



Federal TransTel, Inc.

Memo

EXHIBIT

To: Daniel Nishrie
From: Karl Hendrickson
Date: August 02, 2001
Re: Resignation

At your request, I have decided to reconsider my resignation. I will extend my last day while we work through these issues. I am willing to establish, in writing, certain terms and conditions that if agreed to, would heavily influence my final decision and it will, hopefully, be a mutually beneficial solution.

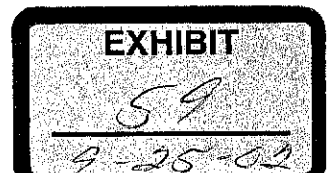
I think it would be beneficial to document some of the reasons in support of my resignation. Please understand that this memo is not intended to be just a list of complaints. I believe it is important to understand some of the concerns I have if we are to lay a foundation to resolve these issues. I am providing this for the good of the company, as the management team at FTT is just as frustrated as me. Angelina and Joe have expressed to me they may not want to continue working at FTT.

During the course of the last nine months, I feel I have lost management control within a company that I have watched prosper during the previous eighteen months under my guidance. I am unable to proceed with basic operating practices due to interference from Ran. The Billing and Collection business is very tough and frustrating without the added pressure and frustrations generated by you and Ran.

It has become unbearably frustrating to persistently seek answers to such basic questions as the ownership of the company. It is very unusual for employees not know who owns the company they work for. Ran met with all employees and was asked that question several times and was unable to provide an answer. Not providing that information has affected morale and given concern to the employees about the future of FTT. As COO, it is inconceivable that I do not know who owns the company.

To have functioned for six years as the Chief Operating Officer and to have experienced such a profitable year in 2000, it was very disturbing and disruptive to have a stranger come into the company and put every decision under scrutiny. 2000 was the first profitable year in three years with FTT making a profit of \$2,500,000 before shareholder expenses. Although I am not opposed to the introduction of additional executives within the company, I would like to have some voice in the matter. If I am to work in conjunction with someone, I should have been consulted prior to his "arrival". You initially told me that both Ran and I reported to you. Ran later informed me that is not the case, and that I reported to Ran, and Ran reported to you. Ran later told me that I should only communicate with Ran and should not contact you without going through Ran.

The abrupt placement of an executive officer within the company was very troubling to not only myself but also to most of the staff. The organization has not embraced Ran's position without questions, many of which I am unable to answer due to lack of information. Ran has met and given directives to the staff without my involvement, which has caused confusion, and has not been productive. Ran initiated organizational changes, which were unnecessary, and negatively affected morale. Ran's stated reason to Kendall, Joe, and Randy for the changes was "to show Daniel that he is doing something". In addition, Ran stated in a management staff meeting on 8/2/01 that he "came to FTT as a spy for Daniel and that he did



not previously know Dr. Gilboa. This statement by Ran severely damaged the management team's confidence and respect for you.

Basically, from the first day, Ran has created chaos within the company. His presence has generated many questions for the staff and his implementation of new requirements such as that I cannot make any decisions, no matter how small, without consulting with him has been disruptive to the organization. Ran told Ken Grammer, Angelina Jackson, Kendall Speed, Joe Smith and several other employees that he has the authority to fire me without consulting with you. Ran's statement has spread throughout the company. His recent loss of temper and outburst, which was unfairly directed at me, could be heard down the hallway. Several employees questioned me about Ran's behavior and told me that it is causing them great concern and stress. The employees are aware of these incidents, and it has affected my authority and respect.

In an effort to keep this short I am not going to list every issue. Some additional concerns are:

- Inability of guarantors to repay shareholder notes totaling \$5.4mm. The collateral securing these notes is questionable. Even if the buildings are eventually sold, it appears there is not nearly enough equity to repay a substantial portion of the notes. FTT is insolvent and unable to raise capital or arrange a line of credit due to the notes. The shareholder notes and expenses are the cause of the current cash flow problems. Clients are very upset FTT is unable to true-up contractual reserves and if not received quickly will result in lawsuits being filed against FTT by the clients.
- Shareholder lawsuits are consuming too much time and money. Shareholder expenses in 2000 were \$750k (majority legal fees). Shareholder expenses in 2001, through June, are \$1.1mm (majority legal fees, including a \$500k bonus you directed to be paid to yourself). I cannot effectively manage FTT's profitability due to shareholder expenses at this level. The continued uncertainty of the duration of the lawsuits and legal fees is extremely frustrating and difficult to manage. New lawsuits are still being filed, lawyers switched and the unresolved Squire and Sanders invoices increase the uncertainty and probability of additional legal fees.
- FTT prepared a cash flow forecast with the help of WAKM in the fall of 2000 that identified cash flow problems this summer. You were provided copies last fall and earlier this year and informed that Kendall, Randy and I were meeting with banks trying to arrange a credit line. The forecast did not include the \$800k you took out this year and shareholder expenses of \$500k (\$500k + \$500k = \$1.1mm). As mentioned above the reason for the cash flow problems is the outstanding shareholder notes and expenses.
- The cash flow problems not only impact FTT's ability to meet day-to-day obligations but it has also restricted FTT's ability to grow. FTT has been forced to turn down several revenue opportunities because it did not have capital to invest in development and factoring.
- Ran told me you blamed the reduced collections by CMC on me. The reduced collections are primarily due to three factors: CMC incompetence, lack of cooperation at CMC and transfer of the 800 and 900 lines to another service bureau by Amtec. Collections were the highest when non-paying end users calling an Amtec 800 or 900 were transferred to collections instead of a content provider. When Amtec lines were moved to a service bureau in February collections dropped off due to the decrease of incoming calls to Amtec that could be transferred to collections.
- In October 2000, I recommended FTT terminate Amtec's transport because Amtec was not generating enough billing revenue to pay the transport invoice after October. You said continue the service. In January 2001 I raised the same concern and you became very angry with me for trying to terminate the transport service (I heard this from Ran). In February, Gene Hira, you and I worked out an agreement where FTT would receive 20% of the net due Amtec from the new service bureau. You and Gene assured me it would be enough to pay the current transport invoice and retire the past due amount of \$470k in about a year. Those payments stopped after FTT received about \$24k with no explanation to me. The outstanding balance due FTT by Amtec is now \$550k, which you said the week before last "was gone". This is a huge loss to FTT and could have been prevented.
- Ran informed Joe Smith that Joe is in charge of the "Turkish Project" the week of August 8th. Neither Joe nor I know much about this project. I do not believe a complete analysis has been prepared to evaluate the profitability and risks associated with this project. FTT's involvement with this project needs to be terminated immediately. If any contractual commitments exist they need to be moved out of FTT.
- In June, while I was in the hospital, Joyce inadvertently wired \$170k to the wrong client. The receiving party will not return the money. You asked me to contact the bank and tell them that it

