WorldCon

Nailed for the biggest bookkeeping deception in history, a fallen giant gives investors another reason to doubt corporate integrity

By DANIEL KADLEC

SOON AFTER WORLDCOM CEO JOHN SIDGmore revealed the most sweeping bookkeeping deception in history, a copy of his internal memo on the scandal was e-mailed to folks around the telecom industry. Under his predecessor, Sidgmore announced, WorldCom had overstated a key measure of earnings by more than $3.8 billion over five quarters, dating back to January 2001. The company's reported profits, it turned out, were really losses.

As WorldCom—once big and rich enough to swallow No. 2 long-distance carrier MCI—struggles to survive, it is laying off 17,000 workers. Its stock, which peaked at $64.50 three years ago, stopped trading last Tuesday at 83¢, having all but wiped out employee retirement accounts. The plunge in WorldCom shares has cost investors upwards of $175 billion—nearly three times what was lost in the implosion of Enron. WorldCom is not yet financially bankrupt, but it's clear that it—like a fat slice of corporate America—has been ethically bankrupt for years. We're only now getting a look at the red ink on the moral balance sheets, and new revelations of malfeasance in one company after another are sending shocks around the globe.

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The dollar is falling. Stocks are in a swoon. Foreigners are calling home capital. Corporate insiders are dumping shares by the bucketful. Individuals are redeeming mutual-fund shares. Pension funds are getting socked. Banks are taking loan-portfolio hits. This is all a direct result of the spreading collapse of confidence in U.S. companies and the executives and board members who run them—a crisis that threatens to untrack a fragile economic recovery. Speaking at an economic summit in Canada, President Bush said he was "concerned about the economic impact of the fact that there are some corporate leaders who have not upheld their responsibility." The Federal Reserve seems concerned as well. At a meeting last week, it left interest rates unchanged—signaling that the recovery isn't firmly rooted. Some economists speculate that the Fed will soon cut rates to guard against a "double-dip" recession.

In the context of recent developments, President Bush's musings on CEO responsibility are as understated as the expenses in WorldCom's financial statements, the flashpoint for new worries of widespread accounting abuse. WorldCom said that an internal review uncovered huge hidden expenses—mostly line charges that it pays to other telecom carriers—that were characterized as capital investments, a gimmick that boosted its profits.

The company fired its longtime chief financial officer, Scott Sullivan, 40, and is turning over its findings to the Securities and Exchange Commission. The SEC has filed fraud charges and is launching an investigation—as is the Justice Department, at least two congressional committees and the state of Mississippi, where WorldCom is based. All current and former employees, along with WorldCom's ex-accounting firm, Arthur Andersen, have been ordered to refrain from Enron-like paper shredding. Investigators are especially eager to hear from WorldCom founder Bernie Ebbers, who resigned as CEO in April, not long after it was revealed that he owed the company $366 million in low-interest loans.

In the same week that the veil was lifted from WorldCom's books, Xerox restated $6.4 billion in revenues dating to 1997. The amount turned out to be more than triple what investors had expected and sparked a 13% sell-off of Xerox's stock.

Martha Stewart, meanwhile, faced fresh doubts about her explanation of why, after buying stock in a drug company run by a close friend, she sold her shares just ahead of bad news about the company's cancer drug. Stewart, recently appointed a director of the New York Stock Exchange, denies wrongdoing, but shares in her Martha Stewart Omnimedia have declined 40% in the past month over fears of damage to her image.

Yet this scandal sharply raises the stakes. When Enron filed for bankruptcy in December, it employed 28,000, of whom 12,600 have been let go. WorldCom employs 80,000 and will eliminate a fifth of those jobs almost immediately. The Enron-stock meltdown wiped out $67 billion of shareholder wealth—less than half what WorldCom investors have lost.

The losers include pension funds and mutual-fund investors across the country. And, as at Enron, WorldCom's 401(K) plan was full of company stock, socking employees with greatly diminished savings just when they are likely to need them the most. Says John Alexander, 31, a former WorldCom benefits manager: "Everything they ever told us was, 'We're making money hand over fist.'" Alexander lost $180,000, a large chunk of his life's savings.

