

MLGW eats loss in sale of Networkx

Bitter fare: Nearly all \$29M

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JA 6 12 07

What was billed as a smart investment for Memphis' publicly owned utility company in 1999 is proving to be a financial boondoggle for ratepayers.

Memphis Light, Gas and Water Division would lose nearly all of its roughly \$29 million investment in the public-private venture called Memphis Networkx if a proposed sale of the fiber-optics firm is approved.

MLGW confirmed late Monday that an agreement has been reached to sell Networkx to a Colorado holding company for \$11.5 million.

But according to early projections, after Networkx's debts are retired, fees are paid and other adjustments made, just about \$2 million will be left over for its investors.

MLGW will get back just \$994,000 of its \$28.6 million investment. Networkx's private investors, who include a group of wealthy and well-connected area businessmen, are

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projected to receive about \$1 million.

"It's a horrendous loss for the ratepayers of MLGW," said utility board member Nick Clark, who also sits on the Networkx board.

Despite initial projections that Networkx could eventually generate \$16 million or more in annual revenues for MLGW, Networkx never returned a profit to its investors.

MLGW's interim chief utility officer Jerry Collins said Monday the proposed sale is "most assuredly" in the best interest of ratepayers, though he declined to comment on the financial details.

Collins, who just started in the MLGW post last week, said MLGW decided to sell Networkx because the fiber-optics company needs additional investments to ensure its continued growth and expansion.

"This is a junction in which Networkx needs additional cash, and we're not in a position to provide them with that cash," Collins said.

Clark said it was apparent when he joined the Networkx board 2 1/2 years ago that there had been a "very substantial loss of value" in MLGW's investment in Networkx, which brought the market value of the company down to about \$5 million.

And the national market for these types of sales has not recovered since the 2001 technology meltdown, Clark said.

"The Networkx board recommended selling Networkx at this time because it was believed that a public-private partnership was an impediment to securing additional capital, and that we needed to be honest with ourselves and the respective partners as to what the market value was," Clark said.

Approval for the sale will go before MLGW's board of commissioners on June 21. The transaction will also require approval of the Tennessee Regulatory Authority.

The buyer is Communications Infrastructure Investments (CII), a Boulder-based holding company. CII's five institutional investors — Battery Ventures, Centennial Venture, Columbia Capital, M/C Venture Partners and Oak Investment Partners — have earmarked \$225 million for the holding company, said CII co-founder

Dan Caruso.

The Commercial Appeal reported Sunday that MLGW and its private partners were deep into negotiations to sell Networkx to an unidentified Colorado firm. Networkx board members and utility officials declined comment, even though an agreement to sell the firm already had been reached last week.

MLGW launched Networkx in late 1999, initially pledging \$20 million to the startup in an attempt to capitalize on the telecom boom of the 1990s.

A group called Memphis Broadband, whose investors included FedEx chairman and founder Frederick W. Smith, AutoZone founder J.R. 'Pitt' Hyde and William B. Dunavant Jr. of Dunavant Enterprises, joined as partners in Networkx in 2000.

The utility later boosted its approved maximum investment to \$32 million — about \$28.5 million of which has been spent — as Networkx built a fiber-optic "backbone" network to serve business and institutional customers with an array of high-speed data services.

Memphis Networkx would be just the second acquisition of the newly formed CII

In May, CII announced plans to acquire PPL Telecom, a subsidiary of Allentown, Pa.-based energy company PPL Corp., in a deal valued at \$60 million.

Caruso said he sees promise for both PPL Telecom and Networkx under the umbrella of his company, which he said plans to further invest in and grow the firms.

He said the sale would be a "positive event for the Memphis" employees.

"This network got built like many other networks got built during the early 2000s, when the telecom boom was in progress and the dot-com boom was happening," Caruso said. "They invested a lot in those years and then they had to get through a tough period. ... It was tough times for the entire industry and Memphis Networkx was no different."

"... You can't always turn back the clock of time to the pre-telecom boom era," he said. "What we need to do, what are we going to do is we're going forward. ... We see ourselves as longtime operators."

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