was fraud and that someone "hacked" into FTT. You also suggested that we sue the bank on that basis. It was clearly a FTT error and to claim anything else would be fraud on FTT's part.

- You objected to paying the final installment on the 2000 Executive Compensation Plan. The Plan contract clearly detailed the conditions to be met to pay the amounts due. The conditions were met but you objected. There was no basis for your objection and I understand from Kendall, Angele, Ran and Randy that you did not disagree that the conditions were met and payment was due. What is your objection?
- I was informed that Ran is leaving FTT immediately, but that FTT is paying Ran's August consulting fee and his family's vacation expenses. In light of FTT's current cash position I believe these expenses should not be paid. Ran's expenses from February 2001 through June 2001 are \$112,000. July and August expenses will increase this amount.
- As of today, you have no investment in FTT. FTT redeemed Pat with its funds totaling \$1,980,000. You took out \$800,000 in April. You put back \$880,000 in July and took out \$880,000 in August.
- You are aware of FTT's severe cash flow position yet you are carrying around checks totaling \$1,000,000. If you are afraid to put the money in FTT, should I not be concerned about the future of FTT?
- I have also recently become aware that you have criminal convictions for fraud. In light of the above, this concerns me as I think it would you if the roles were reversed.

I would like to restate that as harsh as this sounds, it is not meant to be a list of complaints just to "bitch". I felt it is necessary to review the issues with you that lead me to my decision to resign. I hope this memo gives you some meaningful insight into what it is like trying to manage FTT in this environment.

I believe it would be mutually beneficial if we can implement the following suggestions:

- As long as the quarterly profits, beginning January 2002, are at least \$225,000 per quarter, I will have total authority and management control of FTT. If the profits fall below \$225,000, you will have the right to remove me or change management policy. Profit in this context is before shareholder expenses, or any payments to shareholders, or on the behalf of shareholders. Shareholders include present, future and past shareholders.
 - FTT will provide full financial disclosure each month to you and WAKM (as previously done).
 - I control all hiring and firing of employees, employment contracts, and consulting agreements, with the exception of my employment contract.
 - I will be given a 5% salary increase each year during the term of this contract. The effective date of the increase will be June 1 each year beginning with 2001.
 - No cash distributions from the company will be made, other than as outlined in this memo.
- Loan \$1,880,000 cash into FTT by 8/31/01. FTT will grant you a security interest in all LEC receivables (subject to LEC approval), all UniversalBill receivables, all LEC S&C contracts and all computer equipment.
 - If the shareholder note collateral is sold, the proceeds due FTT (before any distributions to shareholders) at closing will be transferred to FTT. FTT will net the proceeds against the balance of the \$1,880,000 loan described above and any outstanding shareholder notes. If the proceeds of the building sale exceed the balance due of the \$1,880,000, and the shareholder notes the difference will be returned to you.
 - FTT will repay the \$1,880,000 at a rate of \$31,333 per month over a sixty-month term. The loan does not bear any interest (0% rate).
- Payout year 2000 bonus.
- Implement bonus plan for 2001, 2002 and 2003 the same as the 2000 plan with the following changes:
 - Payout amounts and schedule remains the same. The amounts are transferred, monthly, to an escrow account in the name of WAKM. Delete the section giving you the authority to change the percentages. WAKM will direct payments according to the bonus plan.



- o You mentioned on more than one occasion that you want to sell FTT. You need to provide incentive to the management team to help you do so. Any gain on the sale of FTT should be handled in the same manner as the executive incentive compensation plan.
- I will manage all legal matters relating to FTT. Any shareholder or prior shareholder legal matters will be your financial responsibility. I must approve any settlements relating to the current and prior shareholders that involve FTT in any way.
- No involvement of Ran Mesterman in FTT.
- This agreement will have a three-year term from the date of execution.
- Hopefully after the three-year term of this agreement additional funds may be available for distribution.

To move this ahead, I would like Berkowitz to draft the document that details our agreement. I understand you will have to sign a release so they can represent both of us. I believe it is important that we complete the Berkowitz agreement within two weeks as a show of good faith to both parties.

Please review this carefully and let me know if you have any questions, concerns, and recommendations by August 17, 2001.

Thank you for your consideration.