

Part X: Legal and Ethics Programs

An important part of the structure of any company should be the adoption and communication of a statement of values and principles of ethical conduct. Compliance with law is part of an overall framework of ethical conduct, but complying with the strict letter of the law is not a sufficient goal. Ideally a company should not wish to approach too closely to the point of committing illegal conduct, and its ethical principles and code of conduct can help eliminate conduct that is too close to the line of illegality.

It is worth noting that persons engaged in wrongdoing may often indulge in frequent prayer, and expressions of dedication to integrity, all without meaning. Flowery words expressing adherence to the highest standards of integrity are relatively easy to write, but it is deeds, not words, that count. As New Yorkers might say, it is one thing to “talk the talk”, but what is really important is to “walk the walk” when it comes to ethics. Employees must understand that the Company’s Code of Conduct will be enforced.

This issue is quite important for every company. A code of ethics is an opportunity for a company to express important values, and in this manner to reflect both the norms of society generally, and the standards of behavior that the company wishes to set for itself. Codes of ethical conduct are an important element of the “tone at the top” that the board and senior management should together communicate to the employees. That tone is critical in developing and maintaining a broader framework of internal controls against inappropriate

conduct. However, the very first step in making a code of ethics workable is for the senior management team to exhibit such values in their management of the company.

In any industry or type of business, there is a role for law and regulation to define conduct that will be unlawful. Beyond that companies and the broader community also define conduct that is unethical or inappropriate. Legitimate sales presentations or advertising may at some point cross a line into unethical attempts to mislead, and at another point they may cross a further line into fraud. A well-governed company should avoid conduct that is too sharp, or too close to the line of illegality. That is where internal codes of conduct come into play to create a healthy margin of safety. Employees should be able to be proud of the company they work for, and its standards of conduct are an important part of making such pride justifiable. Conversely companies that espouse a culture of pushing everything to the limit may find that these attitudes can quickly lead to very serious behavior issues. Set forth as Figure 1 are the new “Guiding Principles” of MCI, demonstrating new management’s determination to apply its standards of conduct in practice. These Guiding Principles have been distributed to all employees as part of CEO Michael Capellas’ efforts to set a strong and positive “tone at the top”.

MCI GUIDING PRINCIPLES

The Way We Work

1. Build Trust and Credibility
2. Respect for the Individual
3. Create a Culture of Open and Honest Communications
4. Set Tone at the Top
5. Uphold the Law
6. Avoid Conflicts of Interest
7. Set Metrics and Report Results Accurately
8. Promote Substance Over Form
9. Be Loyal
10. Do the Right Thing

The old WorldCom had a very weak control and compliance structure, coupled with a highly competitive business culture. The Office of General Counsel was fragmented and dispersed, and the CEO appears to have done everything possible to undermine the stature and authority of the legal department. There was no formal Ethics Office, and under Ebbers the Company did not communicate values such as truthfulness or transparency to its employee base, and it did not live by them as a company either. Indeed, both the Special Committee Report and Thornburgh II specifically noted the weakness of the legal department as a contributing factor in both the accounting and governance abuses that ultimately occurred.

For the future, the Company needs to place a vastly higher priority on legal compliance, internal supervision, and reporting practices. Among other things these steps can help insure that every employee understands the Company's values, and the standards they are expected to follow. Employees who believe that senior management will not control inappropriate conduct if it hurts business will not hazard their own positions by reporting concerns. This can lead to silence in the face of bad practices. Therefore, employees who witness inappropriate conduct need to have opportunities to communicate concerns to higher levels of management, and most importantly they have to know that such concerns will be responded to in a positive manner.

The new MCI has already taken several important steps to improve its culture, and to strengthen legal compliance resources. Along with adoption of its "Guiding Principles," the most important step was instituting a formal "Ethics Pledge" that specifically requires strong efforts to achieve both ethical conduct and high levels of transparency. The Ethics Pledge, attached as Annex A, sets forth specific obligations in the areas of compliance, ethics, and transparency. The Ethics Pledge was drafted by the Corporate Monitor as a condition to the CEO's employment agreement with the full concurrence of Mr. Capellas. While failure to comply with the Ethics Pledge is grounds for termination of the CEO for cause, this is not its full significance. Beyond the CEO's personal obligation to the Ethics Pledge, he has subsequently included the Pledge in all new contracts involving senior managers. All existing direct reports to the CEO have also been required to sign the Pledge. Eventually the Pledge should be extended to all employees, as the CEO has stated he plans to do.

In one sense, the Ethics Pledge is another obligation for each employee, as it becomes a part of their Code of Conduct. In another sense, however, the Ethics Pledge represents empowerment of employees, since it is an obligation that all senior managers and officers above any particular employee are subject to themselves. If an employee is asked to do something that he or she believes may violate the Pledge, the employee has the ability to go directly to the General Counsel, the CEO and ultimately to the board of directors to determine whether the conduct would or would not be appropriate. For each employee the Pledge is in effect a guarantee from the board of directors that senior managers will be held to the same high standards of conduct that are asked of anyone.

