

**NEXT FACTORS, INC.**  
880 Bergen Avenue, Suite 900  
Jersey City, New Jersey 07306  
(201) 659-0209

UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK

-----X

In re  
WORLDCOM, INC., *et al.*,  
Debtors.

Chapter 11 - Jointly Administered  
Case No. 02-13533 (AJG)

-----X

**AFFIDAVIT IN SUPPORT OF THE OBJECTION TO MOTION FOR AN  
ORDER GRANTING LEAVE TO WITHDRAW AS COUNSEL OF RECORD TO  
NEXT FACTORS, INC.**

STATE OF NEW JERSEY    )  
                                  )        ss:  
COUNTY OF HUDSON     )

DAVID P. O'DONNELL, being duly sworn, deposes and says:

1. I am President of Next Factors, Inc. ("Next"). I am familiar with the facts and circumstances as recited herein. I submit this affidavit in opposition of the entry of an Order, pursuant to §105(a) of title 11 of the United States Code (the "Bankruptcy Code") and Local Bankruptcy Rule 2090-1(e), granting Douglas J. Pick and Associates ("DJP&A") leave to withdraw as counsel of record to Next Factors in connection with this proceeding.

The facts revealed in THE OBJECTION TO MOTION FOR AN ORDER GRANTING LEAVE TO WITHDRAW AS COUNSEL OF RECORD TO NEXT FACTORS, INC. are true to my best information and belief. Included as exhibits to this affidavit are documents which are part of the files maintained by Next with respect to this case. Of particular note is the Zabicki Motion.

Exhibit A is a true copy of a motion that Next directed DJP&A to prepare, but which was not filed due to the refusal to allow same by Mr. Pick.

Exhibit B is a true copy of the documents which would have formed the exhibits to the Zabicki Motion.

Exhibit C is a true transcript of a conversation between myself and Mr. Pick concerning the Zabicki Motion.

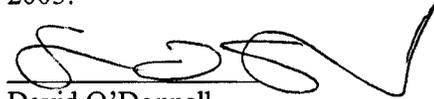
Exhibit E are letters from DJP&A to the Debtors concerning the threats received by Next.

Exhibit F is a letter from Next to the Debtors regarding their Broad Release.

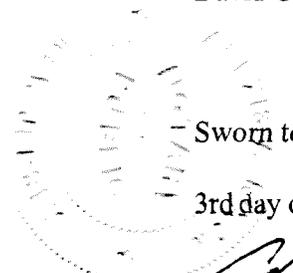
Exhibit G is from the web site of the Internal Revenue Service and discloses admitted criminal conduct of KPMG LLP.

Exhibit H is excerpts from a book entitled Bankruptcy Crimes 2002 published by Beard Books.

Exhibit I are excerpts from the transcript of the confirmation hearing for October 15, 2003.



David O'Donnell



Sworn to before me this

3rd day of October, 2005



Alexis Nixon

Notary Public, State of New Jersey  
Commission Expires November 24, 2009

# LIST OF EXHIBITS

Appended to Affidavit of Next Factors, Inc.'s President

- A: Zabicki Motion with Fax Cover Sheet
- B: Exhibits for Zabicki Motion with Fax Cover Sheet
- C: Transcript of Discussion between Next and Douglas Pick
- D: Example of Settlement Agreement Incorporating Broad Release
- E: Letters From Eric Zabicki To Marcia Goldstein of Weil Gotschal and Brian Benjet of MCI Concerning Settlement Agreements
- F: Letter From Next To Marcus Parsons of MCI Concerning Settlement Agreements
- G: Printout From IRS.gov Concerning KPMG LLP
- H: Excerpts From Bankruptcy Crimes 2002
- I: Excerpts From Transcript of October 15, 2003 Hearing

## **Exhibit A**



UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK

-----x  
In re:

WORLDCOM, INC., *et al.*,

Debtors.

-----x

Chapter 11 - Jointly Administered  
Case No. 03-13533 (AJG)

**NOTICE OF MOTION FOR AN ORDER COMPELLING THE DEBTORS AND  
CERTAIN OF THEIR PROFESSIONALS TO MAKE CERTAIN DISCLOSURES**

**PLEASE TAKE NOTICE**, that upon the annexed application dated April \_\_, 2005, and the exhibits annexed thereto (the "Application"), Next Factors, Inc. ("Next Factors"), by and through its undersigned counsel, will move this court before the Honorable Arthur J. Gonzalez, United States Bankruptcy Judge, at the United States Bankruptcy Court for the Southern District of New York, One Bowling Green, New York, New York 10004, on the \_\_\_ day of May, 2005 at 10:00 o'clock in the forenoon of that day, or as soon thereafter as counsel may be heard, for the entry of an Order, pursuant to §§105(a) and 1142 of title 11 of the United States Code (the "Bankruptcy Code"), directing Worldcom, Inc., *et al.*, the debtors herein, MCI, Inc., the reorganized debtors herein, and certain of their professionals, to make certain disclosures as set forth more fully in the Application, and granting Next Factors such other and further relief as this Court may deem just and proper.

**PLEASE TAKE FURTHER NOTICE** that objections, if any, to the Application shall (i) be made in writing, (ii) conform to the Federal Rules of Bankruptcy Procedure and the Local Bankruptcy Rules for the Southern District of New York, (iii) set forth the name of the objecting party, the basis for the objection and the specific grounds therefor, (iv) be filed with the Court with a copy to the chambers of Honorable Arthur J. Gonzalez, together with proof of

service thereof, and (v) be served in a manner so as to be received by \_\_\_\_\_, not  
later than 5:00 p.m. on May \_\_, 2005.

Dated: New York, New York  
April \_\_, 2005

By: \_\_\_\_\_

UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK

-----x  
In re:

WORLDCOM, INC., *et al.*,

Chapter 11 - Jointly Administered  
Case No. 03-13533 (AJG)

Debtors.  
-----x

**APPLICATION IN SUPPORT OF AN ORDER COMPELLING THE DEBTORS AND  
CERTAIN OF THEIR PROFESSIONALS TO MAKE CERTAIN DISCLOSURES**

TO THE HONORABLE ARTHUR J. GONZALEZ  
UNITED STATES BANKRUPTCY JUDGE:

Next Factors, Inc. ("Next Factors"), by and through its undersigned counsel, submits this application (the "Application") in support of an Order, pursuant to §§105(a) and 1142 of title 11 of the United States Code (the "Bankruptcy Code"), directing Worldcom, Inc., *et al.*, the debtors herein, MCI, Inc., the reorganized debtors herein (collectively, the "Debtors"), and certain of their professionals, to make certain disclosures as set forth more fully herein, and respectfully represent and allege:

**PRELIMINARY STATEMENT**

1. The practice of purchasing and accepting assignments of claims against debtors in large bankruptcy proceedings such as the instant case, a practice commonly referred to as "claims trading", has become big business and has attracted a wide variety of players. Indeed, a review of the docket in this case confirms that a minimum of 50 entities filed claims transfer documents encompassing millions of dollars in claims against the Debtors. Among the entities which apparently accepted assignments of claims against the Debtors were investment banks (such as Deutsche Bank Securities Inc.), brokerage houses (such as Merrill Lynch Pierce Fenner & Smith Inc.), and hedge funds (such as Triage Offshore Fund, Ltd.). A list of known assignees of claims against the Debtors (culled from the case docket) is attached hereto as *Exhibit "A"*.

2. As the scope of the claims trading activity within a given case expands, so too does the potential for conflicts of interest involving the professionals retained in that case and the claims traders who accept assignments of claims against the debtor. Logically, the potential for the dissemination of inside information to claims traders also increases along with an increase in claims trading activity. Yet, despite the rampant claims trading involved in large bankruptcy cases, and the substantial ramifications thereof, there are few precautions in place to avoid potential conflicts involving case professionals and claims traders. Although professionals are required to disclose any potential conflicts of interest prior to court approval of their retention, and their obligation to disclose any potential conflicts (if and when they may arise) continues following such approval, large scale claims trading activity increases the possibility that potential conflicts may be overlooked.

3. Next Factors is engaged in the practice of claims trading and, at various times throughout the pendency of this case, has held an interest in approximately 112 claims against the Debtors with an aggregate dollar amount of \$793,797.53. As discussed more fully herein, based upon the actions of the Debtors and certain of their professionals, Next Factors is concerned that conflicts of interest may have existed between those parties and claims traders holding claims against the Debtors. Arguably, the actions of the Debtors and certain of their professionals appear to have displayed a potential bias by those parties against Next Factors which bias may not apply to other claims traders in this case. Accordingly, by way of the instant Application, Next Factors respectfully seeks an Order compelling the Debtors attorneys and accountants to disclose connections, if any, they may now have (or have had) with any of the entities that filed claims transfer documents in this case. Next Factors further seeks to compel

the Debtors to disclose: (i) their formal policy, if any, with regard to the determination and payment of allowed claims and the execution of settlement agreements by creditors in connection with their claims; and (ii) the dates that claims held by known claims traders were deemed allowed and paid by the Debtors.

### BACKGROUND

4. On July 21, 2002 and November 8, 2002, each of the Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code and Orders for Relief were entered. By Orders dated July 22, 2002 and November 12, 2002, the Debtors' chapter 11 cases were consolidated for procedural purposes. Since the commencement of their chapter 11 cases, the Debtors have operated their businesses and managed their properties as debtors-in-possession pursuant to §§1107 and 1108 of the Bankruptcy Code.

5. While under the protection of chapter 11 of the Bankruptcy Code, the Debtors have retained, pursuant to Court Order, a myriad of attorneys to assist in the administration of their bankruptcy estates including, *inter alia*: (i) Weil, Gotshal & Manges, LLP; (ii) Simpson Thacher & Bartlett; (iii) Stinson Morrison Hecker, LLP; (iv) Patton Boggs LLP; (v) Heller Ehrman White & McAuliffe LLP; (vi) Jenner & Block, LLC; (vii) Wilmer, Cutler & Pickering; (viii) Orrick, Herrington & Sutcliffe, LLP; (ix) Wilson, Elser, Moskowitz & Dicker LLP; (x) Payton & Carlson, P.A.; (xi) Gibbons, Del Deo, Dolan, Griffinger & Vecchione, P.C.; (xii) Squire Sanders & Dempsey LLP; and (xiii) DLA Piper Rudnick Gray Cary US LLP. The Debtors have also retained various accountants and financial advisors, and utilized the services of their in-house counsel in connection with this case (collectively, the "Professionals").

6. On October 31, 2003, the Court entered the Confirmation Order confirming the Debtors' Modified Second Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (the "Plan"). On April 20, 2004, the Plan became effective in accordance with its terms and Worldcom, Inc. merged with and into MCI, Inc.

7. Next Factors is engaged in the business of, among other things, the purchase of claims held by creditors against debtors in bankruptcy matters pending throughout the United States. As briefly discussed above, at various times throughout the pendency of this case, Next Factors has held an interest in approximately 112 claims against the Debtors in the aggregate dollar amount of \$793,797.53. Virtually all of the claims held by Next Factors were classified as "Class 4 - Convenience Claims" (claims of \$40,000.00 or less) under the Plan. Of those claims, approximately 53 claims, with an aggregate dollar amount of \$388,322.70, remain unpaid. Copies of schedules identifying Next Factors' claims are attached hereto as *Exhibit "B"*.

8. Following the confirmation of the Plan, the Debtors and their Professionals undertook the process of reconciling and resolving claims. Commencing in or about July, 2004, the Debtors began requesting that Next Factors execute certain non-negotiable "settlement agreements" in connection with certain of the claims that it held against the Debtors. Next Factors took issue with the agreements for a number of reasons including, *inter alia*, the inclusion of certain "blind" release provisions in favor of the Debtors; the requested agreements did not appear to be authorized or mandated by any provision of the Plan, the Bankruptcy Code or any Court Order; and the expense (i.e., attorneys' fees and the like) and delay associated with reviewing a multitude of settlement agreements which did not serve any apparent purpose other

than to provide comfort to the Debtors or assist the Debtors with "housekeeping" matters.<sup>1</sup> On or about July 15, 2004, an employee of MCI, Inc. threatened Next Factors that, unless Next Factors executed a certain settlement agreement provided by the Debtors, the Debtors intended to "litigate" all of Next Factors' claims (arbitrarily and without regard to the merits thereof).

Thereafter, Next Factors, by its counsel, made numerous attempts to obtain written confirmation from the Debtors that this was not the case and that distributions on Next Factors' claims were not being arbitrarily withheld as a result of the issues concerning the settlement agreements.

Next Factors' requests were simply ignored by the Reorganized Debtors. Copies of numerous letters and faxes evidencing the same are attached hereto as *Exhibit "C"*.

9. Pursuant to Section 7.01 of the Plan, the Debtors must lodge objections, if any, to disputed "Claims" within 180 days after the Effective Date. However, the Plan does not appear to provide any time periods within which: (i) the Debtors must deem a claim an "Allowed Claim"; or (ii) the Debtors must make a distribution on an "Allowed Claim". Informally, the Debtors' have advised Next Factors that the Debtors are making distribution payments each quarter on Allowed Claims.

10. In or about September, 2004, and by way of numerous separate applications, the Debtors objected to a total of 34 claims held by Next Factors. Next Factors has amicably resolved and paid a distribution on a total of 11 of those claims. However, the period

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<sup>1</sup> Next Factors had advised the Debtors that, in the event that there was a valid dispute being compromised which would ordinarily mandate an agreement memorializing that compromise (i.e., the adjustment of the amount or classification of a claim), Next Factors would be willing to consider proposed settlement agreements in connection with those claims (and indeed did so with regard to certain of its claims). In other words, unless there was a material dispute, the Debtors should simply pay Next Factors' claims in the ordinary course without requiring the execution of a settlement agreement. However, the Debtors were demanding that Next Factors execute settlement agreements even when there was no dispute as to the material aspects of certain claims. Respectfully, the Debtors' actions were improper.

of time between which the objections to those claims were resolved and Next Factors' receipt of its distribution from the Debtors has been substantial. This substantial lapse in time in receiving distribution payments from the Debtors is true with regard to the majority of the claims in connection with which Next Factors has received such distribution payments. Additionally, 30 of the 53 Next Factors' claims which have not yet been paid by the Debtors were not objected by the Debtors within the time specified by the Plan (the other 23 unpaid claims remain the subject of the Debtors' various objections). The reasoning as to why the Debtors have not yet made any distributions to Next Factors in connection with the claims remaining 30 claims (which) is not unknown.

