund for which the Parties are also seeking Court approval. The Plan of Allocation provides that the Net Settlement Fund shall be allocated to members of the Class according to a Plan of Allocation as follows: (i) 12.65% of the Net Settlement Fund to claims asserted under the Securities Act by purchasers of debt securities offered by WorldCom in May 2000; (ii) 42.35% of the Net Settlement Fund to claims asserted under the Securities Act by purchasers of debt securities offered by WorldCom in May 2001; and (iii) 45% of the Net Settlement Fund to claims asserted under the Exchange Act by class members who, during the Class Period, purchased (a) WorldCom common stock and/or

(b) publicly-traded debt securities issued by WorldCom prior to the beginning of the Class Period.

105. Based on the Plan of Allocation proposed by Lead Plaintiff and the Named Plaintiffs, if the full amount of the Settlement Amount is paid after conducting the relevant calculations and discussions pertaining to the level of opt outs in each category of the Settlement, the amounts allocated to categories described would mean that approximately $335 million (less Court allowed fees and expenses) would go to Class member purchasers of WorldCom bonds issued in the May 2000 offering; approximately $1.1225 billion (less Court allowed fees and expenses) would go to Class member purchasers of WorldCom bonds issued in the May 2001 offering; and approximately $1.1925 million (less Court allowed fees and expenses) would go to Class member purchasers of WorldCom stock and other publicly traded securities during the Class Period.

106. Lead Plaintiff and the Named Plaintiffs strongly endorse the proposed plan of allocation and seek its approval by the Court. Again, while the litigation is continuing against the non-settling defendants, Plaintiffs are hesitant to disclose, in any great detail, the factors that led Lead Plaintiff and the Named Plaintiffs to propose and support the plan of allocation described in the Stipulation. However, it is fair to say that in determining what Lead Plaintiff and the Named Plaintiffs believe to be a fair and reasonable plan of allocation, they considered, *inter alia,* damages analyses with respect to claims asserted on behalf of Class members pertaining to the 2000 and 2001 Offerings, as well as other securities for which Plaintiffs assert only claims under the Exchange Act; factors bearing on the possibility of success on the merits of Plaintiffs' claims with respect to the claims; and factors bearing on the ability to maintain a

Class with respect to the Exchange Act claims against the Citigroup Defendants; and advice of counsel.

107. Lead Counsel and counsel for the Named Plaintiffs concur that the plan of allocation is fair and reasonable to the members of the Class, and that it should be approved.

108. As stated in the Notice, Lead Plaintiff anticipates submitting to the Court (with notice to Class Members as the Court deems appropriate) at a future time, before distribution of the Settlement Fund, a proposed Supplemental Plan of Allocation in accordance with the Plan of Allocation described in this Notice, as approved by the Court. The Supplemental Plan of Allocation, as approved by the Court, shall determine how each portion of the Settlement proceeds shall be allocated to the respective members of the Class set forth in paragraph 21 above.

Part IV – The Application for Attorneys' Fees and Reimbursement of Expenses

109. In addition to seeking final approval of the Settlement and plan of allocation, Lead Counsel is also applying to the Court for a collective award of attorneys' fees and payment of costs and expenses.

110. The fee application is being submitted by Lead Counsel with the prior approval of Lead Plaintiff and is, in all respects, in accordance with the July 30, 2003 Retainer Agreement entered into by Lead Plaintiff and Lead Counsel. The Retainer Agreement (Exhibit 1 hereto) was described in the Notice of Class Action sent to all potential Class members beginning on December 11, 2003, and has been available for viewing in its entirety on the web site, www.worldcomlitigation.com, since early August 2003.

111. Under the Retainer Agreement, Lead Counsel agreed to undertake this litigation on an entirely contingent basis, meaning that Lead Counsel would not be compensated at all, or

reimbursed for any expenses they incur on behalf of the Class, unless there is a recovery achieved for the Class. Lead Counsel further agreed that, as set forth within the terms and conditions of the Retainer Agreement, any such fee application would be in accordance with the fee grid and other provisions of the Retainer Agreement. Counsel for the Named Plaintiffs and all other firms that have been authorized by Lead Plaintiff and the Court to assist in the prosecution of this Action, have agreed to be bound by the provisions of the Retainer Agreement, and not to seek any additional fee or expenses that are not included within Lead Counsel's fee application.

