In 1998 AOL and CompuServe and a three-way deal with WorldCom.

AOL’s acquisition of CompuServe in 1998 was a massive moment in internet history. It marked the exact point where the old, fragmented "walled gardens" finally gave way to a singular internet superpower.

When AOL closed that deal, it didn't just buy a competitor; it solidified its position as the undisputed king of the consumer web, paving the way for its staggering peak valuation of over $160 billion during the dot-com boom.

The Mechanics of the 1998 Deal

- **The Complex Swap:** AOL didn't just buy CompuServe outright with cash. It entered a three-way deal with WorldCom. WorldCom bought CompuServe's data network infrastructure, while AOL took CompuServe’s consumer online service and its 2.6 million members.
- **The Brand Split:** Rather than shutting CompuServe down, AOL kept it running as a separate, premium brand geared toward business professionals, while AOL targeted the mainstream family market.
- **The Subscriber Monopoly:** The purchase instantly pushed AOL’s total subscriber base past 11 million people, making it larger than all its remaining online competitors combined.

The Peak of the "Walled Garden" Era

- **The Gatekeeper Status:** By 1998, AOL was the primary lens through which the average person viewed the digital world. If a newspaper wanted to guarantee digital eyeballs, they *had* to have a presence inside AOL.
- **The CD Invasion:** This was the peak era of AOL flooding the world with physical floppy disks and trial CDs. They were packaged with magazines, dropped in mailboxes, and handed out at movie theatres.
- **The Setup for the Fall:** This meteoric rise led directly to the infamous AOL-Time Warner merger in 2000—widely considered one of the most disastrous corporate mergers in history, as the open World Wide Web quickly made proprietary subscription models obsolete.

On one level, the movie *My Best Friend's Wedding* coming out in June 1997, and its reference to email with the Internet taking off :-), but was there much warning of the Worldcom / CompuServe tie up before it happened? Worldcom crashed not long after.

When *My Best Friend's Wedding* hit theatres in June 1997, there was **absolutely zero warning** about the specific WorldCom-CompuServe tie-up. The corporate matchmaking was not even on Wall Street’s radar yet. The complex three-way deal between H&R Block, WorldCom, and AOL wasn't engineered until late Sunday night on September 7, 1997—nearly three months after the film’s release.

The timing of that deal sits right at the intersection of WorldCom's meteoric rise and its legendary, catastrophic collapse.

The Status of the Deal in June 1997

- **A Different Rumour Mill:** In the spring and summer of 1997, internet tech columns were heavily speculating that CompuServe's parent company (H&R Block) was going to sell the service directly to AOL or Microsoft.
- **The WorldCom Surprise:** WorldCom was an aggressive telecommunications giant, not an internet service provider. Nobody expected them to jump into the middle of the deal.
- **The "Broker" Strategy:** WorldCom stepped in to buy all of CompuServe for $1.2 billion in stock simply to strip out its massive global data network infrastructure. They immediately flipped CompuServe's 2.6 million consumer subscribers over to AOL in exchange for cash and AOL's networking division.

The Link to WorldCom's Fatal Crash

The CompuServe deal was a textbook example of the hyper-aggressive acquisition strategy that eventually destroyed WorldCom.

- **The Roll-Up Strategy:** Led by CEO Bernie Ebbers, WorldCom grew by relentlessly buying up smaller telecom and internet companies using its highly valued stock as currency.
- **The Peak:** Just months after buying CompuServe, WorldCom announced a staggering $37 billion takeover of MCI Communications in November 1997 (the largest merger in U.S. history at the time). By 1999, WorldCom stock peaked, and the company was valued at $180 billion.
- **The Page Runs Out:** In 2000, U.S. and European regulators blocked WorldCom from buying Sprint. Because WorldCom's entire business model relied on continuous growth through acquisition to mask its mounting operational expenses, the company stalled.
- **The Fraudulent Cover-up:** To keep Wall Street happy and keep the stock price inflated, senior executives began a massive accounting fraud scheme in 1999. They fraudulently classified billions in basic network operating costs as long-term "capital investments" to make the company look immensely profitable.
- **The July 2002 Crash:** Internal auditors uncovered the fraud in June 2002, revealing that WorldCom had overinflated its assets by $11 billion. The company completely collapsed into a Chapter 11 bankruptcy in July 2002, rendering its stock worthless and resulting in a 25-year prison sentence for Ebbers.

