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TN REGULATORY AUTHORITY
DOCKET ROOM

March 5, 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:

Further supplementing our letter dated March 3, 2008, the MLGW management team has continued to work on a supplemental response to question 5.3 of the second Staff data requests to MLGW:

Question 5.3: MLGW submits that this question is better directed to Memphis Networx for a complete response, as Memphis Networx retained the McLean Group to solicit potential investors in and potential buyers of the membership interests in or assets of Memphis Networx. A letter outlining the McLean Group's process is attached. Following the initial work of the McLean Group, the McLean Group reviewed eight potential candidates with the Memphis Networx board and narrowed the group to three potential candidates for further consideration: American Fiber Systems, CII and BTi. The address and primary contacts for American Fiber Systems and BTi follow:

American Fiber Systems
David G. Rusin, President and Chief Executive Officer
David N. Danchak, Senior Vice President, Corporate Development
100 Meridian Centre, Suite 250
Rochester, New York 14618

BTi (www.bticom.com)
Paul Allen
B-Telecom, Inc.
320 Center Street
Cleveland, Ohio
(note that the above-referenced web site identifies a different company address)

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

The McLean Group
Investment Bankers to the Middle Market

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June 27, 2007

Memphis Networx Board of Directors
7620 Appling Center Drive
Suite 101
Memphis, Tennessee 38133

Re: Memphis Networx Sale Process

Directors of Memphis Networx,

The following is a summary of the process conducted by The McLean Group on behalf of the company:

Background

- By December 2006, Networx was running out of cash, had drawn down its bank credit line for funding new customer builds, and would need a capital injection or sale estimated by June 2007 before running out of cash

- At its December 2006 meeting, the Networx Board unanimously voted to start a process to gauge the market for potential outside investment or an outright sale

- In January 2007, the board engaged The McLean Group, a middle-market investment bank with telecommunications experience to solicit potential investors or buyers for the company

Process

- The McLean Group prepared offering materials that described the company and contacted approximately 50 parties that would be most likely to be interested in a property like Memphis Networx

- Of that group, 10 signed NDAs to received the detailed information on the company; and 8 then submitted proposals or indications of interest (i.e., a price range of where their offer would be should they submit a formal Letter of Intent)

- The Board in consultation with McLean Group narrowed the list to the three highest bidders and invited 2 companies in for due diligence:

  - AFS
  - CII

  A third company, Bti, submitted a proposal that the Board found incomplete. However, due to the nature of the Bti proposals, the board requested further information from Bti to clarify their proposal. Bti re-submitted their proposal, and were invited in for due diligence.

- All three companies completed due diligence

- McLean requested final Letters of Intent from the 3 finalists

- McLean and the Company proceeded to negotiate final terms and conditions with 3 finalists

Final Indications of Interest

1. CII
   - After negotiations, a final offer of $11.75 MM (later reduced to $11.5MM in negotiating the final agreement) all cash less $6.6 MM debt and negative working capital of $1.35 MM
   - Ability to close in 30-45 days
   - Stock purchase rather than asset purchase
   - $750,000 in escrow for 18 months
   - Indemnifications not joint and several between partners and limited to proceeds from transaction
   - CII was fully financed, and Networx offer would be withdrawn if not accepted by a specified deadline

2. AFS
   - After due diligence, initial offer required leaving private investor guarantees on the $6.6 MM debt
   - After negotiations, a final offer of $13.5 MM ($10.5 MM in cash and $3.0 million in AFS common stock), less $6.6 MM debt and negative working capital of $650,000
   - $500,000 in escrow for 12 months
   - AFS would need to raise funds to complete the acquisition

3. Bti
   - $16.5 million for debt free company at closing
   - $3.5 million investment in working capital but not payable to shareholders
   - 7 year non-compete by current owners required
   - Bti was not fully financed, and would need to raise funds to complete the acquisition

Decision Process

- After The McLean Group presented the various offers, Networx Board was not comfortable that the Bti offer was credible or that it could be consummated in the desired timeframe
  - Bti indicated that they would need to raise the capital for the transaction
  - Bti refused, after repeated requests, to provide financial statements indicating the company's financial wherewithal to complete the transaction or bank letters of credit for the proposed transaction amount

- Primary discussion involved the decision between the AFS and the CII proposals

- Concerns with the AFS proposal lead the Board to select CII

  - AFS had pushed hard early in the process to leave the existing debt in place (including the private investor guaranties) which indicated that they might have difficulty raising additional capital on their own
  - AFS had been "trading down" from their initial proposal to the LOI proposal, with more trade down expected
  - AFS highly leveraged balance sheet did not have the cash on hand to complete the transaction
  - Common stock component presented a number of concerns

- MLGW could not own stock in another company as part of its sale consideration

- $3.0 million in common stock in AFS did not appear to be of great value except in a very optimistic scenario

  - Behind significant amount of debt on AFS balance sheet
  - Behind many layers of preferred stock for which the terms and liquidation preferences were not disclosed

  - AFS indicated a much longer closing period, particularly if the transaction was structured as a stock purchase rather than an asset purchase

- All indications were that CII had the expertise and capital to close quickly

  - Confirmed with investors in CII that capital necessary to close was ready and available
  - Senior executives had deep experience closing telecommunications transactions
  - Offer was presented with an initial draft of the Acquisition Agreement, showing strong commitment not to "trade down" on the deal once selected
  - Their team did the most work and undertook the deepest and most sophisticated due diligence which the Board believed minimized the likelihood of negative surprises during the closing process

Final Decision Criteria

- The decision was based on a number of criteria

  - Maximized price/net proceeds (most important)
  - Form of transaction (sale of equity preferred over sale of assets)
  - Composition of payment (e.g., all cash offer preferred over cash/stock combo)
  - Availability of funds to close transaction
  - Reputation for further downward negotiation and price concessions during closing process
  - Amount and sophistication of due diligence performed prior to offers

- Subsequent to the Board's decision, and during final negotiations and final due diligence with CII, the Pennsylvania Power and Light acquisition became public. This confirmed several things to the Board:

  - CII's ability to execute in larger transactions
  - CII was pragmatic in negotiations and did not attempt to trade down arbitrarily

Sincerely,

Tom Swanson
Managing Director

Cc: Dennis Roberts, The McLean Group