112. Consistent with the terms of the Retainer Agreement, Lead Counsel provided, on a quarterly basis, time and expense reports to Lead Plaintiff, which summarized the time and expenses incurred in the case on a quarterly basis and cumulatively from the inception of the case through the end of the most recent quarter. Lead Counsel also furnished to Lead Plaintiff, as requested, detailed time records of the Lead Counsel firms and back-up documentation for expenses incurred by Plaintiffs' Counsel, including those paid through the Litigation Fund established by Lead Counsel with assessments paid by our two firms, counsel for the Named Plaintiffs, and the six approved Assisting Firms. Lead Plaintiff reviewed and sought explanations for certain items in the reports, and further verified with Lead Counsel that we are only seeking reimbursement for the type of expenses allowed in the Retainer Agreement and at the reimbursement levels allowed in the Retainer Agreement.

113. Consistent with the Retainer Agreement, Lead Counsel, on behalf of all Plaintiffs' Counsel, is applying for fees of $144.5 million, which constitutes 5.45 percent of the Settlement Fund, together with interest at the same rate as earned by the Settlement Fund. The fee sought is well below the 20-33% that is customarily sought in federal securities law class actions. Lead

Counsel has agreed that if there is any reduction in the Settlement Amount, based on the holdings of persons who timely requested to be excluded from the Class Moreover, Lead Counsel will reduce the amount of the fee request in accordance with the fee grid in the Retainer Agreement. As set forth below, the fee requested represents a multiplier of approximately 2.82, which is well within the range of risk multipliers routinely approved by Courts in securities fraud class actions.

114. The Retainer Agreement provides a fee grid that Lead Plaintiff and Lead Counsel agreed reflects a fee that is presumptively fair, adequate and reasonable. It was negotiated after a great deal of litigation had already occurred in the case, and after many significant developments that made the contours of the case clearer. Among other things, the Retainer Agreement was negotiated after the motions to dismiss and to sever certain claims against the Citigroup Defendants had been decided. It was also negotiated in view of the fact that neither the SEC, USAO, nor the Examiner had brought any claims against any of the defendants in the case other than former executives of WorldCom, meaning that no claims had been filed by that time (or have been filed since) by such regulatory and governmental authorities against the Citigroup Defendants, the Underwriter Defendants, Andersen or the Director Defendants relating to WorldCom. Indeed, the Examiner's final report specifically stated at page 204 that he had "discovered no data that suggest that Mr. Grubman did not believe what he stated about WorldCom."

115. The Retainer Agreement provides that, in the event of a total recovery in an amount in excess of $500 million, the fee requested would not exceed the lesser of the amount calculated pursuant to the fee grid or five times the collective lodestar of Lead Counsel and other firms authorized by the Lead Plaintiff and the Court to assist in the prosecution of this Action

("Collective Lodestar"), and further that Lead Plaintiff, in its reasonable discretion and based on factors generally considered by courts in awarding counsel fees in class actions, could adjust the fee downward to no less than four times the Collective Lodestar.

116. Respectfully, the work undertaken by Lead Counsel and the Assisting Firms in prosecuting this case and arriving at this settlement has been quite challenging. Many lawyers worked seven days a week and long hours, virtually full time, for over two years to accomplish this result. Although dictated by a pace that Lead Plaintiff actively solicited, there was little room in their lives for anything other than working on this case. Thus, as of June 30, 2004, the Collective Lodestar was $51.2 million, which represents over 172,000 hours of work devoted to this case. *See* WorldCom Securities Litigation, Summary of Time and Expenses, attached as Exhibit 6 hereto. As stated, the fee request constitutes less than a three times multiple of the Collective Lodestar.

