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February 1, 2008

ELECTRONICALLY FILED

Honorable Richard Collier, General Counsel
c/o Sharla Dillon, Docket & Records Manager
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

Re: Docket No. 07-00183

Dear Mr. Collier:

In line with my voice mail request earlier this week and our discussions yesterday, I have attached a copy of MLGW's preliminary responses to the staff data requests. We will hand deliver paper copies of the attachments to you and Ms. Standley on Monday.

As I mentioned by phone, the MLGW Legal Department has been in the midst of preparation for a very significant trial in Mississippi challenging MLGW's rights to withdraw water from the Memphis Sands Aquifer. We will continue to work with MLGW management to provide more complete responses to these data requests. While we have requested a thirty (30) day extension, we will try to complete this work before then.

Thank you for accommodating MLGW's request for a partial extension. If you have questions or need further information, please do not hesitate to contact me.

Sincerely,



Mark W. Smith

cc: Ms. Darlene Standley (w/enc.)
Enclosure

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

IN RE:)	
)	
REQUEST FOR AN INVESTIGATION OF)	
THE BUSINESS PARTNERSHIP BETWEEN)	Docket No.: 07-00183
MEMPHIS LIGHT, GAS & WATER AND)	
MEMPHIS NETWORKX, LLC)	

**PRELIMINARY RESPONSE OF
MEMPHIS LIGHT, GAS & WATER DIVISION
TO SECOND TRA DATA REQUESTS**

In response to the letter dated January 17, 2008 from Tennessee Regulatory Authority (“TRA”) General Counsel Richard Collier to Memphis Light, Gas & Water Division (“MLGW”) care of former interim President and CEO Rick Masson, MLGW submits these preliminary responses. MLGW’s responses to these requests are and will be based on information then known to it, and MLGW reserves the right to amend, modify or supplement its responses if it learns of new information. MLGW further respectfully reserves the right to assert any objections as it may have from time to time, including objections relating to the extent of the jurisdiction of the TRA.

1. Explain the rationale for using the interest rate described in response to Request No. 1 and state whether alternatives were discussed in determining an interest rate to reflect loss of use of those funds. Describe any costs expended in the management of the funds.

MLGW RESPONSE: MLGW is investigating the possibility of alternative interest rates having been discussed in connection with its inter-division loan. In the meantime, MLGW submits that the interest rate was designed to be consistent with state law requirements and simple to administer.

2. Identify and provide the amount and source of any “in-kind” investment by MLGW in Memphis Networkx.

MLGW RESPONSE: The Telecommunications Division of MLGW only made capital contributions in Memphis Networkx and made available certain short term bridge loan financing to Memphis Networkx. MLGW did not make any “in-kind” investment in Memphis Networkx.

3.2 Explain in detail how loan funds were utilized by Memphis Networkx, providing copies of accounts payable ledger(s) and a breakdown of all contracts between Memphis Networkx and third parties, including name of contracting party, nature of services or goods provided under contract, dollar amount of contract, duration of contract and amount(s) paid or owed by Memphis Networkx for services under contract. State the amount of equity funds provided to Memphis Networkx and provide a detailed breakdown as to how equity funds were utilized by Memphis Networkx.

MLGW RESPONSE: MLGW did not maintain ledger systems for Memphis Networkx or other records on behalf of Memphis Networkx, so MLGW does not have the detailed information that would be responsive to the first sentence of this Data Request. In response to the second question, MLGW has attached a schedule of its capital contributions in Memphis Networkx as reflected in the MLGW audited financial statements. MLGW has also attached copies of annual financial statements for Memphis Networkx from its inception through December 31, 2006. As indicated above, MLGW did not maintain ledger systems for Memphis Networkx nor did it maintain other books and records for Memphis Networkx, so MLGW cannot provide a further detailed breakdown for these periods.

4. Describe any benefits beyond salaries that were extended from MLGW to Memphis Networkx employees. Describe any benefits beyond salaries gained by Memphis Networkx employees.

MLGW RESPONSE: MLGW did not pay any salaries or other employee benefits to Memphis Networkx employees. Other than the possibility of arms-length utility-customer

relationships with employees of Memphis Networkx, MLGW is not aware of any other relationship between MLGW and one or more employees of Memphis Networkx.

4.1 Provide information regarding any salaries paid or benefits extended from Memphis Broadband or any affiliated company to Memphis Networkx employees.

MLGW RESPONSE: MLGW submits that this question is better directed to Memphis Broadband for a definitive response.

4.2 State whether any MLGW employees performed work for Memphis Broadband or any affiliate thereof. If so, identify the MLGW employees, describe the nature of the work performed and state whether any compensation was paid for those services.

MLGW RESPONSE: MLGW does not have a definitive list of “affiliates” of Memphis Broadband. However, other than the possibility of arms-length utility-customer relationships with Memphis Broadband, LLC or any affiliates of Memphis Broadband, LLC, MLGW is not aware of any other relationship with Memphis Broadband, LLC or possible affiliates of it.

4.3 Identify any MLGW employees who “have performed oversight and monitoring roles of Memphis Networkx on behalf of MLGW.”

MLGW RESPONSE: At the time of the sale, MLGW had three of six Board seats at Memphis Networkx. These seats were filled by John McCullough, an officer of MLGW; Nick Clark, a Board member of MLGW; and Derek Renfro. At various other times since inception of Memphis Networkx, other MLGW employees or Board members including Herman Morris, Larry Thompson, L.R. Jalenak, J. Maxwell Williams and Joseph Lee, III also filled Board seats. Other employees of MLGW including Mike Whitten and Dana Jeanes were involved in MLGW’s internal management of the investment.

4.4 Provide copies of all Invoices, work orders, employee time cards, and other related documents for “pole preparation and other outside plant work for Memphis Networkx” performed by MLGW employees.

MLGW RESPONSE: MLGW is investigating the amount of information that is available in response to this request and submits that this request may prove to be very broad and burdensome. In the meantime, MLGW has attached a copy of the Pole Attachment Contract between MLGW and Memphis Networkx. This document provides the relevant terms concerning Memphis Networkx’ use of MLGW’s outside plant.

5. Identify by name and current address, any past or current investors and past or current members of the board for Memphis Broadband LLC. Identify by name and current address, any past or current minority investors in Memphis Networkx or Memphis Broadband.

MLGW RESPONSE: MLGW submits that this question is better directed to Memphis Broadband for a definitive response.

5.2a As to the members of Memphis Broadband identified in previous response to 5.2, provide the following information:

(1) Identify any past or current members of the boards of each entity.

MLGW RESPONSE: MLGW submits that this question is better directed to Memphis Broadband for a definitive response.

(2) State the ownership interest of each entity in Memphis Broadband.

MLGW RESPONSE: MLGW submits that this question is better directed to Memphis Broadband for a definitive response.

(3) State whether any past or current employees, past or current investors, or past or current officers of an entity are also past or current employees, past or current investors or past or current officers of MLGW or Memphis Networkx.

MLGW RESPONSE: MLGW submits that this question is better directed to Memphis Broadband for a definitive response.

(4) State whether any past or current employees, past or current investors, or past or current officers of an entity are also past or current employees, past or current investors or past or current officers of CII Holdco, Inc. or the McLean Group.

MLGW RESPONSE: MLGW submits that this question is better directed to Memphis Broadband for a definitive response.

5.3 Identify by name and address each entity that participated in the bid process for the sale of Memphis Networkx. Identify the principals in each bidding company and any overlap of owners or employees with MLGW and/or CII Holdco, Inc. What criteria served as the basis for the selection of CII Holdco, Inc. as the winning bidder? Please state whether CII Holdco, Inc. has or had any present or past business relationships with MLGW and or Memphis Networkx and, if so, describe those business relationships.

MLGW RESPONSE: MLGW is investigating information within its possession that is responsive to the first two sentences and the first question. As to the final sentence, MLGW submits that other than the possibility of arms-length utility-customer relationships and the agreements governing the sale of MLGW's membership interest in Memphis Networkx, MLGW is not aware of any other business relationship between MLGW and CII Holdco, Inc.

6. Response to 6.2 states that all of Memphis Networkx's customers are served through special contract arrangements. Provide copies of all special contract arrangements.

MLGW RESPONSE: MLGW does not have copies of any of Memphis Networkx' special contracts with Memphis Networkx' customers.

10.1 Provide documentation, including letters, memoranda, etc., regarding any investment in Memphis Network by private investors.

MLGW RESPONSE: MLGW submits that this question is better directed to Memphis Broadband for a definitive response.

11. Provide a detailed explanation as to the basis for asserting that confidentiality prevents MLGW and Memphis Network from responding to this request.

MLGW RESPONSE: Memphis Network previously raised this objection, and MLGW will defer to Memphis Network to respond to this request.

12. Provide a breakdown of construction costs beyond the general description provided in response to No. 12, detailing costs for outside plant and broadband equipment.

MLGW RESPONSE: MLGW did not maintain ledger systems for Memphis Network or other records on behalf of Memphis Network, so MLGW does not have the detailed information that would be responsive to this request.

14. Provide copies of notes or minutes from all meetings of the MLGW board reflecting discussion of the sale of Memphis Network or of MLGW relinquishing control of Memphis Network.

MLGW RESPONSE: MLGW is investigating the amount of information that is available in response to this request and submits that this request may prove to be very broad and burdensome. In the meantime, MLGW has attached a copy of the minutes of its July 5, 2007, meeting where various matters relating to the sale of MLGW's interest in Memphis Network was approved.

15. Identify who nominated the three board seat members for MLGW on Memphis Networkx.

MLGW RESPONSE: MLGW presumes that this question relates to the three Board members of Memphis Networkx who were serving on behalf of MLGW at the time of the sale. These Board members were John McCullough, Nick Clark, and Derek Renfroe. Section 5.3 of the Operating Agreement of Memphis Networkx, LLC, as amended by the Second Amendment to Operating Agreement, provided that “Each Governor elected by MLGW shall be either the President, the Secretary/Treasurer, the Chief Operating Officer, or other officer of MLGW (other than MLGW’s General Counsel) selected by the President of MLGW, or a member of the Board of Commissioners of MLGW, or a person not affiliated with MLGW.” Pursuant to Section 4.12 of the Amended and Restated Operating Agreement, the President was designated to act on behalf of MLGW in matters such as nomination of Board members.

16. Provide a copy of the contract with McLean Group.

MLGW RESPONSE: MLGW does not have copies of any agreements with the McLean Group. Memphis Networkx, LLC would have entered into any such agreements.

17. Identify the members of Memphis Broadband that will receive or have received payment from proceeds of the sale of Memphis Networkx and which members have not or will not receive payment. Provide documentation showing how proceeds from the sale of Memphis Networkx will be dispersed. Provide copies of all employment agreements reflecting retention bonuses paid to senior management team members and the terms of such retention.

