



**BOULT ■ CUMMINGS<sup>®</sup>**  
**CONNERS ■ BERRY<sup>PLC</sup>**

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February 1, 2008

Richard Collier  
Tennessee Regulatory Authority  
460 James Robertson Pkwy  
Nashville, TN 37243-0505

filed electronically in docket office on 02/01/08

***Re: Request for an Investigation of the Business Partnership Between  
Memphis Light, Gas & Water and Memphis Networkx, LLC  
Docket No.: 07-00183***

Dear Mr. Collier:

Memphis Networkx, LLC, now known as Zayo Broadband ("Zayo") joins in the preliminary responses submitted by Memphis Light, Gas & Water Division ("MLG&W") to the questions submitted by you on January 17, 2008. Zayo also submits the following, preliminary responses and, like MLG&W, will continue to supplement its answers as further information becomes available. In providing this information, Zayo does not waive its continuing objection to the Authority's jurisdiction over issues surrounding the operation of Memphis Networkx under its former owners, MLG&W and Memphis Broadband. Furthermore, as Zayo has previously explained, much of the requested information is confidential and Zayo respectfully declines to provide it in the absence of a proprietary agreement prohibiting the disclosure of the information to anyone not a party to that agreement.

**Questions 3.2, 4, 6, 11, 12, 19.1 and 19.2:**

These questions all concern confidential financial information which Zayo respectfully declines to provide in the absence of a protective order. Disclosure of information about Zayo's finances or its customers could cause competitive harm to Zayo. See T.C.A. §65-3-109. In noting the confidentiality of the requested information, Zayo does not waive its objection to the TRA's jurisdiction over these issues. Nevertheless, in an effort to be responsive, Zayo is providing the most recent audited financial statements for Memphis Networkx. Those statements cover the years 2005 and 2006.

**Questions 22 – 22.2:**

Any service agreements or legal bills from Boulton Cummings Connors and Berry ("Boulton") to its clients are privileged and will not be provided. In any event, Boulton does not represent MLG&W nor did Boulton represent Memphis Networkx prior to its sale to Zayo on July 30, 2007.

February 1, 2008


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**Question 25:**

Zayo purchased an equity interest in Memphis Networkx effective July 30, 2007. Zayo has filed a petition with the TRA showing that this purchase is in the public interest and that Zayo has the financial, technical and managerial ability to operate a telecommunications carrier. Zayo is aware of no statutory authority granting the TRA jurisdiction to investigate why the former owners of Memphis Networkx lost money on their investment

Very truly yours,

BOULT, CUMMINGS, CONNERS & BERRY, PLC

By:   
Henry Walker

HW/djc  
Enclosure

**MEMPHIS NETWORKX, LLC**

**FINANCIAL STATEMENTS**

**December 31, 2006 and 2005**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members  
Memphis Network, LLC  
Memphis, Tennessee

We have audited the accompanying balance sheets of Memphis Network, LLC, as of December 31, 2006 and 2005, and the related statements of operations, changes in members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Memphis Network, LLC as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 to the financial statements, certain errors resulting in understatement of previously reported assets as of December 31, 2005, were discovered during the current year. Accordingly, the 2005 financial statements have been restated to correct the error.