The developments at WorldCom suggest that accounting games may be more pervasive than we had thought. With Enron, the tricks involved complicated partnerships, off-the-books debt and hedging techniques that made the firm's financial results difficult to assess even for pros. It seemed unlikely that anything so complex could be widespread. But with WorldCom, as House Financial Services Committee chairman Mike Oxley says, it looks like "good old-fashioned fraud."

How, exactly, did WorldCom cook its books? By treating routine expenses as capital investments. Normal operating expenses must be subtracted from a company's revenues in the year they occur. But capital expenditures can be subtracted from revenues a little at a time over many years. In the short term, that lets money flow to the bottom line and boosts financial results. It's the oldest trick in the book, and mind-numbingly simple. Dennis Beresford teaches Accounting 101 at the University of Georgia and says what happened at WorldCom is "plain vanilla" trickery that he covers on the second day of class.

Yet WorldCom's auditor—Arthur Andersen, the firm convicted of obstructing justice in the Enron case—somehow missed it. Andersen, which was paid $4.4 million a year to certify that WorldCom's books were honest, says WorldCom CFO Sullivan never handed over the material Andersen asked for. Scoffs analyst Patrick Comack of the brokerage Guzman & Co.: "That's like a police officer saying the criminal didn't turn himself in." ■

Questions

1. How does the WorldCom scandal compare to the Enron meltdown?

2. How did WorldCom "cook its books"?

Sources: Bloomberg, AP, *The Wall Street Journal*

The Coming Job Boom

The help-wanted ads may look thin—but thanks to a generation of aging baby boomers, that's about to change

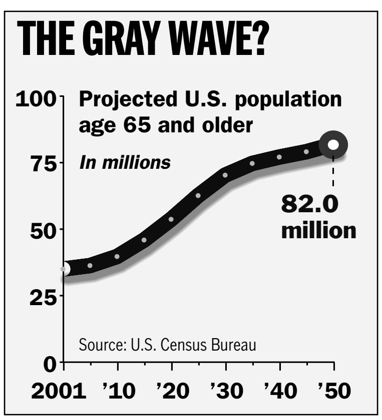
By DANIEL EISENBERG

AT A TIME WHEN THE JOB MARKET STILL seems bleak, the outlook for Alex and Cindi Ignatovsky, both 33, could not be much brighter. After trying out a number of different careers, the Aptos, Calif., couple have recently discovered their true callings. Alex, who had been a paralegal and had also done a brief stint as an insurance salesman, has just started working as a juvenile-probation officer, helping kids wend their way through the crowded criminal-justice system. Cindi, who previously was an editor and a graphic designer, is now busy finishing up an intensive, multiyear program to become an acupuncturist. In her view, as she puts it, "there's as much opportunity as I make of it."

She's right, about both her and her husband's prospects—but not just because they're passionate and adept at what they do. They have also, as it turns out, each chosen fields—in his case, law enforcement and social services, in hers, health care—that are feeling the first effects of the coming job boom. That's right. Even as thousands of Americans are still getting pink slips, powerful help is on the way. And it has more to do with demographics than economics. The oldest members of the huge baby-boom generation are now 56, and as they start retiring, job candidates with the right skills will be in hot demand. As Mitch Potter of human-resources consultant William M. Mercer says, "The dotcom bubble created a false talent crunch. The real one is coming."

In certain industries, especially those in which burnout and early retirement are common and demand for services is rising, the crunch has already arrived. As the population ages, hospitals can't find enough nurses or medical technicians. Drugstores are competing to hire pharmacists, bringing some beginners' salaries above $75,000. School districts and universities will need 2.2 million more teachers over the next decade, not to mention administrators and librarians, and are already avidly recruiting. Homeowners can't get their calls returned by skilled contractors, electricians or plumbers. Corporations are scooping up accountants and engineers. For job seekers who have the right skills or are willing to learn them, there are real opportunities in government, construction and technology.

