From: Sullivan, Scott
Sent: Tuesday, March 06, 2001 1:49 PM
To: Myers, David
Subject: Re: FW: Telco

Well the numbers are in your attached spreadsheet and he needs to get to work now

----

Scott Sullivan

-----Original Message-----
From: Myers, David <david.myers@wcom.com>
To: Sullivan, Scott <Scott.Sullivan@wcom.com>
Sent: Tue Mar 06 11:38:03 2001
Subject: FW: Telco

-----Original Message-----
From: Bosley, Tom
Sent: Tuesday, March 06, 2001 11:37 AM
To: Myers, David
Cc: Prestwood, Louis
Subject: RE: Telco

Actually I asked Scott what numbers he wanted and I would see what could be done to get them. But... obviously gross margin is very important and we will put several projects in place to get this moving back where it was. The first quarter is pretty well cast at this point but we will define what we can do to reverse the trend.

-----Original Message-----
From: Myers, David
Sent: Monday, March 05, 2001 5:24 PM
To: Bosley, Tom
Cc: Sullivan, Scott
Subject: Telco

Tom,
Pls see the attached Gross Margin analysis which highlights the need for immediate attention to Telco and Margins.

Scott relayed a conversation you had with him at dinner when your volunteered to do whatever necessary to get Telco/Margins back in line. This was a dinner with Scott, Ron amd Bernie prior to the announcement of our last quarter.

As you can see, margins have declined significantly and your immediate attention is appreciated. We need to address this during the quarter and not at the end of the quarter. Just so you know, I fully realize the impact that decling pricing to our customers has had on margins but I hope you feel like me that it is impossible to accept declining margins given the significant capex (over $16 billion over the past 2 years), access reform and the fastest growing part of our buisiness being Telecom (more capex with lower variable line cost).

C

<< File: 2001 January Gross Margin Analysis vs Q1'00.xls >>

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1COEC6:
000124

From: Yates, Buford
Sent: Tuesday, July 25, 2000 9:44 AM
To: Myers, David
Subject: RE: taxes

David,

I might be narrow minded, but I can't see a logical path for
capitalizing excess capacity.

Your thoughts?

BY

-----Original Message-----
From: Minert, Tony
Sent: Tuesday, July 25, 2000 8:23 AM
To: Myers, David; Yates, Buford
Subject: FW: taxes

David,

Bill Mcgrath is in Australia right now, so we have been communicating by
voice-mail and e-mail.

Below is an explanation of one of the reasons why we are so under
utilized
and something that I think you could go to Ron with.

What I don't understand is why they need such a redundant network. If
they
are ordering Sonet rings then there is redundancy built into them, so if
he
has additional rings that is two times the redundant. I don't completely
understand how this works. I will get with the network folks here in
Tulsa
to try and find out.

I have asked Bill if he could come up with a dollar amount for the
protect
capacity.

Also, can we capitalize these cost?

Tony Minert

-----Original Message-----
From: Bill McGrath [mailto:bmcgrath@uu.net]
Sent: Monday, July 24, 2000 6:42 PM
To: tony.minert@wcom.com
Subject: RE: taxes

Tony,

I received you message on capitalizing costs related to capacity built
for
future needs.

C

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I think you will find that hard to identify. You would be better served
working on how to capitalize our protect capacity. We currently run a
one
for one protect scheme at UUNET. That equates into roughly half our
capacity sits idle all the time. If we could capitalize that piece and
draw
down against it like a spare parts inventory, we would make the income
statement look great.

I would approach it that the protect circuits hold a total inventory of
mega bits. When we have an outage and consume megabits, we would draw
down
against the inventory. As we go to less and less protect with optical
switching, we would remove most if not all the inventory.

Let me know what you think.

At 02:14 PM 7/24/00 -0500, you wrote:
>What is our tax rate for federal and state (average).
>
>Tony Minert
>
>-----Original Message-----
>From: ebedell@UU.NET [mailto:ebedell@UU.NET]
>Sent: Wednesday, July 19, 2000 1:15 PM
>To: tony.minert@wcom.com
>Cc: harbaugh@UU.NET; bmcgrath@UU.NET; jrocha@UU.NET; blem@UU.NET
>Subject: Re: taxes
>
>
>Tony,
>As an ISP UUNET pays both federal and state taxes on it's network cost
>(circuits and equipment). In instances were UUNET is a reseller, we
might
>be exempted from paying taxes but this would be a Joan Caminos
question.
>Joan manages the billing department.
>
>
>Thanks
>Eugene
>
>
>At 08:10 AM 7/19/00 -0500, you wrote:
>>Eugene,
>>
>>Do you guys pay taxes on your network cost or are you treated like an
IXC
>>reseller and get this waived?
>>
>>Tony Minert
>>
>>
>>
>
>
>