**JURISDICTION AND VENUE**

11. This Court has jurisdiction over this case and this Application pursuant to 28 U.S.C. §§157 and 1334, the "Standing Order of Referral of Cases to Bankruptcy Judges", dated July 10, 1984 by District Court Judge Robert T. Ward, and the Order Confirming Debtors' Modified Second Amend Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code, Dated October 21, 2003 (the "Confirmation Order"), which provides, in pertinent part:

In accordance with (and as limited by) Article XII of the Plan and section 1142 of the Bankruptcy Code, the Court shall have exclusive jurisdiction of all matters arising out of, and related to, the Chapter 11 Cases and the Plan pursuant to, and for the purposes of, section 105(a) and 1142 of the Bankruptcy Code and for, among other things, the following purposes:

...

- (b) To hear and determine any and all adversary proceedings, applications and contested matters;

...

- (g) To hear and determine all applications for compensation and reimbursement of expenses of professionals under sections 330,

331 and 503(b) of the Bankruptcy Code;

(h) To hear and determine disputes arising in connection with the interpretation, implementation or enforcement of the Plan. . .

...

(n) To hear any other matter not inconsistent with the Bankruptcy Code

...

See ¶32 of the Confirmation Order. Venue of this case and this Application is proper in this district pursuant to 28 U.S.C. §§1408 and 1409. The statutory predicate for the relief sought herein is §§105(a) and 1452 of the Bankruptcy Code.

12. It is respectfully submitted that the relief requested by this Application concerns, *inter alia*, the implementation of the Plan and the propriety of the conduct of the professionals retained in connection with this case and, thus, is within the purview of §1142 of the Bankruptcy Code and/or the jurisdictional provisions of the Confirmation Order.

**REQUEST FOR RELIEF**

13. Section 105(a) of the Bankruptcy Code, provides, in pertinent part:

The court may issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of this title. No provision of this title providing for the raising of an issue by a party in interest shall be construed to preclude the court from, sua sponte, taking any action or making any determination necessary or appropriate to enforce or implement court orders or rules, or to prevent an abuse of process. (LexisNexis 2005).

14. Based upon the foregoing facts, it is respectfully submitted that Next Factors has amply demonstrated cause for an order compelling the Debtors and the Professionals to make the disclosures requested herein. As discussed above, not less than 50 entities (some of which are large, sophisticated entities such as investment banks, brokerage houses and hedge

funds, among others) have accepted assignments of claims against the Debtors in dollar amounts which number in the millions. As such, there is a very real potential that conflicts of interest may exist involving the Professionals and the claims traders involved in this case. Although the Professionals were required to disclose any connections with the Debtors' creditors prior to court approval of their retention (and their obligation to disclose any potential conflicts, if and when they may arise, continues), new potential conflicts may have arisen as new entities entered the picture as assignees of claims against the Debtors which may have been overlooked by the Professionals. Accordingly, the Professionals should be compelled to disclose any connections they may now have (or have had) with any of the entities that filed claims transfer documents in this case, or any of their known affiliates, subsidiaries or parents, including but not limited to, the entities identified in *Exhibit "A"* hereto. This information should be readily available to the Professionals by simply running internal conflict checks.

15. Additionally, and as discussed herein, the Debtors' actions in connection with Next Factors' interests in this case (e.g., the Debtors' exclusion from Next Factors from the interclass settlement prior to confirmation of the Plan, the Debtors' threat to "litigate" all of Next Factors' claims without regard to the merits of those claims, the delay in payment (or complete non-payment) of distributions on Next Factors' claims by the Debtors, and the like) evidence a potential bias by the Debtors against Next Factors which bias may not be applied to other claims traders. Accordingly, the Debtors should be compelled to disclose, in writing: (i) their formal policy with regard to the determination and payment of allowed claims and the execution of settlement agreements by creditors in connection with their claims; and (ii) the dates that claims held by known claims traders, including but not limited to, Next Factors and the entities identified in *Exhibit "A"*, were deemed "Allowed Claims" and paid by the Debtors. This

information should be readily available to the Debtors from their internal claims management system (as to the date claims were deemed "Allowed Claims") and by printing a "check run" with regard to each claims trader.

### CONCLUSION

16. Based upon the foregoing, Next Factors respectfully requests that the Application be granted in its entirety and that the Court grant Next Factors such other and further relief as the Court deems just, equitable and proper.

17. Since this Application does not present any novel issues of law, and all relevant statutory and case law authority is set forth herein, Next Factors respectfully requests that the requirement under Local Bankruptcy Rule 9013-1(b) for the submission of a memorandum of law be dispense with and waived.

18. No previous request for the relief sought in this application has been made to this or any other Court.

Dated: New York, New York  
April \_\_, 2005

By: \_\_\_\_\_

## **Exhibit B**

Douglas J. Pick & Associates  
Attorneys At Law  
350 FIFTH AVENUE, SUITE 3000  
NEW YORK, NEW YORK 10118-3099  
TEL: 212-695-6000  
FAX: 212-695-6007

TELECOPIER COVER SHEET

To: Alexis Nixon  
Next Factors  
Date: June 1, 2005  
From: Eric C. Zabicki  
Fax No.: (201) 963-5526  
Tel No.: (201) 659-0209  
Re: Worldcom/MCI

Total number of pages transmitted, including cover sheet: 19

Dear Alexis:

Attached are copies of the exhibits which were to be annexed to the Worldcom disclosures motion. Exhibit "A" was the list of known claims traders (I was going to transfer the names listed in your April 8, 2005 letter to a chart). Exhibit "B" was the schedules of Next's claims. Exhibit "C" was the correspondence related to Worldcom's threats.

Please let me know if you need anything else. Thanks.

Eric Zabicki

**CONFIDENTIAL**

***THIS MATERIAL CONTAINED IN THIS TRANSMISSION IS LEGALLY PRIVILEGED AND CONFIDENTIAL INFORMATION INTENDED ONLY FOR THE USE OF THE INDIVIDUAL OR ENTITY NAMED AS THE RECIPIENT. IF YOU ARE NOT THE INTENDED RECIPIENT, AN EMPLOYEE OR AN AGENT RESPONSIBLE TO DELIVER IT TO THE INTENDED RECIPIENT, YOU ARE HEREBY NOTIFIED THAT ANY DISSEMINATION OR DISTRIBUTION OR COPYING OF THIS COMMUNICATION IS STRICTLY PROHIBITED. IF YOU HAVE RECEIVED THIS TRANSMISSION IN ERROR PLEASE NOTIFY US IMMEDIATELY BY TELEPHONE AND DESTROY THE ORIGINAL TRANSMISSION. THANK YOU.***

Next Factors, Inc.  
72 Van Reipen Avenue  
Suite 37  
Jersey City, NJ 07306  
Phone: (201) 659-0209

April 8, 2005

Mr. Eric Zabicki, Esq.  
Douglas J. Pick, P. C.  
350 Fifth Avenue, Suite 3000  
New York, NY 10118-3099

Re: WorldCom, Inc., et al. (the "Debtors")

Dear Mr. Zabicki:

Here is the information that you requested in your fax dated April 7, 2005. I have included all of the claims held by Next Factors, both paid and unpaid. I have also compiled a separate list of the claims that have not been paid.

In regards to the various claims traders, the list is quite long. The names that are typed in bold text are claims traders that I have heard of and the others are names of companies that I found on the docket that also traded claims.

List of Claims Trader:

Allenwood Capital LLC  
Amroc Investments  
ASM Capital  
Black Horse Capital LP  
Capital Investors, LLC  
Capital Markets  
Citadel Equity Fund Ltd.  
Contrarian Capital Trade Claims  
Contrarian Capital Trade Claims, LP  
Contrarian Funds, LLC  
Contrarian Long Shore Master Fund Limited  
Crystal Communication Inc.  
D.E. Shaw Laminar Portfolios  
D.E. Shaw Laminar Portfolios, LLC  
Debt Acquisition Company of America V, LLC  
Debt Settlement Associates  
Deutsche Bank Securities  
Drawbridge Investment Partners LLC  
Drawbridge Special Opportunities Fund LP  
H2Z Global Investments LLC  
H2Z LLC  
Hain Capital Group LLC  
Heartland Telephone Company of Iowa  
Hines Louisiana Walker  
Hudson Telegraph Associates LP  
Kesington International  
Liquid Solutions

Longacre Master Fund, Ltd.  
Mankato Citizens Telephone Company  
Merrill Lynch Pierce Fenner & Smith Incorporated  
Mid-Communication, Inc.  
Moore Macro Fund LP.  
Pericles Partners  
Pericles Partners, LLC  
Platinum Partners Value Arbitrage Fund, LP  
Revenue Management  
Satellite Senior Income Fund, LLC  
Sierra Liquidity Fund  
Silver Oak Capital, LLC  
Silver Point Capital Offshore Fund Ltd.  
Solomon Brothers Holding Company Inc.  
SPCP Group LLC  
Springfield Associates, LLC  
Stark Event Trading Ltd.  
Staro Asset Management  
Til-Tek Antennas Inc.  
Trade-Debt.net  
Travelers Casualty & Surety Company  
Triage Capital Management  
Triage Offshore Fund, Ltd.  
York Capital Management, LP

If you have any questions or need anything else, please call.

Sincerely,



Alexis Nixon  
Next Factors, Inc.

SENT BY: A;

2;

APR-8-05 9:57AM;

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Sheet3

CLAIMS HELD BY NEXT FACTORS	ASSIGNOR	AMOUNT	TR AMNT	Scheduled	Allowed	Proof	Tran	CLAM	Dist	Dist Date
ADS THE POWER RESOURCE		15,969.00	15,969.00	15,969.00			1/7/2004			
ADVANCE FIBER OPTICS, INC.		5,705.00	5,705.00	5,705.00			1/7/2004		2,282.15	7/20/2004
ALL COUNTY TELECOM, INC.		4,709.00	4,709.00	4,709.00			1/10/2003			
ALLEGHENY TELEPHONE COMPANY		18,490.00	18,490.00	18,490.00			1/10/2003			
ALLIANCE PACKAGING & CONTAINER		6,013.00	6,013.00	6,013.00			1/10/2003		763.02	1/28/2005
AMERICALL		8,693.00	8,693.00	8,693.00			5/4/2004			
AMERICAN PAYTELEPHONE, INC.		3,352.00	3,352.00	3,352.00			1/1/2003			
AMERICAN QUARTER HORSE ASSOC		20,275.00	20,275.00	20,275.00			12/1/2003		8,110.15	7/20/2004
ANDERSON SPECIALTIES LLC		9,385.00	9,385.00	9,385.00			1/7/2004		3,754.00	7/20/2004
BCS BUILDING SERVICE INC		3,240.00	3,240.00	3,240.00			4/8/2003		1,295.96	7/20/2004
BEAR CREEK COUNTRY CLUB		16,410.00	16,410.00	16,410.00			1/7/2004		6,562.92	12/14/2004
BEL TEL PHONE SYSTEMS		822.00	822.00	822.00			1/7/2004			
BEST JANITORIAL SERVICE		2,540.00	2,540.00	2,540.00			1/7/2004	3482	852.13	11/16/2004
BEYOND WORDS MARKETING COMMALN		5,680.00	5,680.00	5,680.00			1/7/2004	3548	2,272.00	12/14/2004
BOARD OF COUNTY COMMISSIONERS		44,220.00	44,220.00	44,220.00			5/19/2003			
CARTWRIGHT, BRET		782.00	782.00	782.00			1/7/2004	31417		
CENTEL CELLULAR CO OF TALLAHASSEE		2,760.00	2,760.00	2,760.00			5/4/2004			
CITIBANK FSB		4,736.50	4,736.50	4,736.50			1/7/2004			
CITY OF SANTA CRUZ		4,274.83	4,274.83	4,274.83			1/7/2004			
COMPUTER SOLUTIONS PROVIDER		3,690.00	3,690.00	3,690.00			1/10/2003		3,680.08	7/20/2004
CONNECTEL INC		11,247.00	11,247.00	11,247.00			5/27/2003		4,498.94	7/20/2004
CORESCO INC		3,346.05	3,346.05	3,346.05			4/7/2004		1,338.42	7/20/2004
CORPORATE BUSINESS SYSTEMS		12,469.00	12,469.00	12,469.00			5/4/2004			
CREWS CONTROL		12,947.00	12,947.00	12,947.00			12/19/2003		5,178.97	4/8/2005
CUNNINGHAM COMM. INC.		2,578.12	2,578.12	2,578.12			1/7/2004			
DEPARTMENT OF WATER & POWER		4,589.42	4,589.42	4,589.42			1/7/2004			
ECS TELECOM INC		646.00	646.00	646.00			1/10/2003		258.47	7/20/2004
EDWARD O. NUADI		1,631.61	1,631.61	1,631.61			1/7/2004			
ENTEL PHONE SYSTEMS, INC.		5,263.00	5,263.00	5,263.00			1/10/2003			
EXAMINATION MGMT SVCS INC		2,528.00	2,528.00	2,528.00			1/7/2004	5855	1,011.20	12/14/2004
FARM PLAN		2,298.00	3,038.57	2,298.00			1/7/2004	8064881		
FLORIDA DOOR CONTROLS		2,995.00	2,995.00	2,995.00			1/7/2004		1,198.00	7/20/2004
FLORIDA HEALTH CARE ASSOC		5,767.00	5,767.00	5,767.00			12/19/2003		2,845.91	4/8/2005
FORCE ELECTRONICS		35,531.00	35,531.00	35,531.00			5/4/2004		14,132.97	9/23/2004
FUTURE FOCUS TELECOMMUNICATIONS INC		1,023.00	1,023.00	1,023.00			5/4/2004			