117. Our two firms have maintained daily control and monitoring of all of the work provided by lawyers at our two firms on this case, and further reviewed the work and time records of lawyers from the Assisting Firms on this case. Lead Counsel utilized project associates, when appropriate, to undertake the massive job of reviewing, in the first instance, a large bulk of the documents produced in this case. Although we have each personally devoted most of our time to this case over the past two years, we have also utilized other experienced attorneys at our firms to undertake or work with us on particular tasks appropriate to their levels of expertise, skill and experience (for instance, negotiations with defendants; writing briefs; working with experts; preparing witnesses; taking and attending depositions; settlement mediation; and the like), and more junior attorneys and paralegals to work on matters more

appropriate to their experience levels. We have also required the Assisting Firms to assign lawyers with experience levels appropriate to the tasks we assigned to them.

118. The fee being requested by Lead Counsel has been approved by Lead Plaintiff. As more fully set forth in Lead Counsel's Memorandum of Law in Support of An Award of Attorney's Fees and Reimbursement of Expenses, we believe the fee request is presumptively reasonable given the Lead Plaintiff's careful monitoring of the work and services provided by Lead Counsel throughout the litigation, and the fee structure set forth in the Retainer Agreement.

119. The fee being requested is also warranted based on the factors set forth in Lead Counsel's accompanying Memorandum of Law and awards in similar "mega-fund" cases. See In re NASDAQ Market-Makers Antitrust Litigation, 187 F.R.D. 465 (S.D.N.Y. 1998) (Sweet, J) (approving fee of $143 million, constituting 14% of the $1.027 billion recovery obtained in that case); Shaw v. Toshiba America Information Systems, Inc., 91 F. Supp.2d 942 (E.D. Tex. 2000) (approving fee of $147.5 million, constituting 14 to 15% of the value of that settlement conservatively valued at $1 billion).

120. The following chart shows that, in cases that have settled for more than $100 million, courts have often awarded fees in the range of 25% of the recovery (copies of the orders can be supplied if the Court requests):

Case	**Recovery**	**Percentage Awarded**
In re Lucent Technologies, Inc Sec. Litig., 327 F. Supp.2d 426 (D.N.J. July 19, 2004)	$517 million	17%
In re DaimlerChrysler AG Sec. Litig., No. 00-0993 (KAJ) (D. Del. Feb. 5, 2004)	$300 million	22.5%
In re Oxford Health Plans, Inc. Sec. Litig., MDL 1222 (S.D.N.Y. June 2003)	$300 million	28%
In re Rite Aid Corp. Sec. Litig.,(Rite Aid II) 269 F. Supp. 2d 603 (E.D. Pa. 2003)	$126 million	25%

Case	Recovery	Percentage Awarded
In re Rite Aid Corp. Sec. Litig., (Rite Aid I) 146 F .Supp. 2d 706 (E.D. Pa. 2001)	$193 million	25%
Informix Corp. Sec. Litig., Master File No. C-97-1289-CRB (N.D. Cal. Nov. 2, 1999)	$132 million	30%
In re Ikon Office Solutions, Inc. Sec. Litig., 194 F.R.D. 166 (E.D. Pa. 2000)	$111 million	30%
In re Prison Realty Sec. Litig., Civil Action No. 3:99-0458, 2001 U.S. Dist. LEXIS 21942 (M.D. Tenn. Feb. 9, 2001)	$104 million	30%
In re Lease Oil Antitrust Litig., 186 F.R.D. 403 (S.D. Tex. 1999)	$190 Million	25%
Kurzweil v. Philip Morris Co., Inc., Nos. 94 Civ. 2373 (MBM), 94 Civ. 2546 (BMB), 1999 WL 1076105 (S.D.N.Y. Nov. 30, 1999)	$123 million	30%
In re Combustion, Inc., 968 F. Supp. 1116 (W.D. La. 1997)	$127 million	36%
In re Sumitomo Copper Litig., 74 F. Supp. 2d 393 (S.D.N.Y. 1999)	$116 million	27.5%
In re Home-Stake Prod. Co. Sec. Litig., MDL No. 153 (N.D. Okla. Jan. 2, 1990)	$185 million	30%
In re Prudential Sec. Inc. Ltd. P'ships Litig., 912 F. Supp. 97 (S.D.N.Y. 1996)	$110 million	27%

Here, in contrast, the fee request is for just 5.45% of the Settlement Amount.