MLGW RESPONSE: As to the first sentence, MLGW submits that this question is better directed to Memphis Broadband for a definitive response.

As to the second sentence, MLGW has provided a copy of the closing statement showing how proceeds from the sale were dispersed. The closing statement utilized an estimated working

capital estimate in calculating the sales proceeds. The Membership Interest Purchase Agreement provides for an adjustment for variations between the working capital estimate utilized in the closing statement and the actual working capital of Memphis Networkx as of the date of closing. The appropriate working capital adjustment, if any, has not been determined.

As to the third sentence, MLGW does not have copies of any employment agreements that were or may have been executed to retain senior management team members of Memphis Networkx in connection with the sale of the interests of MLGW and Memphis Broadband, LLC in Memphis Networkx.

19.1 Identify each financial institutions account.

MLGW RESPONSE: MLGW does not have financial institutions account information for Memphis Networkx' account(s).

19.2 Provide copies of each account statement and deposit and withdrawal items and all communications with each financial institution identified by respondents in response to question 19, including, but not limited to letters, emails, memos, notes, etc.

MLGW RESPONSE: MLGW does not have information responsive to this request.

22. Provide copies of all past and current agreements for services provided to MLGW or Memphis Networkx by Boulton Cummings, Connors & Berry, PLC.

MLGW RESPONSE: Boulton Cummings, Connors & Berry, PLC represents the new owners of Memphis Networkx and has not provided any services to MLGW.

22.1 Provide history of all services provided to MLGW or Memphis Networkx by Boulton, Cummings, Connors & Berry, PLC.

MLGW RESPONSE: Please see response to Data Request 22.

22.2 Provide copies of all invoice and payments for services provided to MLG&W or Memphis Networkx by Boulton, Cummings, Conner & Berry, PLC.

MLGW RESPONSE: Please see response to Data Request 22.

23.1 Provide copies of all Memphis Networkx Federal tax filings and related documents filed or prepared by MLGW.

MLGW RESPONSE: Memphis Networkx was responsible for preparing its own tax filings and related documents. MLGW did not file or prepare any tax filings for Memphis Networkx.

24. Provide copies of Memphis Networkx Accounts Payable Ledger and Accounts Payable Journal.

MLGW RESPONSE: MLGW does not have information responsive to this request.

25. Provide all proprietary agreements cited by respondent in Boulton, Cummings Conner, & Berry's PLC. letter dated August 30 2007, prohibiting disclosure of information by respondent to Tennessee Regulatory Authority (TRA). Cite statutes, which support respondent's objections to TRA's regulatory jurisdiction as stated by respondents in, Boulton Cummings, Conner, & Berry PLC., letter dated August 30, 2007.

MLGW RESPONSE: Memphis Networkx previously raised this objection, and MLGW will defer to Memphis Networkx to respond to this request.

Respectfully submitted this 1st day of February, 2008.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Mark W. Smith', written over a horizontal line.

Melvin J. Malone
Mark W. Smith
MILLER & MARTIN PLLC
150 Fourth Avenue North
1200 One Nashville Place
Nashville, Tennessee 37219-2433
(615) 244-9270 telephone
(615) 256-8197 facsimile

Attorneys for Memphis Light, Gas & Water Division

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy has been forwarded via email to the following
on this the 1st day of February, 2008.

Henry M. Walker, Esq.
Boult Cummings Conners & Berry, PLC
1600 Division Street, Suite 700
P.O. Box 340025
Nashville, Tennessee 37203



For Miller & Martin PLLC

Memphis Networkx
Schedule of Investments
Per MLGW Audited Financial Statements

	Amount Approved for Investment	Amount Invested	Total Investment to Date
*1999	\$ 20,000,000	\$ 1,473,871	\$ 1,473,871
2000	\$ -	\$ 3,321,500	\$ 4,795,371
2001	\$ -	\$ 3,269,273	\$ 8,064,644
**2002	\$ 12,000,000	\$ 11,200,000	\$ 19,264,644
2003	\$ -	\$ 5,740,000	\$ 25,004,644
***2004	\$ -	\$ 3,532,000	\$ 28,536,644
2005	\$ -	\$ -	\$ -
2006	\$ -	\$ -	\$ -
Total	\$ 32,000,000	\$ 28,536,644	\$ 28,536,644

* Approval received August 19, 1999 for the Electric Division to loan up to \$20 million to the Telecommunications Division

** Approval received June 6, 2002 to increase amount of the loan from \$20 million up to \$26 million
Approval received July 11, 2002 to increase amount of the loan from \$26 million up to \$32 million

*** Last Investment made April 2004

AUDITED FINANCIAL STATEMENTS

MEMPHIS NETWORKX, LLC
(A DEVELOPMENT STAGE ENTERPRISE)

*For the Periods from Inception (November 8, 1999) through December 31, 1999 and 2000,
and for the Year ended December 31, 2000, with Report of Independent Auditors*

Memphis Networx, LLC
(A Development Stage Enterprise)

Audited Financial Statements

For the Periods from Inception (November 8, 1999)
through December 31, 1999 and 2000, and for the Year ended December 31, 2000

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Report of Independent Auditors

The Board of Directors and Members
Memphis Networx, LLC

We have audited the accompanying balance sheets of Memphis Networx, LLC (a development stage enterprise) as of December 31, 2000 and 1999, and the related statements of operations, changes in members' equity (deficit) and cash flows for the year ended December 31, 2000, and for the periods from inception (November 8, 1999) through December 31, 1999 and 2000. 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. Those standards require that we plan and perform the audit 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 Networx, LLC at December 31, 2000 and 1999, and the results of its operations and its cash flows for the year ended December 31, 2000, and for the periods from inception (November 8, 1999) through December 31, 1999 and 2000, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

February 16, 2001, except for Note 3, as to
which the date is August 9, 2001

Memphis Networx, LLC
(A Development Stage Enterprise)

Balance Sheets

	December 31	
	2000	1999
Assets		
Current assets:		
Cash	\$ 15,652	\$ 108,848
Equipment:		
Computer software	70,000	95,250
Furniture and office equipment	70,882	56,381
Construction materials	2,074,268	-
	2,215,150	151,631
Accumulated depreciation	(40,567)	(3,108)
	2,174,583	148,523
Other assets:		
Deposits	18,594	10,325
Total assets	<u>\$ 2,208,829</u>	<u>\$ 267,696</u>
Liabilities and members' equity (deficit)		
Current liabilities:		
Accounts payable	\$ 728,683	\$ 755,940
Accrued expenses	251,369	375,146
Total current liabilities	980,052	1,131,086
Members' equity (deficit):		
Contributed equity	7,908,731	2,947,942
Deficit accumulated during the development stage	(6,679,954)	(3,811,332)
Total members' equity (deficit)	1,228,777	(863,390)
Total liabilities and members' equity (deficit)	<u>\$ 2,208,829</u>	<u>\$ 267,696</u>

See accompanying notes.

Memphis Networx, LLC
(A Development Stage Enterprise)

Statements of Operations

	Year ended December 31, 2000	Period from Inception (November 8, 1999) through December 31, 1999	Period from Inception (November 8, 1999) through December 31, 2000
Operating expenses:			
Consulting fees	\$ 551,198	\$ 3,202,447	\$3,753,645
Professional fees	1,246,384	375,799	1,622,183
General and administrative	463,151	134,112	597,263
Compensation and payroll taxes	607,889	98,974	706,863
Total operating expenses	2,868,622	3,811,332	6,679,954
Loss from operations	(2,868,622)	(3,811,332)	(6,679,954)
Net loss	\$(2,868,622)	\$(3,811,332)	\$(6,679,954)

See accompanying notes.

Memphis Networx, LLC
(A Development Stage Enterprise)

Statements of Changes in Members' Equity

	Members' Contributions	Retained (Deficit)	Total
Contributions	\$2,947,942	\$ —	\$ 2,947,942
Net loss	—	(3,811,332)	(3,811,332)
Balance at December 31, 1999	2,947,942	(3,811,332)	(863,390)
Contributions	4,960,789	—	4,960,789
Net loss	—	(2,868,622)	(2,868,622)
Balance at December 31, 2000	<u>\$7,908,731</u>	<u>\$(6,679,954)</u>	<u>\$ 1,228,777</u>

See accompanying notes.

Memphis Networx, LLC
(A Development Stage Enterprise)

Statements of Cash Flows

	Year ended December 31, 2000	Period from Inception (November 8, 1999) through December 31, 1999	Period from Inception (November 8, 1999) through December 31, 2000
Operating activities			
Net loss	\$(2,868,622)	\$(3,811,332)	\$(6,679,954)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	37,459	3,108	40,567
Loss on disposal of software	25,250	—	25,250
Changes in operating assets and liabilities:			
Deposits	(8,269)	(10,325)	(18,594)
Accounts payable	(27,257)	755,940	728,683
Accrued expenses	(123,777)	375,146	251,369
Net cash used in operating activities	(2,965,216)	(2,687,463)	(5,652,679)
Investing activities			
Purchases of equipment	(14,501)	(151,631)	(166,132)
Purchase of construction materials	(2,074,268)	—	(2,074,268)
Net cash used in investing activities	(2,088,769)	(151,631)	(2,240,400)
Financing activities			
Proceeds from members' contributions	4,960,789	2,947,942	7,908,731
Net increase (decrease) in cash	(93,196)	108,848	15,652
Cash at beginning of period	108,848	—	—
Cash at end of period	\$ 15,652	\$ 108,848	\$ 15,652

See accompanying notes.

Memphis Networx, LLC
(A Development Stage Enterprise)

Notes to Financial Statements

December 31, 2000

1. Description of Business and Significant Accounting Policies

Description of Business

Memphis Networx, LLC (the Company) was organized under the Tennessee Limited Liability Act on November 8, 1999, to provide telecommunications services through the installation of broad band fiberoptic cable in the Memphis, Tennessee, area, subject to the approval of the Tennessee Regulatory Authority (TRA) (see Note 3). The Company is a joint venture, the founding members of which were Memphis Light, Gas & Water Division (MLGW), a division of the City of Memphis, Tennessee, and A&L Networks Tennessee, LLC (A&L), a Kansas limited liability company. Effective November 29, 2000, A&L transferred its membership interest to Memphis Broadband, LLC, a Delaware limited liability company, pursuant to the terms of a Membership Interest Purchase Agreement, and the Company amended and restated its operating agreement.

Under the terms of the Company's operating agreement, capital contributions and costs incurred by the Company prior to its formation and through the date of TRA approval are to be shared equally by the members. Subsequent to TRA approval, each of the members shall contribute capital to the Company such that contributed members' equity equals \$5,332,800 (53%) for MLGW and \$4,666,200 (47%) for Memphis Broadband LLC. Each member has a 50% voting interest in the Company. Future allocations of net operating income or loss and distributions are based on cumulative members' contributions, accumulated members' equity (loss), and the ratio of contributed members' equity.