Page 1

Sheet3

FUTURE FOCUS TELECOMMUNICATIONS, INC.	11,977.00	11,977.00	11,977.00	11,977.00	5/4/2004			
FUTURE NET INC	16,006.00	16,006.00	16,006.00	16,006.00	1/7/2004		6,402.40	7/20/2004
Germ State Communications	2,126.00	2,126.00	2,126.00	2,126.00	4/10/2003		850.32	3/3/2005
GOLDEN GALLON	3,819.00	3,819.00	3,819.00	3,819.00	5/4/2004			
GONZALES, JOSE & ZENDIA	1,058.00	1,058.00	1,058.00	1,058.00	1/7/2004			
GREATER SAN ANTONIO CHAMBER OF COMM	13,923.00	13,923.00	13,923.00	13,923.00	1/3/2003			
GREENLEAF LANDSCAPE INC	5,437.90	5,437.90	5,437.90	5,437.90	1/7/2004	1811	5,569.16	7/20/2004
HANDS ON GREENVILLE	2,500.00	2,500.00	2,500.00	2,500.00	1/7/2004		2,175.16	8/30/2004
HARDER TREE & LANDSCAPE	2,010.00	2,010.36	2,010.00	2,010.00	1/7/2004	34528	1,000.00	7/20/2004
HARRY GOLDSTEIN	12,443.00	12,443.00	12,443.00	12,443.00	1/10/2003		804.14	7/20/2004
HAWTHORNE DUTLES INC	26,153.00	26,153.00	26,153.00	26,153.00	1/7/2004			
HIRSHORN ZUCKERMAN DESIGN GROUP	4,168.00	4,168.00	4,168.00	4,168.00	1/7/2004		3,121.35	1/28/2005
HOSPITALITY COMMUNICATIONS, INC.	5,942.00	5,942.00	5,942.00	5,942.00	5/4/2004			
HUGHES PAY TELEPHONES	3,391.00	3,391.00	3,391.00	3,391.00	1/10/2003			
HLOG INC	3,581.00	3,581.00	3,581.00	3,581.00	1/7/2004		3,581.72	8/24/2004
INTERNET SYSTEM TECHNOLOGIES	2,175.00	2,175.00	2,175.00	2,175.00	5/4/2004			
IOWA OFFICE SUPPLY	4,078.00	11,594.72	4,078.00	4,078.00	1/7/2004	5152		
ITC MARKETING, INC	12,401.00	12,401.00	12,401.00	12,401.00	1/10/2003			
JDC COMMUNICATIONS INC	3,816.00	3,816.00	3,816.00	3,816.00	1/7/2004		1,528.50	7/20/2004
JOHN STUCKEY & ASSOC LLC	12,387.00	12,387.00	12,387.00	12,387.00	1/7/2004		4,954.84	7/20/2004
KEITH'S EQUIPMENT	3,467.00	3,467.00	3,467.00	3,467.00	1/10/2003			
KENTUCKY RIVER MEDICAL CENTER	1,505.00	1,505.00	1,505.00	1,505.00	1/7/2004		1,504.92	7/20/2004
LINA COMMUNICATIONS, INC.	4,155.00	4,155.00	4,155.00	4,155.00	5/4/2004			
LYWD LTD	6,042.00	6,042.00	6,042.00	6,042.00	1/10/2003		3,216.93	7/20/2004
MAAD, INC.	3,731.00	3,731.00	3,731.00	3,731.00	1/10/2003			
MARGARET FRAHM	1,788.00	1,788.00	1,788.00	1,788.00	5/4/2004			
MEDWORKS	3,126.00	3,126.00	3,126.00	3,126.00	1/12/2004		1,251.20	7/20/2004
MES- HM- INN- ROOM	8,803.00	8,803.00	8,803.00	8,803.00	5/4/2004			
MES- PM- VERIZON	4,990.00	4,990.00	4,990.00	4,990.00	5/4/2004			
MES- VHA OF GEORGIA	17,793.00	17,793.00	17,793.00	17,793.00	5/4/2004			
METROPOLITAN FIBER SERVICES INC	9,887.00	9,887.00	9,887.00	9,887.00	5/4/2004			
METROPOLITAN FIBER SERVICES, INC.	10,063.00	10,063.00	10,063.00	10,063.00	5/2/2003		3,954.98	7/20/2004
MODERN BINDERY INC	9,457.00	9,457.00	9,457.00	9,457.00	5/2/2003		4,025.36	7/20/2004
MRS KLEEN LLC	2,570.00	2,570.00	2,570.00	2,570.00	1/10/2003		3,782.80	7/20/2004
NASA SECURITY SERVICES, INC.	11,235.00	11,235.00	11,235.00	11,235.00	1/7/2004		1,028.00	9/3/2004
NATELCO ELECTRIC INC.	21,500.00	21,500.00	21,500.00	21,500.00	1/7/2004		4,493.83	7/20/2004
NEW HORIZONS COMP LEARNING CTR	3,041.00	3,041.00	3,041.00	3,041.00	1/7/2004	8046	8,800.00	7/20/2004
							1,216.40	7/20/2004

Page 2

Sheet 3

NEW HORIZONS CLC OF GREENVILLE	2,000.00	2,000.00	2,000.00	2,000.00	5/4/2004				4,020.19	7/20/2004
PA INSTITUTE OF CPAs	10,050.00	10,050.00	10,050.00	10,050.00	1/31/2003					
PACIFIC PHONE	7,001.00	7,001.00	7,001.00	7,001.00	1/10/2003					
PAPA JOHNS	2,185.00	2,185.00	2,185.00	2,185.00	1/7/2004				877.96	7/20/2004
PENNSYLVANIA MOTOR TRUCK ASSOC	4,076.00	4,076.00	4,076.00	4,076.00	1/10/2003				1,630.60	7/20/2004
PHONE- TECH INC.	11,831.00	11,831.00	11,831.00	11,831.00	5/4/2004				1,950.23	7/20/2004
PHILLER INC	4,876.00	4,876.00	4,876.00	4,876.00	1/7/2004				605.28	10/19/2004
PLANT PEOPLE	1,513.00	1,513.00	1,513.00	1,513.00	1/10/2003					
PRODUCTION SERVICES ASSOC	9,675.00	9,675.00	9,675.00	9,675.00	5/18/2003					
PROFESSIONAL IMAGE	3,217.00	3,217.00	3,217.00	3,217.00	5/4/2004					
PROFESSIONAL TOUCH CLEANING	7,184.35	7,184.35	8,963.00	8,963.00	1/7/2004		2584		2,873.74	11/16/2004
PROTEL SYSTEMS	2,215.00	2,215.00	2,215.00	2,215.00	1/7/2004					
QUARLES & BRADY LLP	9,508.00	9,507.98	9,508.00	9,508.00	1/12/2004				3,803.19	8/8/2004
RADY ST. PAUL	1,548.00	1,548.00	1,548.00	1,548.00	1/7/2004				1,547.72	7/20/2004
RADIO SOUTH INC	2,000.00	2,000.00	2,000.00	2,000.00	1/7/2004					
REI TELECOM INC	4,225.00	4,225.00	4,225.00	4,225.00	1/7/2004				1,889.80	7/20/2004
REI Telecomm Inc	17,484.00	17,484.00	17,484.00	17,484.00	1/7/2004				6,987.67	7/20/2004
ROCHESTER GAS & ELECTRIC CORP.	4,474.00	4,474.00	4,474.00	4,474.00						
ROCHESTER GAS AND ELECTRIC	4,087.00	9,501.88	4,087.00	4,087.00			3440			
SCOTT K SMITH PHOTOGRAPHY	2,633.00	2,633.00	2,633.00	2,633.00	1/7/2004				1,053.20	10/28/2004
SERVICE ELECTRIC CABLE TV INC.	11,500.00	34,500.00	11,500.00	11,500.00	5/2/2003					
SIEGEL GAS & OIL CORP.	1,492.00	9,012.80	1,492.00	1,492.00	1/22/2003				3,604.68	9/28/2004
STATE COMMUNICATIONS PAYPHONE, INC.	3,623.00	3,623.00	3,623.00	3,623.00	1/7/2004					
STEEN, RICHARD & BILLIE	2,403.00	2,403.00	2,403.00	2,403.00	5/4/2004					
STRATUSWAVE	4,207.75	4,207.75	4,208.00	4,208.00	1/7/2004					
SUE WELLS BUSINESS BY DESIGN INC	3,905.00	3,905.00	3,905.00	3,905.00	1/7/2004				1,562.00	7/20/2004
Sunshine Life Newspapers	6,290.00	6,290.00	6,290.00	6,290.00	1/10/2003					
SUNRise BUSINESS PRODUCTS	3,215.00	14,640.43	3,215.00	3,215.00	1/19/2003				416.67	4/4/2005
TELECONNECT COMMUNICATIONS INC	848.00	848.00	848.00	848.00	1/10/2003					
TOKHEM CORPORATION	3,241.00	3,241.00	3,241.00	3,241.00	5/4/2004					
TRI COUNTY PLUMBING SERVICES	1,437.75	1,437.75	1,438.00	1,438.00	1/7/2004			1,437.75		
UCLA CTS	3,108.00	3,108.00	3,108.00	3,108.00	1/7/2004				575.10	12/28/2004
UNITED GRAPHICS INC	2,380.00	2,380.38	2,380.00	2,380.00	1/7/2004				1,243.02	9/28/2004
UNITED STATES TRANSFER CORP	3,240.00	4,318.25	3,240.00	3,240.00	1/7/2004				958.14	7/20/2004
US MONITOR	2,188.00	2,188.28	2,188.00	2,188.00	1/7/2004				1,727.30	12/28/2004
UT AUSTIN EX STUDENTS ASSIN	16,381.00	16,381.00	16,381.00	16,381.00	1/10/2003				875.31	10/19/2004
VALCOURT BUILDING SERVICES OF	2,029.00	2,029.00	2,029.00	2,029.00	1/7/2004				6,552.34	7/20/2004
									811.60	7/20/2004

Page 3

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Sheet3

WARREN ELECTRIC GROUP	3,376.00	3,376.00	3,376.00	1/7/2004		
Warren Electric Group	2,837.00	2,837.00	2,837.00	1/7/2004		
ZABATT, INC	2,000.52	2,000.52	2,300.00	1/7/2004	3582	600.21
	736,698.60	732,384.93	736,797.53			188,071.77

Sheet3

CLAIMS NOT PAID	ASSIGNOR	AMOUNT	TR AMNT	Scheduled	Allowed	Proof	Tran	CLAIM
	ADS THE POWER RESOURCE	15,969.00	15,969.00	15,969.00			1/7/2004	
	ALL COUNTY TELECOM, INC.	4,709.00	4,709.00	4,709.00			1/10/2003	
	ALLEGHENY TELEPHONE COMPANY	18,490.00	18,490.00	18,490.00			1/10/2003	
	AMERICALL	8,693.00	8,693.00	8,693.00			5/4/2004	
	AMERICAN PAYTELEPHONE, INC.	3,352.00	3,352.00	3,352.00			1/1/2003	
	BEL TEL. PHONE SYSTEMS	822.00	822.00	822.00			1/7/2004	
	BOARD OF COUNTY COMMISSIONERS	44,220.00	44,220.00	44,220.00			5/19/2003	
	CARTWRIGHT, BRET	782.00	782.00	782.00			1/7/2004	31417
	CENTEL CELLULAR CO OF TALLAHASSEE	2,760.00	2,760.00	2,760.00			5/4/2004	
	CITIBANK FSB	4,736.50	4,736.50	4,736.50			1/7/2004	
	CITY OF SANTA CRUZ	4,274.83	4,274.83	4,274.83			1/7/2004	
	CORPORATE BUSINESS SYSTEMS	12,469.00	12,469.00	12,469.00			5/4/2004	
	CUNNINGHAM COMM. INC.	2,578.12	2,578.12	2,578.12			1/7/2004	
	DEPARTMENT OF WATER & POWER	4,589.42	4,589.42	4,589.42			1/7/2004	
	EDWARD O. NUJADI	1,631.61	1,631.61	1,631.61			1/7/2004	
	SENTEL PHONE SYSTEMS, INC.	5,283.00	5,283.00	5,283.00			1/10/2003	
	FARM PLAN	2,298.00	3,038.57	2,298.00			1/7/2004	806/881
	FUTURE FOCUS TELECOMMUNICATIONS INC	1,023.00	1,023.00	1,023.00			5/4/2004	
	FUTURE FOCUS TELECOMMUNICATIONS, INC.	11,977.00	11,977.00	11,977.00			5/4/2004	
	GOLDEN GALLON	3,819.00	3,819.00	3,819.00			5/4/2004	
	GONZALES, JOSE & ZENDIA	1,058.00	1,058.00	1,058.00			1/7/2004	
	HARRY GOLDSTEIN	12,443.00	12,443.00	12,443.00			1/10/2003	
	HAWTHORNE JUALES INC	26,153.00	26,153.00	26,153.00			1/7/2004	
	HOSPITALITY COMMUNICATIONS, INC.	5,942.00	5,942.00	5,942.00			5/4/2004	
	RUGHES PAY TELEPHONES	3,391.00	3,391.00	3,391.00			1/10/2003	
	INTERNET SYSTEM TECHNOLOGIES	2,175.00	2,175.00	2,175.00			5/4/2004	
	IOWA OFFICE SUPPLY	4,078.00	11,594.72	4,078.00			1/7/2004	5152
	ITC MARKETING, INC	12,401.00	12,401.00	12,401.00			1/10/2003	
	KEITHS EQUIPMENT	3,467.00	3,467.00	3,467.00			1/10/2003	
	LINA COMMUNICATIONS, INC.	4,155.00	4,155.00	4,155.00			5/4/2004	
	MAD, INC.	3,731.00	3,731.00	3,731.00			1/10/2003	
	MARGARET FRAHM	1,788.00	1,788.00	1,788.00			5/4/2004	
	MES- PA- INN- ROOM	8,803.00	8,803.00	8,803.00			5/4/2004	
	MES- PA- VERIZON	17,793.00	17,793.00	17,793.00			5/4/2004	
	MES- VHA OF GEORGIA	4,990.00	4,990.00	4,990.00			5/4/2004	