*Watkins Uiberall, PLLC*

Memphis, Tennessee  
September 21, 2007

# MEMPHIS NETWORKX, LLC

## BALANCE SHEETS

December 31, 2006 and 2005

	<u>Assets</u>	
	2006	2005 (As Restated)
<b>Current Assets</b>		
Cash and cash equivalents	\$ 52,519	\$ 11,062
Trade accounts receivables	345,493	283,997
Prepaid expenses	200,583	195,418
Costs and estimated earnings in excess of billings on uncompleted contracts	-	640,000
Deposits	136,500	133,000
Total current assets	735,095	1,263,477
<b>Property and Equipment</b>		
Plant equipment	7,929,781	7,522,339
Computer software	2,491,141	2,457,848
Broadband equipment	5,351,189	4,577,819
Furniture and office equipment	1,898,576	1,924,123
Leasehold improvements	1,788,161	1,654,710
	19,458,848	18,136,839
Less: accumulated depreciation	(8,706,765)	(6,846,710)
Net property and equipment	10,752,083	11,290,129
Deposits	467,636	507,636
Total assets	\$ 11,954,814	\$ 13,061,242
	<u>Liabilities and Members' Equity</u>	
<b>Current Liabilities</b>		
Checks issued in excess of deposits	\$ 203,010	\$ 166,979
Accounts payable	2,103,367	1,073,504
Capital leases payable, current	195,438	371,982
Due to Sygnia Communications	32,000	-
Accrued expenses	963,423	761,500
Unearned revenue - current	-	16,800
Current maturities of long-term debt	1,093,001	640,686
Note payable - line of credit	1,985,550	1,935,150
Total current liabilities	6,575,789	4,966,601
<b>Other Liabilities</b>		
Long-term debt, less current maturities	2,109,184	1,565,652
Unearned revenue, non-current	239,721	167,737
Capital leases payable, non-current	487,468	682,906
Total liabilities	9,412,162	7,382,896
<b>Members' Equity</b>	2,542,652	5,678,346
Total liabilities and members' equity	\$ 11,954,814	\$ 13,061,242

The accompanying notes are an integral part of these financial statements.

**MEMPHIS NETWORKX, LLC****STATEMENTS OF OPERATIONS**

For the Years Ended December 31, 2006 and 2005

	2006	2005 (As Restated)
Revenue	\$ 5,452,195	\$ 4,045,611
Cost of sales	2,123,205	1,856,562
Gross profit	3,328,990	2,189,049
Operating Expenses		
Consulting fees	13,373	11,127
Professional fees	106,835	24,227
General and administrative	3,684,696	3,404,340
Compensation and payroll taxes	2,114,043	2,071,860
Total operating expenses	5,918,947	5,511,554
Loss from operations	(2,589,957)	(3,322,505)
Other Income (Expense)		
Interest income	6,358	3,129
Loss on disposal of asset	(7,432)	-
Interest expense	(544,663)	(379,230)
Total other income (expense)	(545,737)	(376,101)
Net loss	\$ (3,135,694)	\$ (3,698,606)

The accompanying notes are an integral part of these financial statements.

**MEMPHIS NETWORKX, LLC**

**STATEMENTS OF CHANGES IN MEMBERS' EQUITY**

For the Years Ended December 31, 2006 and 2005

	<u>Members'</u> <u>Contributions</u>	<u>Accumulated</u> <u>Deficit</u>	<u>Total</u>
Balance at January 1, 2005, as previously reported	\$ 34,117,731	\$ (24,702,792)	\$ 9,414,939
Prior period adjustment	-	(37,987)	(37,987)
Balance at January 1, 2005, as restated	34,117,731	(24,740,779)	9,376,952
Net loss	-	(3,698,606)	(3,698,606)
Balance at December 31, 2005	34,117,731	(28,439,385)	5,678,346
Net loss	-	(3,135,694)	(3,135,694)
Balance at December 31, 2006	<u>\$ 34,117,731</u>	<u>\$ (31,575,079)</u>	<u>\$ 2,542,652</u>

The accompanying notes are an integral part of these financial statements.