Did the stalling of Worldcom and Sprint in 2000, affect AOL and its network division

The stalling and ultimate blocking of the WorldCom-Sprint merger in July 2000 did not directly harm AOL's operational network division at that moment, but it ended WorldCom's aggressive expansion era. This forced WorldCom into financial desperation, leading down a dark path of accounting fraud that later entangled AOL in controversial capacity-swap scrutiny.

Immediate Effects on the Telecom Market

- **Halted Growth Strategy:** The blocked $129 billion deal stopped WorldCom's continuous acquisition cycle cold.
- **No Direct Network Disruption:** WorldCom's core internet backbone (UUNET), which powered massive amounts of internet traffic including parts of AOL's dial-up infrastructure, remained functional and intact operationally.
- **Shift in Corporate Behaviour:** Deprived of mega-deals to impress Wall Street, WorldCom executives instead turned to massive financial fraud to fake continuous revenue growth.

The Later Impact on AOL

- **Questionable "Round-Trip" Deals:** By 2002, investigations into WorldCom revealed deceptive accounting, including capacity "swap" or "round-trip" transactions where AOL bought network capacity from WorldCom's UUNet while WorldCom simultaneously bought advertising from AOL.
- **Shared Scrutiny:** These inflated transactions subjected AOL (then part of AOL Time Warner) to intense SEC and Department of Justice inquiries regarding reporting transparency.

If you'd like, I can detail:

- How **UUNET** functioned as WorldCom's internet engine (purchased in August 1996)
- The mechanics of the **AOL-WorldCom capacity swaps**

Let me know how you want to proceed.

Both

➡ UUNET: WorldCom's Internet Engine

UUNET was the absolute backbone of the early commercial internet, serving as the hidden plumbing that made the dot-com boom possible.

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[ AOL Users ] ➡ [ Local Dial-up Access Points ] ➡ [ UUNET Backbone ] ➡ [ The Global Internet ]
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- **The Market Giant:** By 2000, UUNET carried an estimated 30% to 50% of all global internet traffic.
- **AOL's Foundation:** AOL relied heavily on UUNET's massive infrastructure to connect millions of dial-up subscribers to the web.
- **The Bandwidth Glut:** Believing internet traffic doubled every 100 days, UUNET built massive infrastructure oversupplies.
- **The Crash Trigger:** When tech growth slowed in 2000, this massive overcapacity turned from an asset into an extreme financial liability.

➡ The Mechanics of AOL-WorldCom Capacity Swaps

When the Sprint merger failed and tech spending collapsed, both WorldCom and AOL faced intense pressure to meet unrealistic Wall Street revenue targets. They resorted to "round-trip" transactions.

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- **The Core Loop:** AOL bought unused fibre-optic capacity or network services from WorldCom that it did not actually need.
- **The Immediate Return:** Simultaneously, WorldCom bought an identical dollar amount of online advertising from AOL.
- **No Real Cash Flow:** No actual profit or economic value was created, as the exact same amount of cash simply traded places.
- **Artificial Revenue Inflation:** Both companies immediately booked these transactions as fresh, legitimate top-line revenue on their public financial statements.
- **The Legal Fallout:** The SEC later ruled these swaps illegal, forcing AOL Time Warner to restate over $1 billion in advertising revenue and pay a $300 million penalty.

In 2006 Worldcom became MCI and is bought out by Verizon

Yes, that is correct: Verizon Communications officially completed its $8.5 billion acquisition of MCI Inc. (formerly WorldCom) in January 2006.

