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 LEAD PLAINTIFF'S MOTIONS FOR FINAL APPROVAL OF SETTLEMENTS WITH SETTLING DEFENDANTS, PROPOSED PLANS OF ALLOCATION, PROPOSED SUPPLEMENTAL PLAN OF ALLOCATION, AND AWARDS 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 ("Joint Declaration") in support of (a) final approval of the settlements ("Settlements") 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 the Settling Defendants; (b) approval of Lead

Plaintiff's proposed plans of allocation of the settlement proceeds ("Plans of Allocation"); (c) approval of Lead Plaintiff's proposed supplemental plan of allocation of the settlement proceeds ("Supplemental Plan of Allocation"); and (d) approval of Lead Counsel's applications for awards 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 *WorldCom Securities Litigation* has been one of the most challenging litigations in the history of securities class actions. The stakes have been large, the risks enormous, and the battles hard-fought. Under the direction of Lead Plaintiff, one of the Nation's largest and most proactive institutional investors, the recoveries achieved in the case -- $2.575 million plus interest from the Citigroup Settlement, and at least $3.558 million plus interest from the settlements with the Settling Defendants, for a total of at least $6.133 million plus interest -- constitute the largest recovery ever achieved 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.

2. This Joint Declaration describes: (a) the legal efforts undertaken since the Citigroup Settlement by Lead Counsel and other Assisting Firms, which were all performed under the direction of Lead Counsel and diligently supervised by Lead Plaintiff (Part I, ¶¶ 5-17);[1] (b) the Settlements and the risks that Lead Plaintiff and Lead Counsel considered in determining that the Settlements provided an excellent recovery for the Class, and the Notices to Class Members (Part II, ¶¶ 18-64); (c) the proposed Plans of Allocation for the various Settlements and

[1] The legal efforts overseen by Lead Plaintiff and the results of those efforts that occurred prior to the Citigroup Settlement are described in the September 24, 2004 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 ("9/24/04 Joint Declaration"), which is incorporated herein by reference.

the basis for them (Part III, ¶¶ 65-71); (d) the proposed Supplemental Plan of Allocation and the basis for it (Part IV, ¶¶ 72-77); and (e) the fee and expense applications submitted by Lead Counsel, with the approval of the Lead Plaintiff, pursuant to the Retainer Agreement between Lead Plaintiff and Lead Counsel dated July 30, 2003 ("Retainer Agreement") (Part V, ¶¶ 78-106).

3. The Declaration of Alan P. Lebowitz, General Counsel to the Comptroller of the State of New York, in Support of Final Approval of Settlements with the Settling Defendants, Lead Plaintiff's Proposed Plans of Allocation, Lead Plaintiff's Proposed Supplemental Plan of Allocation, and Awards of Attorney's Fees and Reimbursement of Expenses ("Lead Plaintiff Declaration") is attached hereto as Exhibit 1.

4. An Affidavit of Shandarese Garr, Vice President for Securities Operations of The Garden City Group, Inc. ("GCG"), the Administrator authorized by the Court, is attached hereto as Exhibit 2.

Part I – Legal Efforts of Lead Counsel under Lead Plaintiff's Supervision

5. While the Citigroup Settlement enabled Lead Counsel to cease prosecution of the Action against the Citigroup Defendants, this litigation continued to be highly complex, time-consuming and, in some respects, even more complicated. After the announcement of the Citigroup Settlement and the three-week "hiatus" the Court allowed, Lead Counsel completed its fact discovery program, taking forty-one depositions in June and July 2004 before the fact witness discovery deadline of July 9, 2004. 9/24/04 Joint Decl. ¶ 52. At the same time, Lead Counsel negotiated the final terms of the Stipulation of Settlement with the Citigroup Defendants, which was signed and submitted to the Court on July 1, 2004, and prepared the many exhibits to the Stipulation; briefed and presented argument on issues relating to certain

provisions of the Stipulation and proposed Judgment; made changes to the Notice as suggested by various counsel and directed by the Court; and prepared the necessary papers (including responding to late-filed objections and various motions to allow late exclusions from the Class) and presented argument to the Court to obtain final approval of the Citigroup Settlement and the Plan of Allocation relating to that settlement.

6. Lead Counsel has further sought to protect the Class' interest in achieving finality for the Citigroup Settlement. We participated in a number of conferences with counsel for Appellants in the consolidated appeals, and ensured that the Joint Appendix (and a supplement thereto) included all appropriate and necessary underlying case documents. On July 27, 2005, we finalized, filed and served Lead Plaintiff's 109-page brief in opposition to the appeals taken from the Opinion and Order entered November 12, 2004, and the Judgment and various other Orders of the Court entered in accordance with the Opinion and Order.

7. In the year since the Citigroup Stipulation of Settlement was presented to this Court, Lead Counsel litigated the remainder of the case against the other thirty-one defendants with vigor, tenacity, dedication and thoroughness. We continued to prepare for and attend numerous Court hearings and conferences, including but not limited to the hearing and conferences of October 19 and 28, 2004, November 5 and 11, 2004, December 14, 2004, January 11 and 27, 2005, February 3, 8, 17, 18, 24 and 25, 2005, and March 10, 16, 17, 18 and 21, 2005.

8. We continued to analyze the events and transactions alleged in the Litigation, the millions of documents produced by the Settling Defendants and others, and the deposition testimony as it was taken by Plaintiffs' and Defendants' counsel. We further continued to retain and consult with expert witnesses and consultants in numerous fields, including damages, forensic accounting, investment banking, due diligence, and WorldCom's accounting system

computer program. In all, Lead Counsel prepared for and took over seventy depositions of Defendants, representatives of WorldCom, Andersen, KPMG, and other WorldCom and KPMG advisors. Lead Counsel engaged in a massive effort to cull out the documents that we contemplated introducing at a trial against the Underwriter Defendants, Director Defendants and Andersen; abruptly re-tooled on the eve of trial to present a case solely against Andersen; and, during the nearly five weeks of trial, presented testimony and numerous exhibits and demonstrative exhibits, including cross-examination of three Andersen engagement and audit partners, one witness via a trial deposition, eight witnesses via deposition designations, and four expert witnesses in the fields of auditing and accounting, damages, WorldCom's accounting computer programs, and investment banking and due diligence. We further cross-examined one of Andersen's experts, and had prepared for cross-examination of Andersen's two remaining experts when the settlement was reached.

9. Preparing the case for trial against Andersen (which is no longer an operating company) and all other Defendants implicated a review and gaining a complete understanding of the vast number of depositions of witnesses from WorldCom, KPMG, Dovebid, American Appraisal and Andersen concerning various generally accepted accounting principals ("GAAP ") issues. As shown by the expert reports and rebuttal reports served by the parties, nearly all of the accounting and due diligence issues (which had been part of the case until the very end, when settlements were reached with all remaining non-stayed defendants, other than Andesen) were hotly contested. The case against Andersen also involved complex issues concerning whether its audits of WorldCom's financial statements complied with generally accepted auditing standards (GAAS); whether the impairment charges taken in WorldCom's restatement were appropriate;

and whether the numerous accounting devices utilized by WorldCom – as Plaintiffs' expert testified at trial – were appropriately considered as elements of the WorldCom fraud.

10. Preparing the case against the Underwriter Defendants required a massive undertaking. There were millions of documents produced that implicated the due diligence defenses raised by these defendants. Preparing the case required a complete analysis of their conduct with respect to the offerings as well as their other dealings with WorldCom and its senior officers. It further required obtaining depositions testimony and/or other discovery from representatives of each of the Underwriter Defendants – including, in certain cases, testimony from members of various divisions (investment banking, private banking, and credit departments) – so that Lead Counsel was able to present evidence of their alleged misconduct with respect to credit downgrades, lending to Ebbers and Ebbers-affiliated entities, underwritings of the May 2000 and May 2001 bond deals (as well as J.P. Morgan's work with respect to the December 2000 private placement), and other financial services that some of them provided to WorldCom. The case against the Director Defendants involved the actions they took in overseeing WorldCom's management, and whether, *inter alia,* they complied with their due diligence obligations for the bond offerings.

11. We reviewed testimony from the Ebbers trial and thereafter conducted depositions of the so-called "Embargoed Witnesses."

12. We also undertook and completed all discovery relating to experts designated by Lead Plaintiff and by the Underwriter Defendants, Director Defendants and Andersen to testify at trial, which included: (a) reviewing and helping to finalize reports of the Plaintiffs' five expert witnesses in the fields of auditing and accounting, the telecommunications industry, due diligence of underwriters and bringing a security to market, damages, and the computer software

accounting system utilized by WorldCom; (b) reviewing the expert reports submitted by the experts designated by the Settling Defendants; (c) preparing for and attending depositions of Lead Plaintiff's experts; and (d) taking depositions of experts designated by Settling Defendants.

13. Further, in connection with the trial against Andersen, we prepared Lead Plaintiff's expert witnesses to provide testimony at trial (including Messrs. Devor, Stark, Miller and Dr. Nye), cross-examined one of Andersen's experts (Mr. Erickson), and further prepared to cross-examine two other Andersen experts (Messrs. Kirby, on GAAP issues, and James, on damages issues).

14. After the conclusion of fact witness discovery, we prepared a motion for partial summary judgment, and responded to the summary judgment motions filed by the Underwriter Defendants, Andersen, and one of the Director Defendants. These motions entailed significant legal issues, and resulted in the landmark decisions issued by the Court on December 15, 2004 (granting in part and denying in part Lead Plaintiff's motion for partial summary judgment, and granting in part and denying in part the Underwriter Defendants' motion for summary judgment); January 18, 2005 (denying Andersen's motion for summary judgment); and March 21, 2005 (denying Director Defendant Roberts' motion for summary judgment).

15. We prepared numerous pre-trial and trial submissions to the Court, including but not limited to briefing and presenting oral argument, when requested by the Court, on approximately twenty-five motions *in limine* filed by Lead Plaintiff and the Settling Defendants; submitting a comprehensive Pre-Trial Order, including a statement of the Lead Plaintiff's claims, potential trial witnesses, potential trial exhibits, and designations of deposition testimony taken during discovery for presentation to the jury; presenting Lead Plaintiff's positions concerning proposed jury instructions, jury questionnaire and jury *voir dire*; and presenting Lead Plaintiff's

positions on various other matters and issues raised by the Parties and/or the Court before and during the trial against Defendant Andersen.

16. Lead Counsel, with the assistance of counsel for the Additional Named Plaintiffs, further prepared for and participated in various mock jury sessions, during which we presented evidence and argument from the perspective of Plaintiffs, the Underwriter Defendants (particularly J.P. Morgan Chase), the Director Defendants (particularly Bert Roberts), and Andersen. These sessions – the last of which spanned four days in early February 2005 – required enormous preparation and incurred significant expense. They assisted Lead Counsel to understand better the likely reactions of jurors to evidence, certain witnesses and arguments that might be developed at trial, and to hone our arguments and presentation of evidence against each group of prospective trial defendants. The sessions, which were also attended by Lead Plaintiff, further assisted in terms of strategies to be employed and issues to raise during settlement discussions with the various defendants.