C

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1COEC6:
000141

From: Yates, Buford
Sent: Tuesday, July 25, 2000 9:53 AM
To: Minert, Tony; Myers, David
Subject: RE: taxes

Tony,

David and I have reviewed and discussed your logic of capitalizing excess capacity and can find no support within the current accounting guidelines that would allow for this accounting treatment. I think our efforts should shift back to our gross margin analysis and the g/l and essbase structural changes needed to support this analysis.

Thanks
BY

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From: Minert, Tony
Sent: Tuesday, July 25, 2000 8:23 AM
To: Myers, David; Yates, Buford
Subject: FW: taxes

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C

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1COEC6:
000142

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>>Tony Minert
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>>
>>
>
>
>

C

Confidential Treatment
Requested by WorldCom

1COEC6:
000143

From: Minert, Tony
Sent: Wednesday, July 19, 2000 11:41 AM
To: Myers, David; Scott, Stephanie; Yates, Buford; Vinson, Betty; Willson, Mark
Subject: utilization of the domestic network

I talked to some people in the NIM organization about the utilization of
the
domestic network and here is what I have found out.

First of all we are signing up for term commitments. In most cases this
is a
five year term.

Stephanie - You asked the question about whether or not we would get our
money back if we did not use all the capacity like I did with the AT&T
swap
four years ago. The answer to this is no. However, I hope that we could
still explore ways to either take the unutilized network as an asset
(Inventory, prepaid) or better yet, capitalize the cost.

We are currently running at a Utilization rate of about 85% to 87% from
the
serving wire center to the end office. Mona Abutaleb (Lynn Refer's
replacement) has mandated that the utilization rate decrease to 75% so
that
we do not block any revenue. (Note - all of this is with the LEC's. It
does
not include any IXC charges.) I am being told that this will give us an
additional 3 months worth of capacity. Meaning that if we stopped
turning up
any network that it would take three months to be at 100% capacity. That
is
a lot of line cost expense that does not have matching revenue today.

We are also changing our capacity from our POP to our serving wire
center.
We are turning up entrance facilities currently at the OC48 level
instead of
a DS3 at a time, however very soon this will increase to OC192 (I can
remember when we turned up DS1's for entrance facilities). They are
looking
at this with a breakeven point of 24 months. Basically, if they could
break
even by ordering an OC192 or an OC48 within 24 months over ordering up
DS3's
then they are ordering up the service. This is going to mean that we
have a
lot of extra capacity, especially when we go to OC192's. The utilization
rates on these nodes can also be measured. This is currently at 75% and
will
be greatly reduced once we move to OC192's. The good news is that we
will
need less capacity in the future and can grow into our network, the bad
news
is that the cost are going to be high in the first year, especially the
first three to six months. Again, in my eyes, we are not properly
matching
up expense with revenue.

C

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1COEC6:
000144

Currently Access cost are $200 million per month for the domestic
network.
Some of this is local loop cost and switched network cost which do not
fit
into this equation. I am assuming that we could at least go back to
January
when estimating what the monthly cost impact would be.

This also does not include the UUNET network or what potential we have
internationally. I have heard that the international network has a lot
of
excess capacity, but I have no idea if this is true or not.

My question is, can we pursue this? Should I get the line cost people
involved to see what type of impact this might make on our line cost
numbers
or am I running into a dead-end because of the fact that this is not
something that we could get reimbursed for if we don't use the capacity.
Of
course, I don't think there is any fear that we won't use the capacity.
The
network is growing so fast that they are having a hard time keeping up
with
the capacity needs.

Can you use the same argument that you use with installation. Since we
don't
recover the cost of unused capacity, can we capitalize this cost? Once
revenue is recognized we start recognizing this as line cost expense,
but
until then we could then spread the three months worth of expense over
the
useful life of our customers or the circuit.

I can't imagine that there isn't something we can do. The impact could
be
huge. Like I said, if I was a book store or a computer store, I would
not
have to recognize any expense until I actually sold the product. In my
eyes
this is the same thing or at least it has similarities. There is no
reason
why I should have to recognize any expense until I sell the product. Of
course this would make it an inventory or a prepaid which would not have
the
benefits of capitalizing the cost.

I am still trying to get with the internet folks to discuss this with
them.

Tony Minert

C

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