The Emperor Of Greed With the help of his bankers, Gary Winnick treated Global Crossing as his personal cash cow--until the company went bankrupt.

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(FORTUNE Magazine) – Michael Nighan couldn't believe his eyes. As Global Crossing's North America director of regulatory affairs, one of Nighan's tasks was to review all of the startup telco's marketing and sales material. But what confused him in late 1999 was a map of Global Crossing's network that showed a fiber-optic loop around the continent of Africa. "What's this?" asked Nighan. He was told it was Africa One, an undersea broadband cable that Global Crossing planned to build for a group of telecom carriers. "But I said it didn't belong on a map of our network because one, it doesn't exist, and two, even if it did exist, it wouldn't belong to us," says Nighan, who left Global Crossing last November. The response Nighan got was, "Gary wants it there." So it stayed on the map.

Gary Winnick had never worked in the telecom industry before he founded Global Crossing in 1997. He had never run a public company before either. Yet in the late 1990s, Chairman Winnick was hailed as an industry giant, the creator of a telco that a year after going public in 1998 was valued at $38 billion--more than Ford. A little over two years later, Global Crossing is in bankruptcy and fighting to survive, part of an industry collapse that wiped out $2.5 trillion in market value. Investors and regulators are struggling to figure out what went so wrong so fast. But the real question is how such a company could survive--indeed prosper--for as long as it did.

The answer captures all of the insanity and money fever of the telecom and dot-com bubbles, which saw billions of dollars vanish in pursuit of business that never materialized. Like a lot of other overreaching companies, Winnick's Global Crossing rose swiftly and fell even faster. Its business plan changed with the phases of the moon. So did its CEOs (there were five in four years). It had a huge market value and a teeny cash flow. Global Crossing inflated its revenues by swapping capacity with other carriers, say analysts, and lured customers and investors by overstating the reach and capabilities of its network--a $12 billion "state-of-the-art" system that, several former employees told FORTUNE, simply doesn't work that well. It exploited its relationships with both Wall Street and its bankers on a scale unrivaled in the industry. "Winnick used to walk around the office saying he owned Jack Grubman and Jimmy Lee," says one former colleague, referring to fees paid to key underwriters at Citigroup's Salomon Smith Barney and J.P. Morgan Chase. A spokesperson for Winnick denies he made such statements.

What's inarguable, as our story will document, is that billions of dollars flowed out of this company and into the pockets of insiders. Gary Winnick and his cronies are arguably the biggest group of greedheads in an era of fabled excess. Not only did Winnick sell off stock at huge profits while investors who jumped in later watched their stakes burn to nothing, but he treated Global Crossing from the get-go as his personal cash cow, earning exorbitant fees from consulting and real estate deals between Global Crossing and his own private investment company. In all, Winnick cashed in $735 million of stock over four years--including $135 million Global Crossing issued to his private company--while receiving $10 million in salary and bonuses and other payments to the holding company. Enron's Kenneth Lay doesn't even come close. He sold only $108 million of stock. (The telecom boom's cash-out king may be Qwest Chairman Philip Anschutz, who dumped $1.9 billion in stock. But Qwest, at least for now, is afloat.)

Winnick wasn't the only executive getting rich quick. Other insiders sold a whopping $4.5 billion in stock in three years. Co-chairman Lodwrick Cook, the former chairman of Atlantic Richfield, sold $36 million of stock. (In 1999, Cook told the Los Angeles Business Journal that every day he says, "God bless America, and God bless Gary Winnick.") Combined stock sales for directors Barry Porter, David Lee, and Abbott Brown, longtime business associates of Winnick's, totaled $516 million.

Wall Street partners fared well too. Canadian firm CIBC World Markets, which was an early investor in Global Crossing and at one time had five employees on its board, earned $56 million in banking fees even before Global Crossing's 1998 IPO. It turned a $41 million investment into a $1.7 billion windfall and exited the board just as the telecom bubble was bursting. Global Crossing paid more than $420 million in fees to Wall Street firms in three short years. As one investment banker recalls, "People wanted to do business with Winnick because he was the best game in town."

