



Internal Audit Correspondence

Audit:	Cap Ex
Date:	6/17/02, Approx 3:35PM
Participants:	David Myer, Cynthia Cooper, Glyn Smith
Method of Communication:	Meeting in David Myer's office

Cynthia and Glyn went to David Myer's office and requested support for the prepaid capacity entries booked by Betty Vinson and Daniel Renfro. Glyn stated that IA was trying to get an understanding of the prepaid capacity entries and asked David if he could explain prepaid capacity. David asked Cynthia if she had had a conversation with Scott Sullivan on the issue and what the nature of that conversation was. Cynthia stated that Scott had said prepaid capacity was from zero and low utilized leased lines. David stated that the Company's cost structure has gotten too high. He stated that the field has been asked to lower the cost structure of the network and that Ron Beaumont has made a commitment to do this. David indicated that he didn't see how the current cost structure could be so high and that the Company could not continue with the cost structure at current levels. He added that if the structure does not change, the Company might as well shut the doors.

Cynthia asked David if he had support for the entries and David stated that he did not. David stated he could go back and construct support but that he was not going to do that. Glyn asked David how the amounts for the entries were derived. David stated the amounts were booked based on what they thought the margins should be. Cynthia asked David if there were any accounting standards for this type of treatment. David stated there were no specific accounting pronouncements supporting these entries. David also stated that they probably shouldn't have capitalized the line costs but once it was done the first time (2Q01) it was difficult to stop. David indicated that he has felt uncomfortable with these entries since the first time they were booked. Glyn asked David how this would be explained to the SEC and David stated he had hoped it would not have to be explained.

David asked where IA would go from here and Cynthia stated the audit would continue. David stated he would not ask IA to do anything less.

Glyn asked David if he was aware of other companies in the industry using the same treatment. David indicated that other companies had to be doing the same thing.

Cynthia asked David if there were any other entries that he felt uncomfortable with and David stated that these were the only ones. Cynthia told David that she and Glyn would get together with he and Scott Sullivan Tuesday morning to discuss further.