A second important step was recruiting a new General Counsel with substantial experience in a variety of settings, including private law practice and serving as general counsel in two other large public companies. Given the Company's history of weakness in its legal regime, the General Counsel of the Company must be understood to have the full confidence of the CEO and the board of directors, and a mandate directly from the board to protect the Company against violations of law or internal policies. In turn the senior members of the General Counsel's staff, including but not limited to the senior ethics officer, should be persons who have sufficient experience and maturity to work with all operating divisions to identify and resolve legal problems swiftly, and to guarantee that the Company's actions in fact match its words.

Another important step was the Company's decision to establish a formal Ethics Office. However, the staffing levels of this office and the experience and perceived stature of

its first director have been questioned externally. The chief ethics officer should be a person who has unquestioned stature and authority, and this is an area in which the Company should invest further resources to be better able to fulfill the objectives of that program. The Chief Ethics Officer needs to be a very senior legal officer of the Company, and someone who has the unquestioned ability to bring problems involving any person within the Company to the attention of the CEO and, if necessary, the board.

The Ethics Office of the Company should be part of the Office of General Counsel to insure it has the institutional strength and clout of that department. At the same time, the ethics program needs to be part of the management responsibilities of each senior manager in their own area of the Company. Compliance is everyone's job, both when it comes to obeying the law and also to being sure that the Company operates in a fully transparent and ethical manner.

Recommendation 10.01. Ethics Programs.

The board of directors needs to be directly involved in establishing the mandate of the Company's Ethics Office, and in reviewing its activities. While the CEO and General Counsel should provide direct oversight for this program, the board should review the program regularly to insure that it is in touch with issues and concerns, and that there is an adequate level of resources and leadership.

10.01 There should be a formal Ethics Office within the Company, under the overall leadership of the CEO and General Counsel. As with Internal Audit, however, the board should itself periodically review the program to insure that it has the resources and leadership to fulfill its objectives. The board should receive regular written reports and briefings regarding the ethics program and major issues that may arise.

Recommendation 10.02. Ethics Pledge.

The Company should continue to broaden the usage of the Ethics Pledge, and it should be extended to all employees. The Ethics Pledge and its meaning should be part of all education and training programs for managers and staff.

10.02 The formal Ethics Pledge should be a condition of employment of all new employees, should be extended eventually to all existing staff, and should be part of the Company's regular education and training programs.

Recommendation 10.03. Legal Department.

The Company's obligations under the Permanent Injunction, the Monetary Settlement, Orders of the Court, SEC and other governmental regulations and its own internal policies are matters of the most serious importance and consequence. A major obligation of the CEO should be to insure that the legal department within the Company is a strong and essential part of the Company's control structure, and that it has highly capable senior leadership. Periodically, and not less than once each year, the full board should meet independently of any other officer or employee with the General Counsel to review the resources and leadership of the department, the strength of the Company's compliance programs and major contingent legal risks.

10.03 The legal department of the Company must be a strong and essential part of the Company's control structure, with both the leadership and resources to insure that the compliance programs are strong and effective. The full board should meet periodically, and not less than annually, with the General Counsel without the presence of any other employee or officer to review the resources and leadership of the department, the adequacy of compliance and ethics programs, and contingent legal risks to the Company.

10.04. Ethics Programs.

The Company should continue to invest substantial attention in creating a culture within the Company that involves a complete dedication to operating in accordance with high standards of integrity and transparency as mandated by the Ethics Pledge. In this regard the Company should continue its objective to become a role model within the telecom industry and beyond for excellence in ethical standards and practices. This is an ongoing challenge, and one that requires regular attention from senior management and the efforts of a strong and well-led Ethics Office.

Not less than annually the full board of directors should review the adequacy of the Company's ethics programs, including both formal standards and levels of adherence. The director of the Ethics Office should have a level of experience and skill comparable with the senior leadership of any division of the Company. As a general guideline, the senior ethics officer within the Company should ideally possess at least 15-20 years of legal experience, a portion of which should have included service in a regulatory or law enforcement agency of government.

10.04 The Company should commit to the highest standards of excellence in its ethics programs generally, and to the operation of a strong and effective Ethics Office within the management structure. The leadership of the Ethics Office should be someone with a very substantial level of legal experience, ideally including direct regulatory or law enforcement experience. The board should review all ethics programs thoroughly not less than annually, and should receive regular updates on the nature of issues that may arise.

Recommendation 10.05. Diversity Issues.