17. While a complete description of all the issues addressed by Lead Counsel just in connection with trial matters is virtually impossible to provide, the following represents many of the major issues that we, on behalf of Lead Plaintiff, briefed and, in some instances, presented orally to the Court:

- Underwriter Defendants' motion to trifurcate the trial of the case, and Lead Plaintiffs' responding motion to sever evidence unique to Lead Plaintiff and the Named Plaintiffs from the plenary trial of the case;

- Andersen's motion to exclude Lead Plaintiff's accounting expert, Harris L. Devor, from testifying to any opinions formulated in reliance upon documents created in course of investigations done in the wake of the discovery of the accounting fraud at WorldCom;

- Andersen's motion to exclude WorldCom's Board of Directors' Investigation Report;

- Andersen's motion to exclude evidence of compensation;
- Andersen's motion to exclude certain testimony of Eugene Morse;
- Andersen's motion to exclude reports and memoranda regarding WorldCom investigations;
- Andersen's motion to exclude the Restatement;
- Andersen's motion to exclude the KPMG material weakness binder;
- Andersen's motion to exclude testimony regarding aggregate damages;
- Director Defendants' motion to exclude evidence regarding reports or public statements by the SEC, the U.S. Attorney for the Southern District of New York, and two congressional committees that were issued pursuant to investigations of WorldCom.
- Underwriter Defendants' motion to exclude reference to other WorldCom-related proceedings;
- Underwriter Defendants' motion to exclude evidence of any settlement reached in the WorldCom litigation;
- Underwriter Defendants' motion to exclude evidence of compensation of any present or former employee of the Underwriter Defendants;
- Underwriter Defendants' motion to exclude evidence of fees earned by the Underwriter Defendants;
- Underwriter Defendants' motion to exclude references to counsel's background or other characteristics;
- Underwriter Defendants' motion to exclude evidence of corporate wrongdoing generally;
- Underwriter Defendants' motion to exclude evidence regarding Intermedia Communications, Inc. and Digex Inc.;
- Underwriter Defendants' motion to exclude certain damages-related opinion testimony of Lead Plaintiff damages expert, Dr. Blaine F. Nye;
- Underwriter Defendants' motion to exclude evidence regarding Jack Grubman and Citigroup;

- Lead Plaintiff's motion to exclude evidence of Lead Plaintiff's actions and other evidence unique to plaintiffs;

- Numerous issues raised before and during trial concerning designations of depositions testimony and exhibits for trial, and the admissibility of trial exhibits;

- Continuing motions and arguments, even as the trial proceeded, concerning Andersen's involvement with Enron;

- Whether Lead Plaintiff could pose leading questions to Andersen's former partners on direct examination at trial, and whether such witnesses could consult with counsel for Andersen during Lead Plaintiff's direct examination at trial;

- Whether Andersen would be precluded from arguing that testimony that the SEC's review and comment on WorldCom's proposed accounting treatment of certain items in connection with the MCI acquisition constituted any type of approval of the accounting treatment – an issue that was briefed extensively during the course of the trial;

- Lead Plaintiff's request for judicial notice that the New York State Common Retirement Fund purchased common stock and bonds of WorldCom on the secondary market during the Class Period;

- Andersen's attempt to use excerpts from pleadings and briefs filed by Lead Plaintiff as judicial admissions;

- Responding to Andersen's motion, and the Court's request, during trial to provide record evidence confirming that there was a public market for the MCI tracker stock and the so-called "pre-existing" WorldCom bonds;

- Lead Plaintiff's motion for judicial admission of certain identified auditing and accounting literature, and Andersen's cross-motion to exclude admission or reference to certain of the literature;

- Andersen's request to introduce evidence regarding the lack of independence of KPMG;

- Andersen's attempt to serve a supplemental expert report by its damages expert Dr. Christopher James during trial; and

- Andersen's motion for judgment on Lead Plaintiff's Exchange Act claim with respect to the 1999 audit opinion.

Part II - The Settlements with the Settling Defendants

18. As described in the 9/24/04 Joint Declaration, on November 7, 2002, the Court ordered the commencement of settlement negotiations to be conducted under the supervision of Magistrate Judge Michael H. Dolinger. Joint Decl. 9/24/04 at ¶73. In June 2003, the Court directed that the Parties should continue settlement negotiations under the supervision of Magistrate Judge Dolinger. Thereafter, the Court directed that the Parties (other than the Executive Defendants against whom the case was stayed) should continue settlement negotiations under the supervision of both Magistrate Judge Dolinger and U.S. District Court Judge Robert W. Sweet (the "Settlement Judges").

19. Pursuant to the Court's directives, Lead Plaintiff, Named Plaintiffs and the non-stayed Settling Defendants entered into extensive negotiations under the supervision of the Settlement Judges. The settlement discussions were arduous and protracted, and did not initially result in settlement agreements with any of the current Settling Defendants.

20. Indeed, the initial discussions with the Settling Defendants were not fruitful at all, as the parties could not even agree upon documents that would be exchanged in preparation for settlement discussions. In the fall of 2003, the parties undertook further negotiations under the supervision of the Settlement Judges. No meaningful discussions took place with counsel for Andersen, and while there were certain documents exchanged between Lead Plaintiff and the Underwriter Defendants, there were similarly no meaningful discussions that took place at that time (notwithstanding a number of face-to-face meetings) between Lead Plaintiff and the Underwriter Defendants. Indeed, the discussions that led to the Citigroup Settlement were conducted separate and apart from the overall settlement meetings between Lead Counsel and the Underwriter Defendants' counsel. Further, after the Memorandum of Agreement was signed

with the Citigroup Defendants ("Citigroup MOA"), the Underwriter Defendants rejected the offers made in May 2004, pursuant to the Citigroup MOA, that would have allowed the remaining Underwriter Defendants to settle the Class claims against them at the same proportionate rate that Plaintiffs had settled the Securities Act claims against the Citigroup Defendants.

21. Over the course of the seven months from November 2003 to May 2004, Lead Counsel and counsel for the Director Defendants held many negotiating sessions, both in person and via telephone conference. A number of the sessions took place under the direct supervision of the Settlement Judges, including sessions that included counsel for the entities that had provided liability insurance coverage for WorldCom directors and officers ("Insurers"). At the same time, Lead Counsel vigorously pursued the Class's claims, both in Court and through the discovery process described above and in the Notice at ¶¶ 6-7.

22. The negotiation of the Settlements required extensive efforts on the part of Lead Counsel and counsel for the Named Plaintiffs. Settlement discussions with the Director Defendants eventually spanned more than twenty months, moving in starts and stops. After numerous meetings and discussions, we signed a Memorandum of Agreement with ten of the twelve directors on May 21, 2004. We obtained detailed financial information and signed written statements from the directors on whose behalf the Memorandum of Agreement was signed, participated in some (but not all) of the extensive negotiations pertaining to the insurance contribution to the settlement, and and continued to negotiate the terms for an eventual formal Stipulation of Settlement, which was agreed upon and signed on January 7, 2005 – more than six months later. We met with Lead Plaintiff at regular intervals to apprise them of the status of the negotiations, to set the strategy and requirements of any eventual agreement, and to obtain Lead

Plaintiff's views and demands for additional financial information from certain of the Director Defendants. It was during those discussions and meetings that it was determined that each of the settling Director Defendants (with the exception of one director in bankruptcy) would have to pay money from his/her own pocket – at least equal to the compensation received as a WorldCom director from 1999 through 2002 – and that the cumulative payment from the Director Defendants would be at least 20% of their cumulative net worth (excluding primary residence, retirement accounts, and certain exempt joint marital property).

23. Seeking to protect the Class against a potentially enormous judgment reduction, we insisted that the Stipulation of Settlement include, as a material condition of the settlement, a provision that would have capped the non-settling defendants' judgment credit by the Director Defendants' ability to pay. After considerable briefing on that issue, and the Court's rejection of the settlement as submitted, we discussed with Lead Plaintiff the risk of a multi-billion judgment reduction to any jury award against the remaining Defendants, and determined that we could not, on behalf of the Class, agree at that time to a settlement with the directors that did not include such a cap. As a result, we notified the Court of the termination of the settlement. Several weeks later, after we concluded settlements with all of the Underwriters Defendants, we promptly revived the Director Defendant settlement. In the course of those proceedings, we submitted numerous briefs to the Court; entered into scores of settlement discussions with the Director Defendants jointly and individually, in the cases of Directors Galesi and Roberts, and reached an overall agreement with all of the Director Defendants, which included Defendant Roberts after the Court had ruled in Lead Plaintiff's favor on Defendant Roberts' motion for summary judgment. The final settlement with Roberts was conditioned on his paying $4.5 million from his own pocket, and the Insurers' continuing agreement to pay $36 million from the

D&O policies. The insurers had filed motions for rescission of the insurance coverage, so there was no assurance that the insurance proceeds would have been available to Plaintiffs had a settlement not been reached.

24. The eventual negotiations with the Underwriter Defendants were similarly complicated and creative. Faced with extraordinary intransigence by the Underwriter Defendants in global settlement discussions, we, in conjunction with Lead Plaintiff and the Named Plaintiffs, undertook individual negotiations to "pick off" the Underwriter Defendants one-by-one, each time negotiating with counsel for individual banks, with a goal of obtaining a recovery of no less than the Citigroup rate (as to those banks first to agree to settlements) or (as to the remaining Underwriter Defendants) a "premium" over the Citigroup rate. After reaching agreements with Bank of America and the four junior 2000 underwriters (Lehman, UBS, Goldman and First Boston) in early March 2005, we were forced to respond to an opposition to the settlements filed by J.P. Morgan Chase. Eventually, those settlements were granted preliminary approval, and we similarly concluded settlements with each of the other Underwriter Defendants, ending with a $2.0 billion settlement with J.P. Morgan Chase – which was $630 million more than the offer to settle that Lead Plaintiff had extended in May 2004, pursuant to a provision of the Citigroup MOA. As noted above, we then immediately revived the settlement with the Director Defendants, incorporating new agreements reached with Defendants Galesi and Roberts, and thereby achieved an overall settlement with all of the Director Defendants.

25. The settlement with Andersen was reached only after nearly five weeks of trial, and extensive negotiations conducted by Lead Counsel and Lead Plaintiff based on, *inter alia,* the claims in the case; the evidence adduced at trial; the risks of proceeding with the case against Andersen; a careful analysis of Andersen's financial condition (which Andersen did not agree to

share with Lead Plaintiff until the third week of trial, shortly before Lead Plaintiff had completed presenting its case to the jury); and face-to-face meetings with Andersen's principal executives and general counsel. The result was an extraordinary recovery, given Andersen's condition, of $65 million in cash (which Lead Plaintiff insisted be wired into its escrow account before Plaintiffs would agree to dismissal of the jury), plus 20% of any payment made to present or former Andersen partners on account of their paid in capital and/or notes, plus any amount greater than $65 million that Andersen itself might pay in settlement of another claim, plus other confidential protections for the benefit of the Class in the event of bankruptcy proceedings involving Andersen.