The obligations of MLGW under the operating agreement are limited to the extent required by applicable state and federal law and by its contract with the Tennessee Valley Authority.

The Company's activities since incorporation have primarily consisted of establishing its facilities, recruiting personnel, developing business and financial planning, obtaining regulatory approvals and raising capital. Accordingly, the Company is considered to be in the development stage.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Memphis Networkx, LLC
(A Development Stage Enterprise)

Notes to Financial Statements (continued)

1. Description of Business and Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Equipment

Equipment is stated at cost. Depreciation of furniture, office equipment and computer software is computed using the straight-line method over the estimated useful lives of 7, 5 and 3 years, respectively.

Income Taxes

The Company operates under Subchapter K of the Internal Revenue Code and, consequently, is not subject to federal income tax. Income of the Company will flow to the members and they will be responsible for any corresponding tax liability.

2. Leases

Total rental expense for operating leases was approximately \$103,000 for the year ended December 31, 2000, and \$5,000 for the period from inception through December 31, 1999.

The following summarizes approximate minimum future rental payments required under noncancelable operating leases that have initial or remaining lease terms in excess of one year as of December 31, 2000:

2001	\$106,400
2002	102,600
2003	<u>1,500</u>
	<u>\$210,500</u>

As part of a vehicle-operating lease, one of the Company's members obtained a letter of credit on behalf of the Company in the amount of \$57,000 that expires on February 3, 2003.

Memphis Networx, LLC
(A Development Stage Enterprise)

Notes to Financial Statements (continued)

3. Subsequent Event

On August 9, 2001, the TRA issued a final order approving the Company's amended and restated operating agreement and granting a certificate of public convenience and necessity for the State of Tennessee.

Receipt of this order allows the Company to begin operations and, thus, exit the development stage.

AUDITED FINANCIAL STATEMENTS

Memphis Networx, LLC
(A Development Stage Enterprise)

*For the Periods from Inception (November 8, 1999) through December 31, 2001,
and the years ended December 31, 2001 and 2000, with Report of Independent Auditors*

Memphis Networx, LLC
(*A Development Stage Enterprise*)

Audited Financial Statements

For the Periods from Inception (November 8, 1999) through
December 31, 2001, and the years ended
December 31, 2001 and 2000

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Report of Independent Auditors

The Board of Directors and Members
Memphis Networx, LLC

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We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit 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 Networx, LLC at December 31, 2001 and 2000, and the results of its operations and its cash flows for the years ended December 31, 2001 and 2000, and for the periods from inception (November 8, 1999) through December 31, 2001, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

February 22, 2002, except for Note 4,
as to which the date is June 6, 2002

Memphis Networx, LLC
(A Development Stage Enterprise)

Balance Sheets

	December 31	
	2001	2000
Assets		
Current assets:		
Cash	\$ 219,686	\$ 15,652
Prepaid expenses	74,833	-
Total current assets	294,519	15,652
Property and equipment:		
Leasehold improvements	107,724	-
Computer software	72,352	70,000
Furniture and office equipment	226,056	70,882
Construction materials	2,758,252	2,074,268
	3,164,384	2,215,150
Accumulated depreciation	(81,302)	(40,567)
	3,083,082	2,174,583
Other assets:		
Deposits	544,919	18,594
Total assets	\$ 3,922,520	\$ 2,208,829
Liabilities and members' equity		
Current liabilities:		
Accounts payable	\$ 415,238	\$ 728,683
Accrued expenses	78,478	251,369
Total current liabilities	493,716	980,052
Members' equity:		
Contributed equity	13,645,731	7,908,731
Accumulated deficit	(10,216,927)	(6,679,954)
Total members' equity	3,428,804	1,228,777
Total liabilities and members' equity	\$ 3,922,520	\$ 2,208,829

See accompanying notes.

Memphis Networx, LLC
(A Development Stage Enterprise)

Statements of Operations

	Year ended December 31		Period from Inception (November 8, 1999) through December 31,
	2001	2000	2001
Operating expenses:			
Consulting fees	\$ 1,317,985	\$ 551,198	\$ 5,071,630
Professional fees	637,504	1,246,384	2,259,687
General and administrative	792,474	463,151	1,389,737
Compensation and payroll taxes	789,010	607,889	1,495,873
Total operating expenses	<u>3,536,973</u>	<u>2,868,622</u>	<u>10,216,927</u>
Loss from operations	<u>(3,536,973)</u>	<u>(2,868,622)</u>	<u>(10,216,927)</u>
Net loss	<u><u>\$(3,536,973)</u></u>	<u><u>\$(2,868,622)</u></u>	<u><u>\$(10,216,927)</u></u>

See accompanying notes.

Memphis Networx, LLC
(A Development Stage Enterprise)

Statements of Changes in Members' Equity

	Members' Contributions	Accumulated Deficit	Total
Contributions	\$ 2,947,942	\$ —	\$ 2,947,942
Net loss	—	(3,811,332)	(3,811,332)
Balance at December 31, 1999	2,947,942	(3,811,332)	(863,390)
Contributions	4,960,789	—	4,960,789
Net loss	—	(2,868,622)	(2,868,622)
Balance at December 31, 2000	7,908,731	(6,679,954)	1,228,777
Contributions	5,737,000	—	5,737,000
Net loss	—	(3,536,973)	(3,536,973)
Balance at December 31, 2001	<u>\$13,645,731</u>	<u>\$ (10,216,927)</u>	<u>\$ 3,428,804</u>

See accompanying notes.

Memphis Networx, LLC
(A Development Stage Enterprise)

Statements of Cash Flows

	Year ended December 31		Period from Inception (November 8, 1999) through December 31,
	2001	2001	2001
Operating activities			
Net loss	\$(3,536,973)	\$(2,868,622)	\$(10,216,927)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	41,924	37,459	82,491
Loss on disposal of equipment and software	2,054	25,250	27,304
Changes in operating assets and liabilities:			
Prepaid expenses	(74,833)	—	(74,833)
Deposits	(526,325)	(8,269)	(544,919)
Accounts payable	(313,445)	(27,257)	415,238
Accrued expenses	(172,891)	(123,777)	78,478
Net cash used in operating activities	(4,580,489)	(2,965,216)	(10,233,168)
Investing activities			
Purchases of property and equipment	(952,477)	(2,088,769)	(3,192,877)
Financing activities			
Proceeds from members' contributions	5,737,000	4,960,789	13,645,731
Net increase (decrease) in cash	204,034	(93,196)	219,686
Cash at beginning of period	15,652	108,848	—
Cash at end of period	<u>\$ 219,686</u>	<u>\$ 15,652</u>	<u>\$ 219,686</u>

See accompanying notes.

Memphis Networx, LLC
(*A Development Stage Enterprise*)

Notes to Financial Statements

December 31, 2001

1. Description of Business

Memphis Networx, 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, the founding members of which were Memphis Light, Gas & Water Division (MLGW), a division of the City of Memphis, Tennessee, and A&L Networks Tennessee, LLC (A&L), a Kansas limited liability company. Effective November 29, 2000, A&L transferred its membership interest to Memphis Broadband, LLC, a Delaware limited liability company, pursuant to the terms of a Membership Interest Purchase Agreement, and the Company amended and restated its operating agreement.

Under the terms of the Company's operating agreement, capital contributions and costs 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, each of the members shall contribute capital to the Company such that contributed members' equity equals 53% for MLGW and 47% for Memphis Broadband LLC. Each member has a 50% voting interest in the Company. Future allocations of net operating income or loss and distributions are based on cumulative members' contributions, accumulated members' equity, and the ratio of contributed members' equity. The Company shall continue until it is wound up and liquidated, as stated in the Operating Agreement.

The obligations of MLGW under the operating agreement are limited to the extent required by applicable state and federal law and by its contract with the Tennessee Valley Authority.

On August 9, 2001, the TRA issued a final order approving the Company's amended and restated operating agreement and granting a certificate of public convenience and necessity for the State of Tennessee.

The Company's activities since incorporation have primarily consisted of establishing its facilities, recruiting personnel, developing business and financial planning, obtaining regulatory approvals, raising capital, and the installation of broadband fiber optic cable. Accordingly, the Company is considered to be in the development stage.

Memphis Networkx, LLC
(A Development Stage Enterprise)

Notes to Financial Statements (continued)

1. Description of Business (continued)

As of December 31, 2001, member contributions required by the operating agreement to make contributed members' equity equal to 53% for MLGW and 47% for Memphis Broadband had not occurred.

2. Significant Accounting Policies

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Property and Equipment

Property and equipment is stated at cost. Depreciation of leasehold improvements, furniture, office equipment and computer software is computed using the straight-line method over the estimated useful lives of 10, 7, 5 and 3 years, respectively.

Income Taxes

The Company operates under Subchapter K of the Internal Revenue Code and, consequently, is not subject to federal income tax. Income of the Company will flow to the members and they will be responsible for any corresponding tax liability.

Memphis Networkx, LLC
(A Development Stage Enterprise)

Notes to Financial Statements (continued)

3. Leases

Total rental expense for operating leases was approximately \$119,000 and \$103,000 for the years ended December 31, 2001 and 2000, respectively.

The following summarizes approximate minimum future rental payments required under noncancelable operating leases that have initial or remaining lease terms in excess of one year as of December 31, 2001:

2002	\$ 238,000
2003	141,000
2004	132,000
2005	119,000
2006	126,000
Thereafter	641,000
	<u>\$1,397,000</u>

As part of a vehicle-operating lease, one of the Company's members obtained a letter of credit on behalf of the Company in the amount of \$57,000 that expires on February 3, 2003.

4. Subsequent Event

On June 6, 2002, MLGW's board of commissioners approved an increase of MLGW's funding commitment to the Company from \$20,000,000 to \$26,000,000.

AUDITED FINANCIAL STATEMENTS

Memphis Networx, LLC

*For the years ended December 31, 2002 and 2001,
with Report of Independent Auditors*

Memphis Networx, LLC
Audited Financial Statements

For the years ended December 31, 2002 and 2001

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Report of Independent Auditors

The Board of Directors and Members
Memphis Networx, LLC

We have audited the accompanying balance sheets of Memphis Networx, LLC as of December 31, 2002 and 2001, 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. Those standards require that we plan and perform the audit 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 Networx, LLC at December 31, 2002 and 2001, 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.