The corporate timeline of this transition highlights one of the most tumultuous eras in telecommunications history:

🔄 Timeline of the Transition

- **1998: The MCI WorldCom Merger** – WorldCom purchased MCI Communications for $34.7 billion to create a massive global telecom conglomerate.
- **2002: The Accounting Scandal** – WorldCom collapsed into what was then the largest corporate accounting fraud in U.S. history, prompting a $11 billion restructuring and filing

for Chapter 11 bankruptcy. The fallout heavily influenced the creation of the Sarbanes-Oxley Act of 2002.

- **2003–2004: Rebranding to MCI** – To distance itself from the fraud, the company rebranded as **MCI Inc.** ahead of emerging from bankruptcy in 2004.
- **2005: The Bidding War** – Verizon entered a fierce bidding war against Qwest Communications. Despite Qwest offering a higher price, MCI's board opted for Verizon due to its financial stability and corporate customer base.
- **2006: Verizon Finalisation** – The deal officially closed in January 2006. Verizon integrated MCI's vast international long-distance and fibre-optic network into a newly formed division called Verizon Business.

Back to 1996 when UUNet was part of Worldcom and playing a large part on the Internet

Yes, UUNet was a backbone of the global internet after 1996 and served as the absolute crown jewel of WorldCom's infrastructure.

When WorldCom acquired UUNet's parent company (MFS Communications) in 1996 for $12 billion, it gained control of a massive chunk of the internet's core architecture.

🌐 UUNet's Dominance and the "Internet Boom"

- **The 50% Myth** – During the late 1990s, UUNet executives famously claimed that internet traffic was doubling every 100 days and that UUNet carried over 50% of global internet traffic. While independent analysts later proved these numbers were wildly exaggerated, the claim fueled the massive telecom investment bubble.
- **Core Backbone Infrastructure** – Despite the hyped statistics, UUNet was legitimately immense. It operated MAE-East, the primary internet exchange point on the US East Coast through which a vast majority of early global internet traffic physically routed.
- **Tier 1 Power** – As one of the original Tier 1 networks, UUNet could reach every other network on the internet without paying for transit. This gave WorldCom immense market power over smaller internet service providers (ISPs).

📉 The Collapse and Verizon Absorption

- **The Glut of Fiber** – Driven by UUNet's aggressive growth projections, WorldCom overbuilt its network. When the dot-com bubble burst in 2000, the market was left with a massive oversupply of "dark fiber" (unused fiber-optic cables), causing bandwidth prices to collapse.
- **The Accounting Cover-Up** – To hide falling revenues and massive line-cost expenses within the telecom and internet divisions, WorldCom executives began the multibillion-dollar accounting fraud that led to their 2002 bankruptcy.
- **Verizon Integration** – When Verizon bought MCI (WorldCom) in 2006, UUNet's high-capacity global fiber network was the primary asset they wanted. It became the foundation for **Verizon Business** and its global enterprise IP routing network.

MCI's major assets in 1998, its transformation from a startup in 1963

Prior to the 1998 merger, **MCI Communications was more than three times the size of WorldCom** and stood as the **second-largest long-distance telecommunications provider in the United States**.

MCI's transformation from a tiny 11-employee startup in 1963 into a multibillion-dollar powerhouse was driven by a bold technological loophole, a decade-long legal war, and aggressive marketing.

📡 The Microwave Loophole (1960s)

MCI was originally founded as **Microwave Communications, Inc.** At the time, AT&T controlled nearly 100% of long-distance traffic.

- MCI's original business plan bypassed AT&T’s physical telephone lines entirely.
- They built a string of **microwave radio relay stations** between Chicago and St. Louis to transmit radio signals for truckers and shipping barges along Route 66.
- In 1969, the Federal Communications Commission (FCC) approved this specific route, opening a tiny crack in AT&T's armour.