**MEMPHIS NETWORKX, LLC****STATEMENTS OF CASH FLOWS**

For the Years Ended December 31, 2006 and 2005

	2006	2005 (As Restated)
Cash Flows Provided (Used For) Operating Activities:		
Net loss	\$ (3,135,694)	\$ (3,698,606)
Adjustments to Reconcile Net Loss to Net Cash Used For Operating Activities:		
Depreciation	1,908,909	1,863,245
Loss on disposal of property and equipment	7,432	-
Changes in Operating Assets and Liabilities:		
Increase (decrease) in cash and cash equivalents:		
Accounts receivable	(61,496)	474,969
Prepaid expenses	(5,165)	(157,358)
Costs and estimated earnings in excess of billings on uncompleted contracts	640,000	(640,000)
Deposits	36,500	(65,208)
Accounts payable	1,029,863	(429,476)
Due to Sygnia Communications	32,000	-
Accrued expenses	201,923	439,040
Unearned revenue	55,184	92,773
Total adjustments	<u>3,845,150</u>	<u>1,577,985</u>
Net cash provided by (used for) operating activities	709,456	(2,120,621)
Cash Flows From (Used For) Investing Activities:		
Purchases of property and equipment	(1,378,935)	(1,849,258)
Proceeds from sales of property and equipment	640	-
Net cash used for investing activities	<u>(1,378,295)</u>	<u>(1,849,258)</u>

The accompanying notes are an integral part of these financial statements.

**MEMPHIS NETWORKX, LLC**

**STATEMENTS OF CASH FLOWS (CONTINUED)**

For the Years Ended December 31, 2006 and 2005

	2006	2005 (As Restated)
Cash Flows From (Used For) Financing Activities:		
Checks issued in excess of deposits	36,031	166,979
Principal payments on notes payable to a related party	-	(85,000)
Net increase in note payable - line of credit	50,400	1,935,150
Proceeds from issuance of long-term debt	1,691,292	2,274,262
Principal payments on long-term debt	(695,445)	(67,924)
Principal payments on capital leases	(371,982)	(301,185)
Net cash from financing activities	<u>710,296</u>	<u>3,922,282</u>
Net change in cash and cash equivalents	41,457	(47,597)
Cash and cash equivalents - beginning of year	<u>11,062</u>	<u>58,659</u>
Cash and cash equivalents - end of year	<u>\$ 52,519</u>	<u>\$ 11,062</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	<u>\$ 544,663</u>	<u>\$ 379,230</u>

The accompanying notes are an integral part of these financial statements.

## MEMPHIS NETWORKX, LLC

### NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

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#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Organization and Nature of Operations

Memphis Networkx, LLC (the Company) was organized under the Tennessee Limited Liability Act on November 8, 1999, to provide telecommunications services through the installation of broadband fiber optic cable in the Memphis, Tennessee, area. The Company is a joint venture between the Electric Division of Memphis Light, Gas & Water Divisions (MLGW, a component unit of the City of Memphis), and Memphis Broadband, LLC, a Delaware limited liability company. On August 9, 2001, the TRA issued a final order approving the Company's amended and restated operating agreement and granted a certificate of public convenience and necessity for the State of Tennessee. Subsequent to year-end, the Company was sold. See Note 12 for additional information.

Under the terms of the Company's Operating Agreement, capital contributions and cost incurred by the Company prior to its formation and through the date of Tennessee Regulatory Authority (TRA) approval are to be shared equally by the members. Subsequent to TRA approval, MLGW continued to provide periodic investments of capital as requested by the Company. The Company shall continue until it is wound up and liquidated, as stated in the Operating Agreement.

On June 21, 2005, the Members entered into a capital contribution allowance agreement. The agreement stipulates that guarantees of debt shall be treated as capital contributions. Certain individuals have personally guaranteed debt on behalf of the Company and as such the sharing ratios have been adjusted. The sharing ratios as of December 31, 2005 are 56.14% for MLGW and 43.86% for Memphis Broadband, LLC. As of December 31, 2006 the sharing ratios were 49.25% for MLGW and 50.75% for Memphis Broadband. See Note 8 for additional information.

The Company's members have limited liability under the Operating Agreement such that a member of the Company has no personal obligation and is not otherwise personally liable for the acts, debts, liabilities, or obligations of the Company or the acts or omissions of any other member, economic interest owner (as defined in the Operating Agreement), manager, director, employee, or agent of the Company except as explicitly described in the previous paragraph.

##### Method of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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### Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Concentrations

The Company's credit risks relate to cash and cash equivalents and accounts receivable. The Company maintains cash at a bank. Those accounts are insured by the Federal Deposit Insurance Corporation up to an aggregate of \$100,000.