Ernst & Young LLP

March 20, 2003

Memphis Networx, LLC

Balance Sheets

	December 31	
	2002	2001
Assets		
Current assets:		
Cash	\$ 195,185	\$ 219,686
Trade accounts receivable	49,441	-
Prepaid expenses	109,884	74,833
Total current assets	354,510	294,519
Property and equipment:		
Plant and equipment	4,917,313	-
Computer software	2,292,827	72,352
Broadband equipment	1,827,199	-
Furniture and office equipment	317,100	226,056
Leasehold improvements	903,995	107,724
Construction materials	-	2,758,252
	10,258,434	3,164,384
Accumulated depreciation	(1,143,379)	(81,302)
	9,115,055	3,083,082
Other assets:		
Deposits	598,266	544,919
Total assets	<u>\$ 10,067,831</u>	<u>\$ 3,922,520</u>
Liabilities and members' equity		
Current liabilities:		
Accounts payable	\$ 311,014	\$ 415,238
Accrued expenses	130,516	78,478
Total current liabilities	441,530	493,716
Unearned revenues	72,972	-
Members' equity:		
Contributed equity	24,845,731	13,645,731
Accumulated deficit	(15,292,402)	(10,216,927)
Total members' equity	9,553,329	3,428,804
Total liabilities and members' equity	<u>\$ 10,067,831</u>	<u>\$ 3,922,520</u>

See accompanying notes.

Memphis Networx, LLC

Statements of Operations

	Year ended December 31	
	2002	2001
Revenues	\$ 122,464	\$ -
Cost of sales	706,053	-
	(583,589)	-
Operating expenses:		
Consulting fees	131,309	1,317,985
Professional fees	216,579	637,504
General and administrative	1,895,503	793,602
Compensation and payroll taxes	2,251,773	789,010
Total operating expenses	4,495,164	3,538,101
Loss from operations	(5,078,753)	(3,538,101)
Other income	3,278	1,128
Net loss	<u>\$(5,075,475)</u>	<u>\$(3,536,973)</u>

See accompanying notes.

Memphis Networx, LLC

Statements of Changes in Members' Equity

	Members'	Accumulated	
	Contributions	Deficit	Total
Balance at December 31, 2000	\$ 7,908,731	\$ (6,679,954)	\$ 1,228,777
Contributions	5,737,000	—	5,737,000
Net loss	—	(3,536,973)	(3,536,973)
Balance at December 31, 2001	13,645,731	(10,216,927)	3,428,804
Contributions	11,200,000	—	11,200,000
Net loss	—	(5,075,475)	(5,075,475)
Balance at December 31, 2002	<u>\$24,845,731</u>	<u>\$ (15,292,402)</u>	<u>\$ 9,553,329</u>

See accompanying notes.

Memphis Networx, LLC

Statements of Cash Flows

	Year ended December 31	
	2002	2001
Operating activities		
Net loss	\$ (5,075,475)	\$ (3,536,973)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	1,065,436	41,924
Loss on disposal of equipment and software	2,663	2,054
Changes in operating assets and liabilities:		
Accounts receivable	(49,441)	-
Prepaid expenses	(35,051)	(74,833)
Deposits	(53,347)	(526,325)
Accounts payable	(104,224)	(313,445)
Accrued expenses	52,038	(172,891)
Unearned revenues	72,972	-
Net cash used in operating activities	(4,124,429)	(4,580,489)
Investing activities		
Purchases of property and equipment	(7,100,072)	(952,477)
Financing activities		
Proceeds from members' contributions	11,200,000	5,737,000
Net increase (decrease) in cash	(24,501)	204,034
Cash at beginning of year	219,686	15,652
Cash at end of year	\$ 195,185	\$ 219,686

See accompanying notes.

Memphis Networkx, LLC

Notes to Financial Statements

December 31, 2002

1. Description of Business

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, the founding members of which were Memphis Light, Gas & Water Division (MLGW), a division of the City of Memphis, Tennessee, and A&L Networks Tennessee, LLC (A&L), a Kansas limited liability company. Effective November 29, 2000, A&L transferred its membership interest to Memphis Broadband, LLC, a Delaware limited liability company, pursuant to the terms of a Membership Interest Purchase Agreement, and the Company amended and restated its operating agreement.

Under the terms of the Company's operating agreement, capital contributions and costs 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, each of the members shall contribute capital to the Company such that contributed members' equity equals 53% for MLGW and 47% for Memphis Broadband LLC. As of December 31, 2002, member contributions required by the operating agreement to make contributed members' equity equal to 53% for MLGW and 47% for Memphis Broadband had not occurred. Each member has a 50% voting interest in the Company. Future allocations of net operating income or loss and distributions are based on cumulative members' contributions, accumulated members' equity, and the ratio of contributed members' equity. The Company shall continue until it is wound up and liquidated, as stated in the Operating Agreement.

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.

MLGW's Board of Commissioners has approved investment in the Company of up to \$32 million, of which approximately \$19.3 million has been funded as of December 31, 2002. MLGW's continued funding is subject to the approval of the Memphis City Council, which approves MLGW's annual budget. The 2003 annual budget has been approved by the Memphis City Council. The obligations of MLGW under the operating agreement are limited to the extent required by applicable state and federal law and by its contract with the Tennessee Valley Authority.

Memphis Networx, LLC

Notes to Financial Statements (continued)

1. Description of Business (continued)

On August 9, 2001, the TRA issued a final order approving the Company's amended and restated operating agreement and granting a certificate of public convenience and necessity for the State of Tennessee.

During the last quarter of 2002, the Company began earning revenues from its principal operations. Accordingly, the Company is no longer considered to be in the development stage. The Company's activities in prior years primarily consisted of establishing its facilities, recruiting personnel, developing business and financial planning, obtaining regulatory approvals, raising capital, and the installation of broadband fiber optic cable.

2. Significant Accounting Policies

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Property and Equipment

Property and equipment is 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.

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.

Memphis Networx, LLC

Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

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.

Revenues are derived from two general types of services:

Transport services - The Company's transport services include the offering of broadband circuits on its metropolitan transport network. Over the Company's metropolitan transport network, it can provision circuits from one of its carrier point facilities to another carrier point facility or to an on-net building via an interconnection in that building.

Collocation services - The Company's collocation services include providing customers with the ability to locate their communications and networking equipment at its carrier point facilities in a secure technical operating environment. The Company also can provide its customers with collocation services in the central equipment rooms of certain of its on-net buildings.

The Company evaluates the collectibility of its accounts receivable monthly and records an allowance for doubtful accounts in the period that an account is determined to be uncollectible. The Company grants trade credit to its customers without collateral.

Income Taxes

The Company operates under Subchapter K of the Internal Revenue Code and, consequently, is not subject to federal income tax. Income of the Company will flow to the members and they will be responsible for any corresponding tax liability.

Reclassifications

Certain amounts in the 2001 financial statements have been reclassified to conform to the 2002 presentation.

Memphis Networkx, LLC

Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

Advertising Costs

The Company expenses the costs of advertising and promoting its services as incurred.

Accounting Pronouncements

Effective January 1, 2002, the Company adopted the provisions of Statements of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS 144 supersedes SFAS 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, and provides a single accounting method for the disposal of long-lived assets from continuing and discontinued operations. The adoption of this statement had no effect on the Company's financial position or results of operations.

3. Leases

Total rental expense for operating leases was approximately \$239,000 and \$119,000 for the years ended December 31, 2002 and 2001, respectively.

The following summarizes approximate minimum future rental payments required under noncancelable operating leases that have initial or remaining lease terms in excess of one year as of December 31, 2002:

2003	\$ 155,000
2004	142,000
2005	129,000
2006	127,000
2007	131,000
Thereafter	510,000
	<u>\$1,194,000</u>

As part of a vehicle operating lease, one of the Company's members obtained a letter of credit on behalf of the Company in the amount of \$57,000 that expired on February 3, 2003.

As 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.

MEMPHIS NETWORKX, LLC

FINANCIAL STATEMENTS

December 31, 2003

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Watkins Uiberall, PLLC
Certified Public Accountants & Financial Advisors
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheet of Memphis Networkx, LLC, as of December 31, 2003, and the related statements of operations, changes in members' equity, and cash flows for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 audit provides 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 Networkx, LLC as of December 31, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Watkins Uiberall, PLLC

Memphis, Tennessee
February 26, 2004

MEMPHIS NETWORKX, LLC

BALANCE SHEET

December 31, 2003

<u>Assets</u>	
Current Assets	
Cash and cash equivalents	\$ 146,152
Trade accounts receivables	97,192
Prepaid expenses	54,106
Deposits	33,000
Total current assets	<u>330,450</u>
Property and Equipment	
Plant equipment	5,917,594
Computer software	2,443,285
Broadband equipment	2,997,890
Furniture and office equipment	338,796
Leasehold improvements	903,995
	<u>12,601,560</u>
Less: accumulated depreciation	<u>(2,804,811)</u>
Net property and equipment	<u>9,796,749</u>
Deposits	<u>535,049</u>
Total assets	<u><u>\$ 10,662,248</u></u>
<u>Liabilities and Members' Equity</u>	
Current Liabilities	
Accounts payable	\$ 638,456
Accrued expenses	188,859
Total current liabilities	<u>827,315</u>
Unearned revenues	<u>65,898</u>
Total liabilities	<u>893,213</u>
Members' Equity	
Contributed equity	30,585,731
Accumulated deficit	<u>(20,816,696)</u>
Total members' equity	<u>9,769,035</u>
Total liabilities and members' equity	<u><u>\$ 10,662,248</u></u>

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

MEMPHIS NETWORKX, LLC

STATEMENT OF OPERATIONS

For the Year Ended December 31, 2003

Revenue	\$ 675,477
Cost of sales	<u>1,208,607</u>
Gross profit (loss)	(533,130)
Operating expenses	
Consulting fees	131,469
Professional fees	85,171
General and administrative	2,807,144
Compensation and payroll taxes	<u>1,969,823</u>
Total operating expenses	<u>4,993,607</u>
Loss from operations	(5,526,737)
Other Income (Expense)	
Interest income	3,822
Loss on disposal of equipment and software	<u>(1,379)</u>
Total other income (expense)	<u>2,443</u>
Net loss	<u><u>\$ (5,524,294)</u></u>

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

MEMPHIS NETWORKX, LLC

STATEMENT OF CHANGES IN MEMBERS' EQUITY

For the Year Ended December 31, 2003

	<u>Members'</u> <u>Contributions</u>	<u>Accumulated</u> <u>Deficit</u>	<u>Total</u>
Balance at December 31, 2002	\$ 24,845,731	\$ (15,292,402)	\$ 9,553,329
Contributions	5,740,000	-	5,740,000
Net loss	<u>-</u>	<u>(5,524,294)</u>	<u>(5,524,294)</u>
Balance at December 31, 2003	<u>\$ 30,585,731</u>	<u>\$ (20,816,696)</u>	<u>\$ 9,769,035</u>

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

MEMPHIS NETWORKX, LLC

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2003

Cash Flows From (Used For) Operating Activities:	
Net loss	\$ (5,524,294)
Adjustments to Reconcile Net Loss to Net Cash Used For Operating Activities:	
Depreciation	1,662,521
Loss on disposal of equipment and software	1,379
Changes in Operating Assets and Liabilities:	
Increase (decrease) in cash and cash equivalents:	
Accounts receivable	(47,751)
Prepaid expenses	55,778
Deposits	30,217
Accounts payable	327,442
Accrued expenses	58,343
Unearned revenues	(7,074)
Total adjustments	<u>2,080,855</u>
Net cash used for operating activities	(3,443,439)
Cash Flows Used For Investing Activities:	
Purchase of property and equipment	(2,345,594)
Cash Flows From Financing Activities:	
Member contributions	<u>5,740,000</u>
Net decrease in cash and cash equivalents	(49,033)
Cash and cash equivalents - beginning of year	<u>195,185</u>
Cash and cash equivalents - end of year	<u>\$ 146,152</u>

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

MEMPHIS NETWORKX, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

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, the founding members of which were Memphis Light Gas & Water Division (MLGW), a division of the City of Memphis, Tennessee, and A&L Networks Tennessee, LLC (A&L), a Kansas limited liability company. Effective November 29, 2000, A&L transferred its membership interest to Memphis Broadband, LLC, a Delaware limited liability company, pursuant to the terms of a Membership Interest Purchase Agreement, and the Company amended and restated its operating agreement.