Sheet3

NEW HORIZONS CLC OF GREENVILLE	2,000.00	2,000.00	2,000.00	5/4/2004	
PACIFIC PHONE	7,001.00	7,001.00	7,001.00	1/10/2003	
PHONE- TECH INC.	11,831.00	11,831.00	11,831.00	5/4/2004	
PRODUCTION SERVICES ASSOC	9,675.00	9,675.00	9,675.00	5/19/2003	
PROFESSIONAL IMAGE	3,217.00	3,217.00	3,217.00	5/4/2004	
PROTEL SYSTEMS	2,215.00	2,215.00	2,215.00	1/7/2004	
RADIO SOUTH INC	2,000.00	2,000.00	2,000.00	1/7/2004	
ROCHESTER GAS & ELECTRIC CORP.	4,474.00	4,474.00	4,474.00		
ROCHESTER GAS AND ELECTRIC	4,097.00	9,501.88	4,097.00		3440
SERVICE ELECTRIC CABLE TV INC.	11,500.00	34,500.00	11,500.00	5/2/2003	
STATE COMMUNICATIONS PAYPHONE, INC.	3,623.00	3,623.00	3,623.00	1/7/2004	
STEEN, RICHARD & BILLIE	2,403.00	2,403.00	2,403.00	5/4/2004	
STRATUSWAVE	4,207.75	4,207.75	4,208.00	1/7/2004	15296
Suffolk Life Newspapers	6,290.00	6,290.00	6,290.00	1/10/2003	
TELECONNECT COMMUNICATIONS INC	848.00	848.00	848.00	1/10/2003	
TOKHEIM CORPORATION	3,241.00	3,241.00	3,241.00	5/4/2004	
WARREN ELECTRIC GROUP	3,376.00	3,376.00	3,376.00	1/7/2004	
Warren Electric Group	2,837.00	2,837.00	2,837.00	1/7/2004	
	351,661.23	359,322.70	351,661.48		

Next Factors, Inc.  
72 Van Reipen Avenue  
Suite 37  
Jersey City, NJ 07306  
Phone: (201) 659-0209

July 15, 2004

Delivered via facsimile only (972 729-6431)

Mr. Marcus Parsons  
MCI  
Network Procurement  
2400 North Glenville  
Richardson, Texas 75082

Re: WorldCom, Inc., et al.

Dear Mr. Parsons:

I did not appreciate having an unannounced surreptitious third party listening to our conversation of yesterday evening regarding the agreements you are requiring Next Factors, Inc., to execute with regards to its claims against the above styled bankruptcy matter.

You failed to introduce the third party at the start of our conversation and it wasn't until I heard some rumbling in the background that I realized some one else was listening.

Getting back to the issue of having our attorney available for a conference call sometime this afternoon, please be advised that we will only bring our attorney if the attorney for the above mentioned Debtor is also in the conference call.

We suggest that whoever speaks with us is properly informed with the confirmed Plan as well as Section 502 of the Federal Bankruptcy Rules.

We do not appreciate your threat to object to each one of Next Factors claims if we do not sign additional blind releases unrelated to the confirmed Plan.

We hereby reserve all rights and remedies with respect to such threat.

Sincerely,

  
Santa Roman  
Next Factors, Inc.

cc: Eric Zabicki, Esq., (212 695-6007)  
Marcia L. Goldstein, Esq., (212 735-4919)

Douglas J. Pick P.C.

ATTORNEYS AT LAW  
350 Fifth Avenue, Suite 3000  
New York, New York 10118  
Telephone: 212-695-6000  
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Douglas J. Pick  
Eric C. Zabicki

\*Westchester Office  
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Counsel to the Firm  
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\*James C. Kahn  
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\*\* Stuart Zisholtz

\*\*Long Island Office  
170 Old Country Road  
Mineola, New York 11501  
(516) 741-2200

July 20, 2004

**VIA TELEFAX**

Marcia L. Goldstein, Esq.  
Weil, Gotschal & Manges, LLP  
767 Fifth Avenue  
New York, New York 10153

Re: WorldCom, Inc., et al.; Case No. 02-13533 (ALG)

Dear Ms. Goldstein:

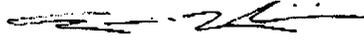
Our office is counsel to Next Factors, Inc. ("Next Factors"), the assignee of approximately twenty (20) claims in the above matter. Recently, Marcus Parsons of WorldCom, Inc., et al. (the "Debtors"), advised Next Factors that it was required to execute certain "releases" prior to any distribution being made on any of Next Factors' claims. Mr. Parsons further advised Next Factors that, unless it executed the requested releases, the Debtors intended to object to Next Factors' claims. A letter confirming the same was forwarded to your attention by Next Factors on July 15, 2004.

Next Factors has various concerns with regard to the requested releases, not the least of which is the delay and expense associated with reviewing a multitude of releases with regard to its claims. Also, the releases seem unnecessary in light of the release and injunction provisions provided for in the Debtors' Plan. Moreover, it does not appear that the Debtors' demands are authorized by any provision of the Plan, the Bankruptcy Code or any Bankruptcy Court Order.

As such, Next Factors would request that the Debtors withdraw their demands with regard to the releases. Alternatively, please provide me with the basis upon which the Debtors rely in demanding that Next Factors execute said releases.

Your attention to this matter is greatly appreciated. Please feel free to call me to discuss this matter.

Very truly yours,



Eric C. Zabicki

cc: Santa Roman, Next Factors, Inc.

Sent By: Doug Pick;

212 695 6007;

Jun-1-05 12:18PM;

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Douglas J. Pick P.C.

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350 Fifth Avenue, Suite 3000  
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Counsel to the Firm

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\*\*Long Island Office  
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Mineola, New York 11501  
(516) 741-2200

July 26, 2004

**VIA TELEFAX**

Marcia L. Goldstein, Esq.  
Weil, Gotschal & Manges, LLP  
767 Fifth Avenue  
New York, New York 10153

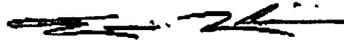
Re: WorldCom, Inc., et al.; Case No. 02-13533 (ALG)

Dear Ms. Goldstein:

As you are aware, our office is counsel to Next Factors, Inc. ("Next Factors") with regard to the above matter. On July 20, 2004, I had forwarded a letter to your attention with regard to your clients' demand that Next Factors execute certain "releases" prior to any distribution being made on any of Next Factors' outstanding claims. Since that time, I have exchanged voice messages with Brian Benjet, Esq. whom apparently attempted to contact me in response to my letter of July 20, 2004.

As I had advised your assistant late last week, and as I advised Mr. Benjet in a voice message of this morning, I would like to speak to someone *from your office* with regard to this matter. I would appreciate it if you would contact me today to discuss these issues.

Very truly yours,



Eric C. Zabicki

cc: Santa Roman, Next Factors, Inc.

**Douglas J. Pick P.C.**

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\*\*Long Island Office  
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(516) 741-2200

July 20, 2004

**VIA TELEFAX**

Marcia L. Goldstein, Esq.  
Weil, Gotschal & Manges, LLP  
767 Fifth Avenue  
New York, New York 10153

Re: WorldCom, Inc., et al.; Case No. 02-13533 (ALG)

Dear Ms. Goldstein:

This letter will serve to amend my letter of this afternoon with regard to the above matter. Next Factors, Inc. is the assignee of one-hundred-thirteen (113) claims against WorldCom, Inc., et al., rather than "approximately twenty (20)" as indicated in my prior letter. I apologize for any inconvenience.

Very truly yours,



Eric C. Zabicki

cc: Santa Roman, Next Factors, Inc.

**Douglas J. Pick P.C.**

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Counsel to the Firm

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\*James C. Kahn  
\*\*Gerald Zisholtz  
\*\* Stuart Zisholtz

\*\*Long Island Office  
170 Old Country Road  
Mineola, New York 11501  
(516) 741-2200

August 9, 2004

VIA TELEFAX

Marcia L. Goldstein, Esq.  
Weil, Gotschal & Manges, LLP  
767 Fifth Avenue  
New York, New York 10153

Re: WorldCom, Inc., et al.; Case No. 02-13533 (ALG)

Dear Ms. Goldstein:

As you are aware, our office is counsel to Next Factors, Inc. ("Next Factors") with regard to the above matter. As you may recall, there is an outstanding issue with regard to the Debtors' demand that Next Factors execute certain "releases" prior to any distribution being made on any of Next Factors' outstanding claims. There is also an issue as to the Debtor's apparently baseless threat that, unless Next Factors executed the requested releases, the Debtors intended to object and litigate *all* of Next Factors' claims.

Upon your advice that MCI, Inc. is handling claims matters internally, I have made numerous attempts to contact Brian Benjet, Esq., both in writing and by telephone, to discuss Next Factors' outstanding claims. However, Mr. Benjet has not made any reciprocal efforts to contact me. As such, I would appreciate any assistance you could offer in resolving this matter.

Very truly yours,



Eric C. Zabicki

cc: Santa Roman, Next Factors, Inc.  
Brian Benjet, Esq.

Douglas J. Pick P.C.

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August 3, 2004

VIA TELEFAX

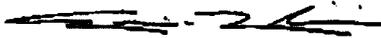
Brian Benjet, Esq.  
MCI, Inc.  
1133 19<sup>th</sup> Street NW  
Washington, D.C. 20036

Re: WorldCom, Inc., et al.; Case No. 02-13533 (ALG)  
Claims of Next Factors, Inc.

Dear Mr. Benjet:

As you are aware, our office is counsel to Next Factors, Inc. ("Next Factors") with regard to the above matter. Since being separately advised by Marcia Goldstein, Esq. and yourself that MCI, Inc. is handling claims matters internally, I have made numerous unsuccessful attempts to contact you by telephone to discuss Next Factors' outstanding claims. I would appreciate it if you would contact me today to discuss this matter.

Very truly yours,



Eric C. Zabicki

cc: Santa Roman, Next Factors, Inc.  
Marcia Goldstein, Esq.

## Douglas J. Pick P.C.

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August 26, 2004

**VIA TELEFAX**

Brian Benjet, Esq.  
MCI, Inc.  
1133 19<sup>th</sup> Street NW  
Washington, D.C. 20036

Re: WorldCom, Inc., et al.; Case No. 02-13533 (ALG)  
Claims of Next Factors, Inc.

Dear Mr. Benjet:

As you are aware, our office is counsel to Next Factors, Inc. ("Next Factors") with regard to the above matter. As we had previously discussed, Next Factors has taken issue with the Debtors' demands that Next Factors execute "settlement agreements" in connection with certain of Next Factors' claims. I have further discussed this matter with Next Factors which has advised me as follows:

Next Factors is not willing to consider any further settlement agreements with regard to claims where the amount or classification is not in dispute. It seems that virtually all of the proposed settlement agreements provided by the Debtors are "comfort" agreements in favor of the Debtors. By way of example only, the Debtors recently provided Next Factors with a proposed settlement agreement with regard to two claims originally held by Force Electronics (Claim Nos. 4822 and 2361). There is no dispute as to the amount of these two claims however, by way of the proposed settlement agreement, the Debtors seek Next Factors' consent to the combination of the two claims into a single claim. Next Factors deems such action to be unnecessary. The Debtors should simply pay the two claims in their undisputed amounts. Similarly, and by way of further example only, the Debtors recently provided Next Factors with a proposed settlement agreement with regard to a claim originally held by Crews Control (Claims Nos. 2161 and 36238). Claim No. 36238 merely amended Claim No. 2161 and there is no

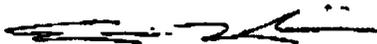
dispute as to the amount of the amended claim. Again, the proposed settlement agreement seems unnecessary since the amended claim superceded the originally filed claim. The Debtors should simply make a distribution to Next Factors on the undisputed amount of the amended claim.

In light of the large amount of claims that it holds (approximately 70 unpaid claims), Next Factors is not willing to bear the expense (i.e., attorneys' fees and the like) and delay, nor to establish a related precedent, associated with reviewing a multitude of settlement agreement which do not serve any apparent purpose. The Debtors' actions do not appear to be authorized by any provision of the Plan, the Bankruptcy Code or any Bankruptcy Court Order. In the event that there is a valid dispute being compromised which would ordinarily mandate an agreement memorializing that compromise (i.e., the reduction of the amount of a claim), Next Factors would be willing to consider a proposed settlement agreement and have done so with regard to certain of its claims. However, where there is no dispute as to the amount, classification or some other material matter, the Debtors should simply pay Next Factors claims in the ordinary course without requiring the execution of a settlement agreement.

On a final note, Next Factors is taking very seriously the threat made by Marcus Parsons that, unless Next Factors executes the requested settlement agreements, the Debtors intend to "litigate" *all* of Next Factors' claims. Please confirm in writing that this is not the case and that distribution on Next Factors' claims are not being arbitrarily withheld as a result of the issues concerning the settlement agreements.

Your attention to this matter is greatly appreciated. I will be traveling from this afternoon until Monday, August 30, 2004. Please call me then if you wish to discuss this matter.