For the year ended December 31, 2006, three customers comprised 36.77% of total sales. For the year ended December 31, 2005, three customers comprised 34.18% of total sales.

At December 31, 2006, three customers comprised 28.04% of total accounts receivable. At December 31, 2005, three customers comprised 43.16% of total accounts receivable.

### Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

### Accounts Receivable

Accounts receivable consists primarily of amounts due from customers in the Memphis area. The Company performs continual credit evaluations of its customers and does not consider an allowance for doubtful accounts necessary.

### Property and Equipment

Property and equipment are stated at cost. Depreciation of plant and equipment, broadband equipment, leasehold improvements, furniture, office equipment and computer software is computed using the straight-line method over the estimated useful lives of 3 to 25 years.

### Revenue Recognition

The Company generates revenues from selling network capacity and related services to other communications service providers. The Company recognizes revenues when earned as services are provided throughout the life of each contract with a customer. The majority of the Company's revenues are generated on a monthly recurring basis under contracts of various lengths, ranging from twelve months to twenty years. Revenue is recognized over the service contract period for all general services. Unearned revenues consist primarily of payments received in advance of revenue being earned under contracts for indefeasible rights to use.

Revenue from fixed-price construction contracts are recognized on the percentage-of-completion method, measured by the percentage of costs incurred to date to estimated total costs for each contract. This method is used because management considers expended costs to be the best available measure of progress on these contracts. Because of inherent uncertainties in estimating costs, it is at least reasonably possible that estimates used will change within the near term.

The asset "costs and estimated earnings in excess of billings on uncompleted contracts" represents revenues recognized in excess of amounts billed.

#### Contract Costs

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, and insurance. Indirect construction costs and general and administrative costs are charge to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

#### Income Taxes

A limited liability company is treated as a partnership for federal income tax purposes and is not subject to federal income taxes. The taxable income or loss of the Company is included in the individual income tax returns of its members based upon their percentage of ownership. Consequently, no provision for federal income taxes is required in the accompanying financial statements. The Company, however, is subject to state income taxes.

Deferred state income taxes have been determined using the asset and liability method of accounting for state income taxes. Under this method, state deferred tax assets and liabilities are determine based on the difference between the financial statement carrying amounts and tax bases of assets and liabilities using enacted state tax rates in effect for the years in which the differences are expected to reverse. This method also allows for the recognition for deferred tax assets in the current period for the future benefit of net operating loss carryforwards and items for which expenses have been recognized for financial statement purposes, but will be deductible in future periods for income tax purposes. The temporary differences in these financial statements relate primarily to depreciation, amortization, and net operating loss carryforwards. A valuation allowance is provided for net state deferred tax assets as it is uncertain as to the future realization of these benefits.

#### Advertising

All advertising costs are expensed as incurred. Advertising costs for the years ended December 31, 2006 and 2005 were \$4,456 and \$26,531, respectively.

#### Long-Lived Assets and Impairments

The Company evaluates the recoverability of long-lived assets on an annual basis. When it is determined that the long-lived asset cannot be recovered through future operations, it is reduced to its estimated fair value by an impairment charge to operations.

## NOTE 2 - LEASES

The Company leases office space, automobiles, and other pieces of equipment under operating leases. Total rent expense for the years ended December 31, 2006 and 2005 was \$600,939 and \$533,191, respectively. Future commitments under these leases for the years ending December 31 are as follows:

2007	\$	222,530
2008		165,460
2009		146,589
2010		131,466
2011		118,696
	\$	<u>784,741</u>

As a part of a building operating lease, the Company obtained a letter of credit in the amount of \$160,000 at December 31, 2002. The required amount is reduced by \$40,000 per year over the lease term. At December 31, 2006 and 2005, the remaining balance was \$0 and \$40,000, respectively. The Company has a certificate of deposit that serves as collateral for the letter of credit and is shown on the balance sheet in deposits.