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, each of the members shall contribute capital to the Company such that contributed members' equity is equal to 53% for MLGW and 47% for Memphis Broadband LLC. As of December 31, 2003, member contributions required by the operating agreement to make contributed members' equity equal 53% for MLGW and 47% for Memphis Broadband had not occurred. Effective April 1, 2002, MLGW entered into a capital contribution agreement with Memphis Broadband, LLC. The agreement established planned monthly capital contributions through 2004 for both members. The agreement also amended the operating agreement to allow one member to contribute the required capital on behalf of the other member. Each member has a voting interest in the Company equal to their current sharing ratio as defined in the Operating Agreement. Future allocations of net operating income or loss and distributions are based on cumulative members' contributions, accumulated members' equity, and the ratio of contributed members' equity. The Company shall continue until it is wound up and liquidated, as stated in the Operating Agreement.

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.

MLGW's Board of Commissioners has approved investment in the Company of up to \$32 million, of which approximately \$25 million has been funded as of December 31, 2003. The obligations of MLGW under the operating agreement are limited to the extent required by applicable state and federal law and by its contract with the Tennessee Valley Authority.

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.

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 ending December 31, 2003, five customers comprised 74.4% of total sales.

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 is 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.

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 determined 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.

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 year ended December 31, 2003 was \$523,871. Future commitments under these leases for the years ending December 31 are as follows:

2004	\$ 154,636
2005	141,111
2006	134,209
2007	130,527
2008	130,527
Thereafter	379,750
	<u>\$ 1,070,760</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, 2003, the remaining balance was \$120,000. The Company has a certificate of deposit that serves as collateral for the letter of credit and is shown on the balance sheet as a deposit.

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 year ended December 31, 2003.

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, 2003 are as follows:

Deferred Tax Assets	
Due to benefit of state net operating loss carryforwards	\$ 1,066,125
Due to benefit of amortization of start up costs	450,167
Deferred Tax Liabilities	
Due to depreciation	<u>(168,912)</u>
Net deferred tax asset	1,347,380
Valuation allowance	<u>(1,347,380)</u>
	<u>\$ -</u>

At December 31, 2003, the Company had state tax loss carryforwards of approximately \$16,400,000 expiring through 2018, which are available to reduce future state taxable income.

NOTE 5 – RELATED PARTY TRANSACTIONS

As of December 31, 2003, the Company owed a member \$34,471 for pole attachment and conduit fees and had two deposits with the member totaling \$200,790.

For the year ended December 31, 2003, the Company paid a member \$135,657 for pole attachment and conduit fees and \$30,983 for utilities.

NOTE 6 – SUBSEQUENT EVENT

On April 28, 2004, the Board of Governors of the Company approved an operating lease for equipment. The commitment under the lease is approximately \$1,500,000.

MEMPHIS NETWORKX, LLC

FINANCIAL STATEMENTS

December 31, 2005 and 2004

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of Memphis Networkx, LLC, as of December 31, 2005 and 2004, 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 Networkx, LLC as of December 31, 2005 and 2004, 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.

Memphis, Tennessee
January 30, 2006, except for Note 10,
as to which the date is June 28, 2006

Watkins Uiberall, PLLC

MEMPHIS NETWORKX, LLC

BALANCE SHEETS

December 31, 2005 and 2004

	<u>Assets</u>	
	2005	2004
Current Assets		
Cash and cash equivalents	\$ 11,062	\$ 58,659
Trade accounts receivables	283,997	758,966
Prepaid expenses	195,418	38,060
Costs and estimated earnings in excess of billings on uncompleted contracts	640,000	-
Deposits	133,000	33,000
Total current assets	1,263,477	888,685
Property and Equipment		
Plant equipment	7,522,339	6,813,208
Computer software	2,457,848	2,452,017
Broadband equipment	4,577,819	4,160,718
Furniture and office equipment	375,483	358,102
Leasehold improvements	1,654,710	954,896
	16,588,199	14,738,941
Less: accumulated depreciation	(6,330,497)	(4,776,980)
Net property and equipment	10,257,702	9,961,961
Deposits	507,636	542,428
Total assets	\$ 12,028,815	\$ 11,393,074
	<u>Liabilities and Members' Equity</u>	
Current Liabilities		
Checks issued in excess of deposits	\$ 166,979	\$ -
Accounts payable	1,073,504	1,502,980
Accrued expenses	742,777	298,391
Unearned revenue - current	16,800	-
Note payable - related party	-	85,000
Current maturities of long-term debt	640,686	-
Note payable - line of credit	1,935,150	-
Total current liabilities	4,575,896	1,886,371
Other Liabilities		
Long-term debt, less current maturities	1,565,652	-
Unearned revenue, non-current	167,737	91,764
Total liabilities	6,309,285	1,978,135
Members' Equity	5,719,530	9,414,939
Total liabilities and members' equity	\$ 12,028,815	\$ 11,393,074

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

MEMPHIS NETWORKX, LLC
STATEMENTS OF OPERATIONS

For the Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Revenue	\$ 4,045,611	\$ 3,569,094
Cost of sales	<u>2,418,294</u>	<u>2,354,128</u>
Gross profit	1,627,317	1,214,966
Operating Expenses		
Consulting fees	11,127	23,203
Professional fees	24,227	42,522
General and administrative	3,094,612	3,180,926
Compensation and payroll taxes	<u>2,071,860</u>	<u>1,857,132</u>
Total operating expenses	<u>5,201,826</u>	<u>5,103,783</u>
Loss from operations	(3,574,509)	(3,888,817)
Other Income (Expense)		
Interest income	3,129	3,034
Interest expense	<u>(124,029)</u>	<u>(313)</u>
Total other income (expense)	<u>(120,900)</u>	<u>2,721</u>
Net loss	<u><u>\$ (3,695,409)</u></u>	<u><u>\$ (3,886,096)</u></u>

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, 2005 and 2004

	<u>Members'</u> <u>Contributions</u>	<u>Accumulated</u> <u>Deficit</u>	<u>Total</u>
Balance at January 1, 2004	\$ 30,585,731	\$ (20,816,696)	\$ 9,769,035
Contributions	3,532,000	-	3,532,000
Net loss	<u>-</u>	<u>(3,886,096)</u>	<u>(3,886,096)</u>
Balance at December 31, 2004	34,117,731	(24,702,792)	9,414,939
Net loss	<u>-</u>	<u>(3,695,409)</u>	<u>(3,695,409)</u>
Balance at December 31, 2005	<u>\$ 34,117,731</u>	<u>\$ (28,398,201)</u>	<u>\$ 5,719,530</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, 2005 and 2004

	2005	2004
Cash Flows From (Used For) Operating Activities:		
Net loss	\$ (3,695,409)	\$ (3,886,096)
Adjustments to Reconcile Net Loss to Net Cash Used For Operating Activities:		
Depreciation	1,553,517	1,972,167
Changes in Operating Assets and Liabilities:		
Increase (decrease) in cash and cash equivalents:		
Accounts receivable	474,969	(661,774)
Prepaid expenses	(157,358)	16,046
Costs and estimated earnings in excess of billings on uncompleted contracts	(640,000)	-
Deposits	(65,208)	(7,379)
Accounts payable	(429,476)	864,524
Accrued expenses	444,386	109,532
Unearned revenue	92,773	25,866
Total adjustments	1,273,603	2,318,982
Net cash used for operating activities	(2,421,806)	(1,567,114)
Cash Flows Used For Investing Activities:		
Purchases of property and equipment	(1,849,258)	(2,137,379)
Cash Flows From Financing Activities:		
Checks issued in excess of deposits	166,979	-
Proceeds from issuance of note payable to a related party	-	85,000
Principal payments on notes payable to a related party	(85,000)	-
Net increase in note payable - line of credit	1,935,150	-
Proceeds from issuance of long-term debt	2,274,262	-
Principal payments on long-term debt	(67,924)	-
Member contributions	-	3,532,000
Net cash from financing activities	4,223,467	3,617,000
Net decrease in cash and cash equivalents	(47,597)	(87,493)
Cash and cash equivalents - beginning of year	58,659	146,152
Cash and cash equivalents - end of year	\$ 11,062	\$ 58,659

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, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	<u>\$ 124,029</u>	<u>\$ -</u>

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

MEMPHIS NETWORKX, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2005 and 2004

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.

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.

Effective April 1, 2002, MLGW entered into a capital contribution agreement with Memphis Broadband, LLC. The agreement established planned monthly capital contributions through 2004 for both members. The agreement also amended the operating agreement to allow one member to contribute the required capital on behalf of the other member. If a member makes such a disproportionate contribution, the agreement allows the contributing member to charge the other member interest on the disproportionate contribution or increase its ownership percentage. Each member has a voting interest in the Company equal to their current sharing ratio as defined in the Operating Agreement. On the contribution date, the sharing ratio of net operating income or loss and distributions is adjusted to reflect the increased capital contribution. For the years ended December 31, 2005 and 2004, MLGW contributed \$0 and \$3,532,000, respectively, which was equal to both members' required capital contributions.

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. Allocations of net operating income or loss and distributions are as follows: 56.14% for MLGW and 43.86% for Memphis Broadband, LLC. 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.

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, 2005, three customers comprised 34.18% of total sales. For the year ended December 31, 2004, two customers comprised 43.68% of total sales.