Very truly yours,



Eric C. Zabicki

cc: Santa Roman, Next Factors, Inc.  
Marcia Goldstein, Esq.

### Douglas J. Pick P.C.

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September 14, 2004

**VIA TELEFAX**

Brian Benjet, Esq.  
MCI, Inc.  
1133 19<sup>th</sup> Street NW  
Washington, D.C. 20036

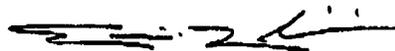
Re: *WorldCom, Inc., et al.; Case No. 02-13533 (ALG)*  
*Claims of Next Factors, Inc.*

Dear Mr. Benjet:

As of today, I have not yet received any response to my letter of August 26, 2004 with regard to the above matter. Next Factors, Inc. ("Next Factors") hereby renews its request that the Debtors confirm, in writing, that Next Factors' refusal to execute the claims agreements as requested by the Debtors will not result in: (i) the "litigation" of *all* of Next Factors' claims by the Debtors (as threatened by Marcus Parsons); and/or (ii) the Debtors' arbitrary retention or delay of distributions on Next Factors' unpaid claims.

It would be greatly appreciated if you would respond to this letter promptly or make some attempt to contact me to discuss this matter.

Very truly yours,



Eric C. Zabicki

cc: Santa Roman, Next Factors, Inc.  
Marcia Goldstein, Esq.

## **Exhibit C**

1 Transcript of a discussion between Douglas J. Pick of Douglas J. Pick & Associates and David O'Donnell,  
2 president of Next Factors, Inc. related to Worldcom, Inc., et al., 02-13533 (AJG) U.S. Bankruptcy Court  
3 Southern District of New York.  
4

5 David: Eric said you wanted to talk about the MCI motion that we are planning where we want to bring up  
6 conflicts and disparity of treatment.  
7

8 Doug: Yea, he showed me a copy of a motion he did.  
9

10 David: In which I think he did a great job on.  
11

12 Doug: He did a very, very nice job. He did. But this is all allegations not supported by anything.  
13

14 David: What allegation is there?  
15

16 Doug: The whole thing is based upon surmise. There is no proof of anything.  
17

18 David: Well we didn't allege anything, we are asking for a Disclosure of Conflict.  
19

20 Doug: Yea, but the way this is written, as I recall, and I read it. There are certainly allegations being made that  
21 conflicts existed between multiple professional law firms.  
22

23 David: We said that there "might be", and we would like to know for sure.  
24

25 Doug: I know, I hear you.  
26

27 David: I think the court should know. Also there has been very incorrect... the treatment of Next Factors hasn't  
28 been right. They threatened us.  
29

30 Doug: Well I understand, and I read these papers and I know the judge well enough, you don't make accusations  
31 against Weil Gotshal and the others, that somehow, someway, they had this secret agenda with various  
32 investment houses. So as to direct, which I think is your issue, if I recall correctly. To direct the trading of  
33 claims to these investment houses.  
34

35 David: No, no. I don't think there is anything along those lines in there.  
36

37 Doug: Isn't that what you are alleging? Isn't that what your basis behind this motion is?  
38

39 David: No, we just want to know what their process is for determining distributions on claims. Which I think we  
40 are entitled to know, any creditor should be entitled to know what claims were allowed and what claims were  
41 paid and when they were paid. I think the court is supposed to be an open book and we are entitled to know. At  
42 the same time I am asking for that information, and I think part of the process is that they are improperly  
43 handling Next in terms of trying to extort settlements and releases, which I am not sure why they would need  
44 releases from Next Factors other than, the only other thing I can think of is that, we weren't one of the claims  
45 traders who was a beneficiary of that inter-creditor agreement.  
46

47 Doug: I disagree with you. I read these papers, it definitely alleges potential conflicts of interest that exists  
48 between the various professional firms and the hedge funds. And that they have some kind of secret agenda  
49 between them.  
50

51 David: There is no allegation of a secret agenda. And we are suggesting that there could be conflicts and we  
52 want them to update and disclose. If there is none, great.  
53

1 Doug: Well, you can't just say that. In the papers you are clearly making that allegation and you can't just walk  
2 into to court and say, "well if there are none, just tell us there are none." It is just the way the papers are  
3 phrased? No. You have nothing to support it other than "surmise and a gut-feeling and what is right, and what is  
4 wrong."

5  
6 David: What have they disclosed so far?

7  
8 Doug: It doesn't matter what they have disclosed or not disclosed, David. What I am telling you is, that the way  
9 the papers are drafted, it creates a scenario of an accusation based on surmise.

10  
11 David: I don't see how there is an accusation there when what we are saying is...well there is an accusation, the  
12 accusation is, is they are not handling the distribution on claims to Next appropriately, including, I guess an  
13 element of extortion.

14  
15 Doug: Okay, the element of extortion...

16  
17 David: Which was when they threatened to object to all of claims if we didn't sign this release.

18  
19 Doug: Those are negotiations. When you go to an element of extortion like that (we'll use your words). That's  
20 settlement negotiations and they have a right to do that.

21  
22 David: Up to a point, I think they do, to a point. I believe there is a phrase or a term of art, "extortion of a  
23 settlement". I am not saying that they have hit that level in this instance. But you are not allowed to extort a  
24 settlement from people.

25  
26 Doug: They are not, they are telling you straight out, "You don't want it? Walk!" "We will go litigate it, go  
27 walk."

28  
29 David: They can litigate it if they truly intend...you can't threaten to do something if they don't truly intend to do  
30 it.

31  
32 Doug: Why not?

33  
34 David: That is illegal.

35  
36 Doug: That is not illegal.

37  
38 David: It is illegal to threaten something if you don't intend to do it.

39  
40 Doug: It is illegal to threaten to put somebody in jail by an attorney. But I can come at you and say, "if you don't  
41 do what I am saying...."

42  
43 David: You are threatening a lawsuit.

44  
45 Doug: "I am going to sue you." Done all the time.

46  
47 David: Yea, you can check into that.

48  
49 Doug: Yea I can. The same thing holds true when I say "I am going to kill you" It doesn't mean that I am going  
50 to kill you.

51  
52 David: You can't threaten to kill someone, it is definitely not allowed.

53  
54 Doug: It's done all the time, "I see you, I'm going to kill you." Everyone knows it is not meant literally.

1  
2 David: My impression would be that's crossing the line. Anyway, I am not an attorney for these finer points. So  
3 what I clearly allege that happened, and I don't think it is even disputed by the other side is that they made  
4 threats regarding our claims and that they are taking too long and they are asking for releases that they are not  
5 entitled to.  
6  
7 Doug: All I know is that they've taken the posture, if I recall, talking to Eric, that said, "if you don't want to  
8 settle fine, we just litigate everything. Litigate everything.  
9  
10 David: But they are not litigating everything.  
11  
12 Doug: No that's what they said, there is your threat. There is your extortion - I'll litigate everything.  
13  
14 David: Okay.  
15  
16 Doug: What's wrong with that?  
17  
18 David: I think that is not proper. But if....  
19  
20 Doug: So then you go for sanctions.  
21  
22 David: Well then, we are not even asking for sanctions. We are just asking the court to direct them to disclose  
23 information. What their policy is. Because if this is their policy for everybody, then that's fine.  
24  
25 Doug: It is just not a proper vehicle for the relief that you seek, to take well respected law firms...  
26  
27 David: Who says that they are well respected?  
28  
29 Doug: They are.  
30  
31 David: If I recall correctly the Southern District of New York found a situation where Weil Gotshal failed to  
32 disclose their prior representation in the Leslie Faye case. They paid a couple of million dollars for it.  
33  
34 Doug: And as a result of that, they are now in the bottom of the barrel?  
35  
36 David: I didn't say that.  
37  
38 Doug: They are one of the most profitable law firms today.  
39  
40 David: Well profitable is another issue. That is something maybe for Elliot Spitzer to look at. That is not my  
41 point.  
42  
43 Doug: They are.  
44  
45 David: But whether or not they are well respected... I will agree that they are respected and feared and that they  
46 make lots of money. But I think that you would have to agree that there has been at least one situation where  
47 they did not properly act in terms of disclosing conflicts.  
48  
49 Doug: And....what is the significance of a mistake in life? They got a chief bankruptcy Judge Brozman,  
50 sanctioned. I know the case, everyone knows the case.  
51  
52 David: I thought Brozman was given high regard by other attorneys for that. I think that sanction was kind of  
53 light because they only paid a fraction of the cost that the estate was damaged and they didn't give back any of  
54 their additional fees. They didn't disgorge all of their fees.

1  
2 Doug: Then the judge doesn't think it was horrid as to sanction them further.

3  
4 David: Further than that. Maybe it was the first time. These are details that I don't know. But I also wouldn't  
5 hold the policing of other attorneys by other attorneys to any kind of standard to be respected. I think the police  
6 do a better job with an internal affairs department of policing other police officers and I know that there is great  
7 statistics kept by police departments and the FBI of crimes committed by police officers. I know of nothing in  
8 analogous in terms of attorneys.

9  
10 Doug: There is! You can check any one of us.

11  
12 David: Bar Associations have nothing to do with criminal matters, it is civil type stuff and it's membership in the  
13 Bar. There is very little teeth and there is also rules in place to protect all the attorneys involved. It is not a  
14 public thing, it is not a criminal action, it's really odd. I am not aware of any activity on the part of Bars in  
15 anyway be analogous to the type of policing that is done of police forces.

16  
17 Doug: You know, I'm not going to fight with you over it. Maybe you are right. Maybe lawyers should be better  
18 policed...I don't know. I think they are, I think we are under tremendous scrutiny.

19  
20 David: Well with Sarbanes-Oxley, it's has upped a notch. But that is more in the public company, you know  
21 securities trading firms. I don't see anything in terms of the bankruptcy courts. I know many instances where  
22 there is evidence of stuff that crossed (I would think) clearly the line in terms of 18 US Code Section 3057 and I  
23 haven't seen US trustees involved or judges involved act on it. Maybe they have acted and I am just not aware of  
24 investigations that are ongoing. I think I am entitled to the information anyway, to have them state their policy.  
25 They are not telling me directly what their policy is. So we are asking the court to tell us what their policy is. As  
26 far as the conflicts go. I am involved in the bankruptcy industry and going to conferences and I get a feeling for  
27 how claims are paid to other claims traders. In fact, I used to work for Bear Stearns.

28  
29 Doug: I know that.

30  
31 David: And I also worked for a hedge fund. And, I know other people. I get a feeling for how things are, so it is  
32 not like I am some Al Sharpten coming out of nowhere. Or someone coming in and saying "Oh you guys are  
33 doing such and such". I have been involved in the industry and I know that there are a lot of by-side distressed  
34 players who hire attorneys. I just like them to do a conflict check. In fact, I am involved in a case where debtor's  
35 counsel was representing a debtor and concurrently the senior lender, the secured lender, the largest equity  
36 holder and the claims trader that bought the majority of claims in the case, a competitor of mine, who was the  
37 first one buying claims in the case. And they were buying things before sales information was disclosed on the  
38 docket. So I don't know how they got the information. So there are situations where there might be questions of  
39 disclosure, but I think you should view this more as something which Next Factors is going to be asking in  
40 many cases, up front, where we are going to say, "hey we want you to update your conflict check". At each time  
41 where we think there are problems. This isn't just, "I'm picking on Weil Gotshal," I mean that would be silly. If  
42 you want me to give you some other districts where Next Factors has issues where we've pointed out conflict  
43 issues. I could let you know that. This isn't out of the blue, this is the largest bankruptcy case ever. Isn't it in US  
44 World Com?

45  
46 Doug: Yes.

47  
48 David: You know, it is a huge case. I think we are entitled to this information. If the judge doesn't want to give it  
49 to me, that is fine, but I think the business community would be interested in knowing why the judge doesn't  
50 want the lawyers to update their conflict checks. This is going to be news or it is not going to be news. The only  
51 way it is not going to be news is if they update their checks and there is no problems. If the judge doesn't allow  
52 it, it is going to be news. If I have to jump through many different hoops before the conflict disclosure is made,  
53 it is going to be news. Between you and me, maybe I already have some communications with Elliott Spitzer's

1 office. It is a big animal. But what I am asking for, I think is very straight forward. Now if you think we should  
2 tweak the language in some way, I would be amenable to consider that. But I want to ask for that information.  
3

4 Doug: I am very uncomfortable. I read the motion, I didn't like the motion. I understood the motion. But I think  
5 the allegations are allegations, they are not based upon any facts. There is no....  
6

7 David: I'm not sure what allegation you are talking about?  
8

9 Doug: I am looking for a memo, I'm looking for a smoking gun, I am looking for something more than, "I want  
10 you guys to do a conflict search and tell me if there is anything inappropriate in your dealings with these hedge  
11 funds."  
12

13 David: You are saying that I am looking for a memo?  
14

15 Doug: No, I said I am looking for a memo. I want something that supports these papers.  
16

17 David: Well, what is there to support? If we are asking them to update their conflict check?  
18

19 Doug: We are not in a position to take that position, or ask anyone to update their conflicts check.  
20

21 David: No one is allowed to ask attorneys to update their conflicts checks?  
22

23 Doug: No, that is internal. You do your own conflicts check. And if turns out there is a problem, the judge will  
24 address it. But I have no right to go to a Weil Gotshal, Piper Rudnick...  
25

26 David: Can you send me a memo that explains what either case law or statutes prohibits one party from asking  
27 that the court ask others to do. I thought...my overall impression of bankruptcy is that everyone is essentially  
28 entitled to information.  
29

