

# MLGW seeks to unload Networkx

\$30M in ratepayer funds could be lost in firm's sale

By MICHAEL ERSKINE  
*erskine@commercialappeal.com*

After years of promises that profitability was just around the corner, negotiations are under way for Memphis Light, Gas and Water Division to sell its disastrous investment in the fiber-optics firm Memphis Networkx.

MLGW has sunk nearly \$30 million in ratepayer funds into the eight-year-old joint venture with a group of wealthy and well-connected private businessmen. Nearly all of the public money invested in the venture could be lost in the sale, according to sources close to the situation.

MLGW and its private partners are deep into negotiations to sell Networkx to an unidentified Colorado firm. It remains unclear, however, how close the deal is to fruition.

The sources, who did not want to be identified because of the sensitive nature of the negotiations, declined to disclose specific financial details.

Any deal would be contingent on the approval of MLGW's board, which could come later this month. The sale may also require approval from the Tennessee Regulatory Authority, which licensed Networkx in 2001.

Several MLGW officials and Networkx board members contacted by The Commercial Appeal declined comment or did not return phone calls.

"I don't have anything to report," said John McCullough, vice president and

*Please see NETWORKX, A5*

## FIRE SALE?

**What:** Fiber-optic firm, Networkx, a public-private partnership of MLGW and local business leaders.

**Public funds:** \$30 million

Continued from page A1

## NETWORKX

chief financial officer at MLGW, who also serves as chairman of the Networkx board.

Despite receiving millions in public dollars, Networkx has claimed over the years it is not subject to Tennessee's open records and meetings laws and typically refused to make documents available to the public. As of late Friday, a public records request by the newspaper to MLGW for legal documents related to the possible sale had not been fulfilled.

The potential sale comes at a precarious time for the public utility, still reeling from a scandal that led to the May resignation of president and CEO Joseph Lee III.

Customer confidence in MLGW is down and a federal investigation into the handling of City Councilman Edmund Ford's utility accounts — which prompted Lee's departure — remains active. Furthermore, with the utility now under interim leadership, the city is about to embark on a search for a new MLGW president.

The sale, and any resulting loss in public money, would also provide fodder for the upcoming city mayoral election.

Herman Morris, who served as president of MLGW when the utility branched out into the telecommunications business with Networkx, is trying to unseat four-term incumbent Mayor Willie Herenton. City Councilwoman Carol Chumney, who chairs the council's MLGW committee, is also a candidate.

Morris said Saturday night that Networkx had a growing customer base and was making a small profit. If the venture had continued to be properly funded, it would have turned larger profits over time, he said.

"I thought the utility would want to stay in the driver's seat ... because it was the long-term investor," he said. "It would give the (utility) the capacity to stay onboard and to receive the long-term return."

Chumney said she wants an explanation before any sale is approved because the Council has received repeated assurances that Networkx is about to start making money. If the firm turns a profit, ratepayers could get their investment back.

"My position is, I don't care whether they sell it or not. I want our money back. The public wants their money back ... with interest," Chumney said.

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.

When developing the venture, utility officials said their goals included making Memphis more competitive with other cities through improved broadband accessibility, bridging the "digital divide" by providing service to poor areas, and generating a return on MLGW's investment.

The utility later boosted its approved maximum investment to \$32 million — most 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.

Initial projections indicated Networkx eventually could generate \$16 million or more in annual revenues for MLGW.

But while the venture weathered the collapse of the telecom industry and added to its customer base, it is yet to make good on the promised returns.

Networkx's operational cash flow has greatly improved, sources said, but investors are now looking to sell Networkx because the company is in need of additional capital to expand its business. None of the current investors is willing to put up the extra money.

MLGW, which once owned more than 80 percent of Networkx, has seen its share of the business dwindle in recent years.

In 2005, when Networkx had an estimated value between \$8 million and \$12 million, the City Council rejected an additional \$6 million line of credit MLGW was seeking for Networkx.

In turn, private investors provided loan guarantees worth about \$5 million.

As a result, MLGW's 84 percent share of Networkx dropped to 56 percent, according to the public utility's 2005 annual report. Memphis Broadband's share of the business rose from 16 percent to 44 percent.

That year, an attorney hired to advise MLGW's board on Networkx suggested the utility consider pulling out of the telecom venture while it was still the company's majority owner.

It's unclear if MLGW remains the majority owner in Networkx. MLGW has not published its 2006 annual report, which should have the latest details on the utility's investment.

Responding to a request from the newspaper for that information, MLGW spokesman Chris Stanley said Friday he could not track down anyone in the company who could provide those details.

Reporter Trep Heath contributed to this article.