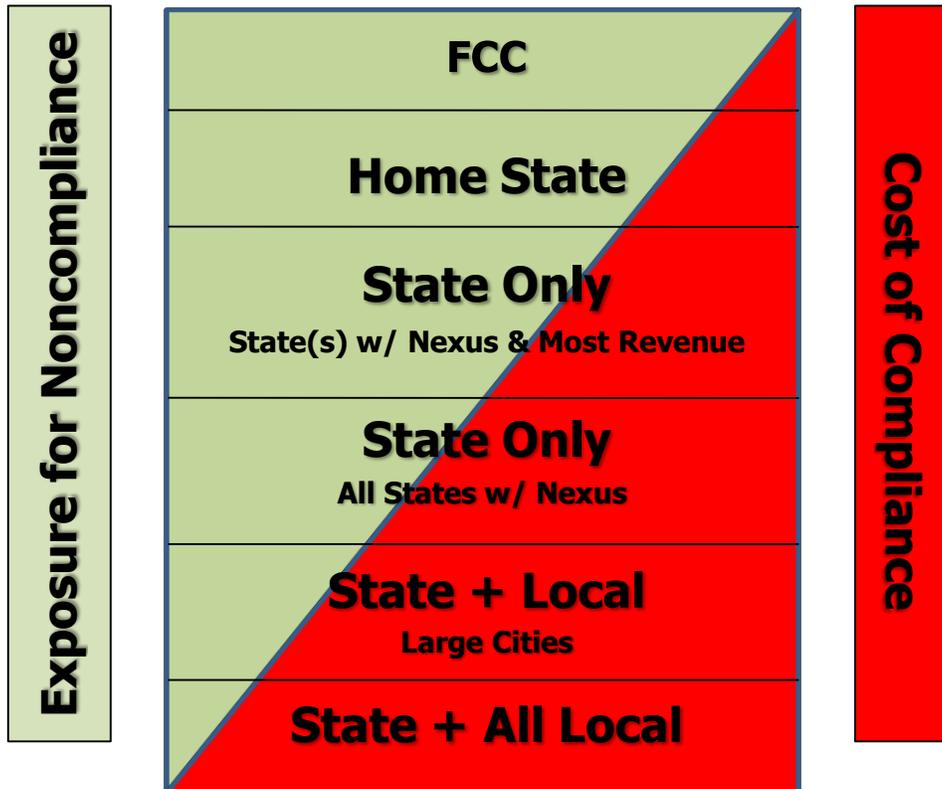


INTRODUCTION TO COMPLIANCE RISK MANAGEMENT

MANDATORY LEGAL DISCLAIMER: NON-COMPLIANCE WITH FEDERAL, STATE OR LOCAL STATUTES, REGULATIONS AND RULES RELATED TO TAXES AND REGULATORY COMPLIANCE MAY SUBJECT YOUR COMPANY, ITS OFFICERS AND OWNERS TO FINES, PENALTIES AND EVEN IMPRISONMENT. UNDER NO CIRCUMSTANCES SHOULD A BUSINESS COLLECT TAXES OR FEES AND FAIL TO REMIT THEM TO THE GOVERNMENT. IF YOUR COMPANY IS PREPARED TO PAY FOR THE COST OF IMPLEMENTING AND MAINTAINING TAX AND REGULATORY COMPLIANCE AT ALL LEVELS OF GOVERNMENT, EVEN IF THE COMPLIANCE COSTS FAR EXCEED EXPOSURE, THEN YOU SHOULD REQUEST A FULL COMPLIANCE QUOTE FROM THE COMPLIANCE GROUP AND REFRAIN FROM PURSUING A RISK MANAGEMENT APPROACH TO COMPLIANCE. THE COMPLIANCE GROUP'S COMPLIANCE RISK MANAGEMENT SOLUTION IS A RESPONSE TO MARKET DEMAND FOR A COST-EFFECTIVE METHOD TO ENSURE COMPLIANCE IN HIGHEST RISK/EXPOSURE JURISDICTIONS WHILE MANAGING RISK AND PUSHING COMPLIANCE COSTS INTO THE FUTURE IN LOWER RISK/EXPOSURE JURISDICTIONS. OUR COMPLIANCE RISK MANAGEMENT SOLUTION DOES NOT, HOWEVER, PROTECT YOUR COMPANY FROM ALL RISK/EXPOSURE AND, AS SET FORTH IN THE TERMS & CONDITIONS OF SERVICE, THE COMPLIANCE GROUP DISCLAIMS ANY AND ALL LIABILITY ASSOCIATED WITH YOUR COMPANY'S UTILIZATION OF OUR COMPLIANCE RISK MANAGEMENT SOLUTION TO MONITOR AND MANAGE RISK EXPOSURE WHILE DELAYING THE IMPLEMENTATION OF FULL COMPLIANCE IN IMPACTED JURISDICTIONS. CUSTOMERS OF THE COMPLIANCE GROUP'S COMPLIANCE RISK MANAGEMENT SOLUTION EXPRESSLY ASSUME ALL RISKS ASSOCIATED THEREWITH.