30 Doug: You disclose. That is internal, you disclose internally.  
31

32 David: The responsibility is on the attorneys to disclose to the court.  
33

34 Doug: That's right.  
35

36 David: Okay. I could understand it. But I don't understand how one party can't ...  
37

38 Doug: ...ask another party to disclose more?  
39

40 David: No, we'll want to update. Here is the issue. There are over fifty claims buyers. A lot of times the claims  
41 buyers will be - you know - "XYZ claims buying", but they are actually owned by, let's say, by Bear Stearns,  
42 Bear Stearns Government Securities or Oppenheimer or Amrock or whatever. So, it might be possible that the  
43 professionals did conflict checks at the start of the case and then there were fifty claims traders and they weren't  
44 aware that there was a claims trader who came in. But that is one reason why the conflicts check might be out of  
45 date. Another reason could be that there could be funds that are buying under different names. So maybe there is  
46 a process that needs to be done generally where if a fund hires attorneys and then they start buying under  
47 another name, they need to update their attorneys as to the other names that they are buying under. Maybe it is  
48 not the responsibility of the attorney to guess or to know stuff that they don't know. But it is an issue.  
49

50 Doug: Yea, it could be an issue. But the way you address it is not the way it is being addressed here.  
51

52 David: Why do you say that?  
53

54 Doug: Because we have no right to tell Weil Gotshal how to improve internal .....

1  
2 David: We are not telling Weil Gotshal how to do it. We are asking the court to direct attorneys to update their  
3 conflict checks. Which is something they were supposed to have done anyway.  
4  
5 Doug: It doesn't matter. That is internal. No outside counsel has the right....  
6  
7 David: It is not internal.  
8  
9 Doug: It is internal.  
10  
11 David: It is disclosed publically to the court.  
12  
13 Doug: Internally it is disclosed publically to the court. That is the attorneys on-the-job has to do his conflicts  
14 check and submit an affidavit. If the affidavit is ultimately proved inaccurate or wrong, you can get sanctioned.  
15 But it is not my job to go to Weil Gotshal and say, "I want you to tell me..."  
16  
17 David: It is not your job and I am not suggesting that you do it.  
18  
19 Doug: Well, I read that in these papers.  
20  
21 David: Next Factors is asking the Court to do it.  
22  
23 Doug: Well I am counsel.  
24  
25 David: Right.  
26  
27 Doug: And if my name is put on these papers, it's me, suggesting to you as counsel that you are correct in the  
28 request that you are making of the court to intervene to that issue.  
29  
30 David: If there is some basis in fact or law for us to ask the court for the relief.  
31  
32 Doug: That's right. I don't think there is any basis in fact or law to ask for the relief.  
33  
34 David: Then give me a memo to that effect.  
35  
36 Doug: Yea, I don't mind.  
37  
38 David: Because that memo is going to be read by many.  
39  
40 Doug: I don't care, I really don't care.  
41  
42 David: I think the easiest way out.  
43  
44 Doug: I'm not looking for an easy way out.  
45  
46 David: Well, the easiest way out is to have this motion filed. If you want to generate me a memo that is going to  
47 try to explain why in fact or law ....I've sort of been in the industry for awhile, and I could probably turn on my  
48 computer and point out a number of cases where there is people, creditors, committees, mad that the Chinese  
49 Wall was insufficient in another firm, you know because they might of been buying the debt. I've seen orders  
50 where the court says that anyone who is buying or selling stock of the bankrupted company is restricted or have  
51 to get approval first. I mean I've seen things that go way outside the bounds. The only difference I see here is  
52 that, what is involved is other attorneys and it sort of has that flavor of one attorney protecting or not wanting to  
53 be seen as interfering with other attorneys' ways of making money without regard what might be involved in the

1 process. If you want to talk more tomorrow, I know it is the end of the day today...I am going to get the  
2 information one way or another.

3  
4 Doug: Why don't you take our papers and give it another law firm. I mean, you do like the papers. I don't mind,  
5 just change the name.

6  
7 David: What is your concern?

8  
9 Doug: I don't like the accusations being made. I don't want to put our name to this set of papers.

10  
11 David: Okay, I'm not sure, I haven't seen one accusation. You are saying that our asking for the information is  
12 an accusation? I don't see that as an accusation.

13  
14 Doug: Let me ask you a different question. We're not the only lawyers, right? I mean you do like the set of  
15 papers, right? So we have ghost-written papers for someone else. What is wrong with that? You could probably  
16 convince another lawyer to take these papers and submit it. You are very good at the art of persuasion.

17  
18 David: Well if you want to spend your time finding a lawyer...

19  
20 Doug: No. I am not going to spend my time finding a lawyer.

21  
22 David: Well do you think I am going to spend my time doing it?

23  
24 Doug: Well, I don't care. I am just telling you I don't approve....

25  
26 David: Well you should care.

27  
28 Doug: I don't understand that point at all. I do care. That is why I am saying we are not signing these papers. I  
29 do care.

30  
31 David: I think you are making things harder for yourself.

32  
33 Doug: I don't see how, I don't see how I am making things harder for myself. Sorry, if you could explain that to  
34 me, I'm all ears.

35  
36 David: I am entitled to this information, do you doubt I am entitled to make the request of the court to have  
37 people update their conflict checks?

38  
39 Doug: Yes.

40  
41 David: You doubt that.

42  
43 Doug: Yes.

44  
45 David: Okay, I guess you are going to do a memo to that effect. You are aware of situations where committee  
46 members have sought motions regarding chinese walls existing at other committee members?

47  
48 Doug: That is because they know for a fact of a conflict. Not because they believe or sense....

49  
50 David: I've seen it where there are no facts presented.

51  
52 Doug: Sorry. I've never seen a paper that is based on innuendo and surmise.

53  
54 David: What innuendo am I speaking....

1  
2  
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52  
53

Doug: It is filled with innuendo.

David: So, I think I understand you and if I show you one firm who has bought claims in the case and is not currently on one of the professional's conflict checks.

Doug: I'm sorry, you lost me. One firm that has bought claims .....

David: If I show you one claims buyer, who bought claims at a time in the MCI case, when they weren't on an attorneys' conflict check and I can also show you that this attorney appeared for that same buyer or their affiliate concurrently in another case, i.e. they are accepting money from them, then you have no problem with these papers.

Doug: No, you are wrong because you have got to show me that the claims buyer paid them money to represent them in the case. A guy out there, a claims buyer who buys claims in a hundred cases is not going to disqualify Weil Gotshal from a hundred cases. Because Weil Gotshal represented them in one matter. I don't buy that. If in World Com you can show me that one of the claims buyers, hedge fund, had a relationship and was paid in the relationship in the World Com matter and that wasn't disclosed, that's different.

David: In the World Com matter, in the World com ...that is not what a conflict check is about.

Doug: In this particular case...

David: The conflict is if they are accepting money from a party in the current case related to other work in another case.

Doug: Well I'm sorry I don't see your argument.

David: You've never seen that in a conflict check? You are not aware that a conflict check refers to whether or not there is a relationship with a party in the current case somewhere else. You think it would only be if they were also representing a creditor in the same case?

Doug: I am well aware of conflict checks. We do it here. Also, I will surprise you by telling you that we've been doing it for twenty-five years and we haven't been doing it for twenty-five days. I am telling you now, I've read these papers and it is filled ....there is no way on God's green earth that I am going to sign this.

David: I just told you, I could present to you what sounds like you need. If I give you that evidence, you are ready to file these papers?

Doug: No, I am not.

David: Why?

Doug: Because you and I have a difference of opinion with respect to the law and the facts.

David: No, no, I thought I just gave you what you asked for! You said that it is based on innuendo. You have two questions to answer then, why you won't file it as is, and why you won't file it if it is no longer innuendo and I give you facts.

Doug: Do you have another law firm that you deal with?

David: No, not in New York, not for New York matters. I have for Delaware, California, Texas and Florida. No one else in New York. So I will look forward to that memo covering the two incidents. Because we are talking

1 about "as is", and then also if I gave you actual evidence. right, so I will look forward to getting that memo or if  
2 you want to tell me again tomorrow, either way.

3

4 Doug: You want a memo that you will pay us for, saying that we have no right to conduct an internal conflicts  
5 check.

6

7 David: No not you. That is not a memo for you giving an explanation to yourself of something.

8

9 Doug: I'm not giving an explanation to myself.

10

11 David: This motion needs to be filed.

12

13 Doug: We are not filing it.

14

15 David: If you are going to give some reason that is not filed, that is up to you. But I think you need to explain  
16 why you are not filing it and I also offered to give you what you said you needed. You said you need "X" and I  
17 said I would give you "X" and you said you still wouldn't file it after getting "X".

18

19 Doug: David, let me say it differently, "I will not put my name on these set of papers, I will not."

20

21 David: I am not asking you to put your name on it.

22

23 Doug: Well, what are you asking me? Are you asking Eric to put his name on it?

24

25 David: Eric has his name on it.

26

27 Doug: Oh, so you are asking Eric to put his name on it?

28

29 David: Eric's name is on it.

30

31 Doug: So you are asking Eric to sign it?

32

33 David: Eric is ready to sign it and the only reason why he isn't is because you said you didn't want it done.

34

35 Doug: Okay let me say, "I will not authorize Eric to sign these papers, I will not give him my permission, I will  
36 not"

37

38 David: You know, I think you are making things difficult for yourself, but you are going to need to explain why  
39 asking for attorneys to update their conflicts.

40

41 Doug: No, the issue....

42

43 David: It is not in fact or law. And also when you said you couldn't do it because there is no evidence, and if I  
44 gave you the evidence that you still wouldn't do it.

45

46 Doug: You and I read it differently.

47

48 David: I also gave you the opportunity to go to the point to find out which words, which specific language you  
49 didn't like, and you declined.

50

51 Doug: I appreciate it. We are not going to sign this.

52

53 David: I think you are making things very difficult for yourself and we will see how things go.

54

1 Doug: Okay.  
2  
3 David: But I think the ball is still in your court.  
4  
5 Doug: Nope, I'm telling you now, honestly...  
6  
7 David: You need to start covering the bases for yourself, because you are venturing out here.  
8  
9 Doug: Are you threatening us?  
10  
11 David: Excuse me? Threatening what?  
12  
13 Doug: Me.  
14  
15 David: With what?  
16  
17 Doug: I don't know?  
18  
19 David: Not that I am aware of.  
20  
21 Doug: Okay, maybe I just misheard what you were saying.  
22  
23 David: No, I'm telling you that you need to cover the bases for yourself.  
24  
25 Doug: Okay, we are very careful on conflict checks, very careful.  
26  
27 David: Good. I'm not referring to conflict checks, I am referring to making sure that the actions you take are for  
28 your client and not to protect other attorneys.  
29  
30 Doug: We don't protect other....  
31  
32 David: If you recall, I think there was an issue which caused you to decline to perform actions in the Footstar  
33 case, which in a letter advising you, you know talking about that issue, went to you. And you saw that  
34 correspondence, right?  
35  
36 Doug: I will tell you this David...  
37  
38 David: So this looks like another instance....  
39  
40 Doug: Then David fire me!  
41  
42 David: No, no. This looks like another instance....  
43  
44 Doug: No. Because I am tired of it. I have told you before and I will tell you again. There are no strings attached  
45 to my arms and there are no strings attached to my legs.  
46  
47 David: Especially when you want to protect opposing counsel.  
48  
49 Doug: Do you think we are trying to protect Weil Gotshal because they need our protection!  
50  
51 David: I didn't say Weil Gotshal, by the way. How many professionals, there are like a dozen of them.  
52  
53 Doug: Okay, you think a dozen law firms out there with lawyers of fifty or more need our protection? Fine. If  
54 that is what you want to believe, fine. That we are protecting them, fine.

Transcript of discussion between Douglas J. Pick and David O'Donnell

1  
2 David: That is the way it looks.  
3  
4 Doug: Okay, it is what it is. I can't change me.  
5  
6 David: That's the way I think it will look to your average American, is the same way.  
7  
8 Doug: Okay, then that's the way it looks.  
9  
10 David: Okay, well I am glad we are in agreement on that.  
11  
12 Doug: Alright.  
13  
14 David: Talk to you later.  
15  
16 Doug: Okay, bye.

## **Exhibit D**



July 7, 2004

**CONFIDENTIAL**

VIA FEDERAL EXPRESS

Next Factors, Inc.  
880 Bergen Ave  
Suite 900  
Jersey, NJ 07306

Re: Schedule Number(s) 229041520, 295725, 361145/Claim Number(s) 4822 and 2361

Dear Ms. Santa Roman:

On behalf of MCI, Inc., f/k/a WorldCom, Inc., its subsidiaries and affiliates (collectively, "MCI"), I am acknowledging that Force Electronics ("Force") has filed a claim(s) in the Bankruptcy Case (as defined below) and/or that MCI has scheduled an amount(s) owed to Force in the Bankruptcy Case (as defined below). Force sold/transferred/assigned its claim(s) and/or scheduled amount(s) to Next Factors, Inc. ("Next Factors"). The aforementioned claim(s) and/or amount(s) are hereinafter referred to collectively as "Next Factor's Claim(s)."

This letter agreement (this "Agreement") confirms that Next Factor and MCI have agreed to fix the amount and classification of Next Factor's Claim(s). Collectively, MCI and Next Factor will be referred to herein as the "Parties." This Agreement sets forth the terms and conditions of the Parties' agreement to fix Next Factor's Claim(s).

On July 21, 2002 and November 8, 2002, MCI, and certain of its direct and indirect subsidiaries and affiliates, commenced cases under chapter 11 of title 11 of the United States Code in the United States Bankruptcy Court for the Southern District of New York, In re: WorldCom, Inc., et al.<sup>1</sup> On October 31, 2003, the Court in the Bankruptcy Case entered an order confirming the Debtors' Modified Second Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (the "Plan of Reorganization").

In consideration of the mutual promises set forth in this Agreement, the Parties agree that Next Factor shall have in the Bankruptcy Case an allowed class 4 claim as defined in the Plan of Reorganization in the amount of \$35,332.42 (the "Revised Scheduled Claim"). MCI will pay the Revised Scheduled Claim in accordance with the Plan of Reorganization.