Needless to say, most outside investors never saw that kind of payday. Global Crossing's market valuation, which peaked at $47 billion in February 2000, deflated to about $70 million when it filed for bankruptcy earlier this year. Investors and creditors have almost zero chance of recouping any of the $20 billion that Global Crossing raised. The company is seeking a buyer, but a bid from two Asian partners fell through at the end of May. It is looking to restructure now. In all likelihood, though, Global Crossing will be broken up and stripped for parts.

The sad fact is, Global Crossing had a decent shot at survival. Its initial business plan was simple. It planned to build an undersea broadband network that would link continents together and serve global carriers like Deutsche Telekom and AT&T. Early estimates of construction costs were around $2.7 billion--certainly a princely sum for a startup but not one that would crush the company if it could drum up even modest revenue.

But like so many other telcos in the wake of the 1996 deregulation, Global Crossing got carried away on the tide of easy money. It raised more capital than it needed and built a network with more capacity than the world demanded. By the time Global Crossing collapsed, its long-term debt had ballooned to $7.6 billion (total liabilities were $14 billion), and it simply didn't have the cash to make its interest payments.

These were years when Wall Street struck an unholy bargain with a constellation of shaky companies, and in each of the three phases of its existence, Global Crossing enjoyed a special relationship with a different Wall Street firm. First came CIBC, a Canadian bank that raised cash to get the company going; then Salomon Smith Barney, which became a cheerleader for its stock and helped guide it through a merger and acquisition binge; and finally J.P. Morgan Chase, a one-stop global bank wannabe that helped Global Crossing hoover up mountains of cash through loans and bond sales at the height of the market frenzy.

Given Winnick's prior experience, the incestuous relationship with Wall Street shouldn't come as too much of a surprise. A native of Long Island, Winnick had an unremarkable upbringing. His father ran a restaurant supply business, and after graduation from C.W. Post, a local college, Winnick worked as a furniture salesman. His life took a turn in the early 1970s when he joined Drexel Burnham Lambert. He developed a taste for the high life after he made his way to the Los Angeles office, where he worked on the bond sales desk alongside Michael Milken. While Milken ended up in jail for securities and reporting violations, Winnick escaped Drexel untarnished and founded Pacific Capital Group, an investment firm in Los Angeles.

Winnick usually gets all the credit for Global Crossing's birth, but in fact the company wasn't even his idea. The initial outline was conceived in the mid-1990s by two executives in AT&T's submarine cable group. Bill Carter and Wallace "Wally" Dawson believed that laying a fiber-optic cable beneath the Atlantic would be the best way to profit from the surge in voice and data traffic between the U.S. and Europe. At the time, Winnick and associates at Pacific Capital Group were eager to invest in telecom companies, convinced the sector was set to explode. He sent his partner David Lee to AT&T to talk about business opportunities, and after AT&T sold its submarine unit in 1996, Winnick lured much of the team with big bonuses to form a new company. Global Crossing was founded in 1997, and Winnick put $15 million of his own money into the startup.

While he may not have understood anything about fiber-optic loops or building an undersea broadband network--he bought a video that showed how undersea cable was laid--Winnick knew how to do one thing very well: raise money. So he drew on his Wall Street ties, placing a call to an old Drexel associate who had moved to Canadian investment bank CIBC World Markets. Winnick had a second tie to CIBC: His son had just started working there. CIBC was happy to hear from Winnick. It didn't appear high in peer rankings of investment banks, and it was looking to beef up its high-yield business. An alliance with a sexy startup in a hot sector seemed like the perfect marriage. CIBC led the syndication of a $482 million loan to Global Crossing in late 1997 as well as an $850 million round of financing for the telco's first undersea cable four months later. Beyond fees, it collected something else: five seats on Global Crossing's board.

Winnick soon found that signing up customers for Global Crossing's network, even before it was built, was as easy as raising money. Fiber-optic cable crisscrossed a number of continents, but it had never been laid beneath the ocean. New technology gave the network an irresistible appeal: As traffic volume grew, Global Crossing would be able to quadruple the capacity of the network simply by changing out the electronic gear at either end. This lowered its operating costs and gave it a key advantage over competitors--price.