26. Finally, the settlement negotiations with the Executive Defendants were all premised on the production of financial statements and other information by the Executive Defendants, followed by (1) a diligent examination of the financial information by Lead Plaintiff and Lead Counsel and, where appropriate, requiring additional information to be provided, and (2) extensive negotiations with counsel for the four sets of defendants. The settlement negotiations also included active participation by the United States Attorney's Office (primarily Assistant United States Attorney David Anders), counsel for the ERISA class plaintiffs for the Ebbers and Sullivan settlements, and counsel for MCI for the Ebbers settlement. The parties took great pains to ensure that all assets of the Executive Defendants were fully accounted for, and the Ebbers and Sullivan settlements also involved establishing a mechanism to ensure that the Class obtains the benefit for the majority of the assets being sold to fund portions of these settlements, and additional confidential protections to protect the Class in the event of any bankruptcy proceeding involving Ebbers or Sullivan.

27. Forensic Economics had been retained in connection with the settlement

discussions of Lead Plaintiff with the Citigroup Defendants to provide an estimate of the Class's damages. At that time, 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. The estimates of the damages described in the Citigroup Notice (cumulatively and on a per share and per bond basis) were based on original calculations of Forensic Economics, and have also been utilized for the estimates of damages in the Notice of Proposed Settlements dated July 1, 2005.

28. Stanford Consulting Group, Inc. was retained to provide expert testimony at trial concerning the Class's damages, and other services in connection with the Supplemental Plan of Allocation. Stanford Consulting 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, and the materiality of such statements and other public revelations. Plaintiffs presented testimony at the trial against Andersen by the President of Stanford Consulting concerning the Class's damages. The work of the Stanford Consulting has further provided a basis for the Supplemental Plan of Allocation.

29. Lead Counsel believe that the Settlements are excellent results when considered in light of the considerable risks of litigation. With respect to claims asserted under the Securities Act of 1933, which were asserted against all Defendants, the non-stayed Settling Defendants argued that they conducted reasonable due diligence investigations and, in the case of the Underwriter Defendants and Director Defendants, that they were entitled to rely on the audit opinions and comfort letters provided by Andersen with respect to the financial statements

included in the registration statements for the May 2000 and May 2001 bond offerings. Certain of the non-stayed Settling Defendants, including Andersen and the Underwriter Defendants, further argued that there were no material misstatements whatsoever in the registration statement for the May 2000 bond offering.

30. The Director Defendants and Andersen, against whom claims were also asserted under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, vigorously disputed the viability of these claims, arguing that Plaintiffs could not establish the falsity of certain alleged misstatements, loss causation or scienter because, among other reasons, these Defendants were not alleged to have knowledge of, or to have participated in, the fraudulent accounting at WorldCom. These Defendants also argued that, even if Plaintiffs could establish their liability, the damages traceable to their alleged misconduct were much smaller than Plaintiffs claimed and further, under the proportionate fault provisions of the Private Securities Litigation Reform Act ("PSLRA"), these Defendants were liable only for a small percentage of those damages.

31. Any of these arguments, if credited by a jury, could have materially impacted the Class's recovery against these Defendants, and the financial condition of the Director Defendants and Andersen (as well as the Executive Defendants) could further have materially impacted the Class's ability to collect on a judgment against them. These Defendants had limited financial capabilities, and the Settlements were reached with them only after Lead Plaintiff carefully scrutinized financial statements and other information they provided, and further took into consideration the limits of the Director Defendants' insurance coverage and the possibility that the insurance policies might be declared null and void.

32. Throughout the course of the settlement process, the negotiations were undertaken in an arm's length fashion, among experienced counsel, on behalf of well-informed Plaintiffs and

Settling Defendants, and the Settlements are products of those difficult, adversarial arm's length negotiations. Lead Plaintiff and the Additional Named Plaintiffs reached an agreement in principle with ten of the Director Defendants in May 2004, but did not enter into a formal Stipulation of Settlement with them until January 7, 2005, after a complete review of the financial information provided by the ten former Directors and arduous negotiations concerning insurance proceeds and the terms and conditions of the Stipulation of Settlement. The Court denied preliminary approval of that proposed settlement, however, because a provision in the Stipulation, which Lead Plaintiff and Lead Counsel included to protect the Class by limiting the amount by which other Non-Settling Defendants could have sought to reduce their potential liability to the Class by taking into account the Director Defendants' ability to pay a judgment, was found to be contrary to the words of the PSLRA. As a result, Lead Counsel continued to be required to prepare the case against the Director Defendants for trial.

33. In or about early February 2005, Lead Plaintiff commenced settlement negotiations with counsel for Bank of America, and separately re-commenced negotiations with counsel for a group of underwriters that had participated as junior underwriters only in WorldCom's May 2000 bond offering. Upon reaching agreements with Bank of America and its affiliate, Fleet Securities, and then with Lehman Brothers, Goldman Sachs, UBS Warburg and Credit Suisse First Boston, Lead Plaintiff – through Lead Counsel – thereafter undertook settlement negotiations with settlement counsel for the remaining Underwriter Defendants, and concluded settlements with all such Underwriter Defendants by March 16, 2005. Many of the negotiations were complicated because, among other reasons, they were conducted with different sets of counsel for the various Underwriter Defendants; the case was still being prepared for trial, which was set to commence at that point on March 17, 2005; each Underwriter Defendant sought

to distinguish its level of culpability from that of the Lead Underwriters (Salomon and J.P. Morgan Chase); the Underwriter Defendants participated at different levels in one or both of the bond offerings; and J.P. Morgan Chase further sought to distinguish its level of culpability from that of Salomon. Moreover, there were challenges to the judgment reduction and bar order provisions of the settlements with Bank of America and the four junior May 2000 bond underwriters (which challenges required immediate briefing by Lead Counsel), including the aforementioned challenge by J.P. Morgan Chase.

34. As noted above, with the conclusion of the Underwriter Defendant settlements, Lead Plaintiff immediately revived the prior settlement with certain of the Director Defendants, eventually completing a settlement with all twelve Director Defendants by March 21, 2005. That settlement, also, was complicated – not only because of the changes that were required to be made to the judgment reduction provision, but also because it required additional individual negotiations with counsel for Galesi and Roberts, and additional scrutiny of the financial information they provided. We obtained preliminary approval by the Court of all settlements reached between March 3, 2005 and March 21, 2005, and the trial of the case against Andersen – the lone non-settling Defendant against whom the case was not stayed – commenced on March 23, 2005.

35. The negotiations with a number of the Settling Defendants were conducted under the close supervision and guidance of the Settlement Judges, who monitored them both for their progress and for the propriety of the presentations made by each side to the other. As cited above, the negotiations with counsel for the Director Defendants took place over a period of twenty months. Lead Plaintiff required each of the Director Defendants who wished to settle the Class claims to provide a detailed financial statement, and sign a sworn statement attesting to the

truthfulness of the financial information provided to Lead Plaintiff. The negotiations culminated in this Court granting preliminary approval of the Stipulation of Settlement between Lead Plaintiff and the twelve Director Defendants on March 21, 2005, but only after: (1) Lead Plaintiff had signed a Memorandum of Agreement on May 21, 2004 with ten of the Director Defendants (which required those defendants to personally pay in excess of 20% of their cumulative net worth, excluding their primary residence, retirement accounts and certain protected joint marital assets); (2) Lead Plaintiff had signed a Stipulation of Settlement of January 7, 2005, based generally on the Memorandum of Agreement, but which was denied preliminary approval because of a provision required by Lead Plaintiff in the Stipulation that would limit the judgment reduction available to non-settling defendants based on the Director Defendants' ability to pay; (3) Lead Plaintiff revived the Stipulation of Settlement on March 18, 2005, after the last of the Underwriter Defendant settlements had been granted preliminary approval, which settlement included the original ten Director Defendants plus Galesi; and (4) Lead Plaintiff reached an agreement with the sole hold-out director, Bert Roberts, Jr., requiring him to pay $4.5 million from his own pocket to join in a further revised Stipulation of Settlement of March 21, 2005. Pursuant to that Stipulation, the Director Defendants have paid $24.75 million from their own pockets – the first time in securities class action history that an entire group of outside directors has paid monies to settle claims against them. Further, the Class recovered $36 million from the entities that issued WorldCom's directors and officers insurance policies, which policies were the subject of rescission actions brought by some of the carriers. Along with the $15 million earlier paid by the insurance carrier(s) for defense costs, this constituted over one-half of the possible proceeds of the policies.

36. The negotiations with Andersen are an exemplar of arm's length negotiations.

Given Andersen's claim of lack of ability to pay, Lead Plaintiff refused to enter into negotiations until Andersen agreed to provide detailed explanations and documents showing its financial condition. The negotiations took place with starts and stops, and did not even begin to progress until after the second week of the trial, when the parties could ascertain with even greater clarity the evidence and arguments that each side was presenting to the jury. Finally, after several all-day sessions reviewing Andersen financial documents, and extensive discussions about the progress of the trial and potential scenarios, Lead Plaintiff agreed to a settlement that provides for a very significant cash payment by Andersen of $65 million (a substantial percentage of that entity's remaining net worth), the potential for additional payments (20% of any future payments made by Andersen to its former partners, and a matching provision for any other payment made by Andersen to settle claims against it), and certain confidential protections should Andersen enter bankruptcy proceedings. When presented with the terms of the Andersen Settlement and the background information, the Settlement Judges opined that the Settlement was "negotiated in good faith" and is "in the public interest." *See* Exhibit 3 hereto.

37. The settlement with Defendant Andersen was reached on April 22, 2005, after nearly five weeks of trial and within days of when closing arguments were to take place in the trial, and only after Lead Plaintiff (including several staff auditors from the Comptroller's office) had reviewed substantial documentation concerning the financial condition of Andersen and received oral and written representations about its financial condition. Upon preliminary approval of that settlement on April 26, 2005, and the wiring of the amount required to be paid in that settlement to an escrow account held by Lead Counsel and under the control of the Court, Lead Plaintiff agreed to a dismissal of the jury by the Court. The negotiations with the Executive Defendants have previously been described.

38. Lead Plaintiff and the Named Plaintiffs, and their counsel, who conducted the negotiations on behalf of Plaintiffs, were thoroughly conversant with the strengths and weaknesses of the claims against the Settling Defendants and, Lead Counsel, like other plaintiffs' counsel who assisted in the prosecution of the Action, have many years of experience in conducting complex securities class action litigation.