At December 31, 2005, three customers comprised 43.16% of total accounts receivable. At December 31, 2004, one customer comprised 66.29% 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 is 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, 2005 and 2004 were \$26,531 and \$31,958, 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, 2005 and 2004 was \$1,094,923 and \$995,164, respectively. Future commitments under these leases for the years ending December 31 are as follows:

2006	\$ 769,484
2007	391,314
2008	147,000
2009	130,527
2010	130,527
Thereafter	118,696
	<u>\$ 1,687,548</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, 2005 and 2004, the remaining balance was \$40,000 and \$80,000, 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, 2005 and 2004.

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:

	<u>2005</u>	<u>2004</u>
Deferred Tax Assets		
Due to benefit of state net operating loss carryforwards	\$ 1,931,472	\$ 1,524,775
Due to benefit of amortization of start up costs	186,654	318,411

ferred Tax Liabilities		
Due to depreciation	<u>(279,022)</u>	<u>(243,860)</u>
Net deferred tax asset	1,839,104	1,599,326
Valuation allowance	<u>(1,839,104)</u>	<u>(1,599,326)</u>
	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2005, the Company had state tax loss carryforwards of approximately \$29,714,947 expiring through 2020, which are available to reduce future state taxable income.

NOTE 5 – RELATED PARTY TRANSACTIONS

At December 31, 2005 and 2004, the Company owed a member \$199,869 and \$37,940, respectively, for pole attachment and conduit fees. As of December 31, 2005 and 2004, the Company had two deposits with a member totaling \$200,790 for both years.

For the years ended December 31, 2005 and 2004, the Company paid a member \$34,728 and \$141,885, respectively, for pole attachment and conduit fees. For the years ended December 31, 2005 and 2004, the Company paid \$139,929 and \$84,632, respectively, for utilities.

At December 31, 2005 and 2004, the Company had receivables from a member totaling \$46,112 in both years for fiber installation services.

At December 31, 2005 and 2004, the Company had a deposit with the City of Memphis totaling \$100,000.

At December 31, 2005 and 2004, the Company had accrued franchise fees to the City of Memphis of \$152,332 and \$69,758, respectively.

For the year ended December 31, 2004, the Company had revenues from a member totaling \$84,152 for fiber installation, collocation services, and internet services.

For the years ended December 31, 2005 and 2004, the Company had revenues from the City of Memphis of approximately \$777,330 and \$1,009,000, respectively, for fiber installation services.

At December 31, 2005 and 2004, the Company had receivables from the City of Memphis of approximately \$16,321 and \$503,000, respectively, for fiber installation services.

At December 31, 2004, the Company had an uncollateralized bridge loan outstanding of \$85,000 payable to a company owned by the Chief Executive Officer of Memphis Networkx, LLC. The note bore interest at 2%. At December 31, 2005, there is no outstanding loan balance.

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:

	2005		2004	
	Deposit	Accrued Franchise Fees	Deposit	Accrued Franchise Fees
City of Memphis	\$ 100,000	\$ 152,332	\$ 100,000	\$ 69,758
City of Germantown	50,000	8,932	50,000	670
City of Collierville	50,000	12,829 *	50,000	-
City of Bartlett	-	-	-	-
	<u>\$ 200,000</u>	<u>\$ 174,093</u>	<u>\$ 200,000</u>	<u>\$ 70,428</u>

The deposits are shown on the balance sheet under deposits and the 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 revenue under contracts longer than one year in effect at December 31, 2005 is as follows:

2006	\$ 3,500,792
2007	2,540,451
2008	1,659,807
2009	393,844
	<u>\$ 8,094,894</u>

NOTE 8 - NOTES PAYABLE AND SHORT-TERM DEBT

On June 15, 2005 the Company obtained financing through a bank. The financing agreement provides for a line-of-credit of \$2,000,000 and a term loan of \$5,000,000. The line-of-credit expires May 15, 2007 and bears interest at the thirty day LIBOR rate plus 1.45%. At December 31, 2005, the outstanding balance on the line of credit was \$1,935,150. The term loan is to be funded in two phases. The first phase provides funds up to \$2,915,643 and is collateralized by personal property of the Company and is guaranteed by certain private equity owners of the Company. The second phase will fund the remaining balance of \$2,084,357 and is contingent upon obtaining additional guarantees from certain other private

equity owners of the Company. The term loan bears interest at the U.S. Treasury rate of a similar maturity period in effect at the close of each term note drawn plus 1.7%.

The Company's long term debt as of December 31, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Uncollateralized note payable to a related party, due on demand, interest payable in monthly installments at 2%.	\$ -	\$ 85,000
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 6.24%.	2,206,338	-
	<u>2,206,338</u>	<u>85,000</u>
Less current maturities	640,686	85,000
	<u>\$ 1,565,652</u>	<u>\$ -</u>

Future maturities of long-term debt are as follows:

2006	\$ 640,686
2007	673,875
2008	488,617
2009	217,282
2010	166,755
Thereafter	19,123
	<u>\$ 2,206,338</u>

The Company's bank debt agreements contain various covenants including timely filing of financial reports and maintaining a minimum net worth of \$5,500,000. At December 31, 2005, the Company was in compliance with all covenants.

NOTE 9 – COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

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

	<u>2005</u>	<u>2004</u>
Costs incurred on uncompleted contracts	\$ 438,330	\$ -
Estimated earnings	<u>201,670</u>	<u>-</u>
	640,000	-
Less billings to date	<u>-</u>	<u>-</u>
	<u>\$ 640,000</u>	<u>\$ -</u>

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

	<u>2005</u>	<u>2004</u>
Costs and estimated earnings in excess of billings on uncompleted contracts	<u>\$ 640,000</u>	<u>\$ -</u>

NOTE 10 – SUBSEQUENT EVENT

On May 30, 2006, the bank loan agreement discussed in Note 8 was modified. The Company received approval for up to \$998,184 in additional financing for a total term loan of \$6 million. The loan bears interest at the U.S. Treasury rate of a similar maturity period in effect at the close of each term note drawn plus 1.7%. The term loan is guaranteed by certain private equity owners of the Company. As part of the modification agreement, the covenant to maintain minimum equity of \$5,500,000 has been reduced to \$3,500,000.

MEMPHIS NETWORKX, LLC

FINANCIAL STATEMENTS

December 31, 2006 and 2005

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William H. Watkins, Jr., CPA

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of Memphis Networx, 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 Networx, 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)
Current Assets		
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
Property and Equipment		
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>	
Current Liabilities		
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
Other Liabilities		
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
Members' Equity	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	<u>2,123,205</u>	<u>1,856,562</u>
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	<u>2,114,043</u>	<u>2,071,860</u>
Total operating expenses	<u>5,918,947</u>	<u>5,511,554</u>
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	<u>(544,663)</u>	<u>(379,230)</u>
Total other income (expense)	<u>(545,737)</u>	<u>(376,101)</u>
Net loss	<u>\$ (3,135,694)</u>	<u>\$ (3,698,606)</u>

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

	Members'	Accumulated	
	Contributions	Deficit	Total
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	3,845,150	1,577,985
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	(1,378,295)	(1,849,258)

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

	<u>2006</u>	<u>2005</u> <u>(As Restated)</u>
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

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.

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:

	<u>2006</u>	<u>2005</u>
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	<u>(352,522)</u>	<u>(279,022)</u>
Net deferred tax asset	1,966,719	1,839,104
Valuation allowance	<u>(1,966,719)</u>	<u>(1,839,104)</u>
	<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	\$ -	\$ 640,000

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.

MINUTES OF MEETING
of
BOARD OF LIGHT, GAS AND WATER COMMISSIONERS
CITY OF MEMPHIS
held
July 5, 2007

A regular meeting of the Board of Light, Gas and Water Commissioners, City of Memphis, was held at Memphis Light, Gas & Water Division, 220 S. Main, Thursday, July 5, 2007 at 1:30 p.m. The following were in attendance: Rick Masson, Chairman and Acting President & CEO; V. Lynn Evans, Vice Chairman; Nick Clark, Commissioner; William L. Taylor, Commissioner; Jerry R. Collins, Jr., Interim Chief Utility Officer; John McCullough, Vice President, CFO and Secretary-Treasurer; Charlotte Knight Griffin, Interim Vice President and General Counsel; Christopher Bieber, Vice President, Customer Care; Alonzo Weaver, Vice President, Engineering and Operations; Linda Peppers, Vice President and Chief Technology Officer; and City Council Members Carol Chumney, Barbara Swearengen-Ware, and Henry Hooper. Armstead Ward, Vice President, Human Resources was not in attendance.

Chairman Masson advised the Board that Commissioner Bowden resigned effective June 22, 2007.

Vice Chairman Evans moved that after personally reading and reviewing the typed minutes of the Memphis Light, Gas and Water Board meeting held June 21, 2007, that they be recorded as the official record, seconded by Commissioner Taylor and unanimously carried.

The Secretary-Treasurer acknowledged receipt of certified copies of City Council Resolutions dated June 19, 2007, Items 4 through 14, approving items approved by the MLGW Board at its meeting held June 7, 2007; and Item No. 40, informing the MLGW Board to hold the sale of Memphis Network until full disclosure of the facts has been made to the City Council (see Minute File No. 1294).

Alonzo Weaver presented the APPA 2007 Reliable Public Power Provider (RP3) Award to the Board.

WHEREAS, the Board of Light, Gas and Water Commissioners selects the Chairman of the Board and Vice Chairman of the Board; and

WHEREAS, the Board of Light, Gas and Water Commissioners selects the Chairman of the Pension Board; and

WHEREAS, Vice Chairman Evans nominated Rick Masson for Chairman of the Board, seconded by Commissioner Clark; and

WHEREAS, Commissioner Taylor nominated V. Lynn Evans for Vice Chairman of the Board, seconded by Commissioner Clark; and

WHEREAS, Commissioner Clark nominated Rick Masson for Chairman of the Pension Board, seconded by Commissioner Taylor; and

WHEREAS, there were no further nominations, it was unanimously carried:

THAT, Rick Masson serve as Chairman of the Board and Chairman of the Pension Board, and V. Lynn Evans serves as Vice Chairman of the Board.

1. The Manager, Procurement and Contracts recommended to the Board of Light Gas and Water Commissioners award of Contract No. 11194, Aerial Patrol of Gas Transmission Lines, to Tennessee Helicopter Services, Inc., in an estimated funded amount of \$28,140.

The project scope is to provide aerial bi-weekly patrols of MLGW gas transmission pipeline Right-of-Ways by air via helicopter at low level with qualified MGLW personnel in Memphis and Shelby County, Tennessee.

Two bids were submitted on June 5, 2007, for Aerial Patrol of Gas Transmission Lines, with the lowest and best bid being submitted by Tennessee Helicopter Services, Inc.