One of the Company's major legal and ethical obligations is to adhere to all legal standards relating to employment practices. Beyond legal obligations, however, the importance of diversity in the workplace and in the senior management of the Company is difficult to understate. While not thought of as a traditional concern of "corporate governance", the issues relating to diversity are part of what should be considered "good governance". A company cannot be thought to be well-governed if its internal practices for recruitment, training, promotion and opportunity do not meet the same standards of excellence and priority that are set for other areas of governance. Indeed, since diversity is an essential part of who is being governed, it should not be seen as something that can be overlooked when creating a structure of excellence in governance.

A specific review of the employment policies and practices of the Company in the diversity area is beyond the scope of this Report. However, as part of establishing a system of balance, respect and accountability within the Company, the subject of diversity policies is terribly important. Historically the Ebbers culture gave short shrift to respect for individuals, as it focused on the ability of Ebbers and his lieutenants to issue commands and to obtain immediate obedience. This was not a culture of respect for the individual and his or her role

within the organization that a healthy company should reinforce at every opportunity. Senior management and the board should undertake a thorough and wide ranging review of the Company's track record in the area of diversity issues, and should determine if changes should be made to establish similar standards of excellence in this area as part of the broad commitment to excellence in governance.

10.05 The Company should undertake a thorough and wide-ranging review of its diversity practices at the first opportunity to insure that the legacy of the Ebbers era is replaced by the finest standards of excellence in respect for all individuals. This review should consider the Company's track record in diversity programs, including recruitment, training and advancement of women and minorities.

Corporate Monitor
WorldCom, Inc.

December 16, 2002

Mr. Michael D. Capellas
WorldCom, Inc.
22001 Loudon County Parkway
Ashburn, VA. 20147

RE: Undertaking and Pledge

Dear Mr. Capellas:

By signing in the space provided below, you hereby represent and commit to me, as the Corporate Monitor of WorldCom, Inc., as an integral part of your obligations as CEO, as follows:

- You have personally read the Orders and the Permanent Injunction, and you understand that it is your express personal responsibility to exercise your full authority to insure that the Company scrupulously complies with all the provisions of the Orders and the Permanent Injunction unless or until the Court modifies any such requirements.
- Throughout your tenure as CEO you will make it your highest priority to see to it that the Company complies with all legal requirements applicable to the Company, and that the Company creates an environment of transparency and integrity in all that it does. As part of this commitment, you understand that the CEO is uniquely responsible for devoting serious and sustained efforts to develop systems, processes and personnel to prevent any violations of law or breach of ethical trust by the Company.
- Throughout your tenure as CEO you will seek continuously to enforce the Company's Code of Ethics and provide direct leadership in establishing the highest standards of ethics and integrity at all levels of the Company.
- Throughout your tenure as CEO you will provide strong personal commitment to candor and absolute truthfulness in the Company's operations and in its

communications to the marketplace, including developing communications and disclosure policies that provide comprehensive information concerning the Company's operations, its financial results, its record of compliance with law and its own ethical policies, in addition to all legally required disclosure. You commit to the goal of providing shareholders and the marketplace with a strong and effective disclosure program exceeding minimum legal requirements and that you will seek consistently high levels of transparency.

- Throughout your tenure as CEO you will endeavor to implement reliable and effective internal controls capable of detecting meaningful failures to comply with requirements of law (including the Permanent Injunction) applicable to the Company or the Company's internal ethical and governance requirements. You represent that you will support robust levels of capital investment in internal controls, including management information systems and internal audit resources that will be capable of insuring the accuracy and completeness of publicly reported financial information of the Company to the most reliable degree practicable.
- Throughout your tenure as CEO you will cooperate with the board of directors and the Corporate Monitor in developing new corporate governance mechanisms that will seek to establish the highest and best practices of healthy corporate governance to advance the best interests of shareholders, creditors and the public at large. As part of this obligation you will work actively with the Corporate Monitor in developing the best possible recommendations to strengthen corporate governance and compliance processes as part of the Permanent Injunction.
- Throughout your tenure as CEO you will use all reasonable efforts to insure that the Company's board has a membership that represents shareholder interests (and stakeholder interests broadly prior to emergence from bankruptcy) and in addition to yourself is composed entirely of members who are fully independent of yourself and the Company, and who are individuals of extraordinary skill and accomplishment. You recognize that a strong board of directors and meaningful checks and balances against excessive power are important elements of healthy governance practices.
- Throughout your tenure as CEO you will cooperate fully and without reservation with all SEC, law enforcement and other official inquiries and investigations into wrongful activities that may have taken place in the past, and you will provide assurance to customers and the public that the Company is fully committed to operating at the highest levels of integrity with personnel who are personally committed to the Company's goals and values.

- You understand that you will ultimately be judged on the degree to which the Company under your leadership achieves these goals, in addition to business and financial goals that may be set from time to time by the board of directors. You agree to use every effort to lead the Company in its growth and development in a manner that will achieve successful financial performance while adhering to the highest standards of ethics and compliance with law.

Very truly yours,

Richard C. Breeden
Corporate Monitor

Agreed and Accepted:

Michael D. Capellas