121. Lead Counsel and the Assisting Firms are also seeking reimbursement of expenses incurred in prosecuting this Action. Exhibit 6 hereto summarizes that Lead Counsel and the law firms that assisted in this Action paid $5,258,642 in expenses that were incurred on behalf of the Class in the prosecution of the Action. We believe that such expenses were necessary and appropriate for the successful prosecution and resolution of this Action.

122. For present purposes, however, Lead Counsel is seeking reimbursement for only 80% of the total expenses paid, that is, $4,206,913. The Retainer Agreement requires Lead Counsel to submit reports on a quarterly basis to Lead Plaintiff with the time, lodestar and expenses incurred by Plaintiffs' Counsel. Lead Plaintiff's staff reviews the reports, and seeks

whatever additional information or documentation it believes necessary to evaluate the reports. For purposes of this application, we are utilizing data for the quarter ended June 30, 2004, because that is the last report supplied to Lead Plaintiff.

123. The Retainer Agreement also provides for certain caps on expenses (*e.g.*, caps on hotel charges – which total $208 per night for a Manhattan hotel room – and per diem allowances for out-of-town travel, and a $0.10 per page cap on in-house copying rates). Lead Plaintiff is continuing its review of counsel's reported expenses through June 30, 2004. As a result, Lead Plaintiff and Lead Counsel have agreed that the request for reimbursement of expenses, at this point, will be only for 80% of the counsel's total reported expenses through June 30, 2004, and that a final reimbursement request, with the Court's permission, will be submitted prior to the Hearing on the fee and expense application. Lead Plaintiff and Lead Counsel have further agreed that this request for reimbursement may be modified for additional payments for expenses made by plaintiffs' counsel after June 30, 2004, assuming that such expenses are reviewed and approved by Lead Plaintiff for inclusion in this application.

124. Some of the expenses for which counsel seek reimbursement were paid out of a Litigation Fund contributed to by Lead Counsel and certain of the assisting firms, and maintained by Barrack Rodos & Bacine. A full accounting of the payments to and expenditures by the Litigation Fund is set forth in Exhibit 7 to the Joint Declaration (with redactions to shield payments to plaintiffs' experts and consultants, in view of the on-going litigation with the non-settling defendants). Lead Counsel is prepared to provide any additional documentation requested by the Court.

125. The present application for reimbursement of expenses, which is also being made with Lead Plaintiff's approval, is well within the upper limit of $16 million contained in the

Notice (Exhibit 3 at p.11). This amount includes fees and expenses of the experts and consultants retained by Lead Plaintiff on behalf of the Class, expenses incurred by Lead Counsel and Assisting Counsel (including contributions to the Litigation Fund that was used to pay the bulk of the expenses incurred in the case).

126. The expenses for which reimbursement is being sought were necessary and appropriate for the prosecution of this case. These include charges for deposition and court transcripts; photocopying; payments to experts; computer research devoted to the case; travel costs and meals while traveling out of town; telephone, postal and messenger charges; Federal Express or similar delivery services; actual telecopy and facsimile charges; and the like. Courts have typically found that such expenses are reimbursable from a fund recovered by counsel for the benefit of the Class.