DESCRIPTION OF THE SETTLEMENTS

39. From March 3, 2005 through April 22, 2005, Lead Plaintiff and the Additional Named Plaintiffs entered into Stipulations of Settlement on behalf of the Class with all of the Settling Defendants against whom the case had not been stayed. The Settlement amounts stated below are earning interest for the benefit of the Class. The Settlements reached with the non-stayed Settling Defendants are as follows:

Bank of America Securities LLC and Fleet Securities, Inc. – March 3, 2005, for a total of **$460.5 million** in cash.

Lehman Brothers Inc., Credit Suisse First Boston LLC, Goldman, Sachs & Co. and UBS Warburg LLC - March 4, 2005, for a total of **$100,341,730** in cash, as follows: Lehman Brothers Inc. (paying $62,713,582); Credit Suisse First Boston LLC (paying $12,542,716); Goldman, Sachs & Co. (paying $12,542,716); and UBS Warburg LLC (paying $12,542,716).

ABN AMRO Inc., Mitsubishi Securities International plc, BNP Paribas Securities Corp. and Mizuho International - March 9, 2005, for a total of **$428,365,600** in cash, as follows: ABN AMRO Inc. (paying $278,365,600); Mitsubishi Securities International plc (paying $75 million); BNP Paribas Securities Corp. (paying $37.5 million); and Mizuho International (paying $37.5 million).

Deutsche Bank, WestLB AG and Caboto Holding SIM S.p.A. - March 10, 2005, for a total of **$437.5 million** in cash, as follows: Deutsche Bank (paying $325 million); WestLB (paying $75 million); and Caboto (paying $37.5 million).

J.P. Morgan Chase, Utendahl Capital and Blaylock Partners - March 16, 2005, for a total of **$2,000,806,840,** as follows: JP Morgan (paying $2.0 billion); Utendahl (paying $234,000); and Blaylock (paying $572,840).

Former WorldCom Director Defendants - March 21, 2005, for a total of **$60.75 million,** with former directors James C. Allen, Judith Areen, Carl J. Aycock, Max E. Bobbitt, Clifford L. Alexander, Jr., Francesco Galesi, Stiles A. Kellett, Jr., Gordon S. Macklin, John A. Porter, Bert Roberts, the Estate of John W. Sidgmore and Lawrence C. Tucker paying **$24.75 million** directly, and **$36 million** being paid by insurers on the Directors' behalf.

Arthur Andersen LLP – April 22, 2005, for **$65 million** in cash, plus contingent payments of an amount equivalent to 20% of the amounts, if any, actually paid by Andersen to its present or former partners, participating principals, national partners and national directors in repayment of any and all subordinated notes issued in respect of paid in capital and/or subordinated loans, and an additional amount if Andersen pays from its own funds more than $65 million in any other settlement. Further confidential protections for the Class were put in place in the event of a bankruptcy proceeding by Andersen.

40. From June 30, 2005 through July 26, 2005, Lead Plaintiff and the Additional Named Plaintiffs further reached settlements with the Executive Defendants, as follows:

Bernard Ebbers – June 30, 2005, for $5,556,543.69 in cash (paid to the Class on July 14, 2005), plus approximately 75% of the net proceeds from the sales of certain of Ebbers' assets and approximately 66.7% of the net proceeds from sales relating to another Ebbers' asset, the Joshua Timberlands. The conservative estimated consideration to be paid to the Class pursuant to the prospective liquidation of these assets is between $18 million and $28 million. Further confidential protections for the Class were put in place in the event of a bankruptcy proceeding by Ebbers.

Scott Sullivan - July 26, 2005, for approximately $200,000 (depending on the proceeds from the liquidation of his 401(k) account, which are to be paid to the Class before Sullivan is sentenced in his criminal case on August 11, 2005), plus approximately 90% of the net proceeds from the sale of the house presently under construction in the Le Lac Estate section of Boca Raton, Florida. The estimated consideration to be paid to the Class pursuant to the prospective sale of this property is $4 million to $5 million. Further confidential protections for the Class were put in place in the event of a bankruptcy proceeding by Sullivan.

David Myers and Buford Yates - July 26, 2005, for no monetary consideration, after Plaintiffs' extensive examination of the sworn financial statements of these Defendants confirmed their impecunious state.

41. The entire Settlement Amount (after deduction of Court-approved costs, expenses and attorneys' fees), plus interest, will be distributed in accordance with the Plans of Allocation and Supplemental Plan of Allocation as ordered by the Court, to Class Members who timely submit valid Proofs of Claim forms. There will not be any reversion to the Settling Defendants

or the Insurers of any portion of the Settlement Amount.

42. The Director Defendant Settlement is further conditioned on the Court entering a Released Insurance Bar Order against any claims that persons with potential claims against the Insurers, arising from the Insurance Policies that were issued to provide coverage to WorldCom directors and officers during the Class Period, may have or may assert against the Insurers.

RELEASES AND DISMISSAL OF THE ACTION

43. If the Settlements are approved, in consideration for the Settlement Amounts being paid by the Settling Defendants, the Court will enter Judgments that will dismiss with prejudice all of the Class Members' claims against the Settling Defendants and Settling Defendant Releasees (as defined in the various Stipulations of Settlement). 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 (defined below), 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.

44. Under the terms of the Stipulations and the Judgments proposed to the Court, each Class Member shall release all "Released Claims," which includes, with respect to the Settling Defendant Releasees, as identified below, the release by Lead Plaintiff, the Named Plaintiffs and all Class Members of all claims and causes of action of every nature and description, known and unknown, whether under federal, state, common or foreign law, whether brought directly or derivatively, based upon, arising out of, or relating in any way to investments (including, but not limited to, purchases, sales, exercises, and decisions to hold) in securities issued by WorldCom, including without limitation all claims arising out of or relating to any disclosures, public filings, 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 Settling Defendant Releasees. However, the "Released Claims" 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.

45. If the Director Defendant Settlement is approved, the Court will also bar all claims or potential claims of Barred Persons against the Insurers with respect to the Insurance Policies issued to WorldCom to provide directors and officers insurance liability coverage for claims asserted from December 31, 2001 to December 31, 2002. "Barred Persons" means (i) the Parties; (ii) all of the Defendants, including Settling Defendants and Non-Settling Entities/Individuals; (iii) any Person against whom Plaintiffs or any other Person(s) have asserted a claim based upon, arising out of or in any way relating to any of the events or transactions giving rise to the Action; (iv) all Persons who have made such claims or on whose behalf such claims have been made; (v) WorldCom; MCI, Inc. and each of their respective predecessors, successors, affiliates and/or assigns; (vi) any other Person who is, may be, or claims to be an Insured under any of the Insurance Policies or who otherwise claims to have an interest in any of the Insurance Policies, including any interest alleged to arise by reason of a claim against an Insured; and (vii) any Person who has actual or constructive notice of the Notice of Settlement of Class Action and Bar Order Notice. "Insurers" means Continental Casualty Company ("Continental Casualty"), SR International Business Insurance Company ("SRI"), Twin City Fire Insurance Company ("Twin City"), Starr Excess Liability Insurance International Limited ("Starr

Excess"), Associated Electric & Gas Insurance Services Limited ("AEGIS"), Gulf Insurance Company ("Gulf"), and National Union Fire Insurance Company of Pittsburgh, Pa. ("National Union"). "Insurance Policies" means Continental Casualty Excess Insurance Policy No. DOX169654380; SRI Excess Insurance Policy No. MP29075.1; Twin City Excess Financial Products Insurance Policy Bound to be Issued No. NDA 0134286-01; Starr Excess Directors, Officers and Corporate Liability Insurance Binder No. 6457920; AEGIS Directors, Officers and Corporate Liability Insurance Policy No. D2306A1A01; Gulf Directors, Officers and Corporate Liability Insurance Policy No. GA0349844; and National Union Excess Insurance Policy No. 874-92-44. The "Released Insurance Claims" means the release by each of the Parties of all claims, debts, demands, payments, rights, obligations, damages, losses, defense expenses, attorneys' fees, liabilities, benefits, costs and causes of action, of whatever kind or character, whether statutory, contractual or common law, whether known or unknown, direct or derivative, accrued or not, past, present or future, that any of them has, had or may have under, in connection with, arising out of or in any way involving, directly or indirectly, any of the Insurance Policies or the obligations any of the Insurers may have under or in connection with any of the Insurance Policies.

The Significant Risks to Achieving Recoveries from the Settling Defendants

46. The risks involved in succeeding at trial against the non-Executive Settling Defendants were significant. The Underwriter Defendants, Director Defendants and Andersen had asserted due diligence defenses with respect to the bonds issued by WorldCom in May 2000 and May 2001, and had challenged the Plaintiffs' damages theories, and asserted that, in any event, their conduct was not the cause of WorldCom's stock and bond price declines or the losses of Class Members. The Underwriter Defendants and Andersen further claimed that there

were no material misstatements in the bond offering documents, and no actionable omissions. At trial, Andersen continued to assert that the financial statements issued for the years 1999 and 2000 – which were the only full-year financial statements included in the registration statements for the offerings – were accurate as originally issued by WorldCom, and that there were numerous motives of WorldCom's "new management" and KPMG, the auditor for the Restatement issued in March 2004 concerning the previously issued 2000 and 2001 financial statements, to increase the magnitude of the adjustments made in the Restatement for those financial statements. At trial, Andersen further continued to point to the correspondence between WorldCom and the SEC as evidence of the appropriateness of the accounting treatment of the assets acquired by WorldCom in the MCI acquisition, and of Andersen's good faith in auditing the financial statements that were impacted by those accounting treatments.

47. The Director Defendants and Andersen, against whom Exchange Act claims had also been made, asserted that Plaintiffs would not have been able to demonstrate their knowing or reckless conduct with respect to statements made by WorldCom and its executives during the Class Period. Lead Plaintiff also faced serious risks in connection with its Section 10(b) claims with respect to establishing loss causation. The price of WorldCom stock and other publicly traded securities fell continuously throughout the Class Period, reaching less than $1 per share before the June 25, 2002 disclosure that WorldCom had committed a fraud. Thus, these Defendants contended that Lead Plaintiff would not be able to show that their conduct caused Plaintiffs' losses. The Director Defendants and Andersen had further asserted that the proportionate liability requirements of the Exchange Act, under which a defendant may be obligated to pay only the portion of damages for which that defendant is held responsible, 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 Director Defendants and Andersen.

48. Further, Plaintiffs did not assert that the Director Defendants, all of whom were outside directors of the Company, knew of the fraud at WorldCom during the time they served as directors of the Company, yet the Director Defendants are paying monies from their personal funds to settle the claims against them. The Director Defendants are paying a total of $24.75 million, which constitutes a substantial portion of their cumulative net worth (not including each director's primary residence, retirement accounts, and certain other joint marital assets protected by state law). The Settlement is historic in the sense that it includes the payment of monies by a group of outside directors in settlement of claims against them, notwithstanding that the Director Defendants have limited financial capabilities and, on a cumulative basis, they themselves lost approximately $300 million of value in WorldCom stock that they owned, and continued to own, throughout the Class Period.