⚖️ The AT&T Antitrust Suit (1970s–1984)

Under visionary CEO **Bill McGowan**, MCI realized that if they could legally interconnect their microwave towers directly into AT&T’s local telephone networks, they could offer cheap long-distance telephone service to the masses.

- When AT&T refused to allow these interconnections, MCI filed a massive civil **antitrust lawsuit against AT&T** in 1974.
- The case triggered a parallel U.S. Department of Justice investigation.
- **The Breakup of Ma Bell (1984):** The legal pressure forced a landmark settlement. AT&T was ordered to split into seven regional local-service companies (the "Baby Bells") and open the long-distance market to absolute competition.

💥 Price Wars and Commercial Boom (1985–1990s)

Once the monopoly fell, MCI was already positioned at the front of the line.

- **The 30% Discount:** MCI immediately began undercutting AT&T's prices by roughly 30%, drawing millions of residential customers and enterprise businesses.
- **Innovative Marketing:** In the early 1990s, they launched culture-defining ad campaigns like *Friends & Family*—which gave discounts if you convinced your friends to switch to MCI—allowing them to capture a massive 20% to 25% share of the U.S. long-distance market.

🛒 Strategic Acquisitions

Flush with cash and stock value, MCI began swallowing up competitors to expand its infrastructure globally. They acquired massive companies like **Telecom USA** (then the 4th largest carrier), **RCA Global Communications**, and the IT consulting giant **SHL Systemhouse**.

By the time WorldCom swooped in to buy them in 1998, MCI was pulling in over $10 billion in annual revenue and was a true global enterprise.

While WorldCom had rapidly expanded by buying data and local network companies (like MFS/UUNet), it desperately needed MCI's massive consumer footprint, global brand, and vast long-distance infrastructure. MCI's primary assets at the time of the purchase included:

📞 A Massive Long-Distance Network and Market Share

- **46,000-Mile Nationwide Fiber Network** – MCI owned a sprawling, state-of-the-art fibre-optic and microwave network spanning the United States and connecting to international lines.
- **25% of the U.S. Long-Distance Market** – MCI brought with it a massive, highly lucrative consumer and corporate subscriber base, placing it firmly behind only AT&T.
- **Household Consumer Brands** – MCI possessed immensely valuable consumer products and marketing intellectual property, such as the highly successful *Friends & Family* calling circles and the *1-800-COLLECT* service.

💻 Pioneering Internet and Data Infrastructure

- **internetMCI backbone** – MCI owned and operated one of the world's premier early commercial internet backbones. It was so dominant that the U.S. Department of Justice and the EU forced MCI to completely divest its *internetMCI* asset to Cable & Wireless plc for $1.75 billion before allowing the WorldCom merger to close (to prevent a monopoly, given WorldCom already owned UUNet).
- **MCI Mail** – One of the world's first commercial email and early text routing services, which gave them an early foot in the door with corporate enterprise data networking.

🏢 Corporate Enterprise & Systems Integration

- **Elite Enterprise Customer Base** – Unlike WorldCom's piecemeal regional networks, MCI possessed long-standing, multi-million-dollar communication contracts with a vast majority of Fortune 500 corporations, government agencies, and international entities.
- **SHL Systemhouse** – MCI owned this major global systems integration and IT consulting firm (acquired in 1995), which allowed them to offer end-to-end computer networking and technology management directly to their enterprise clients.

The internetMCI divestiture ruling

The internetMCI monopoly ruling completely dismantled MCI's internet infrastructure, forcing the company into the largest corporate divestiture in merger history up to that point.

To win antitrust approval from the US Department of Justice (DOJ) and the European Union for its $37 billion merger with WorldCom, MCI was forced to sell its entire internet business. Financially and structurally, this severely impacted MCI and reshaped the early consumer internet in several key ways:

💰 A Forced Fire-Sale of a Crown Jewel

- **Massive Asset Sale:** MCI had to sell its entire **internetMCI** wholesale backbone, including customer contracts, network routers, and intellectual property, to British carrier Cable & Wireless plc for **$1.75 billion in cash**.
- **Failed Initial Offers:** MCI originally tried to appease regulators by spinning off only a small portion of its wholesale internet assets for $625 million. The DOJ and EU flatly rejected this, stating that only a *total* liquidation of MCI's internet assets would resolve their monopoly concerns.