Regulatory & Tax Compliance "Levels of Risk Exposure"



Explanation

Depicted above is an illustration of the Risk and Magnitude of Financial Exposure vs. Proactive Cost of Ensuring Compliance calculus that is often confronted by small business and new market entrants entering the Communications Market ("Telecommunications, VoIP, etc.) on a nationwide or multi-jurisdictional basis. In other words, the illustration depicts the Costs & Benefits of prophylactic compliance at one extreme -- spend money on compliance now to avoid spending money to mitigate consequences of non-compliance later -- vs. the Benefits & Costs of pushing compliance costs into the future -- save money on compliance now, but prepare to spend more money on mitigation and correction later.

Businesses, particularly smaller ones, must contend with the practical reality of tax and regulatory compliance in the immensely complex and ever-changing universe of telecommunications. The purpose of this document is to memorialize the challenging decisions small communications services business owners must address and in a way we hope will lead business owners to seek professional assistance with the development, implementation and management of practical, pragmatic, risk/reward-based compliance strategies.

At the outset, it is imperative for you to understand that, in the eyes of the law, non-compliance is simply not acceptable, regardless of the cost/benefit calculus. As such, we can never advise clients that non-compliance with tax and regulatory responsibilities, at any level, is without risk and potentially serious consequences. However, when taking a step back and approaching the issue from a practical, pragmatic perspective, the reality on the ground is that the risk of exposure arising from non-compliance with tax and regulatory obligations is quite variable. And, while total compliance is and should always be your ultimate objective, business realities may dictate taking a more targeted, strategic, phased-in approach to regulatory and tax compliance.

For this reason, in advising clients with regard to the creation and implementation of compliance plans, we have identified a top-down approach in terms of the various levels of risk exposure, as illustrated above. Because of the aggressive enforcement and high contribution factors, most companies face the greatest risk of exposure for non-compliance with federal Universal Service Fund ("USF") obligations. There are also a number of other federal contribution plans with significantly lower contribution factors, but once a company is on the radar for USF non-compliance, it will likely face exposure from the other fund administrators as well. It should also be noted that, in contrast to state taxation, there is no voluntary disclosure process or amnesty opportunities associated with non-payment of USF or other fund contributions.

At the state level, compliance with state regulatory and tax obligations should start in a company's home state, i.e., where the company maintains its headquarters and/or is domiciled. The reason for this is grounded in terms of the company's "visibility." However, the other considerations that are important in weighing the risk of exposure are the amount of revenue that is potentially exposed to taxes and regulatory fees. For this reason, the next layer in terms of risk are those states where a company derives the most revenue and maintains some form of nexus (personnel, equipment, facilities, advertising, etc.). Once compliance is implemented at this level, we suggest companies then tackle those remaining states where they maintain nexus.

The lower levels of the illustration are devoted to compliance with local governments. Because of the sheer volume of local jurisdictions and obligations, 100% percent compliance is often difficult if not impossible to achieve for small and mid-size companies. In this case, we recommend that companies first address compliance in the larger cities. The reason is simple: larger cities are more likely to have more sophisticated and aggressive enforcement mechanisms. We have seen this with regard to both New York City and the City of Los Angeles. Finally, if possible, we suggest clients address the mid-size and smaller localities.

It should be noted that the following is based on our firm's general experience in dealing with federal and state regulators and state and local tax authorities. There are notable exceptions to the rule. For example, there are a handful of state Public Utility Commissions and local governments that aggressively monitor and pursue companies for unpaid and/or underpaid state regulatory fees and local telecommunications taxes, and depending on a company's footprint, we may advise that the company address compliance with those states and local governments as early in the process as possible.

DISCLAIMERS AND NOTICES

It is imperative for you to understand that, under the law, non-compliance is never acceptable, regardless of the Cost/ Benefit calculus. Thus, we can never advise any company that non-compliance with tax and regulatory obligations is without risk and potentially serious consequences – at any level of revenue. The Risk Management Solution offered by The *Compliance* Group is provided for those businesses that have determined that the cost of immediate and strict compliance is not justified by the cost and risk of non-compliance, and seek assistance in managing that analysis. The cost and risk of any non-compliance remain with the client company.

This document does not constitute legal advice nor does it represent the opinion, views or advice of either The *Compliance* Group or its affiliated law firm, The *CommLaw* Group. You should not rely upon this document to govern your decisions regarding Regulatory and/or Tax compliance. We strongly urge you to seek counsel from a qualified attorney who can help guide you after considering all the relevant facts, factors, and conditions unique to your business and its specific circumstance.