49. As for the Executive Defendants, while there does not seem to be any significant risk in terms of providing these Defendants' liability, there were significant risks involved in collecting on any judgment that might have been obtained through trial. As noted previously, these Defendants have limited financial means (notwithstanding that during the Class Period, Defendant Ebbers had enormous wealth – most of which was backed by the value of his WorldCom stock), and it is unlikely that Plaintiffs could have collected to any substantial degree on a judgment against them. Moreover, these Defendants would have challenged Plaintiffs' damages calculations relating to WorldCom stock and other securities traded over the public markets – given the drastic fall in the prices of stocks of telecommunications companies generally, and the significant fall in the price of WorldCom stock before any disclosure of the

Company's false and misleading financial statements – an argument that Ebbers' criminal defense counsel invoked at the sentencing phase of his criminal case.

The Reasons for the Settlements

50. The amounts of the Settlements provide substantial, certain and immediate recoveries to the Class, and alleviate the risks that Plaintiffs may not have been able to establish either the liability of or damages from the Settling Defendants. The Settlements, especially in conjunction with the Citigroup Settlement, constitute the largest securities class action recovery in United States history, notwithstanding that Plaintiffs were not able to pursue claims against WorldCom, which was the issuer of the subject securities, because of its bankruptcy proceedings.

51. The Settlements are all cash (or, in the cases of Ebbers and Sullivan, cash plus assets which will shortly be liquidated for cash for approximately $22 million or more), and, as to the non-Executive Defendants, include interest earned on the Settlements starting on or about the dates of the Court's orders that granted preliminary approval of the Settlements. The Settlements with Andersen, Ebbers and Sullivan further provide certain protections for the Class (defined in confidential supplemental stipulations filed with the Court *in camera*) should any of these Defendants become involved in bankruptcy proceedings, and the Andersen Settlement further provides the possibility of additional payments should certain contingencies occur.

52. The Insurers are paying $36 million, which with a prior payment of $15 million during the WorldCom bankruptcy proceedings, constitutes approximately one-half of the potential available insurance proceeds at the time of the Settlement. Further, the Insurers had moved in various courts to have the Insurance Policies declared null and void, based on fraudulent misrepresentations made to the Insurers in WorldCom's insurance applications. Thus, Plaintiffs faced the possibility that the policies may have been voided, and made completely

unavailable, on this basis.

53. Lead Plaintiff, which lost over $300 million as a result of investments in WorldCom securities, and the three Additional Named Plaintiffs, each of whom suffered significant losses based on their purchases of WorldCom bonds, were instrumental in negotiating the Settlements, along with Lead Counsel and counsel for the Additional Named Plaintiffs. The settlement negotiations were conducted over a period of approximately twenty-three months, certain of them under the supervision of the Settlement Judges, and were reached: (a) in the case of the Underwriter Defendants, on the eve of trial; (b) in the case of Andersen, only after nearly five weeks of trial and just days before closing arguments were to take place; and (c) in the case of the Executive Defendants, within days of the sentencing hearings in their criminal cases.

54. Lead Plaintiff and the Additional Named Plaintiffs, and their counsel, strongly endorse the Settlements and recommend that they be approved. Lead Plaintiff decided to accept the Settlements after consultation with Lead Counsel, and after Lead Counsel's extensive investigation of the millions of pages of documents provided to Lead Plaintiff in discovery, after more than seventy depositions, after review of all Court decisions pertaining to Lead Plaintiff's claims against Defendants, and, in the case of the Director Defendants, Andersen and the Executive Defendants, after extensive review of their financial capabilities and, in the case of the Director Defendants, the limits of the potential insurance coverage. Consequently, Lead Plaintiff and Lead Counsel have determined that each of the Settlements is in the best interests of Class Members.

55. We, along with Lead Plaintiff, the Named Plaintiffs and counsel for the Named Plaintiffs, believe that the proposed Settlements are fair, reasonable and adequate, and in the best interests of the Class considering the amounts of the Settlements, the percentage of damages

recovered, the immediacy of recovery to the Class, the defenses asserted by the non-stayed Settling Defendants, and the limited financial capabilities of the Director Defendants, Andersen and the Executive Defendants. We and the Plaintiffs recognize the expense and length of continued proceedings necessary to prosecute the Action against the 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 with respect to the non-Executive Defendants, as well as the difficulties inherent in any such litigation. Lead Counsel and counsel for the Named Plaintiffs share this assessment that the Settlements are fair, reasonable and adequate, and in the best interests of the Class.

56. The Settlement Judges have indicated to Lead Counsel their strong endorsement of the Settlements with the Underwriter Defendants, Director Defendants and Andersen. [We note that the Settlement Judges were not involved in any of the negotiations that led to the Settlements with the Executive Defendants and, thus, Lead Counsel has not had the opportunity to discuss with the Settlement Judges their views of the Executive Defendant Settlements.] In addition, because of their particular involvement in the negotiations between Lead Plaintiff and Andersen – stemming largely from the issue of whether, when and the extent to which Andersen would provide Lead Plaintiff with confidential financial information about Andersen – the Settlement Judges further issued a written statement with respect to the Andersen Settlement, which states as follows:

Mediators' Statement

> Pursuant to appointment by the Honorable Denise Cote, United States District Judge, we have presided over the extensive negotiations between the Parties that led to this Agreement [between Lead Plaintiff and Andersen]. We hereby state, based on our discussions with the Parties and the information made available to us, that this Settlement was negotiated in good faith, and that 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.

See Exhibit 3.

57. Lead Plaintiff took an active role in the settlement negotiations and the careful reviews and analyses of the financial information supplied by the Executive Defendants. The settlements with the Executive Defendants were achieved, as well, with the active participation of the United States Attorney's Office and, to a lesser extent, the SEC. The Office of New York State Attorney General Spitzer was also involved in certain of the negotiations concerning the Ebbers settlement, as was counsel for MCI. Counsel for the ERISA Class was also involved in certain portions of the Sullivan negotiations. All of these have indicated to Lead Counsel that they believe the Settlements are excellent.

The Notice

58. Pursuant to this Court's Order of June 16, 2005, the Notice of Proposed Settlements of Class Action with Settling Defendants and Bar Order Notice (the "Notice) (attached as Exhibit 4 hereto) was mailed to more than four million potential Class Members beginning on June 29, 2005 and posted, as of 9:00 a.m. EDT on July 1, 2005, at www.worldcomlitigation.com. The Summary Notice of Proposed Settlements of Class Action with Settling Defendants and Bar Order Notice (the "Publication Notice"), in the form approved by the Court, was published in the national editions of *The Wall Street Journal* and *The New*

York Times on July 6 and 7, 2005, respectively, and on the *PR Newswire* and *Bloomberg News* on July 8, 2005. *See generally* Affidavit of Shandarese Garr, dated July 27, 2005 ("Garr Affidavit") (Exhibit 2 hereto), ¶¶ 3-9 and Exhibits A-E thereto.

59. Pursuant to the Order of June 16, 2005, the Supplemental Plan of Allocation was mailed along with the Notice to each Class Member who previously submitted a proof of claim form, and the Summary of Supplemental Plan of Allocation was mailed along with the Notice to the other approximately 3.5 million identified potential Class Members. *Id.* ¶¶ 4-8.

60. The statements in the Notice, which Lead Counsel prepared in the first instance, and modified based on suggestions of other counsel and directives of the Court, are true and correct, to the best of our knowledge, and each such statement is incorporated herein as if it were included in this Joint Declaration. However, contrary to paragraphs 38-40 that informed Class Members of the possibility of settlements being reached with the Executive Defendants, Lead Plaintiff and the Additional Named Plaintiffs have now entered into Settlements with these Defendants, and Lead Counsel has prepared for the Court's consideration a proposed notice of those proposed Settlements.

61. The Notice contains, *inter alia,* a detailed description of the nature and procedural history of the Action, the terms of the non-Executive Settlements, the proposed Plans of Allocation, the claims that will be released in the non-Executive Settlements, and the maximum amounts that Lead Counsel may seek as attorney's fees and reimbursement of litigation expenses. The Notice also advises Class Members of the existence of the Supplemental Plan of Allocation (which was distributed to Class Members as outlined above) and the extension of the deadline for the submission of proof of claim forms until August 26, 2005. The Supplemental Plan describes how Plaintiffs propose to allocate the Net Settlement Funds. The Notice further

advised Class Members of the possibility of settlements being reached with the Executive Defendants, and that if that occurred, there would not be an additional printed notice mailed to all Class Members. Rather, the Notice informed Class Members that any notice of settlements with the Executive Defendants would be accomplished by publishing a notice in *The Wall Street Journal* and *The New York Times*, over the PR Newswire, and by posting it on the case website. Class Members were also informed that on or before August 12, 2005, they could request a hard copy of the notice be mailed to them by the Notice and Claims Administrator. Lead Counsel has submitted a proposed notice of the Executive Defendant Settlements and proposed Plans of Allocation to the Court, and will ensure that the notice – as approved by the Court – is published or otherwise made available to Class Members, as the Court may direct.

62. The Notice further advises Class Members of their right to object to the Settlements, Plans of Allocation, Supplemental Plan and/or Lead Counsel's fee and expense applications by no later than August 12, 2005, and advises "Barred Persons" of their right to object to the Released Insurance Claim provision in the Director Defendant Settlement. While the August 12, 2005 deadline for objections has not yet expired, to date not one Class Member has filed an objection to the proposed Settlements, Plans of Allocation, Supplemental Plan or the fee and expense applications.[2]

63. On June 16, 2005, the Court entered a Hearing Order that set a hearing for September 9, 2005 to determine the fairness, reasonableness and adequacy of the non-Executive Settlements, the proposed Plans of Allocation, the proposed Supplemental Plan of Allocation, and Lead Counsel's fee and expense applications. The Court directed that Notice of the Fairness Hearing be given to the Class. Lead Counsel has further proposed to the Court that it enter a

[2] Should any objections be received, they will be addressed by Lead Counsel in a further submission to the Court of September 2, 2005, in accord with the Hearing Order.

Hearing Order for the Executive Settlements that sets the time and place for consideration of those Settlements and their Plans of Allocation for the same hearing.

64. Pursuant to the Stipulations of Settlement, the Court's consideration of the Settlements, Plans of Allocation, Supplemental Plan of Allocation and the fee and expense applications are independent of each other. Thus, if the Court were to disapprove and/or modify the Plans of Allocation or Supplemental Plan of Allocation, that would not affect the finality of approval of the Settlements (assuming the Court grants final approval of the Settlements). Similarly, the Court's determination with respect to Lead Counsel's applications for attorney's fees and reimbursement of expenses would not affect the finality of approval of the Settlements, or impact the Court's rulings with respect to the Plans of Allocation or Supplemental Plan of Allocation.