Winnick's initial plan was to build the company's network in four separate legs, raising money as he went along. In the fall of 1997 he gathered industry execs together in a Manhattan hotel to announce prices for what would be the first leg: the Atlantic Crossing line, or AC-1. The going rate for undersea cable was $20 million for a circuit that could handle 2,000 simultaneous conversations. Winnick's price was $8 million. "We even offered an early-bird special that was less than that," says Harold Grossnickle, who was in charge of maintenance and operation for the system. "Carriers would pay a nominal deposit to secure the first circuits." Within a few months, 33 customers, including Qwest, AT&T, Deutsche Telekom, and Level 3, had committed to deals totaling more than $1 billion. (Global Crossing actually received just $364 million in payments and deposits.)

By early 1998 the telecom sector was awash in money from institutional investors. Telcos sprang up everywhere, and Wall Street fed them cash through public offerings and syndicated loans. Fund managers felt they had no choice but to jump in. Telco stocks and bonds were skyrocketing, so managers who stayed away risked sharply underperforming the competition. Indeed, the sector would have been hard to avoid; telecom's share of high-yield debt issues grew from 15% in 1997 to 30% in 1999 and 46% in 2000. "I hated Level 3, I hated Williams Communications, and I felt Qwest in its earlier days was totally hokey," says a telecom analyst at a large investment management firm. "None of them were worth the $20 billion valuations they were trading at, but we couldn't be left behind our peers, so we bought them."

To make sure Global Crossing was one of the companies everyone wanted, Winnick sought out Wall Street's biggest players, and that led him to Salomon Smith Barney. In the late 1990s no analyst had as much influence over the telecom sector as Salomon's Jack Grubman. A former executive vice president at AT&T's consumer and small business division, Grubman counted WorldCom Chairman Bernie Ebbers as a friend (Grubman attended Ebbers' 1999 wedding). And it was Grubman who recommended AT&T executive Joe Nacchio to Philip Anschutz, the railroad magnate who was looking for a CEO for Qwest.

Grubman danced along the Chinese wall that separated research from banking on Wall Street. "Jack had great power. If he didn't endorse a deal or a strategic direction, it wasn't going to work," recalls a former telecom CEO who raised money during the boom. "But he held you hostage. In order to endorse the deal, he and Salomon had to get a major chunk of the banking business. He was very blatant. He would tell you what his expectations were in terms of investment banking for the firm." A spokesperson at Salomon declined to comment on this statement.

When Global Crossing went public in August 1998, Salomon and Merrill Lynch led the deal. The fees for the IPO alone totaled nearly $30 million. Winnick came away with 27% of the company, a stake worth $1.4 billion--and the first leg of the network had barely been completed.

By the end of the year, Global Crossing's market cap had surged to $10 billion, but with its lackluster revenues and weak cash flow, it was a big company built on a tiny foundation. So Winnick decided he was going to follow the growth-by-acquisition model created by WorldCom, and that he would do so with Grubman's help. In February 1999, to buy some credibility for the company, Winnick lured former AT&T executive Robert Annunziata with a $10 million signing bonus to become Global Crossing's new CEO, replacing another former AT&Ter, Jack Scanlon. About two weeks later Global Crossing, with Salomon as its investment banker, announced a deal to buy long-distance provider Frontier for $11.2 billion. Two months after that Winnick announced an even bigger deal to buy US West for $37 billion. Both deals were designed to provide cash flow and help Global Crossing land multinational customers. Though he eventually lost US West in a bidding war with Qwest, Global Crossing's stock soared, along with Winnick's wealth and his public image. His stake swelled to more than $4.5 billion on paper, and he appeared on the cover of Forbes that spring. Global Crossing did succeed in completing the Frontier deal, and Salomon bagged another $16 million in advisory fees.

All the while, Grubman talked up the stock. "The impression that was given around the office was that Grubman was in Winnick's back pocket," recalls a former Global Crossing employee who worked in the Beverly Hills headquarters. "If news had to be put in a way that was positive to the company, Grubman would do it." A Salomon spokesperson wouldn't comment on Grubman's relationship with Global Crossing. But she said Grubman "was not alone in his enthusiasm for the sector." A Global Crossing spokesperson says Winnick never said Grubman was in his pocket.