It was moved by Vice Chairman Evans, seconded by Commissioner Taylor, and unanimously carried:

THAT, Subject to the consent and approval of the Council of the City of Memphis, award of Contract No. 11194 to Tennessee Helicopter Services, Inc. in an estimated funded amount of \$28,140, as outlined in the foregoing preamble, is approved; and further,

THAT, The President or his designated representative is authorized to execute the award.

2. The Manager, Procurement and Contracts recommended to the Board of Light, Gas and Water Commissioners award of Contract No. 11209, Mobile Document Shredding, to Iron Mountain, in an estimated funded amount of \$14,544.

The project scope is to provide mobile document shredding service at various MLGW locations in Memphis and Shelby County, Tennessee.

Proposals were received on June 12, 2007 for said contract, with the best of three proposals being submitted by Iron Mountain.

It was moved by Vice Chairman Evans, seconded by Commissioner Taylor, and unanimously carried:

THAT, Award of Contract No. 11209 to Iron Mountain in an estimated funded amount of \$14,544, as outlined in the foregoing preamble, is approved; and further,

THAT, The President or his designated representative is authorized to execute the award.

3. The Manager, Procurement and Contracts recommended to the Board of Light, Gas and Water Commissioners that it award the purchase of SONET Mutlipleaders which will enhance fiber optic communication between MLGW facilities. These multiplexers will allow one path to fail while still maintaining communication with remote sites.

Bids were opened on May 23, 2007. Although bids were solicited from five suppliers, only one bid was received from the firm of General Electric Company (GE Multilin) in the amount of \$300,268 with a \$30,000 discount resulting in a final cost of \$270,268.

It was moved by Vice Chairman Evans, seconded by Commissioner Taylor, and unanimously carried:

THAT, Subject to the consent and approval of the Council of the City of Memphis, award of contract to General Electric Company (GE Multilin) is approved for furnishing:

SONET Multiplexer (SMUX) equipment (chassis, modules, and ancillary firmware/hardware), at \$270,268 all;

totaling \$270,268; f.o.b. Memphis, TN, our dock, transportation prepaid; said price being firm; delivery in 10 weeks.

4. The Manager, Procurement and Contracts recommended to the Board of Light, Gas and Water Commissioners that it award the purchase of Server Hardware and Software to replace production servers which are out of date and to support nearly instantaneous recovery from a disaster affecting MLGW data centers and the mobile dispatch system.

Bids were opened on June 13, 2007. Although bids were solicited from seven suppliers, only one bid was received from the firm of Logicalis, Inc. in the amount of \$234,523.46.

It was moved by Vice Chairman Evans, seconded by Commissioner Taylor, and unanimously carried:

THAT, Subject to the consent and approval of the Council of the City of Memphis, award of contract to Logicalis, Inc. is approved for furnishing:

HP Continuous Access/EVA, at \$90,711.23 each;

Mobile dispatch servers, at \$69,833.88 each;

ServiceGuard MetroCluster, at \$60,752 each;

KVM Console, at \$3,106.35 each;

EVA5000 disk storage expansion – eight (8) disk drives, at \$10,120 all;

totaling \$234,523.46; f.o.b. Memphis, TN, our dock, transportation prepaid; said prices being firm; completion within 90 days.

5. The Manager, Procurement and Contracts recommended to the Board of Light, Gas and Water Commissioners that it award the purchase of approximately 177,375 lbs. of 1590 KCMIL Class “A” wire to be used to construct transmission lines between Shelton Road Substation No. 79 and proposed Quinn Road Substation No. 83 located in Collierville, TN. This is the second section of the project of loop-feeding Shelton Road Substation No. 79 that provides needed reliability to Collierville.

Bids were opened on May 23, 2007. The lowest and best complying bidder of five bidders was the firm of Stuart C. Irby. The approximate total is \$305,883.19.

It was moved by Vice Chairman Evans, seconded by Commissioner Taylor, and unanimously carried:

THAT, Subject to the consent and approval of the Council of the City of Memphis, award of contract to Stuart C. Irby is approved for furnishing:

Approximately 177,375 lbs. of 1590 KCMIL Class “A” wire in accordance with MLGW specifications, at 172.45 per cwt.,

totaling \$305,883.19; f.o.b. Memphis, TN, transportation prepaid; our dock, said prices firm with adjustment at time of shipment based on metals at \$1.31/lb.; delivery in 10 weeks after receipt of order.

6. The Manager, Procurement and Contracts recommended to the Board of Light, Gas and Water Commissioners that it award the purchase of a Corporate Network

Upgrade to replace equipment which is at end of life for which repair parts are not available. This upgrade will enable MLGW's corporate network to be more reliable.

Bids were opened on May 30, 2007. The lowest and best complying bidder of two bidders was the firm of Venture Technologies in the amount of \$268,456.

It was moved by Vice Chairman Evans, seconded by Commissioner Taylor, and unanimously carried:

THAT, Subject to the consent and approval of the Council of the City of Memphis, award of contract to Venture Technologies is approved for furnishing:

Equipment, licenses, installation services, configuration services and project management services, at \$268,456 all;

totaling \$268,456; f.o.b. Memphis, TN, our dock, transportation prepaid; said prices being firm; completion in 90 days.

7. The Manager, Procurement and Contracts recommended to the Board of Light, Gas and Water Commissioners that it award the purchase of cab and chassis which are used to maintain electric, gas and water systems, and for various customer service functions. This equipment replaces existing equipment that will be retired.

Bids were opened on June 13, 2007. The lowest and best complying bidder of two bidders was the firm of Mid-America International for nine items, with the option to purchase a service and parts manual on CD-ROM. The total for all items is \$1,100,206.

It was moved by Vice Chairman Evans, seconded by Commissioner Taylor, and unanimously carried:

THAT, Subject to the consent and approval of the Council of the City of Memphis, award of contract to Mid-America International Trucks is approved for furnishing:

1 – latest model 2-ton crew cab and chassis having at least a 31,000 lb. gvwt rating and an 84" cab-to-axle dimension all in accordance with MLGW Specification No. TCC-07-1300 at \$58,436 each;

2 – latest model cab and chassis having at least a 31,000 lb. gvwt rating and a 102" cab-to-axle dimension all in accordance with MLGW Specification No. TCC-07-131 at \$53,030 each;

5 – latest model crew cab and chassis having at least a 31,000 lb. gvwt rating and a 102" cab-to-axle dimension all in accordance with MLGW Specification No. TCC-07-1320 at \$58,436 each;

4 – 2-ton latest model cab and chassis having at least 54,000 lb. gvwt rating and a 138" cab-to-axle dimension all in accordance with MLGW Specification No. TCC-07-1540 at \$65,799 each;

1 – latest model cab and chassis with 12 ft. stake body having at least a 31,000 lb. gvwt rating and a 102” cab-to-axle dimension all in accordance with MLGW Specification No. TCC-07-5040 at \$57,405 each;

1 – 2-ton cab and chassis with 18 ft. stake body having at least a 31,000 lb. gvwt rating and a 138” cab-to-axle dimension all in accordance with MLGW Specification No. TCC-07-5041 at \$58,443 each;

1 – latest model 2-ton cc stake truck, 12 ft. body having at least a 31,000 lb. gvwt rating and a 102” cab-to-axle dimension all in accordance with MLGW Specification No. TCC-07-5042 at \$62,811 each;

1 – latest model cab and chassis with 14 ft. stake body having at least a 52,000 lb. gvwt rating and a 138” cab-to-axle dimension all in accordance with MLGW Specification No. TCC-07-5050 at \$69,189 each;

2 – latest model cab and chassis having at least a 35,000 lb. gvwt rating and a six yard dump body all in accordance with MLGW Specification No. TCC-07-5123 at \$65,968 each;

1 – service and parts manual on CD-ROM at \$550 each;

totaling \$1,100,206, f.o.b. Memphis, TN, our dock, transportation prepaid, said prices being firm; with delivery within 75 days.

8. After discussion, Commissioner Clark moved to transfer MLGW’s membership interest in Memphis Network to the City of Memphis in return for a PILOT payment, and MLGW allow the City of Memphis to address the situation.

Vice Chairman Evans seconded for discussion, but withdrew, therefore the motion failed due to lack of a second.

After further discussion, Commissioner Clark moved for approval of Item No. 8, but the motion failed due to the lack of a second.

More discussion was held and the following was approved:

WHEREAS, Memphis Network requires additional funding to support growth requirements; and

WHEREAS, Memphis Light, Gas and Water (MLGW) does not desire to provide additional funding or loan guarantees; and

WHEREAS, Memphis Broadband does not desire to provide additional funding or loan guarantees; and

WHEREAS, funding is available through the sale of the members’ ownership interest in Memphis Network; and

WHEREAS, the sale would avoid future risk of funding, or losses of membership interest by MLGW.

NOW, THEREFORE, BE IT RESOLVED by the Board of Light, Gas and Water Commissioners, **THAT**:

The sale of MLGW’s membership interest in Memphis Network in accordance with the general provisions of the Membership Interest Purchase Agreement dated June 7, 2007 by and among CII Holdco, Inc.,

MLGW, Memphis Broadband, LLC and Memphis Networx, LLC, is hereby approved conditioned upon Section 5.12 not being operative; and

The Chairman of the Board of Light, Gas and Water Commissioners or his designated representative is authorized to finalize the sale and execute any necessary documents in accordance with the terms of the said Membership Interest Purchase Agreement dated June 7, 2007, conditioned upon Section 5.12 not being operative.

It was moved by Commissioner Clark, seconded by Vice Chairman Evans and carried, with Chairman Masson and Commissioner Clark voting yes, Vice Chairman Evans voting no and Commissioner Taylor abstaining:

THAT, the sale of MLGW's membership interest in Memphis Networx as outlined above is approved.

9. The Manager of Energy Resources/Economic Development submitted for consideration of the Board, approval of annual membership dues to the Memphis Regional Chamber. The annual membership dues are \$25,000 and allows MLGW to be a part of the Chamber's efforts to achieve ongoing economic success and prosperity for Memphis/Shelby County by attracting new companies and investments and supporting existing business growth.

The Manager of Energy Resources/Economic Development recommends these dues be paid in order to support the Memphis Regional Chamber to achieve ongoing economic success and prosperity through business and industry recruitment, make local companies more globally competitive, drive the advancement of the Memphis technology community, and help create an environment that promotes the retention/expansion of local business.

The funds for the dues are included in the 2007 budget.

It was moved by Vice Chairman Evans, seconded by Commissioner Taylor and carried, with Commissioner Clark abstaining:

THAT, The Secretary-Treasurer is hereby authorized and directed to have a check issued in the amount of \$25,000, payable to the Memphis Regional Chamber for the 2007 annual dues.