Part III - Plans of Allocation

65. The Stipulations of Settlement with the Settling Defendants each provide for an allocation of any Settlement Fund attributed to that Settlement. Plaintiffs are seeking Court approval of the proposed allocations. The Stipulations with the Underwriter Defendants provide for the funds from each of those settlements to be allocated among only purchasers of the bonds issued by WorldCom in the May 2000 and May 2001 bond offerings and, in certain cases, to only purchasers of bonds issued in one or the other bond offering if the settling Underwriter Defendant participated as an underwriter in only one or the other of the bond offerings. On the other hand, the Stipulations with the Director Defendants, Andersen, Ebbers and Sullivan provide for the funds from those settlements to be allocated among purchasers of WorldCom stock and other pre-existing bonds on the open market, as well as purchasers of the bonds issued by WorldCom in the May 2000 and May 2001 bond offerings. The reasons for the differences in

the manner in which the various settlements are allocated are described in the paragraphs below, as they were in the Notice.

66. The first recovery that Lead Plaintiff achieved provided for the payment of $2.575 billion from the Citigroup Defendants in a settlement that was announced in May 2004 and granted final approval by the Court on November 12, 2004. Because Plaintiffs had asserted claims against the Citigroup Defendants on behalf of purchasers of bonds issued by WorldCom in the May 2000 and May 2001 bond offerings under the Securities Act, and on behalf of purchasers of WorldCom stock and other publicly-traded bonds under the Exchange Act, Plaintiffs proposed to the Court – and the Court approved – an allocation of the Citigroup Settlement Amount that provided for approximately 55% of the total proceeds to be paid to purchasers of bonds issued by WorldCom during the Class Period, and 45% of the proceeds to be paid to purchasers of stock and other publicly-traded bonds. As the Court's opinion approving the Citigroup Settlement and that Plan of Allocation finds, that allocation was based on many factors, including but not limited to the facts that Citigroup had been a lead underwriter of the two bond offerings, that claims brought under the Securities Act do not require proof of a defendant's intentional or reckless misconduct (in contrast to claims brought under the Exchange Act), issues concerning what Citigroup's proportionate liability might have been with respect to the Exchange Act claims (issues which do not impact claims brought against an underwriter, like Citigroup, under the Securities Act), Citigroup's challenge to the class motion ruling made by the Court with respect to analyst reports issued by certain Citigroup Defendants during the Class Period, and the relative estimated damages for both sets of claims. Thus, approximately $1.4 billion of the Citigroup Settlement (55%) was allocated to purchasers of WorldCom bonds in the May 2000 and May 2001 bond offerings, and approximately $1.175 billion (45%) was allocated

to purchasers of WorldCom stock and other publicly-traded securities on the open market throughout the Class Period.

67. Since the Citigroup Settlement, Lead Plaintiff entered into settlements with each of the remaining Underwriter Defendants (JP Morgan, Bank of America, Deutsche Bank and twelve other banks that served as underwriters for the May 2000 and/or May 2001 bond offerings), which were granted preliminary approval by the Court. It was only thereafter that Plaintiffs reached settlements with the Director Defendants, Andersen and the Executive Defendants.

68. The only claims asserted in the case against the remaining Underwriter Defendants – as clearly stated in the earlier notices sent to Class Members – were claims brought pursuant to the Securities Act based on the issuance of WorldCom bonds in the May 2000 and May 2001 bond offerings. As a result, when settlements were reached with those Defendants, only Class Members who had actually purchased the bonds issued in those Offerings were and could be beneficiaries of those settlements. That is why no monies from those settlements could or should be allocated to WorldCom stock purchasers. Persons who purchased WorldCom stock or other publicly-traded securities did not have claims that were or could be asserted against any of the underwriters of WorldCom's May 2000 and May 2001 bonds, except for the Citigroup Defendants.

69. The Plans of Allocation proposed by Plaintiffs for the various settlements with the recently settling Underwriter Defendants provide for the net proceeds of those settlements to be distributed only to Class Members who purchased WorldCom bonds issued in the May 2000 and May 2001 bond offerings, and are based on (a) the relative damages asserted by Plaintiffs for the May 2000 and May 2001 bond offerings, and (b) the amounts underwritten by each individual

Underwriter Defendant in one or both of those offerings. Certain Underwriter Defendants participated only in one of the two bond offerings and, therefore, their settlement payments are allocated solely to that offering. The remaining Underwriter Defendants participated in both bond offerings, and their settlement payments are allocated to reflect the amounts attributed to them in the Registration Statements for the offerings, and Plaintiffs' estimated damages for the offerings. The Plans of Allocation for the Underwriter Defendant settlements are as follows:

Underwriter Defendant	May 2000 purchasers	May 2001 purchasers
Bank of America Securities (and Fleet Securities)	13.61%	86.39%
Lehman Brothers Inc. Credit Suisse First Boston Goldman, Sachs & Co. UBS Warburg LLC	100.0%	--
ABN AMRO Inc. Mitsubishi Securities Int'l BNP Paribas Securities Corp. Mizuho International WestLB AG Caboto Holding SIM S.p.A.	--	100%
Deutsche Bank	4.15%	95.85%
J.P. Morgan Chase	22.75%	77.25%
Utendahl Capital	--	100%
Blaylock Partners	43.02%	56.98%

70. In contrast to the settlements with the Underwriter Defendants, when Lead Plaintiff reached settlements with the Director Defendants, Andersen, Ebbers and Sullivan – all of whom had Securities Act and Exchange Act claims asserted against them – Plaintiffs proposed in those Stipulations of Settlements and to the Court that 80% of all of those settlement funds be allocated to purchasers of WorldCom stock and other publicly-traded securities, and 20% of

those funds be allocated to purchasers of WorldCom bonds issued in the May 2000 and May 2001 bond offerings. This allocation takes into account many of the factors discussed above with respect to the Citigroup allocation, as well as the amounts recovered previously for May 2000 and May 2001 bond purchasers (which served to decrease the potential damages that could be recovered on the Securities Act claims against the Director Defendants, Andersen, Ebbers and Sullivan).

71. The Plans of Allocation for the Director Defendants, Andersen, Ebbers and Sullivan settlements provide that the amounts paid for the benefit of the Class in those settlements shall be allocated to members of the Class as follows: (i) 4.774% of the Net Settlement Fund to claims asserted under the Securities Act by purchasers of debt securities offered by WorldCom in May 2000; (ii) 15.226% 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) 80% of the Net Settlement Fund to claims asserted under the Exchange Act by Class Members who, during the Class Period, purchased WorldCom stock or other publicly-traded securities. Further, because the first statement made by Andersen that Plaintiffs claim was false and misleading was made on March 30, 2000, the portion of the allocation made to Class Members in the settlement with Andersen with claims asserted under the Exchange Act would be allocated only to Class Members with purchases on or after that date.

Part IV - Supplemental Plan of Allocation

72. Lead Plaintiff and the Additional Named Plaintiffs have further submitted to the Court for its review and approval a Supplemental Plan of Allocation to be used by the Administrator to calculate the value of claims submitted by Class Members. The development of the Supplemental Plan involved complex and important issues that were discussed and

considered extensively by Lead Plaintiff, Lead Counsel, and the expert consultant retained by Plaintiffs to opine on the Class' damages and to assist in the development of a reasonable and comprehensive plan for distributing the settlement funds to Class Members. The Supplemental Plan describes the circumstances in which a Class Member may or may not be entitled to a payment from the Settlement Fund, and the manner in which Plaintiffs propose that claims submitted by Class Members will be calculated. It is possible under the provisions of the Supplemental Plan that a person who purchased or acquired publicly traded securities of WorldCom during the Class Period may not be entitled to a payment from the Settlement Fund: for example, as stated in the Supplemental Plan, a Class Member who sold her WorldCom stock before January 29, 2002 – the date of the first partial disclosure alleged in the case – would not be entitled to a distribution from the Settlement Funds based on the law of "loss causation" as articulated by the United States Supreme Court in *Dura Pharmaceuticals v. Brouda*, issued May 19, 2005.

73. The Supplemental Plan of Allocation describes how the claim of each member of the Class who timely submits a valid Claim Form ("Authorized Claimant") will be determined based on the specifics of the WorldCom publicly traded securities that Class Members may have purchased or acquired during the Class Period. These are: WorldCom common stock; WorldCom-issued MCI Tracking stock ("MCI Tracking Stock"); WorldCom notes issued in May 2000 (the "May 2000 Notes"); WorldCom notes issued in May 2001 (the "May 2001 Notes"); bonds WorldCom issued before the beginning of the Class Period (the "Pre-Existing WorldCom Bonds"); bonds issued by companies acquired by WorldCom (the "WorldCom Predecessor Bonds"); Series D, E, and F Junior Convertible Preferred stock issued by WorldCom in connection with the Intermedia Communications, Inc. ("Intermedia") acquisition (the

"WorldCom Predecessor Preferred Stock"); or MCI Capital I 8% Cumulative Quarterly Income Preferred Securities ("QUIPs") (collectively referred to as "WorldCom Securities"). The Supplemental Plan of Allocation includes listings of each type of WorldCom Security identified above, and explains how Claim Amounts may be affected by:

a. the type of WorldCom Security purchased or acquired;

b. When, and the price at which, each such WorldCom Security was purchased or acquired; and

c. Whether each such WorldCom Security was held until the conclusion of the Class Period (June 25, 2002), or whether it was sold or redeemed, if applicable, during or after the Class Period and, if so, when and at what price it was sold or redeemed.

74. The Recognized Amounts (which is a defined term in the Supplemental Plan) for purchases of the May 2000 and May 2001 Notes are based on the damages provisions of Section 11 of the Securities Act. They are calculated based on the difference between the amount paid for the security (not exceeding the price at which the security was offered to the public) and (i) if the security was disposed of before the date upon which suit was commenced, the price at which the security was disposed of; or (ii) if the security was disposed of on or after the date upon which suit was commenced, the greater of the price at which the security was disposed of or the price on the date suit was commenced.

75. In contrast, for the WorldCom Securities concerning which Exchange Act claims were asserted, the Recognized Amounts for purchases of these WorldCom Securities still held on January 29, 2002, are calculated based on the Plaintiffs' expert's calculation of the amount by which the prices of such securities were inflated during the Class Period, and other factors that may be relevant to certain Authorized Claimants. Plaintiffs asserted that the cumulative overstatements in WorldCom's financial statements grew with each succeeding quarter, so that

the percentage of the total artificial inflation attributable to a quarter also increased with each succeeding quarter. Further taking into account the degree to which the fraud was disclosed by the end of the Class Period, the proposed Supplemental Plan of Allocation starts with relatively smaller inflation percentages during the first quarters of the Class Period and provides for gradually increasing inflation percentages over time until the percentage inflation in the market prices of the WorldCom Securities reaches almost 100% in the fourth quarter of 2001.

76. The Supplemental Plan includes charts showing, on a day-by-day basis, the amounts used to determine the Recognized Amounts for purchases of these WorldCom Securities. It further explains how each Claim Form that includes more than one Class Period purchase or acquisition of a WorldCom Security will be treated in terms of accumulating the Recognized Amounts to determine the overall Claim Amount, and how the Settlement proceeds paid by the Settling Defendants are to be allocated based upon the claims asserted against the various Settling Defendants by purchasers or acquirers of the various types of WorldCom Securities.