By 1999 Winnick had abandoned his plan to raise funds for the network bit by bit. With money there for the asking, he wanted to fund the network all at once and make Global Crossing a real force on the Street. Drawing again on his Drexel heritage, he decided to raise billions by selling junk bonds.

In this third act of Global Crossing's rise and fall, J.P. Morgan Chase moved to center stage, along with James "Jimmy" Lee, its head of investment banking. With the repeal of the Glass-Steagall Act in November 1999, Chase set its sights on becoming the top global one-stop bank. It would merge with J.P. Morgan the following year. Directly in its way, though, was Citigroup, which had earlier acquired Salomon Smith Barney and was a major force in the league tables--the industry peer ranking of investment-banking activity.

Chase's actions exemplify the manner in which banks aggressively pursued business and used loan agreements as cudgels to win more lucrative deals in the future. Lee knew that the telecom industry, with its highly leveraged, capital-intensive business model, was the perfect target. According to former telecom CEOs, Wall Street investment bankers, and former Chase employees, Chase agreed to provide loans and lines of credit to telcos in return for underwriting and advisory deals. (Indeed, Lee's nickname in the industry was "Jimmy Fee.") Chase, they say, also cut fees sharply to get into banking deals. "Jimmy was the guy who dove in last minute and undercut the other guy and got the deal. That was his modus operandi," says the former telecom CEO. "And it wasn't by an eighth of a point either, but by a couple of points." A J.P. Morgan Chase spokesperson says the firm does not undercut industry fees to gain access to future banking deals. WorldCom chief financial officer Scott Sullivan, who in May negotiated a $2.7 billion line of credit led by J.P. Morgan Chase--and to whom Chase referred FORTUNE for comment--said: "Jimmy Lee is not inexpensive--he is full service and he is full fee. I've never seen a case where he discounted fees." (Until recently, however, WorldCom's bonds were investment grade; the fees for such offerings are much lower than for the junk-bond deals Chase put together for Global Crossing, and less easily discounted.)

Chase wooed Winnick by playing up to his weakness for hobnobbing with high society. Winnick spends money lavishly and likes to have people around him who are connected, like co-chairman Cook, a longtime friend of the Bush family. Winnick has played golf with former President Clinton and dined with King Constantine of Greece, and he owns a Malibu home just down the road from Barbra Streisand.

Cook insists that Winnick is "not a social climber, and neither is his wife," and that he "stays in touch with people he's known his whole life." Nevertheless, Winnick upgraded his lifestyle in the late 1990s. He spent a rumored $90 million for the former Hilton estate in Bel Air, Calif., in 1999. And on a whim after having lunch in Beverly Hills two years ago with Cook and former CEO Tom Casey, Winnick bought Cook a Rolls-Royce and Casey an Aston Martin. ("I still own and love that Rolls," says Cook.)

So Chase had the right idea in 2000 when a top executive--Maria Elena Lagomasino, co-head of Chase's private banking unit--introduced Winnick to David Rockefeller Sr., Chase's former chairman. Rockefeller took him on a private tour of the Museum of Modern Art. That same year Winnick made Lagomasino one of his personal bankers, and in 2001 he appointed her to Global Crossing's board.

Whatever Chase was doing in the telecom arena was working. Chase had already negotiated a $3 billion line of credit in conjunction with Global Crossing's acquisition of Frontier, which closed in September 1999. In 2000 Chase advised Global Crossing on its acquisition of IPC/IXnet, which provides broadband services to financial institutions. Salomon advised IPC/IXnet and split the $23.3 million in fees for the deal. Overall, Chase's share of the U.S. telecom merger advisory market soared to 17% in 2000 from 8% in 1998. A Global Crossing spokesperson says the telco worked with a number of investment banks, and that banks were selected "based on their expertise and on the competitiveness of their fee structure."

