

## MONEY &amp; INVESTING

## WorldCom Director Uses Exotic Play to Hedge Stake

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WorldCom Inc. Chief Executive Bernard J. Ebbers may have grandiose ambitions for his upstart telecommunications company, embodied in its \$30 billion bid for MCI Communications Corp.

But at least one of WorldCom's 11 directors is hedging his bet.

Outside director David C. McCourt, 40 years old, who joined the board in connection with WorldCom's \$14.3 billion acquisition last year of MFS Communications Co., has arranged to limit his gains and losses on his 812,308 shares of WorldCom stock.

When Mr. McCourt swapped his stock in MFS/McCourt Inc., a Boston unit of MFS, for the WorldCom shares in June, he got some portfolio insurance in the form of a "zero-cost collar" on the WorldCom shares, according to CDA/Investnet, a Fort Lauderdale, Fla., service that tracks transactions by corporate executives and directors known as insiders.

The collar, sold by Merrill Lynch & Co., protects Mr. McCourt against any down-



David C. McCourt

draft in WorldCom's stock below \$28 over the next five years, but he has to surrender any profit above \$64. Yesterday, WorldCom stock closed at \$36.75, unchanged, in trading on the Nasdaq Stock Market.

WorldCom declined to comment on the hedge. In an interview yesterday, Mr. McCourt said he entered into the exotic derivative contract "to protect my investment." He recalled that he was naturally nervous about his stake because he had only known Mr. Ebbers and his management team for just three months before he decided to merge MFS/McCourt with WorldCom.

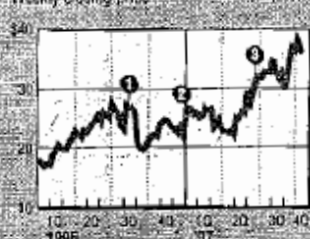
"Originally, I wanted to protect my holding because when you sell something for stock, and you don't know the people, it's a smart way to manage the investment." He added, "But had I known him and the rest of the management team the way I know them now, I never would have entered into the transaction, because I left a lot of money on the table because the stock has done nothing but go up."

Mr. McCourt said he likes what he sees in Mr. Ebbers. Both want to compete against monopoly telephone and cable-television companies for residential phone, cable-TV and Internet business. Both came from scrappy beginnings. Mr. McCourt used his Boston background in construction and urban cable systems to become a telecom player. Mr. McCourt merged a fiber-optic cable company he owned in Boston with MFS in the 1980s, hence creating MFS/McCourt.

Last month, Mr. McCourt split C-Tec

## WorldCom's Stock

Weekly closing price



- 1 WorldCom's financial acquisition of MFS
- 2 WorldCom completes MFS deal
- 3 WorldCom's unit David McCourt hedges his stock position with collar

Source: Reuters

Corp. of Princeton, N.J., where he was chairman, into three separate public companies—Commonwealth Telephone Enterprises Inc., Cable Michigan Inc. and RCN Corp. Today, he runs the newly independent RCN, a telecommunications provider in Princeton, N.J., which posted \$60.7 million in revenue for the first six months of 1997.

Mr. McCourt donned the zero-cost collar for his WorldCom stake on June 19 via two simultaneous options transactions.

He sold 812,308 call options, which obligate him to sell his WorldCom stock at a price of \$64 a share, effectively forfeiting any gains if the stock rises above that amount. He also bought 812,308 put options giving him the right, but not the obligation, to sell his stock at a price of \$28 a share.

The puts bulletproof Mr. McCourt's WorldCom holdings against a downturn below the \$28 price until June 19, 2002. The day he entered into the collar, WorldCom's

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stock had risen to \$31.75 from \$26 a year earlier.

Such a collar gets the "zero-cost" label because the cost of the puts is generally offset by the income from the calls. Mr. McCourt still gets to vote the shares and receive dividends, while avoiding immediate capital-gains taxes since he hasn't actually sold the stock.

Mr. McCourt's WorldCom stock is a small fraction of the 20.5 million WorldCom shares held by directors other than Mr. Ebbers. Still, Robert Gabele, president of CDA/Investnet, says investors should watch such insider hedges, and not just simple stock sales or purchases, for additional clues to sentiment among corporate officers and directors.

Such insiders are increasingly buying such derivatives from the likes of Merrill and Morgan Stanley, Dean Witter, Discover & Co. to hedge themselves against overexposure to a single company's stock.

Some analysts view the hedge as a mere financial-planning move. Mr. McCourt "exercised his right to realize near-term income on his equity holding by writing calls," says William D. Vogel, senior telecom analyst at NationsBanc Montgomery Securities.

But Craig Columbus, vice-president at Disclosure Inc., a Bethesda, Md., insider-trading research firm, says Mr. McCourt's hedge "is about a lot more than realizing income."

The collar certainly took on added significance after the WorldCom bid for MCI was announced two weeks ago; WorldCom's number of shares outstanding would roughly double if the MCI takeover goes through.

WorldCom now expects to issue about 812 million new shares to complete the MCI deal, on top of the 920 million shares already on the market. Mr. McCourt wouldn't say whether dilution from possible acquisitions was a concern of his when he hedged his stock position in June, well before the MCI bid was announced.