Distribution of the Net Settlement Funds

77. Assuming approval of the Settlements by the Court and upon satisfaction of the other conditions to the Settlements, the Settlement Fund will be distributed, as follows:

a. To pay costs and expenses in connection with providing Notice to Class Members and administering the Settlements on behalf of Class Members;

b. To reimburse Lead Plaintiff and Lead Counsel for, and to pay, expenses incurred in connection with the prosecution of this Action, with interest thereon if and to the extent allowed by the Court;

c. To pay Lead Counsel's fees, with interest thereon if and to the extent allowed by the Court;

d. To pay the reasonable costs incurred in the preparation of any tax returns required to be filed on behalf of the Settlement Fund as well as the taxes (and any interest

and penalties determined to be due thereon) owed by reason of the earnings of the Settlement Fund, including taxes and tax expenses; and

e. Subject to final approval by the Court of the Plans of Allocation and Supplemental Plan of Allocation (which means that the Orders granting approval have been (i) affirmed on appeal or certiorari, or (ii) are no longer subject to review by appeal or certiorari, and the time for any petition for rehearing, appeal or review by appeal or certiorari has expired), the balance of the Settlement Fund (the "Net Settlement Fund"), shall be distributed in accordance with the Plans of Allocation and the Supplemental Plan of Allocation, as approved by the Court, to Class Members who submit valid, timely Proofs of Claim ("Authorized Claimants"). There shall be no distribution to any Class Member until after such final Court approval has been obtained.

There will be no return to any Settling Defendant of any settlement payment if the Settlement with that Settling Defendant is finally approved. All settlement funds will be used, as described above, for the benefit of Class Members. Approval of the Settlements is independent from approval of the Plans of Allocation and the Supplemental Plan of Allocation. Any determination with respect to the Plans of Allocation and Supplemental Plan of Allocation will not affect the Settlements, if the Settlements are approved.

Part V – The Applications for Attorneys' Fees and Reimbursement of Expenses

78. In addition to seeking final approval of the Settlements, Plans of Allocation, and the Supplemental Plan of Allocation, Lead Counsel is also applying to the Court for awards of attorneys' fees and payment of costs and expenses on behalf of Lead Counsel and all counsel who assisted Lead Counsel, with Lead Plaintiff's prior approval, in the prosecution of the Class Action.

79. The fee applications are being submitted by Lead Counsel with the prior approval of Lead Plaintiff and are, in all respects, in accordance with the July 30, 2003 Retainer Agreement entered into by Lead Plaintiff and Lead Counsel, with one exception: Lead Counsel has disclaimed seeking any fee against the recoveries obtained in the Settlements with Ebbers

and Sullivan. As noted earlier in the 9/24/04 Joint Declaration, and in the Lead Plaintiff's declaration of the same date, the Retainer Agreement was entered into between Lead Plaintiff and Lead Counsel following lengthy negotiation and at a time in the litigation where Lead Plaintiff and Lead Counsel had sufficient information to make an informed judgment regarding the risks inherent in the case and the potential magnitude of the Action. The Retainer Agreement 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. It was also the basis for the fee and expense application submitted by Lead Counsel in conjunction with the Citigroup Settlement.

80. 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. In addition, Lead Counsel furnished to Lead Plaintiff detailed daily time records of our firms and the Assisting Firms, and back-up documentation for all 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 Assisting Firms. Lead Counsel also provided Lead Plaintiff with the hourly rates for each attorney and paraprofessional involved in providing services for the benefit of the Class. 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. Lead Plaintiff has been diligent in reviewing, and requiring back-up documentation for, Class Counsel's time and expenses in connection with the present fee and

expense applications, as it was in connection with the fee and expense application submitted in connection with the Citigroup Settlement.

81. Exhibit 5 hereto summarizes the number of hours expended by attorneys and paralegals at each of our firms and the Assisting Firms (through June 30, 2005), the lodestar calculations (through the same date) and the expenses incurred by the firms after the time period covered by Lead Counsel's expense reimbursement request submitted in connection with the Citigroup Settlement. [The time and lodestar calculations attributable to negotiating the Executive Defendant Settlements (for which we utilized the term "Ebbers settlement") are separately identified in footnotes on the Chart in Exhibit 5 for the convenience of the Court and Class Members.] The hourly rates that were utilized to calculate the "lodestar" for the attorneys and paraprofessionals identified in the charts in Exhibit 5 hereto are consistent with hourly rates utilized by other firms in the same locations of Class Counsel and in the field of class action litigation generally. This applies both to permanent attorneys and paraprofessionals at each of the firms, and to attorneys and paraprofessionals employed specifically for the purpose of working on this case (who are designated as "project associates" or "project paralegals"). Pursuant to an agreement with Lead Plaintiff, the hourly rates were capped by Class Counsel at the same rates the firms utilized in 2004, notwithstanding that Lead Plaintiff and Lead Counsel recognized that there would still likely be very significant litigation of this case into 2005, and possibly beyond this year. In fact, Lead Counsel, counsel for the Named Plaintiffs and other Assisting Counsel devoted in excess of 43,300 hours in this litigation in 2005, including more than 37,900 hours expended by Lead Counsel alone.

82. Consistent with the Retainer Agreement, Lead Counsel, on behalf of all Plaintiffs' Counsel, is applying for fees of $194,600,000, which constitutes just under 5.5 percent of the

Settlement Funds (excluding the funds from the Ebbers and Sullivan Settlements), together with interest at the same rate as earned by the Settlement Funds. As noted in the motion for an award of attorney's fees and reimbursement of expenses and in the Memorandum of Law being submitted herewith in support of the fee and expense request, Lead Counsel is seeking fees in two parts, with separate proposed Orders, as follows:

a. Based on the settlements reached with the Underwriter Defendants – which total $3,427,306,840 – Lead Counsel request fees of $187,720,000 (just under 5.5% of the Settlement Fund attributable to these settlements), plus interest at the same rate earned by the Fund; and

b. Based on the settlements reached with the Director Defendants and Andersen – which total $125,700,000 – Lead Counsel request fees of $6,880,000 (just under 5.5% of these settlements), plus interest.

83. The fee application is being applied for separately to make clear to Class Members that only monies from the settlements with the Underwriter Defendants will be utilized to pay the fee being requested based on those settlements, and only monies from the Director Defendant and Andersen settlements will be utilized to pay the fee being requested based on those settlements. Thus, no Class Member with claims arising solely from purchases of WorldCom stock, for instance, will bear any part of the fee awarded on the basis of the Underwriter Defendant settlements. An argument raised on appeal by two of the Objectors to the Citigroup Settlement (Lusk and Savage) was that Class Members with only Exchange Act claims should not have to bear a disproportionate amount of the Citigroup Settlement fee award because such Class Members were allocated only 45% of that Citigroup Settlement Fund. While the argument has no merit whatsoever, since a fair allocation resulted from taking the fees and expenses from the overall settlement amount and thereafter allocating the net settlement fund on a 55% - 45% basis, Lead Counsel believe that separation of the fee request here between fees attributable to the Underwriter Defendant settlements and the Exchange Act Defendant

settlements will go far to ensure that no similar argument could be raised to the present Fee and Expense Application, or fees awarded by this Court.

84. As set forth below, the fees being requested represent a lodestar multiple (using 2004 hourly rates) of 4.0, which is well within the range of risk multipliers routinely approved by Courts in securities fraud class actions.[3]

85. The work undertaken by Lead Counsel and the Assisting Firms in prosecuting this case and arriving at the present Settlements has been extraordinarily challenging. Many lawyers worked virtually full time for nearly three 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. Moreover, as the case proceeded to trial, Lead Counsel was simultaneously: (a) preparing the case for trial against three distinct sets of defendants – the Underwriter Defendants, Director Defendants, and Andersen – which involved selecting exhibits and preparing demonstrative exhibits, preparing witnesses and lines of questioning, researching and drafting numerous legal memoranda and Plaintiffs' portions of the Pre-Trial Order, providing proposed jury instructions, questionnaires and verdict form, designating deposition testimony for trial and responding to the designations of the numerous defendants in the case at that point in time, preparing for and taking the *de bene esse* testimony of an MCI witness (James Renna), who could not attend the trial after a one-week postponement of its commencement date, preparing the opening statement for a trial whose nature was rapidly changing as defendant after defendant settled, and further preparing (and drastically revising) an "order of proof" for the

[3] As noted above, Lead Counsel is not seeking a fee from the approximately $40 million that is estimated to be obtained from the Ebbers and Sullivan Settlements. Even if the time expended with respect to the Executive Defendant settlements were excluded from Class Counsel's reported lodestar, the multiplier would remain at 4.0. Moreover, if 2005 rates were utilized (assuming just a 5% increase), the lodestar multiple would drop to 3.8.

case; and (b) participating in intense settlement negotiations with many sets of Underwriter Defendant counsel and various Director Defendant counsel, conducting in-depth analyses of settlement positions, and attending numerous meetings and telephone conferences with Lead Plaintiff, the Additional Named Plaintiffs and their counsel, which led to settlements on a rolling basis that constantly changed the focus of the case that would be tried.

86. After the trial, the Court indicated that it would hold a hearing to consider lifting the stay of litigation against the Executive Defendants. Lead Counsel thereafter expended enormous time and effort to bring about the settlements with the Executive Directors in a brief period of time. The negotiations with Ebbers were particularly difficult in light of Ebbers' varied business interests, and the fact that the negotiations required coordination with the USAO, SEC, NYAG, the ERISA Class and MCI. While less complicated in many ways, the negotiations pertaining to the Sullivan settlement were also challenging, in part because of his wife's acute medical condition.

87. These efforts, and those described in the 9/24/04 Joint Declaration and earlier in this Joint Declaration, were extensive and, respectfully, instrumental in terms of achieving the extraordinary recoveries in the present Settlements. As of June 30, 2005, the Collective Lodestar (calculated utilizing the firms' 2004 rates) resulting from these efforts was $83,183,238.70, which represents 277,868 hours of work devoted to this case. *See* WorldCom Securities Litigation, Summary of Time and Expenses, attached as Exhibit 5 hereto. At our two firms alone, we expended more than 214,000 hours on the case through June 30, 2005. Taking into consideration the fee award earlier made by the Court in connection with the Citigroup Settlement, the present fee requests constitute a 4.0 multiple of the Collective Lodestar.

88. Our two firms continued to maintain daily control and monitoring of all of the work provided by lawyers at our two firms, and the work and time records of lawyers from the Assisting Firms in 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, and thereafter, in certain circumstances, in assisting in the depositions and the pre-trial process. Although we have each personally devoted most of our time to this case over the past three 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; negotiating the Pre-Trial Order; settlement mediations; 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. Plaintiffs' Counsel compiled the hours reported from contemporaneous time records maintained by each attorney affiliated with the firms that participated in the Action. We have supervised every aspect of this litigation to avoid duplication and ensure its efficient prosecution.