## NOTE 3 - PROFIT SHARING PLAN

The Company sponsors a profit sharing plan under the provisions of Section 401(k) of the Internal Revenue Code covering substantially all full-time employees. Eligibility requirements are at least one month of employment and attainment of age 21. Employees become fully vested after six years in the plan. The Company's contributions to the plan are voluntary and the Company elected not to make a contribution for the years ended December 31, 2006 and 2005.

## NOTE 4 - STATE INCOME TAXES

The tax effects of temporary differences that give rise to the significant portions of deferred tax assets and deferred tax liabilities at December 31, are as follows:

	2006	2005
Deferred Tax Assets		
Due to benefit of state net operating loss carryforwards	\$ 2,264,343	\$ 1,931,472
Due to benefit of amortization of start up costs	54,898	186,654
Deferred Tax Liabilities		
Due to depreciation	(352,522)	(279,022)
Net deferred tax asset	1,966,719	1,839,104
Valuation allowance	(1,966,719)	(1,839,104)
	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2006, the Company had state tax loss carryforwards of approximately \$34,836,051 expiring through 2021, which are available to reduce future state taxable income.

#### NOTE 5 – RELATED PARTY TRANSACTIONS

The following table summarizes related party transactions with a member and the City of Memphis as of and for the year ended December 31:

	<u>2006</u>	<u>2005</u>
<u>Assets</u>		
Amounts due from a member for fiber installation services	\$ 44,421	\$ 46,112
Amounts due from the City of Memphis for fiber installation services	3,508	16,321
Deposits with a member	200,000	200,000
Deposits with the City of Memphis	100,000	100,000
	<u>\$ 347,929</u>	<u>\$ 362,433</u>
<u>Liabilities</u>		
Amounts due to a member for pole attachment and conduit fees	\$ 360,207	\$ 199,869
Amounts due to a member for utilities	30,322	11,186
Accrued franchise fees to the City of Memphis	388,836	152,332
	<u>\$ 779,365</u>	<u>\$ 363,387</u>
<u>Revenues</u>		
Revenues from a member for fiber installation, collocation services, and internet services	\$ 2,059	\$ 8,024
Revenues from the City of Memphis for fiber installation services	769,237	777,330
	<u>\$ 771,296</u>	<u>\$ 785,354</u>
<u>Expenses</u>		
Payments to a member for pole attachment and conduit fees	\$ 10,000	\$ 34,728
Payments to a member for utilities	196,483	139,929
	<u>\$ 206,483</u>	<u>\$ 174,657</u>

At December 31, 2005, the Company had an uncollateralized bridge loan outstanding of \$0 payable to a company owned by the Chief Executive Officer of Memphis Networkx, LLC. The note bore interest at 8%. At December 31, 2006, there as a \$32,000 outstanding loan balance, with interested accrued of \$2,447.

#### NOTE 6 – FRANCHISE AGREEMENTS

The Company has entered into various franchise agreements with certain municipalities in Shelby County. The agreements are for periods of between five and twenty years. These agreements authorize the Company to use these municipalities' streets to operate, or lease and maintain a telecommunication system within the municipalities' city limits. As part of these agreements, some of the municipalities require deposits and fees equal to 5% of the gross revenues charged for services provided in the municipality.

The following is a list of deposits and fees accrued to the various municipalities at December 31:

	2006		2005	
	Deposit	Accrued Franchise Fees	Deposit	Accrued Franchise Fees
City of Memphis	\$ 100,000	\$ 388,836	\$ 100,000	\$ 152,332
City of Germantown	50,000	15,289	50,000	8,932
City of Collierville	50,000	22,279	50,000	12,829
City of Bartlett	5,000	-	-	-
	<u>\$ 205,000</u>	<u>\$ 426,404</u>	<u>\$ 200,000</u>	<u>\$ 174,093</u>

The deposits are shown on the balance sheet under deposits and the accrued franchise fees are shown on the balance sheet under accrued expenses.