127. Notably, however, the final expense reimbursement request will not cover all expenses incurred by Lead Counsel and the Assisting Firms. Through the Retainer Agreement, Lead Plaintiff set strict limits on what would be reimbursable expenses, including disallowing all first and business class air travel costs; limiting hotel and travel per diems and reimbursement of meals; and requiring in-house photocopying to be billed at no more than $0.10 per page, rather than the firms' actual billing charges for such travel, hotel, meal and copying expense. Notwithstanding counsel's efforts to remain within the allowances in the Retainer Agreement (which set the maximum reimbursable rate at the rates proscribed for New York State Government employees – who can benefit from rates provided at hotels for persons with Government-issued identifications), the hotel rates allowed by the Retainer Agreement, in many cases, could not be obtained at hotels in New York (where the allowable daily charge for hotels is $208 per night) and other cities in which depositions in this case were taken. As a result of the

caps placed on reimbursable expenses by the Retainer Agreement, Lead Counsel and Assisting Counsel will not be seeking reimbursement for all of the expenses actually incurred in prosecution of the case. Lead Counsel expect to be able to calculate the amount of such non-reimbursable expenses in a subsequent filing with the Court. This Court can rest assured that the expenses for which Lead Counsel seek reimbursement are fair and reasonable to the Class.

128. With the approval of Lead Plaintiff, Lead Counsel is also seeking payment of Administrative Expenses, in the amount of $7,129,474.65. A detailed affidavit of the Administrator supporting its extensive work in this Action was filed with the Court on September 14, 2004 (a copy of which, without exhibits, is attached hereto as Exhibit 5). The actual Invoice submitted by the Administrator, with back-up for the Schedule A to that Invoice, is attached hereto as Exhibit 8.

129. With the approval of Lead Plaintiff, Lead Counsel is further seeking an award of $5 million to be used as a fund to pay certain expenses for the continued prosecution of the Class Action against the Non-Settling Defendants. Although the Notice states that Lead Counsel will seek a fund of up to $10 million for such purposes, Lead Plaintiff asked Lead Counsel to limit this request to $5 million, which Lead Counsel has agreed to do.

130. Finally, pursuant to the PSLRA, Lead Plaintiff is entitled to reimbursement of its reasonable expenses incurred in connection with this case. *See* 15 U.S.C. § 78u-4(a)(4). As stated in the Declaration of Mr. Lebowitz (¶ 16), NYSCRF calculated the expenses that it incurred in connection with the litigation (not including any charge for the time of members of the General Counsel's staff). Such expenses include travel and meals (as allowed under the New York State Management Employees Guidelines), and other costs NYSCRF has incurred as set forth in Exhibit A to the Lebowitz Declaration.

131. As the Notice described, approval of the Settlement is independent from approval of Lead Counsel's application for an award of attorneys' fees and payment of costs and expenses. Any determination with respect to Lead Counsel's application for an award of attorneys' fees and payment of costs and expenses will not affect the Settlement, if approved.

132. The Notice provided that Class members could file objections to the fee and expense application until October 8, 2004. Although the time to object is not yet concluded, to date, no Class member has filed such an objection or notified Lead Counsel that such an objection will be filed.

Dated: September 24, 2004

_____	_____
Jeffrey W. Golan	John P. Coffey
Barrack Rodos & Bacine	Bernstein Litowitz Berger & Grossmann LLP
Philadelphia, Pennsylvania	New York, New York

EXHIBITS TO JOINT DECLARATION OF
JEFFREY W. GOLAN AND JOHN P. COFFEY

Exhibit 1	**Retainer Agreement, dated July 30, 2003, Between Barrack Rodos & Bacine, Bernstein Litowitz Berger & Grossmann LLP, and Office of the New York State Comptroller**
Exhibit 2	**Memorandum of Agreement, dated as of May 7, 2004**
Exhibit 3	**Notice of Proposed Settlement of Class Action Against the Citigroup Defendants, dated August 2, 2004**
Exhibit 4	**Declaration of Alan P. Lebowitz**
Exhibit 5	**Affidavit of Shandarese Garr, dated September 14, 2004**
Exhibit 6	**WorldCom Securities Litigation, Time and Expense Chart, Inception through 06-30-04**
Exhibit 7	**Check Register, WorldCom Litigation Fund, c/o Barrack Rodos & Bacine**
Exhibit 8	**Invoice No. 01982, dated September 22, 2004, The Garden City Group**