10. The Supervisor of Telecommunications Engineering presented for approval of the Board W.R. No. C1176491, in the amount of \$292,000, for installation of redundant fiber optic communications between Hickory Hill, the Netters Building, and Substations 9, 28, 34, 39, 66, 73, 79, 81 and 86.

W.R. No. C1176491 is funded in the 2007 Capital Budget (Ref. No. 20-17) for \$167,000. Additional funding for W.R. No. C1176491 will come from 2007 Capital Budget Line Items:

- a) "Netters-ERC Backup Fiber Cable-Germantown/Macon" (Ref. No. 20-8), amount \$100,000.
- b) "Replace Copper Telephone Cables" (Ref. No. 20-20), amount \$15,000.
- c) "Rohm Phone Replacement" (Ref. No. 20-26), amount \$10,000.

It was moved by Vice Chairman Evans, seconded by Commissioner Taylor and unanimously carried:

THAT, W.R. No. C1176491, in the amount of \$292,000, for installation of redundant fiber optic communications between Hickory Hill, Netters Building, and Substations 9, 28, 34, 39, 66, 73, 79, 81 and 86 is approved.

11. The Interim Vice President and General Counsel submitted to the Board the June 30, 2007 Quarterly Report of the Customer Appeal Committee. It is recommended that the Board approve and uphold the decisions reflected in the June 30, 2007 Quarterly Report of the Customer Appeal Committee (See Minute File No. 1295).

It was moved by Vice Chairman Evans, seconded by Commissioner Taylor and unanimously carried:

THAT, The attached June 30, 2007 Quarterly Report of the Customer Appeal Committee is approved and will be upheld by the Board.

12. It was moved by Vice Chairman Evans, seconded by Commissioner Taylor and unanimously carried that Item No. 12, the Human Resource Processes for compensation, selection and placement of employees, position control, all job movements, all area transfers and reorganizations, all job and/or position evaluations, and salary changes, be deleted.

13. WHEREAS, appropriate departments of the Engineering Division and the Vice President of Engineering approved the release of the utility easements as follows:

A 2-foot wide and a 8-foot wide electric distribution utility easements being of record in Book 5947, Page 384 in the Register's Office of Shelby County, Tennessee as Parcel 1 to E. L. Bruce Company, or its successor in title for the sum of \$1.00.

Property located on the east side of Thomas Street, approximately 260 feet north of the north line of Royal Avenue.

A 2-foot wide electric distribution utility easement located across the center portion of the property being of record in Book 2541, Page 268 in the aforesaid Register's Office of Shelby County, Tennessee as Parcel 1 to E. L. Bruce Company, or its successor in title for the sum of \$1.00.

Property located on the east side of Thomas Street south of the Wolf River.

An 8-foot wide electric distribution utility easement located on the west portion of the property being of record under Instrument No. L7 4338 in the aforesaid Register's Office of Shelby County, Tennessee as Parcel 1 to Kraftco Corporation, or its successor in title for the sum of \$1.00.

Property located on the east side of North Thomas Street approximately 860 feet north of the north line of Royal Avenue.

An 8-foot wide electric distribution utility easement located on the north portion of the property being of record in Book 4016, Page 395 in the aforesaid Register's Office of Shelby County, Tennessee as Parcel 1 to Humko Company, or its successor in title for the sum of \$1.00.

Property located on the east side of Thomas Street approximately 425 feet south of the Wolf River.

A 3-foot wide electric distribution utility easement located across the northwesterly portion of the property being of record in Chattel Book 326, Page 620 in the aforesaid Register's Office of Shelby County, Tennessee as Parcel 1 to Humko Company, or its successor in title for the sum of \$1.00.

Property located on the east side of Thomas Street south of the Wolf River.

An 8-foot wide and a 2-foot wide electric distribution utility easements located on the northwest portion of the property being of record in Book 4942, Page 38, and at Instrument No. K2-8132, both recordings in said Register's Office of Shelby County, Tennessee as Parcel 1 to Humko Company, or its successor in title for the sum of \$1.00.

Property located on the east side of Thomas Street approximately 400 feet south of the Wolf River.

An 8-foot wide electric distribution utility easement as recorded in Book 4146, Page 451 in the Register's Office of Shelby County, Tennessee across a parcel of land described under Instrument Number 06083386 in the Register's Office of Shelby County, Tennessee to HIGHCENTRAL, LLC, or their successors in title for the sum of \$1.00.

Property located on the northeast corner of Central Avenue and South Highland Street.

An 8-foot wide and a 5-foot wide electric distribution utility easements as recorded in the Register's Office of Shelby County, Tennessee in the Register's Official Record Book under Instrument Number E3-7648 to HIGHCENTRAL, LLC, or their successors in title for the sum of \$1.00.

Property located on the northeast corner of Central Avenue and South Highland Street.

It was moved by Vice Chairman Evans, seconded by Commissioner

Taylor and unanimously carried:

THAT, Release of said easements across the above described properties is approved; and further,

THAT, The Board of Light, Gas and Water Commissioners recommends to the Mayor of the City of Memphis that the appropriate release deeds be executed releasing said easements to the current property owners for a consideration of \$1.00 each.

14. Minister Suhkarn Yahweh, 796 Saxon Avenue, appeared before the Board to discuss various matters.

15. Chet Kibble, 3210 Lakeview Road, appeared before the Board to discuss various matters.

16. David McCabe, BTI, 9346 Williams Glen Cove, appeared before the Board to discuss various matters.

17. David Rusin, AFS, Rochester, NY, appeared before the Board to discuss various matters.

18. David Danchak, AFS, 6515 Sparrow Hawk Dr., West Palm Beach, FL, appeared before the Board to discuss various matters.

19. Chris Davis, Memphis Flyer, 460 Tennessee St., appeared before the Board to discuss various matters.

20. John Scarano, CII Holdco, Inc., appeared before the Board to discuss various matters.

21. Ted Swanson, McLean Group, appeared before the Board to discuss various matters.

There being no further business presented, the meeting was adjourned.

SEE MINUTE FILE NO. 1295.

Secretary-Treasurer

**PURCHASE OF MEMBERSHIP INTERESTS IN MEMPHIS NETWORKX, LLC
HELD BY MEMPHIS BROADBAND, LLC AND MLGW**

SETTLEMENT STATEMENT

I. PURCHASE PRICE CALCULATION

• Purchase Price	\$11,500,000.00
• Less: Closing Date Debt Amount	\$6,861,799.83
• Less: Escrow Amount	\$750,000
• Plus: Estimated Working Capital Amount	(<u>\$2,463,268.45</u>)
• Closing Date Payment Amount	<u>\$1,424,931.72</u>

II. USES OF FUNDS

- **RENASANT BANK (CLOSING DEBT AMOUNT)**
 - \$6,828,312.93
Location: 209 Troy Street, Tupelo, Ms. 38802
Routing Number: 084201294
Account Number: 5100000279
Contact: Leigh Ann Christy (901) 312-4032
- **MLGW (A/P AND EQUITY PAYOFF)**
 - \$891,931.70
Bank: First Tennessee Bank
Routing Number: 084000026
Account Number: 90239
- **MEMPHIS BROADBAND, LLC (EQUITY PAYOFF)**
 - \$440,740.48
Bank: Regions Bank
Routing Number: 084000084
Account Number: 3502000717
Contact: Sabrina Wheeler
- **BURCH, PORTER & JOHNSON, PLLC (LEGAL FEES)**
 - \$101,145.25
Bank: Suntrust Bank
Address: One Commerce Square, Memphis, TN 38103
Routing Number: 061000104
Account Number: 3079

- **JPMORGAN CHASE BANK, N.A. (ESCROW AMOUNT)**
 - \$750,000.00
Address: 712 Main Street, 5th Floor South, Houston, Texas 77002
Routing Number: 021000021
Account Number: 507971817
Contact: May Ng, Ext. 66467
For Further Credit Name: CII/Memphis Escrow No. 304951757
- **MCLEAN GROUP (INVESTMENT BANKING FEE)**
 - \$466,836.58
Bank: Branch Banking & Trust Co.
Address: 8200 Greensboro Drive, Ste. 1000, McLean, Va. 22102
Routing Number: 051404260
Account Name: McLean Securities, LLC
Account Number: 5132020908
Contact: Karen Nguyen (703) 442-4009
- **DAN PLATKO (EMPLOYEE BONUS POOL)**
 - \$68,323.81
Bank: Wachovia Bank
Routing Number: 061000227
Account Number: 1010025686582
- **MARK IVIE (CLOSING DATE DEBT AMOUNT AND PAY-OUT AMOUNT)**
 - \$41,897.37
Bank: Trustmark National Bank
Location: Jackson, Mississippi
Routing Number: 065300279
Account Number: 6500097832
- **DERRICK FISHER (EMPLOYEE BONUS POOL)**
 - \$8,540.48
Bank: Suntrust Bank
Routing Number: 064000046
Account Number: 1322692

Analysis of Net Purchase Price at Closing
Memphis Network
v2 (7/31/07 10:45 a.m.)

Source of Funds (From CII)		Use of Funds		Resulting Wires From CII To:	
1. Purchase price	11,500,000.00	1. Closing Date Debt Amount		1. Renasant Bank	6,890,641.75
2. Estimated Working Capital Amount		Renasant	6,890,641.75	2. MLGW	862,746.23
+ Cash	72,206.98	Mark Ivie loan	33,486.90		
+ A/R	625,708.62		6,924,128.65		
+ Other current assets	208,017.49	2. Payables at closing		3. J.P. Morgan Chase Bank, N.A. (escrow)	750,000.00
- A/P	2,661,681.30	MLGW (pole attachment fees)	459,851.79	4. Memphis Broadband	410,970.02
- Other current liabilities	5,405,933.15	Burch Porter & Johnson	101,145.25		
+ Debt from (1) in uses in current liabilities	4,698,412.91		560,997.04	5. McLean Group	466,936.59
	(2,463,268.45)	3. Investment banking fee	466,936.59	6. Burch Porter & Johnson	101,145.25
3. Payables at closing (included in A/P above)	459,851.79	4. Employee bonus pool	65,830.65	7. Dan Platko	65,830.65
MLGW (pole attachment fees)	101,145.25	Dan Platko	65,830.65	8. Mark Ivie	41,328.27
Burch Porter & Johnson (legal fees re close)	560,997.04	Derrick Fisher	8,228.83	9. Derrick Fisher	8,228.83
			74,059.48		
		5. Escrow Amount			
		Mark Ivie (with respect to profits interest)	7,158.00		
		MLGW	367,735.57		
		Memphis Broadband	375,106.43		
			750,000.00		
		6. Sellers			
		Mark Ivie (with respect to profits interest)	7,842.37		
		MLGW	402,894.44		
		Memphis Broadband	410,870.02		
			821,706.84		
Total	9,597,728.59		9,597,728.59		9,597,728.59