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## Telecom 'bloodbath' leaves a few unscathed

By Mark Watson  
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Fear, uncertainty and doubt caused by spectacular telecom crashes are raising additional sales barriers for competitive local phone companies, but a few such firms are doing well in the Mid-South.

XO Communications, based in Reston, Va., has its largest local service network in Memphis but is considering financial restructuring plans that would include filing for protection from creditors under Chapter 11 of the U.S. Bankruptcy Code. The company's stock has lost almost 99 percent of its value.

Bernard J. Ebbers recently resigned as chief executive of WorldCom, based in Clinton, Miss., which offers local phone service to business customers in Memphis. The Securities and Exchange Commission is investigating WorldCom, in part because it loaned Ebbers \$366 million to prevent him from having to sell some of his stock. WorldCom stock has lost almost 88 percent of its value over the past 12 months.

In contrast, Aeneas Internet & Telephone of Jackson, Tenn., is quietly prospering by focusing on business customers in rural West Tennessee.

"Our focus was to build a base within the rural areas and also serve in the urban areas," said Jonathan V. Harlan, Aeneas chief executive officer. "There's an equal amount of business outside Shelby County. That has served us well, because a number of Memphis companies have offices in Paris, Dyersburg and elsewhere."

Most competitive local exchange carriers, or CLECs, concentrated first on the metro areas where they could achieve economies of scale, Harlan said. But the fact that so many companies saw those metro areas as opportunities created problems.

"The competition has just been a bloodbath," Harlan said. "It has been very fierce in Memphis and Nashville."

Many of these large companies used venture funds to build market share without serious regard for profit, he said.

In contrast, Aeneas started as an Internet service provider in the mid-1990s and has pursued no customer on which it did not expect

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to make a profit from the beginning.

"We make each project pay for itself," he said.

Aeneas focuses on businesses that need five or more phone lines and high-speed Internet access.

Ray Lewallen, engineering director of Germantown-based Everything Telecom, said most successful competitive local phone companies have shifted to offering a bundle of local, long-distance and data communications.

Aeneas offers local voice and Internet service to residential customers for \$32.95 a month and long-distance for 7 cents a minute.

And technology is evolving to the point that a customer could get interactive TV, video on demand, cable TV and high-speed Internet access over existing phone lines, Lewallen said.

Memphis Networx, a joint venture of Memphis Light, Gas & Water Division and a group of prominent local investors known as the Memphis Angels, is building a high-speed telecom network that could provide such services throughout most of Shelby County. Memphis Networx focuses on providing wholesale telecom services.

Mark Ivie, Memphis Networx chief executive officer, said his company plans to initiate service to another phone company, Kentucky Data Link, in June.

Other competitive local phone companies that serve Memphis include US LEC and Time Warner Telecom (which is not the cable TV company).

Dave Dorrohn, general manager of Time Warner Telecom's Memphis office, said his company concentrates on medium and large businesses. More than 20 percent of Fortune 500 companies use Time Warner Telecom, spokesman Tom Henley said from his office in Littleton, Colo.

US LEC provides telecommunications services to 350-400 business customers in the Memphis area, said Aaron Cowell Jr., president and chief operating officer, from his office in Charlotte, N.C. This company also concentrates on medium and large businesses. The stock market values this company at \$78.4 million.

US LEC and Time Warner Telecom executives said they use their companies' financial strength to combat incumbent local phone companies such as BellSouth and Alltel.

Ed Horrell, a Memphis telecommunications consultant, said business customers are taking more time to decide about local phone service.

"BellSouth is actively trying to win back lost business, especially lost XO business," Horrell said in an E-mail interview. "(There's) lots of selling using the FUD method - fear, uncertainty and doubt."

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Jeff Lovejoy, XO Communications general manager for Memphis and Nashville, said customers ask about his company's restructuring.

"We answer them, looking them straight in the eye, that we're not going away, and really, they don't have any cause for concern," Lovejoy said. "It's a financial restructuring, not an operational restructuring, and services, by and large, won't be affected."

WorldCom spokesman Natasha Haubold, from Washington, said her company's stock price decline "in no way affects our ability to provide services to customers."

"We have not lost any of our top 100 customers," she said. "We're continuing to win new contracts."

When asked if negative WorldCom news presented a "sales barrier," Haubold said, "Not to my knowledge."

BellSouth spokesman Bill Ray said some business customers have returned, but "not at a rate that makes up for what the economy is doing and what our (customer) loss is right now."

BellSouth lost about 432,000 phone lines in Tennessee in 2001. BellSouth still has 2.5 million phone lines in the state, Ray said.

In an E-mail interview, Joe Werner, Tennessee Regulatory Authority telecommunications chief, said, "While we have seen a dramatic reduction in the number of companies applying for CLEC status in the state, the number of lines offered by CLECs continue to grow, albeit at a much slower rate."

In an E-mail interview, David M. Parker, CompetitiveNetworkSolutions.com president, said prices are holding steady, but competitive local phone companies no longer offer discounts, as they did during the telecom boom of the late 1990s.

Werner said, "As far as prices, the overall price of telecommunications services in Tennessee has increased slightly over the past year, especially in the area of . . . high-speed Internet access and long-distance. . . . These Tennessee trends appear pretty similar to the rest of the nation."

Parker said, "The industry as a whole is depressed."

One consequence is a decline in investment in old, inner-city buildings, said Larry Henson, Memphis Regional Chamber vice president for research and information technology, in an E-mail interview.

"There was a rush to acquire and retrofit older buildings as 'telecom hotels,' " he said. "There appeared to be some real opportunities that have since slipped away."

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