#### NOTE 7 – LONG-TERM CONTRACTS

The Company has entered into certain non-cancelable long-term contracts to provide services to its customers. Estimated future service and construction revenues under contracts longer than one year in effect at December 31, 2006 are as follows:

2007	\$ 3,833,081
2008	<u>2,738,685</u>
	<u>\$ 6,571,766</u>

#### NOTE 8 – NOTES PAYABLE AND LONG-TERM DEBT

The Company's notes payable and long term debt as of December 31, 2006 and 2005 are as follows:

	2006	2005
\$2,400,000 line of credit, collateralized by property, equipment and personal guarantees of certain owners, bearing interest at the 30 day LIBOR rate plus 1.45%. (6.77% at December 31, 2006) Due March 2007.	<u>\$ 1,985,550</u>	<u>\$ 1,935,150</u>



	2006	2005
Notes payable to a bank, collateralized by property and equipment and personal guarantees of certain owners, payable in monthly installments through 2011 at fixed interest rates ranging from 5.25% to 6.93%.	\$ 3,202,185	\$ 2,206,338
Less current maturities	(1,093,001)	(640,686)
	<u>\$ 2,109,184</u>	<u>\$ 1,565,652</u>

Future maturities of long-term debt are as follows:

2007	\$ 1,093,001
2008	913,183
2009	526,310
2010	405,081
2011	264,610
	<u>\$ 3,202,185</u>

At December 31, 2006, the agreements for the above loans were modified whereby the covenant to maintain a minimum net worth was deleted and waived by the bank. See Note 12 for subsequent events related to the line of credit and term loans.

#### NOTE 9 – CAPITAL LEASE OBLIGATION

During 2004, the Company acquired computer equipment under the provisions of a capital lease. The leased equipment had a cost of \$1,548,640 and accumulated depreciation as of December 31, 2006 and 2005 was \$825,941 and \$516,213, respectively. The lease term consists of 36 monthly installments of \$46,811, with an effective interest rate of 21.3%, maturing March 2007. As discussed in Note 12, the lease was refinanced subsequent to December 31, 2006.

Future maturities of the capital lease obligation as of December 31, 2006 are as follows:

2007	\$ 325,140
2008	325,140
2009	263,244
Amount representing interest	(230,618)
	<u>\$ 682,906</u>

## NOTE 10 – COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

Costs, estimated earnings, and billings on uncompleted contracts are summarized as follows:

	2006	2005
Costs incurred on uncompleted contracts	\$ -	\$ 438,330
Estimated earnings	-	201,670
	-	640,000
Less billings to date	-	-
	<u>\$ -</u>	<u>\$ 640,000</u>

Amounts are included in the accompanying balance sheet under the following caption:

	2006	2005
Costs and estimated earnings in excess of billings on uncompleted contracts	<u>\$ -</u>	<u>\$ 640,000</u>

## NOTE 11 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to record a capital lease that was improperly recorded as an operating lease in prior years. The 2004 financial statements have been restated to reflect an increase in assets of \$1,342,155, an increase in liabilities of \$1,380,142, and a net adjustment to members' equity of \$37,987. Additionally, the restatement effects the 2005 financial statements with a decrease in assets of \$309,728, a decrease in liabilities of \$306,531, and a net adjustment to member's equity of \$3,197.

## NOTE 12 – SUBSEQUENT EVENTS

As of March 23, 2007, the line of credit was increased from \$2,400,000 to \$3,315,000 and the maximum amount of term loan notes payable was reduced from \$4,600,000 to \$3,685,000.

The Company refinanced its capital lease obligation effective January 1, 2007 with monthly payments of \$27,095 for 28 months at an effective interest rate of 21.76%. There is an estimated maximum residual payment of \$154,864 due at the end of the lease to purchase the related equipment.

Per a *Membership Interest Purchase Agreement* dated June 7, 2007, one hundred percent of the Company's membership interests were sold to a third party.

Subsequent to the change in the ownership interests of the Company, the City of Memphis has claimed that the Company has breached certain provisions of City Ordinances which grant the Company a 20 – year franchise to construct, maintain, and operate a telecommunications system within the City’s rights of way. The Company is disputing the legal validity and enforceability of numerous provisions of the Ordinances and has communicated such to the City.