Except as set forth in this Agreement, Next Factor, its predecessors, successors, parents, assigns, liens, agents and attorneys, agree to release and discharge MCI, its predecessors, successors and assigns from all actions, causes of action, claims (whether scheduled or filed), suits, debts, damages, judgments and demands whatsoever, whether now known or unknown, whether before a local, state or federal court or state or federal administrative agency or commission arising out of or related to any acts or omissions of MCI occurring prior to the date that Next Factor executes this Agreement.

<sup>1</sup> All of the Petitions filed on behalf of MCI are being jointly administered under Case No. 02-13533-ajg (collectively, the "Bankruptcy Case").

**CONFIDENTIAL**

Santa Roman  
July 7, 2004  
Page 2

This Agreement is the result of a compromise and is not to be construed as an admission by MCI of any liability or wrongdoing. Indeed, MCI expressly denies any such liability, wrongdoing or responsibility.

This Agreement shall be binding upon the Parties thereto, their predecessors, successors, parents, subsidiaries, affiliates, assigns, agents, directors, officers, employees, and shareholders. Each of the signatories of this Agreement represents and warrants that he or she is authorized to execute this Agreement and to bind the Parties thereto.

The laws of the State of New York shall govern this Agreement, irrespective of its choice of law rules.

The Parties acknowledge that they have had the opportunity to consult with legal counsel of their choosing prior to entering into this Agreement, and that they enter this Agreement freely and voluntarily. Please sign below indicating your assent to this Agreement.

Next Factor, Inc.

Signature: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

MCI, Inc.

Signature: \_\_\_\_\_

Printed Name: Beckie Hoyt

Title: Sr. Sourcing Specialist

Date: \_\_\_\_\_

## **Exhibit E**

**Douglas J. Pick, P.C.**  
Counselors At Law  
350 FIFTH AVENUE, SUITE 3000  
NEW YORK, NEW YORK 10118-3099  
TEL: 212-695-6000  
FAX: 212-695-6007

TELECOPIER COVER SHEET

To:	Marcia L. Goldstein, Esq. Weil Gotschal & Manges	Date:	July 20, 2004
Fax No.:	(212) 310-8007	From:	Eric C. Zabicki
cc:	Santa Roman Next Factors	Re:	WorldCom
Fax No.:	(201) 963-5526		

Total number of pages transmitted, including cover sheet: 3

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**Douglas J. Pick P.C.**

ATTORNEYS AT LAW  
350 Fifth Avenue, Suite 3000  
New York, New York 10118  
Telephone: 212-695-6000  
Facsimile: 212-695-6007  
e-mail: [dpick@picklaw.net](mailto:dpick@picklaw.net)

Douglas J. Pick  
Eric C. Zabicki

**\*Westchester Office**  
175 Main Street, Suite 515  
White Plains, New York 10601  
(914) 761-1800

Counsel to the Firm

\*Joseph A. Scutleri  
\*James C. Kahn  
\*\*Gerald Zisholtz  
\*\* Stuart Zisholtz

**\*\*Long Island Office**  
170 Old Country Road  
Mineola, New York 11501  
(516) 741-2200

July 20, 2004

**VIA TELEFAX**

Marcia L. Goldstein, Esq.  
Weil, Gotschal & Manges, LLP  
767 Fifth Avenue  
New York, New York 10153

Re: WorldCom, Inc., et al.; Case No. 02-13533 (ALG)

Dear Ms. Goldstein:

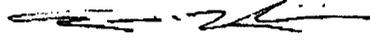
Our office is counsel to Next Factors, Inc. ("Next Factors"), the assignee of approximately twenty (20) claims in the above matter. Recently, Marcus Parsons of WorldCom, Inc., *et al.* (the "Debtors"), advised Next Factors that it was required to execute certain "releases" prior to any distribution being made on any of Next Factors' claims. Mr. Parsons further advised Next Factors that, unless it executed the requested releases, the Debtors intended to object to Next Factors' claims. A letter confirming the same was forwarded to your attention by Next Factors on July 15, 2004.

Next Factors has various concerns with regard to the requested releases, not the least of which is the delay and expense associated with reviewing a multitude of releases with regard to its claims. Also, the releases seem unnecessary in light of the release and injunction provisions provided for in the Debtors' Plan. Moreover, it does not appear that the Debtors' demands are authorized by any provision of the Plan, the Bankruptcy Code or any Bankruptcy Court Order.

As such, Next Factors would request that the Debtors withdraw their demands with regard to the releases. Alternatively, please provide me with the basis upon which the Debtors rely in demanding that Next Factors execute said releases.

Your attention to this matter is greatly appreciated. Please feel free to call me to discuss this matter.

Very truly yours,



Eric C. Zabicki

cc: Santa Roman, Next Factors, Inc.

**Douglas J. Pick, P.C.**  
Counselors At Law  
350 FIFTH AVENUE, SUITE 3000  
NEW YORK, NEW YORK 10118-3099  
TEL: 212-695-6000  
FAX: 212-695-6007

**TELECOPIER COVER SHEET**

To:	Marcia L. Goldstein, Esq. Weil Gotschal & Manges	Date:	July 20, 2004
Fax No.:	(212) 735-4919	From:	Eric C. Zabicki
cc:	Santa Roman Next Factors	Re:	WorldCom
Fax No.:	(201) 963-5526		

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**Douglas J. Pick P.C.**

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(516) 741-2200

July 20, 2004

**VIA TELEFAX**

Marcia L. Goldstein, Esq.  
Weil, Gotschal & Manges, LLP  
767 Fifth Avenue  
New York, New York 10153

Re: WorldCom, Inc., et al.; Case No. 02-13533 (ALG)

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As such, Next Factors would request that the Debtors withdraw their demands with regard to the releases. Alternatively, please provide me with the basis upon which the Debtors rely in demanding that Next Factors execute said releases.

Your attention to this matter is greatly appreciated. Please feel free to call me to discuss this matter.

Very truly yours,



Eric C. Zabicki

cc: Santa Roman, Next Factors, Inc.

Douglas J. Pick, P.C.  
Counselors At Law  
350 FIFTH AVENUE, SUITE 3000  
NEW YORK, NEW YORK 10118-3099  
TEL: 212-695-6000  
FAX: 212-695-6007

TELECOPIER COVER SHEET

To:	Brian Bejet, Esq. MCI, Inc.	Date:	August 26, 2004
Fax No.:	(202) 736-6320	From:	Eric C. Zabicki
cc:			
To:	Marcia L. Goldstein, Esq. Weil Gotschal & Manges	Re:	WorldCom
Fax No.:	(212) 310-8007		
cc:	Santa Roman Next Factors, Inc.		
Fax No.:	(201) 963-5526		

Total number of pages transmitted, including cover sheet: 3

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### Douglas J. Pick P.C.

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e-mail: [dpick@picklaw.net](mailto:dpick@picklaw.net)

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Counsel to the Firm

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\*James C. Kahn  
\*\*Gerald Zisholtz  
\*\* Stuart Zisholtz

\*\*Long Island Office  
170 Old Country Road  
Mineola, New York 11501  
(516) 741-2200

August 26, 2004

**VIA TELEFAX**

Brian Benjet, Esq.  
MCI, Inc.  
1133 19<sup>th</sup> Street NW  
Washington, D.C. 20036

Re: WorldCom, Inc., et al.; Case No. 02-13533 (ALG)  
Claims of Next Factors, Inc.

Dear Mr. Benjet:

As you are aware, our office is counsel to Next Factors, Inc. ("Next Factors") with regard to the above matter. As we had previously discussed, Next Factors has taken issue with the Debtors' demands that Next Factors execute "settlement agreements" in connection with certain of Next Factors' claims. I have further discussed this matter with Next Factors which has advised me as follows:

Next Factors is not willing to consider any further settlement agreements with regard to claims where the amount or classification is not in dispute. It seems that virtually all of the proposed settlement agreements provided by the Debtors are "comfort" agreements in favor of the Debtors. By way of example only, the Debtors recently provided Next Factors with a proposed settlement agreement with regard to two claims originally held by Force Electronics (Claim Nos. 4822 and 2361). There is no dispute as to the amount of these two claims however, by way of the proposed settlement agreement, the Debtors seek Next Factors' consent to the combination of the two claims into a single claim. Next Factors deems such action to be unnecessary. The Debtors should simply pay the two claims in their undisputed amounts. Similarly, and by way of further example only, the Debtors recently provided Next Factors with a proposed settlement agreement with regard to a claim originally held by Crews Control (Claims Nos. 2161 and 36238). Claim No. 36238 merely amended Claim No. 2161 and there is no

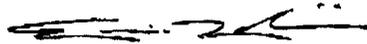
dispute as to the amount of the amended claim. Again, the proposed settlement agreement seems unnecessary since the amended claim superceded the originally filed claim. The Debtors should simply make a distribution to Next Factors on the undisputed amount of the amended claim.

In light of the large amount of claims that it holds (approximately 70 unpaid claims), Next Factors is not willing to bear the expense (i.e., attorneys' fees and the like) and delay, nor to establish a related precedent, associated with reviewing a multitude of settlement agreement which do not serve any apparent purpose. The Debtors' actions do not appear to be authorized by any provision of the Plan, the Bankruptcy Code or any Bankruptcy Court Order. In the event that there is a valid dispute being compromised which would ordinarily mandate an agreement memorializing that compromise (i.e., the reduction of the amount of a claim), Next Factors would be willing to consider a proposed settlement agreement and have done so with regard to certain of its claims. However, where there is no dispute as to the amount, classification or some other material matter, the Debtors should simply pay Next Factors claims in the ordinary course without requiring the execution of a settlement agreement.

On a final note, Next Factors is taking very seriously the threat made by Marcus Parsons that, unless Next Factors executes the requested settlement agreements, the Debtors intend to "litigate" *all* of Next Factors' claims. Please confirm in writing that this is not the case and that distribution on Next Factors' claims are not being arbitrarily withheld as a result of the issues concerning the settlement agreements.

Your attention to this matter is greatly appreciated. I will be traveling from this afternoon until Monday, August 30, 2004. Please call me then if you wish to discuss this matter.

Very truly yours,



Eric C. Zabicki

cc: Santa Roman, Next Factors, Inc.  
Marcia Goldstein, Esq.

Douglas J. Pick P.C.

ATTORNEYS AT LAW  
350 Fifth Avenue, Suite 3000  
New York, New York 10118  
Telephone: 212-695-6000  
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Eric C. Zabicki

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(914) 761-1800

Counsel to the Firm

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\*James C. Kahn  
\*\*Gerald Zisholtz  
\*\* Stuart Zisholtz

\*\*Long Island Office  
170 Old Country Road  
Mineola, New York 11501  
(516) 741-2200

August 26, 2004

VIA TELEFAX

Brian Benjet, Esq.  
MCI, Inc.  
1133 19<sup>th</sup> Street NW  
Washington, D.C. 20036

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Very truly yours,

Eric C. Zabicki

cc: Santa Roman, Next Factors, Inc.  
Marcia Goldstein, Esq.

**Douglas J. Pick, P.C.**  
Counselors At Law  
350 FIFTH AVENUE, SUITE 3000  
NEW YORK, NEW YORK 10118-3099  
TEL: 212-695-6000  
FAX: 212-695-6007

TELECOPIER COVER SHEET

To:	Santa Roman Next Factors	Date:	August 26, 2004
Fax No.:	(201) 963-5526	From:	Eric C. Zabicki
Tel No.:	(201) 659-0209	Re:	Worldcom

Total number of pages transmitted, including cover sheet: 3

Dear Santa:

Please review and immediately advise of any changes.

Eric Zabicki

**CONFIDENTIAL**

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## **Exhibit F**

Next Factors, Inc.  
72 Van Reipen Avenue  
Suite 37  
Jersey City, NJ 07306  
Phone: (201) 659-0209

July 15, 2004

Delivered via facsimile only (972 729-6433)

Mr. Marcus Parsons  
MCI  
Network Procurement  
2400 North Glenville  
Richardson, Texas 75082

Re: WorldCom, Inc., et al.

Dear Mr. Parsons:

I did not appreciate having an unannounced surreptitious third party listening to our conversation of yesterday evening regarding the agreements you are requiring Next Factors, Inc., to execute with regards to its claims against the above styled bankruptcy matter.

You failed to introduce the third party at the start of our conversation and it wasn't until I heard some rumbling in the background that I realized some one else was listening.

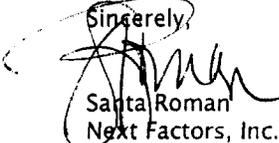
Getting back to the issue of having our attorney available for a conference call sometime this afternoon, please be advised that we will only bring our attorney if the attorney for the above mentioned Debtor is also in the conference call.

We suggest that whoever speaks with us is properly informed with the confirmed Plan as well as Section 502 of the Federal Bankruptcy Rules.

We do not appreciate your threat to object to each one of Next Factors claims if we do not sign additional blind releases unrelated to the confirmed Plan.

We hereby reserve all rights and remedies with respect to such threat.

Sincerely,

  
Santa Roman  
Next Factors, Inc.

cc: Eric Zabicki, Esq., (212 695-6007)  
Marcia L. Goldstein, Esq., (212 735-4919)

JOB	PHONE NUMBER/ADDRESS	START TIME	PAGES	MODE	STATUS
770	19727296431 .....	7/15 12:19PM .....	1 / 1	BC .....	COMPLETED .....
770	12126956007 .....	7/15 12:20PM .....	1 / 1	BC .....	COMPLETED .....
770	12127354919 .....	7/15 12:21PM .....	1 / 1	BC .....	COMPLETED .....

Next Factors, Inc.  
72 Van Relpen Avenue  
Suite 37  
Jersey City, NJ 07306  
Phone: (201) 659-0209

July 15, 2004

Delivered via facsimile only (972 729-6431)

Mr. Marcus Parsons  
MCI  
Network Procurement  
2400 North Glenville  
Richardson, Texas 75082

Re: WorldCom, Inc., et al.