No matter what deal he was making, and no matter which investment bank he was working with, Winnick raked it in. In 1998 he made the first of four large sales of Global Crossing stock; others followed in each of the next three years. Besides the $2.8 million in compensation and bonuses Winnick banked during 1999 and 2000, he received various fees through his holding company, Pacific Capital Group. The most remarkable of these transactions involved PCG Telecom, a subsidiary of the holding company. PCG Telecom's staff consisted of Winnick and three other Global Crossing board members. According to documents filed with the SEC in 1998, Global Crossing signed a long-term consulting contract with PCG Telecom under which the subsidiary would receive an astounding 2% of Global Crossing's gross revenues in return for advice on the development and marketing of the network. In 1997 Winnick and the other three executives at PCG split $7.2 million in fees for arranging financing for the undersea cable--work that in most big corporations falls under the job description of chairman. In March 1998--before any part of the network was operating--PCG Telecom collected a $2 million advance against future revenues. On June 30, 1998--about a year into the 25-year term of the PCG Telecom arrangement--Global Crossing canceled the contract. As compensation Winnick and his fellow insiders received a nice little contract termination fee: $135 million in stock.

Winnick has tapped Global Crossing for other fees as well. Global Crossing's opulent Beverly Hills headquarters are in a building Winnick owns through his real estate company, North Crescent Realty. Winnick collected $3.8 million from Global Crossing to go toward the $7 million renovation of the offices, which has a room modeled on the White House's Oval Office. Winnick also collects $400,000 a month in rent. "Gary always talked about getting spiffed for this or that, or earning spiff," recalls a former employee, referring to salesman argot for a kickback or a commission. Cook says the term "spiff" was thrown around in jest. Says Cook: "We used to kid around about getting extra [stock] warrants too, but we were just joking."

Gary Winnick's luck started to fail him in the spring of 2000, when the air came out of the telecom bubble. Internet companies, which were expected to spur broadband demand, began to implode. The Nasdaq telecom index peaked in March; it would plummet 65% by the end of that year. Global Crossing's stock sank from $61 to $16 in that period.

Just then, problems began to emerge with Global Crossing's network. According to a former employee who helped develop the network, the undersea part functions properly, but the links from the onshore cable stations to the cities, particularly in Europe, were operated in collaboration with local phone companies, and those didn't work as well as they should have. Another former manager says the network's capabilities as a unified, state-of-the-art network were oversold. "Part of the problem is that it was built partly through acquisitions and partly through construction," says the manager. "It doesn't function as a global network." He says that calls were frequently dropped and that transmission quality was substandard. Sources at one large financial services firm in New York say the network periodically goes down. A Global Crossing spokesperson says the company built a network that can connect 27 countries and over 200 cities.

As Global Crossing's stock continued tumbling through 2001, Winnick fought to keep the company aloft. Telecom carriers, which had been Global Crossing's biggest customers, were beginning to go bust, and business accounts just weren't showing up. According to analysts and a former employee, Global Crossing turned to its competitors to help fabricate sales.

Over the years Global Crossing had swapped capacity with Qwest and other telcos to fill in gaps in its network, usually in the form of long-term leases for use of a stretch of fiber (known in telco-speak as indefeasible rights of use, or IRUs). But in 2001, with its stock down to $10, Global Crossing started using swaps solely to manufacture revenues, making deals with other carriers that consisted of nothing more than exchanging cash and then booking those trades as revenue, asserts Brian Lysaght of the legal firm O'Neill Lysaght & Sun. Lysaght represents Roy Olofson, a Global Crossing employee who worked in the finance department and claims that the company fired him after he questioned a swap. "Virtually all of these transactions were for the identical amount of cash and happened on the same day," says Lysaght. "The money was simply wired from one company to another." This wasn't nickel and dime stuff either. In a complaint filed this May in Los Angeles Supreme Court, Olofson charged that $720 million of Global Crossing's $3.2 billion in sales for the first half of 2001 were "roundtripped" cash swaps. The company says the swaps were legitimate, and it countercharged that Olofson had tried to extort money from the company by threatening to go to regulators; Olofson responded with a defamation suit against Winnick and Global Crossing.