🌐 The Threat of an "Internet Super-Monopoly"

- **The Overlap Problem:** Regulators stepped in because WorldCom already owned **UUNet** (the world's largest internet backbone). Independent studies showed that combining UUNet with internetMCI would have given the merged company control over **more than 50% to 62% of global internet traffic and revenue**.
- **Antitrust Leverage:** The DOJ feared the combined giant would possess the systemic power to choke off or degrade network quality to rival Internet Service Providers (ISPs) like America Online (AOL).

👥 Corporate and Structural Impact

- **Brain Drain:** Overnight, approximately **400 specialized network engineers, software programmers, and executives** based in the Washington D.C. area were stripped from MCI's payroll and transferred to Cable & Wireless.
- **The Long-Term Irony:** While the ruling effectively deleted MCI from the consumer internet backbone market in 1998, the newly formed **MCI WorldCom** still retained UUNet. Because UUNet was the larger network, the newly merged company seamlessly retained its status as a dominant internet colossus anyway, leaving MCI's legacy network in British hands.

The **simultaneous Microsoft antitrust trial of 1998**.

The 1998 Microsoft antitrust trial (*United States v. Microsoft Corp.*) was a landmark legal battle that fundamentally reshaped the software industry by challenging Microsoft's absolute dominance of the personal computer market.

The case centered on whether Microsoft was using its Windows operating system monopoly to illegally crush competing software, most notably Netscape's web browser.

🛑 The Core Allegations

- **The Browser Wars** – By 1998, Microsoft's Windows OS was installed on over 90% of personal computers. When Netscape Navigator emerged as the dominant web browser, Microsoft viewed it as a platform threat and bundled its own browser, Internet Explorer (IE), directly into Windows.
- **Predatory Bundling** – The Department of Justice (DOJ) and 20 U.S. states argued that Microsoft illegally tied IE to Windows. They made it impossible for users to uninstall IE, effectively cutting off Netscape's distribution channel.
- **Bullying OEMs** – Prosecutors revealed that Microsoft used exclusionary contracts to threaten Original Equipment Manufacturers (OEMs) like Compaq and Gateway, warning

they would lose their Windows licenses if they pre-installed Netscape or highlighted it on the desktop.

⚖️ The Trial and Bill Gates' Testimony

- **The Video Depositions** – The trial became a public spectacle, largely due to a combative, evasive videotaped deposition by Microsoft co-founder Bill Gates. His repetitive responses—claiming not to remember key emails and arguing over the definition of basic words like "compete"—severely damaged Microsoft's credibility with the judge.
- **The Breakup Ruling (2000)** – In June 2000, District Judge Thomas Penfield Jackson ruled against Microsoft. He declared the company a monopoly that had engaged in predatory behavior and **ordered that Microsoft be split into two separate companies**: one for the Windows operating system and one for software applications (like Office and IE).

🔄 The Settlement and Industry Fallout

- **The Reversal** – Microsoft appealed the decision. In 2001, a federal appeals court overturned the breakup order, partly due to Judge Jackson discussing the case with reporters outside the courtroom. However, the court upheld the finding that Microsoft had illegally maintained its monopoly.
- **The 2001 Settlement** – The Bush administration's DOJ chose not to pursue a breakup. Instead, Microsoft settled by agreeing to share its application programming interfaces (APIs) with third-party companies and allowing OEMs to hide IE and bundle rival software without retaliation.
- **The Legacy** – While Microsoft avoided a breakup, the trial tied the company up in regulatory scrutiny for years. This corporate distraction and newfound caution opened the door for a new generation of tech giants—including Google, Apple, and Mozilla—to thrive in the emerging internet era.

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