Dear Mr. Parsons:

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We hereby reserve all rights and remedies with respect to such threat.

  
Satala Roman  
Next Factors, Inc.

cc: Eric Zabicki, Esq., (212 695-6007)  
Marcia L. Goldstein, Esq., (212 735-4919)

## **Exhibit G**



## KPMG to Pay \$456 Million for Criminal Violations

(Additional Link: [Statement by IRS Commissioner Mark W. Everson](#))

IR-2005-83, Aug. 29, 2005

WASHINGTON — KPMG LLP (KPMG) has admitted to criminal wrongdoing and agreed to pay \$456 million in fines, restitution and penalties as part of an agreement to defer prosecution of the firm, the Justice Department and the Internal Revenue Service announced today.

In addition to the agreement, nine individuals—including six former KPMG partners and the former deputy chairman of the firm—are being criminally prosecuted in relation to the multi-billion dollar criminal tax fraud conspiracy. As alleged in a series of charging documents unsealed today, the fraud relates to the design, marketing, and implementation of fraudulent tax shelters.

In the largest criminal tax case ever filed, KPMG has admitted that it engaged in a fraud that generated at least \$11 billion dollars in phony tax losses which, according to court papers, cost the United States at least \$2.5 billion dollars in evaded taxes. In addition to KPMG's former deputy chairman, the individuals indicted today include two former heads of KPMG's tax practice and a former tax partner in the New York, NY office of a prominent national law firm.

"Corporate fraud has far-reaching consequences, both to the marketplace and those whose livelihoods depend on companies that maintain honest business practices," said Attorney General Alberto R. Gonzales. "Today's agreement requires KPMG to accept responsibility and make amends for its criminal conduct while protecting innocent workers and others from the consequences of a conviction. The stiff financial penalty announced today means that the firm is paying for its conduct, while the guarantees of cooperation, oversight, and meaningful reform will help to ensure that its future business is conducted with honesty and integrity."

The criminal information and indictment together allege that from 1996 through 2003, KPMG, the nine indicted defendants and others conspired to defraud the IRS by designing, marketing and implementing illegal tax shelters. The charging documents focus on four shelters that the conspirators called FLIP, OPIS, BLIPS and SOS.

According to the charges, KPMG, the indicted individuals, and their co-conspirators concocted tax shelter transactions—together with false and fraudulent factual scenarios to support them—and targeted them to wealthy individuals who needed a minimum of \$10 or \$20 million in tax losses so that they would pay fees that were a percentage of the desired tax loss to KPMG, certain law firms, and others instead of paying billions of dollars in taxes owed to the government. To further the scheme, KPMG, the individual defendants, and their co-conspirators allegedly filed and caused to be filed false and fraudulent tax returns that claimed phony tax losses.

KPMG also admitted that its personnel took specific deliberate steps to conceal the existence of the shelters from the IRS by, among other things, failing to register the shelters with the IRS as required by law; fraudulently concealing the shelter losses and income on tax returns; and attempting to hide the shelters using sham attorney-client privilege claims.

The information and indictment allege that top leadership at KPMG made the decision to approve and participate in shelters and issue KPMG opinion letters despite significant warnings from KPMG tax experts and others throughout the development of the shelters and at critical junctures that the shelters were close to frivolous and would not withstand IRS scrutiny; that the representations required to be made by the wealthy individuals were not credible; and the consequences of going forward with the shelters—as well as failing to register them—could include criminal investigation, among other things.

The agreement provides that prosecution of the criminal charge against KPMG will be deferred until Dec. 31, 2006 if specified conditions—including payment of the \$456 million in fines, restitution, and penalties—are met. The \$456 million penalty includes: \$100 million in civil fines for failure to register the tax shelters with the IRS; \$128 million in criminal fines representing disgorgement of fees earned by KPMG on the four shelters; and \$228 million in criminal restitution representing lost taxes to the IRS as a result of KPMG's intransigence in turning over documents and information to the IRS that caused the statute of limitations to run. If KPMG has fully complied with all the terms of the deferred prosecution agreement at the end of the deferral period, the government will dismiss the criminal information.

the end of the deferral period, the government will dismiss the criminal information.

To date, the IRS has collected more than \$3.7 billion from taxpayers who voluntarily participated in a parallel civil global settlement initiative called Son of Boss. The BLIPS and SOS shelters are part of the Son of Boss family of tax shelters.

The agreement requires permanent restrictions on KPMG's tax practice, including the termination of two practice areas, one of which provides tax advice to wealthy individuals; and permanent adherence to higher tax practice standards regarding the issuance of certain tax opinions and the preparation of tax returns. In addition, the agreement bans KPMG's involvement with any pre-packaged tax products and restricts KPMG's acceptance of fees not based on hourly rates. The agreement also requires KPMG to implement and maintain an effective compliance and ethics program; to install an independent, government-appointed monitor who will oversee KPMG's compliance with the deferred prosecution agreement for a three-year period; and its full and truthful cooperation in the pending criminal investigation, including the voluntary provision of information and documents.

Richard Breeden, former Securities and Exchange Commission Chairman, has been appointed to serve as the independent monitor. After his duties end, the IRS will monitor KPMG's tax practice and adherence to elevated standards for two years. Should KPMG violate the agreement, it may be prosecuted for the charged conspiracy, or the government may extend the period of deferral and/or the monitorship.

"Today's actions demonstrate our resolve to hold accountable those who play fast and loose with the tax code," said IRS Commissioner Mark Everson. "At some point such conduct passes from clever accounting and lawyering to theft from the people. We simply can't tolerate flagrant abuse of the law and of professional obligations by tax practitioners, particularly those associated with so-called blue chip firms like KPMG, that by virtue of their prominence set the standard of conduct for others. Accountants and attorneys should be the pillars of our system of taxation, not the architects of its circumvention."

The nine individuals named in the indictment are:

- Jeffrey Stein, former Deputy Chairman of KPMG, former Vice Chairman of KPMG in charge of Tax, and former KPMG tax partner;
- John Lanning, former Vice Chairman of KPMG in charge of Tax, and former KPMG tax partner;
- Richard Smith, former Vice Chairman of KPMG in charge of Tax, a former leader of KPMG's Washington National Tax, and former KPMG tax partner;
- Jeffrey Eischeid, former head of KPMG's Innovative Strategies group and its Personal Financial Planning Group, and former KPMG tax partner;
- Philip Wiesner, former Partner-In-Charge of KPMG's Washington National Tax office and former KPMG tax partner;
- John Larson, a former KPMG senior tax manager;
- Robert Pfaff, a former KPMG tax partner;
- Raymond J. Ruble, a former tax partner in the New York, NY office of a prominent national law firm; and
- Mark Watson, a former KPMG tax partner in its Washington National Tax office.

The indictment alleges that as part of the conspiracy to defraud the United States, KPMG, the nine defendants and their co-conspirators prepared false and fraudulent documents—including engagement letters, transactional documents, representation letters, and opinion letters—to deceive the IRS if it should learn of the transactions. KPMG, the indicted defendants and their co-conspirators are also charged with preparing false and fraudulent representations that clients were required to make in order to obtain opinion letters from KPMG and law firms—including Ruble's law firm—that purported to justify using the phony tax shelter losses to offset income or gain.

The conspirators allegedly concealed from the IRS the fact that the opinion letters provided by KPMG and the law firms were not independent and were instead prepared by entities involved in the design, marketing and implementation of the shelters. Had the IRS known this, the opinion letters would have been rendered worthless.

KPMG admitted that the opinion letters issued for the FLIP, OPIS, BLIPS and SOS shelters were false and fraudulent in numerous respects, including false claims that transactions were legitimate investments instead of tax shelters; and also false claims that clients were entering into certain transactions making up the shelters for investment purposes or to diversify their portfolios, when these actually served to disguise the shelters.

KPMG also admitted that the clients' motivations were to get a tax loss, and with respect to BLIPS, the opinion letters also included false claims about the duration of the transaction and the clients' motivation for terminating the transaction. According to the charges, BLIPS was also based on false claims about the existence and investment purpose of a loan, when these were in fact sham loans that had nothing to do with any investment, and at least one of the banks never even funded the purported loans.

According to the charging documents, Smith, Eischeid, and others caused KPMG to provide false, misleading and incomplete documents and testimony in response to a Senate subpoena, which was delivered as part of an investigation into tax shelters being conducted by the Senate Governmental Affairs Committee's Permanent Subcommittee on Investigations.

Investigations.

Assistant U.S. Attorneys Justin S. Weddle and Stanley J. Okula, Jr.—together with Special Assistant U.S. Attorney and Tax Division Trial Attorney Kevin M. Downing—are in charge of the prosecution. The investigation and prosecution are being supervised by Shirah Neiman, Chief Counsel to the U.S. Attorney for the Southern District of New York.

For the IRS, the case was investigated by a team of special agents and revenue agents from the agency's criminal and civil divisions.

The individual defendants are scheduled to be arraigned by Judge Lewis Kaplan. The charges contained in the indictment are merely accusations, and the defendants are presumed innocent unless and until proven guilty.

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## **Exhibit H**

**Excerpts From:** Wickouski, Stephanie. Bankruptcy Crimes 2002. Washington, DC: Beard Books, 2002

*Page 3:*

High profile bankruptcy cases have destroyed public confidence in the bankruptcy system. In many cases, debtors discharge huge liabilities and emerge wealthy. The common perception is that the system is seriously flawed, if not outright corrupt. Fraud is seen not as the exception but as the rule.

*Pages 4-5:*

In the past, the government would target certain predictable schemes for prosecution. While these old schemes are still the subject of many investigations and indictments, federal prosecutors, in their recent focus on bankruptcy fraud, are also targeting conduct that many lawyers might not even recognize as criminal. Consider the following example:  
? a debtor's lawyer files a disclosure with the court which contains an incomplete disclosure of the law firm's representation of other clients, some of which are creditors in the case

*Page 9:*

The bankruptcy law was completely overhauled in 1978, after almost a decade of intensive investigation and analysis. In 1970, Congress established the Commission on the Bankruptcy Law of the United States (the Bankruptcy Commission), a federal commission charged with rewriting the Bankruptcy Act. The Bankruptcy Commission issued its report in July 1973. In its report, which was delivered to the president, Congress, and the chief justice of the Supreme Court, the Bankruptcy Commission noted that in the first half of the twentieth century, there were widespread abuses and corruption in the bankruptcy system:

[T]he administration of the bankruptcy law was characterized by serious abuses and malpractices on the part of attorneys, receivers, trustees, appraisers, custodians, auctioneers, and other persons and associations. [In 1929] the bulk of the bankruptcy practice in New York City was concentrated in the hands of approximately 21 law firms. . . . Counsel for the petitioning creditors would suggest that the court appoint a certain person as receiver, and the receiver would then select counsel for the petitioning creditors as his attorney; thereafter the process would continue when the receiver was elected or appointed trustee and counsel for the petitioning creditors was chosen as his attorney. . . . These abuses led to others and to conflicts; outright theft occurred. Twelve attorneys were indicted; one absconded and then committed suicide; two pleaded guilty and received jail sentences.<sup>10</sup>

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<sup>10</sup> Report of the Commission on the Bankruptcy Laws of the United States, H.R. Doc. 93-137, 93d Cong., 1st Sess. (App. Pt. 4-350-1).

# **Exhibit I**

1

2 UNITED STATES BANKRUPTCY COURT

3 SOUTHERN DISTRICT OF NEW YORK

4 Case No. 02-13533

5 -----x

6 In re

7 WORLDCOM, INC., et al.,

8 Debtors.

9 -----x

10 United States Custom House  
11 One Bowling Green  
12 New York, New York

13 October 15, 2003  
14 10:00 a.m.

15 B e f o r e:

16 HON. ARTHUR J. GONZALEZ

17 U.S. Bankruptcy Judge

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21 Continued hearing on confirmation

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A P P E A R A N C E S: (Continued)

LOWENSTEIN & SANDLER, P.C.  
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DOUGLAS J. PICK, ESQ.  
Attorney for Next Factors, Inc.  
350 Fifth Avenue  
New York, New York 10118

1  
2 there is unique reliance and prejudice to  
3 these creditors. Well, I don't  
4 understand, your Honor. That is not a  
5 defense to 1123 A 4. If that was the  
6 case, what they are really arguing I  
7 believe is that these claims are legally  
8 different and should be separately  
9 classified if they are going to get  
10 different treatment.

11 So I don't want to go on too  
12 long. I just wanted to highlight what  
13 Mr. Lorenzen covered. I also rely on the  
14 submissions that we made, your Honor.

15 THE COURT: Thank you.

16 The next objectant here is Next  
17 Factors.

18 MR. PICK: Yes. Judge, I am  
19 going to be more brief than the last two  
20 counsel.

21 THE COURT: First of all, there  
22 is a standing objection on time.

23 MR. PICK: Yes, sir. We have  
24 recently been retained --

25 THE COURT: Use the microphone,

1  
2 please.

3           MR. PICK: We have been  
4 recently retained as counsel to Next  
5 Factors and have been brought to speed as  
6 of last night with respect to what is  
7 going on with respect to these  
8 proceedings.

9           I have not seen the affidavit of  
10 service that has been referred to by  
11 debtors counsel as to when we have gotten  
12 served. I would need to see that and see  
13 when Next Factors was served and where  
14 that was served, but it is their position  
15 that they were not served with papers in  
16 time so as to put in the appropriate  
17 objection.

18           With respect to their  
19 objections, judge, I am not going to  
20 repeat everything that has been said. The  
21 primary objection that Next Factors has  
22 falls in Section 1123 A 4 and their  
23 concern about where the assets are coming  
24 from that are being paid over to certain  
25 claimants of the class 6 claims. We would