Investors had begun to lose faith in Global Crossing, but Wall Street wasn't ready for the telecom ride to end. From 1998 through 2001 the top Wall Street firms earned more than $13 billion in telecom underwriting and investment-banking fees. Telecom IPOs stalled in 2001, but debt issuance actually grew to $120 billion, from $73.4 billion in the prior year, thanks partly to an increase in so-called drive-by bond sales. In a drive-by offering, a Wall Street firm buys a telecom's debt and tries to sell it--very quickly--to institutional investors like pension and mutual funds for a slight premium. There were no road shows for these deals, say fund managers, and often not even a "red," or prospectus. "You'd get a call from the brokerage firm at 10:30 in the morning and were told the deal closes at noon," recalls a high-yield bond analyst at a mutual fund group. "They would just say the terms were the same as the last time." The analyst says that since he was unable to do any due diligence, he never bought drive-bys. But others did. "It was quick cash for the telecom and the bank," says the analyst. In early 2001 Salomon held a successful $1 billion drive-by bond offering for Global Crossing. Several other firms, including Chase, Morgan Stanley Dean Witter, Lehman Brothers, and Goldman Sachs, also conducted drive-bys for various telecom companies.

But despite its best efforts, Wall Street couldn't keep the telecom industry afloat. In 2001 nearly 11% of telecom companies defaulted on their debt. A number of them filed for bankruptcy, including Winstar, 360networks, and PSINet. The slump hammered the banks. Chase's loan-loss provisions skyrocketed to $3.2 billion in 2001 from $1.4 billion the prior year. In December 2001, when Global Crossing's stock was trading at around $1 a share, the telco met with its creditors, among them J.P. Morgan Chase and Citigroup. After ponying up more collateral for the banks, Global Crossing won an extension on its credit agreements.

That move held off bankruptcy for about a month, enough time for the company to put together two more desperate measures. It tried to merge with its Pacific unit, Asia Global Crossing, which had access to cash. But the shareholders of Asia Global Crossing objected. Then, on the day it filed for Chapter 11, Global Crossing announced that two of its Asian partners had agreed to buy it for $750 million. In late May, unable to reach an agreement with Global Crossing's creditors, the two bidders walked away.

His company may be in a shambles, but Winnick is not contrite. With a glut of broadband assets up for sale, few bidders are likely to emerge to buy Global Crossing entirely, say sources. But Winnick says that things will work out fine. "The company has done an excellent job of improving its cost structure while maintaining its customer base," said Winnick, in the one statement he gave FORTUNE for this article. "We are now more confident than ever that a suitable course of action will emerge from the range of options available to the company. I have no doubt that when the telecom market turns around, Global Crossing will be positioned to maximize value."

As investors flock to join lawsuits, and agencies ranging from the SEC to the FBI plow through Global Crossing documents, there's more than enough blame to go around. Some single out the banks. "One has to wonder if the post-Glass-Steagall superbanks like J.P. Morgan Chase and Citigroup-Salomon engaged in 'dumber' lending practices--trading their sizable balance sheets for future fees and market share," comments a capital markets strategist.

Some blame Wall Street. "The market flipped," says Lodwrick Cook, the Global Crossing co-chairman. "It wasn't anything Global Crossing did or didn't do." He adds: "We regret that anybody lost money with us, but Gary and I still own 70% of our stock. Everybody took a hit."

Some blame themselves. "Where I kick myself in the butt is that we had concerns that there was too much capacity coming on," sighs Jerry Paul, who was head of high-yield investing at Invesco Mutual Funds until earlier this year when he left to launch his own hedge fund, Quixote Capital Management. "But in my 25 years in the market, I had never experienced such a strange time."

And some blame Gary Winnick. They charge that he kept Global Crossing's revenues artificially high while he aggressively sold his own stake and milked the company for fees. Still, he himself has never been formally charged with wrongdoing. He wasn't asked to appear before a congressional hearing in March on the swapping arrangements. And a Global Crossing spokesperson says, "Be sure to say that he's never been investigated by the SEC."

That was at the end of May. In the first week of June, reports appeared that the SEC is investigating stock sales by Global Crossing officers, including Gary Winnick. His spokesperson says the SEC still hasn't contacted Global Crossing about insider sales. The SEC has no comment.

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