89. A number of project attorneys were highly experienced. For example, William Ban joined Barrack Rodos & Bacine as a contract attorney for the WorldCom case in April 2004. Mr. Ban had been a partner at Lowey, Dannenberg, Bemporad & Selinger, another highly regarded class action firm, and undertook a number of significant tasks in addition to document review work, such as assisting in the preparation of depositions, taking depositions, designating deposition testimony, conducting meet and confer sessions with defense counsel on deposition designations, participating in plaintiffs' mock jury sessions, and drafting letters to the Court on

disputes involving deposition designations. Mr. Ban joined Barrack Rodos & Bacine as a partner in 2005, prior to the trial against Andersen, and continued to work full-time on this case. Chad Carder, who began at BR&B as a project associate, was made a regular associate at BR&B during the course of this case. Similarly, David Hassel, who began at BLBG as a project associate, was made a regular associate at BLBG and, as the Court is aware, participated actively, among other things, in the technical aspects of presenting the Plaintiffs' case against Andersen at trial.

90. Project associates Robert Schupler, Ahmed Khan and Alison Munoz, among others at BR&B, and Cathy Tierney and Stacey Sabo, among others at BLBG, are attorneys who also had significant experience in document reviews, creating case databases, analyzing accounting documents, and responding to discovery motions. As we had done throughout the case, each of the contract attorney's experience and skill level was considered in setting the appropriate hourly rate for the services that they provided to the Class, and to ensure that their rates collectively were consistent with prevailing rates in the securities class action field.

91. The fees being requested by Lead Counsel have been approved by Lead Plaintiff. As more fully set forth in Lead Counsel's Memorandum of Law in Support of Awards of Attorney's Fees and Reimbursement of Expenses, we believe the fee request is presumptively reasonable given the Court's findings made in the November 12, 2004 Opinion and Order, the Lead Plaintiff's approval of the requests and careful monitoring of the work and services provided by Lead Counsel throughout the litigation, and the fee structure set forth in the Retainer Agreement.

92. The fees being requested are further warranted based on the factors set forth in the decision of the Second Circuit Court of Appeals in *Wal-Mart Stores, Inc. v. Visa U.S.A. Inc.*, 396

F.3d 96 (3d Cir. 2005) (affirming $220 million fee, constituting 6.5% of the $3.4 billion recovery), *cert. denied sub nom, Leonardo's Pizza by the Slice, Inc. v. Wal-Mart Stores, Inc.*, __ U.S. ___, 125 S. Ct. 2277 (May 16, 2005), in this Court's Opinion and Order of November 12, 2004, in Lead Counsel's accompanying Memorandum of Law, and based on awards in similar "mega-fund" cases. *See, e.g., Visa, supra; In re NASDAQ Market-Makers Antitrust Litigation*, 187 F.R.D. 465 (S.D.N.Y. 1998) (Sweet, J.) (awarding fee of $143 million, constituting 14% of the $1.027 billion recovery); and *Shaw v. Toshiba America Information Systems, Inc.*, 91 F. Supp.2d 942 (E.D. Tex. 2000) (awarding fee of $147.5 million, constituting 14 to 15% of the value of that settlement conservatively valued at $1 billion).

93. 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., 269 F. Supp. 2d 603 (E.D. Pa. 2003), *vacated and remanded*, 396 F.3d 294 (3rd Cir. 2005), fees approved on remand, 362 F.Supp.2d 587 (E.D. Pa. 2005)	$126 million	25%
In re Rite Aid Corp. Sec. Litig., 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%

Case	Recovery	Percentage Awarded
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%

94. Here, in contrast, the fee request is for just under 5.5% of the non-Executive Defendant Settlement Amounts and, as the Court noted at the preliminary approval hearing on July 11, 2005, for the Ebbers settlement, Lead Counsel has disclaimed seeking any fee from the Executive Defendants settlements.

95. We further respectfully submit that the expense application being filed in connection with the present Settlements should be granted. Notably, while the Citigroup Settlement has been earning interest for the benefit of the Class, because of appeals involving approval the Citigroup Settlement, Citigroup has not yet been required under its Stipulation of Settlement to transfer monies to the Plaintiffs' Escrow Account. As a result, Lead Counsel could not utilize any part of the $5 million Litigation Fund allowed by the Court in the Order of November 12, 2004, to pay any of the expenses of continuing to prosecute the Action against the remaining defendants, including the expenses incurred in trying the case against Andersen.

96. The expense application being submitted by Lead Counsel has been approved by Lead Plaintiff and is in strict accordance with the Retainer Agreement. Lead Counsel respectfully submits that the fee applications and all of the reimbursement requests are

appropriate, fair and reasonable, and should be approved, in the amounts submitted herein with the approval of Lead Plaintiff.

97. Lead Counsel is seeking reimbursement for litigation expenses totaling $7,752,355.63 through June 30, 2005. These consist of: (a) $5,389,994.17 paid by Class Counsel; (b) $2,351,297.92 owing from Lead Counsel's Litigation Fund; and (c) $11,063.54 in expenses incurred by Lead Plaintiff in prosecuting this case. The Retainer Agreement required 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 reviewed the expense reports and requested (and was sent) back-up documentation for all expenses for which counsel was seeking reimbursement.

98. The expenses for which reimbursement is being sought were all incurred in the course of preparing the case for trial, responding to Class Member inquiries or requests for information, and taking the case to trial. They include charges for deposition and court transcripts; photocopying; preparation of trial exhibits; payments to experts and consultants; 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. Further, Lead Plaintiff and Lead Counsel have made extensive efforts to ensure that the present expense application does not duplicate any expenses for which Lead Counsel sought reimbursement in connection with the Citigroup Settlement.

99. 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 6 to this Joint Declaration (with certain redactions to protect the identity of certain non-testifying consultants and the precise amounts paid to Plaintiffs' experts and consultants). Lead Counsel is prepared to provide any additional documentation requested by the Court.

100. Plaintiffs have incurred considerable expenses for experts and consultants retained by Lead Counsel. Under the Retainer Agreement, Lead Counsel was required to obtain Lead Plaintiff's approval before retaining any expert or consultant, and did so. Moreover, when retaining such experts and consultants, Lead Counsel typically considered several potential candidates, and reviewed proposals from each of them. Lead Counsel thereafter made a recommendation to the Lead Plaintiff, which considered the recommendation and determined whether to approve the retention of the expert or consultant.

101. Plaintiffs' identified trial experts were: Harris Devor (auditing and accounting issues); James Miller (investment banking and due diligence); John Bise (telecommunications); David Stark (WorldCom's accounting computer programs); and Blaine Nye (damages). All except Bise testified at the trial. Other consultants who assisted in the preparation of the case for trial but were not retained to provide expert testimony were also retained by Lead Counsel, with Lead Plaintiff's consent. Such consultants substantially assisted in such matters as Lead Counsel's case investigation, discovery of electronic documents, preparation of trial exhibits and providing in-court assistance, mock jury presentations and analysis, and the like. The invoices of the Plaintiffs' experts and consultants, as paid (and/or pending) through June 30, 2005, are contained within the summary of the Litigation Fund payments, attached (in redacted form with respect to experts and consultants) as Exhibit 6 to the Joint Declaration.

102. The Retainer Agreement with Lead Plaintiff also provides for certain caps on expenses. These include caps on hotel charges, per diem allowances for out-of-town travel, and a $0.10 per page cap on in-house copying rates. The cap on hotel charges for a room in New York City is $177 to $208 per night depending on the season. Thus, for instance, counsel were limited to apply for reimbursement of only $177 per night for hotel rooms and short-term apartment rentals during the trial, notwithstanding that even moderately priced New York hotels and short-term rental apartments cost significantly more than $177 per night. Based on such caps on allowable expenses, and Lead Plaintiff's disallowance of other expenses incurred by counsel, Lead Counsel estimate that the actual expenses incurred since the Citigroup fee and expense application, including expenses incurred by Lead Counsel in taking the case to trial against Andersen, exceed the expenses for which reimbursement is being sought by more than $300,000. Given Lead Counsel's record before this Court and elsewhere, the representations made herein, and Lead Plaintiff's diligent review of expenses, this Court can take comfort that all expenses for which reimbursement is being sought are appropriate and proper.

103. In addition, there are still expenses to be paid to various vendors, experts and consultants from the Litigation Fund. After a review of the outstanding invoices (compared to the balance remaining in the Fund from the assessment payments made by Lead Counsel and the Assisting Firms), Lead Plaintiff has authorized Lead Counsel to request reimbursement in the amount of $2,351,297.92 for such expenses still to be paid by Class Counsel.

104. Lead Plaintiff and Lead Counsel have agreed that, with the Court's permission, this request for reimbursement may be modified for additional payments for expenses made or verified by plaintiffs' counsel after June 30, 2005, assuming that such expenses are reviewed and approved by Lead Plaintiff for inclusion in the application.

105. Finally, pursuant to the Private Securities Litigation Reform Act, 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 Lead Plaintiff Declaration (¶ 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, which total $11,063.54, include travel and meals (as allowed under the New York State Management Employees Guidelines), and other costs NYSCRF incurred as set forth in Exhibit A to the Lebowitz Declaration, for which reimbursement has not previously been sought.

106. The present application for reimbursement of expenses, which is being made with Lead Plaintiff's approval, is well within the upper limit of $12,500,000 contained in the Notice (Exhibit 4 at p.4).

107. Lead Counsel further anticipates seeking a payment of Administrative Expenses for services provided, and expenses incurred, by The Garden City Group for its notice and claims administration work since the fee and expense application submitted on behalf of GCG at the time of the Citigroup Settlement. However, neither Lead Plaintiff, Lead Counsel nor GCG are prepared, at this time, to make and/or approve such a request, and Lead Counsel respectfully requests permission to submit the GCG portion of the expense application with or before Lead Counsel's reply submissions on September 2, 2005.

Dated: July 28, 2005

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

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

Exhibit 1	**Declaration of Alan P. Lebowitz, General Counsel to the Comptroller of the State of New York, in Support of Final Approval of Settlements with the Settling Defendants, Lead Plaintiff's Proposed Plans of Allocation, Lead Plaintiff's Proposed Supplemental Plan of Allocation, and Awards of Attorney's Fees and Reimbursement of Expenses**
Exhibit 2	**Affidavit of Shandarese Garr, dated July 27, 2005**
Exhibit 3	**Mediators' Statement dated April 22, 2005**
Exhibit 4	**Notice of Proposed Settlements of Class Action With Settling Defendants and Bar Order Notice, dated July 1, 2005**
Exhibit 5	**WorldCom Securities Litigation, Time and Expense Chart, Inception through June 30, 2005**
Exhibit 6	**Check Register, WorldCom Litigation Fund, c/o Barrack Rodos & Bacine**