To millions of laid-off workers still pounding the pavement, of course, this might seem like wishful thinking. While the economy grew a whopping 5.8% in the first quarter of 2002, the job market usually lags by at least a few months. To land a job, record numbers of workers are taking pay cuts or switching industries, according to outplacement firm Challenger, Gray & Christmas; many others are starting their own small businesses. But as hard as it may be to believe, it should not be too long before employees are in the driver's seat. A wave of retirements whose full effect is only starting to be felt will soon ripple through the entire economy. And the savviest workers and employers are already preparing for it.



Though the average retirement age is creeping up—and a growing share of Americans, by choice or necessity, are planning to work at least part time well past 65—demographers say there still will not be enough qualified members of the next generation to pick up the slack. With 76 million baby boomers heading toward retirement over the next three decades and only 46 million Gen Xers waiting in the wings, corporate America is facing a potentially mammoth talent crunch. Certainly, labor-saving technology and immigration may help fill the breach. Still, by 2010 there may be a shortage of 4 million to 6 million workers.

Not enough Americans are trained for these jobs. They lack everything from computer literacy and leadership to critical thinking and communication skills. The recent slump, though, may be helping narrow the skills gap in a surprising way. Although generous social-welfare systems in industrialized countries such as Germany and Britain make it easy for the laid off to wait around for a factory to reopen, Americans tend to take the initiative during a downturn, getting educated or trained for a better job and in the process adding to the country's stock of human capital. Applications to graduate programs in everything from law and business to education and engineering are up from last year by 30%–100%. Although 1.9 million Americans with a high school diploma or less got the ax from September 2000 to October 2001—a time when the economy was slumping—1.2 million people with college or vocational degrees were hired, according to the Employment Policy Foundation.

It isn't just the younger generation that's going back to school, either. Bruce LeBel, 59, a veteran aircraft mechanic who lost his job after September 11, is learning how to service the computer networks that help run more and more factories and power plants. Many of his former colleagues "are afraid to try anything different. They want to stay with a dead horse," he says. "But the only thing that can save me is having a skill that's in demand."

To keep pace in today's fast-moving economy, job hunters must be, above all, flexible. Steve Reyna, 28, who four years ago went to work at TDIndustries, a Dallas-based mechanical contractor that specializes in air-conditioning and plumbing projects for high-tech companies, knows this better than most. After training as a sheet-metal technician, Reyna moved on to work in the so-called clean rooms of semiconductor companies, learning a little welding and plumbing along the way. Just one of more than 1,300 employees at TDIndustries who are rigorously cross-trained, Reyna is now ready to work "wherever they need me." If the number crunchers turn out to be right, that could soon mean just about everywhere.

Questions

1. What statistics does the writer cite to describe the magnitude of the coming job boom?

2. Between 2000 and 2010, what occupations are expected to be the "hottest"? The "coldest"?

THE HOT JOBS Some occupations with the largest projected growth, 2000–2010 (Change in number of jobs)

Teachers (K-12)	+711,000
Computer-Software Engineers	+664,000
Registered Nurses	+561,000
Truck Drivers	+561,000
Computer-Support Specialists	+490,000
Accountants and Auditors	+181,000
Marketing and Sales Managers	+168,000
Auto Mechanics	+151,000
Health Therapists	+145,000
Police and Sheriff's Officers	+141,000
Social Workers	+141,000
Engineers	+138,000
Lawyers	+123,000
Electricians	+120,000
Recreation and Fitness Workers	+118,000
Sales Representatives	+118,000

THE COLD JOBS Some occupations with the largest projected losses, or smallest growth, 2000–2010

Farmers and Ranchers	–328,000
Phone-Switchboard Operators	–60,000
Bank Tellers	–59,000
Insurance-Claims Clerks	–58,000
Word Processors/Typists	–57,000
Sewing-Machine Operators	–51,000
Butchers	–13,000
Meter Readers	–13,000
Parts Salespeople	–12,000
Procurement Clerks	–9,000
Movie Projectionists	–3,000
Proofreaders	–2,000
Loggers	–2,000
Funeral Directors	+1,000
Insurance Underwriters	+2,000
Travel Agents	+4,000

Source: Bureau of Labor Statistics