Shape Shifting

Pipeline Q&A with ICG's Sandra Mays, Director Management Reporting and Special Projects and Brian Bartsch, Director Network Engineering
By Shawn Flemming

The company that the telecom industry knows today as ICG Communications began in the 1980s as a competitive access provider or CAP (Carrier Access Provider) under a partnership named Teleport Denver Limited (TDL). TDL began building fiber networks and over time developed a transport and switched services business that gradually expanded through further acquisitions, cooperative ventures, and builds into Alabama, Arizona, California, Florida, Georgia, Kentucky, North Carolina, Ohio, Tennessee, and Texas.

In 1993 ICG was formed and by 1996 included several other businesses, most notably Fiber Optic Technologies, Inc. and ICG Satellite Services, an industry leader in cruise line-related telecommunications services. ICG's focus was in selling special access, private line, and switched access services to InterExchange carriers (IXCs), as well as selling special access services to small, medium and large business customers.

Now a privately-owned CLEC, ICG experienced the tumultuous 1990s and is still a presence in the Telecom industry. From a CAP to a CLEC to a Chapter 11 company, where is ICG today, and what does it have to say about surviving the boom and burst of the Telecom industry?

Pipeline: How did the Telecom Act of 1996 impact ICG's focus at that time?

ICG: The Telecommunications Act of 1996 brought great promise and billions in Wall Street funding to ICG as the company sought to re-position itself as an industry leading CLEC. ICG staffed up exponentially to grow in accordance with the funding, and to meet the challenges associated with a $1 billion contract with Lucent Technologies.

Pipeline: What brought about ICGs change from a CAP to a CLEC?

ICG: Simply put, Wall Street financing demanded a strategy change when the long-term growth potential of access services was projected to be relatively flat. ICG's purchase of the wireless network assets of Bay Area Teleport and MTEL in Southern California in 1995 provided an example of this strategy change. The addition of the Bay Area, Los Angeles and San Diego markets, and the fiber builds and leases that followed represented a departure from the Tier II strategy.

Pipeline: How did ICG's acquisition strategy impact the transition from CAP to CLEC?

ICG: ICG acquired NETCOM On-line Communications Services, Inc. in 1998. This provided ICG a jump start into the internet business. ICG changed NETCOM's name to ICG NetAhead, Inc. Over the next several years, ICG's strategy's goal was to become a national telecommunications network and service provider. ICG made a name for itself on a national scale with its abilities to creatively negotiate right-of-ways with public utilities to expand its fiber network reach. ICG evolved from a company that was focused on special and switched access services to a company focused on a CLEC model of dial tone services.

Pipeline: In what area did ICG succeed during this pivotal point?

ICG: As the Internet grew, ICG discovered the financial benefits of selling ISDN PRI services to ISPs. A start-up ISP named AOL began buying PRI services in massive quantities. ICG realized the additional revenue benefit of reciprocal compensation revenue from the RBOCs for calls placed by AOL customers terminating to the ICG phone numbers. With the success of the ISP PRI/Recip Comp model, ICG built a business model that focused on ISPs, creating substantial collocation space to support ISP equipment, overbuilding existing switches, and building new switches at a breakneck pace.

Pipeline: In hindsight, what were the fist indicators that things were headed for hard times financially for ICG?

ICG: When the RBOCs successfully lobbied to regulate away their substantial Recip Comp obligations that our new business model had been based on. While the company did go EBITDA positive in 1999, it plunged back into the red as Recip Comp revenues began to shrink. In 2000, ICG's share price dropped from almost $40 per share earlier in the year to under $1 per share. ICG entered Chapter 11 Bankruptcy, which it eventually exited in late 2002.

Pipeline: How did ICG regenerate itself?

ICG: ICG's business focus during this time evolved into a model based primarily on the development and sale of VoicePipe, a VoIP product, and other data network products to market to business customers. The strategy included the expansion of its managed modem services to a national platform serving almost all 48 intercontinental states, largely through leased connectivity, trunking, and resold PRIs.

Pipeline: This new strategy helped jumpstart ICG again, but ICG eventually faced the possibility of another Chapter 11. What happened?

ICG: When ICG's largest customer, Qwest, bought out its multi-year, managed modem services contract in October of 2003, it became evident that further divestiture of assets, and substantial mitigation of costs and debt would be required to keep the company from filing for bankruptcy again in 2004. ICG sold its managed modem customer base to Level 3 in April 2004, but was still in danger of filing for what would have been its second bankruptcy when M/C Venture Partners and Columbia Capital arranged to purchase the company, thereby overhauling the existing management team, taking the company private, and initiating and completing a number of highly successful debt and cost reduction initiatives. During that time the California and Texas regions were sold as was the company's SS7 customer base.

Pipeline: What is ICG's current focus?

ICG: We have, in effect, shrunk the number of regions in which ICG's business will be focused; however, growth is likely to occur into other markets synergistic to its existing markets, but only as such growth proves profitable in the short-term. We are currently addressing the needs of a smaller, multi-regional focus where ICG has strong financials, network presence, and is likely the strongest CLEC. ICG's business focus lies squarely on its ability to be the dominant CLEC in the markets in which it remains, and indeed this is highly likely.

Pipeline: In which markets do you currently have a strong presence?

ICG: Most notably, ICG's fiber network from Pueblo to Fort Collins/Greeley is by far superior to that of any other in the Front Range, and certainly a peer to that of the incumbent, Qwest. ICG also has a unique long-haul fiber footprint that extends from Cleveland through Akron, Columbus, Dayton, and Cincinnati, continuing on to Indianapolis and Louisville—no other providers in the industry are able to provide this footprint today.

Pipeline: What services will be ICG's calling card going forward?

ICG: Our VoIP product is one of the more familiar VoIP brands in U.S. telecommunications and has proven to be a highly effective, next-gen solution for enterprise and small business customers' voice and data needs. Voicepipe is an IP-based converged service which meets most customer needs via a one "pipe" solution.

Pipeline: How have your vendor relationships been effected by ICGs bankruptcy?

ICG: Substantial progress has been made in the past six months to resolve outstanding issues with vendors, including the RBOCs, other access and telecommunications service providers, equipment vendors, landlords, property managers, and other service vendors. ICG has done this without the protection of bankruptcy, which results in a far better future relationship with each of these providers.

Pipeline: What types of vendor relationships is ICG considering now?

ICG: As part of ICG's focus on profitability and doing only that in which the company excels, it is employing third-party providers for product support functions and equipment; where it is finding favorable pricing. The company is also in discussions with vendors who have solutions that will enhance our TDM/DWDM backbone capabilities to support additional products and services over it more efficiently, such as Ethernet over SONET.

Pipeline: From a financial standpoint, how does the future look for ICG?

ICG: ICG is now virtually debt free, has more than $10 million in cash, is cash-flow positive and trending to even better financials by year's end, a considerable achievement considering the company was experiencing an $8 million per month cash burn just 9 months ago.

Pipeline: Where do you see ICG in the long term?

ICG: We are always looking for ways to create synergy between vendor/customer relationships; seeking to develop relationships with customers from whom ICG can purchase services cost-effectively and also seeking revenue opportunities with the vendors with whom ICG does business. Such relationships often evolve into long-term win/win outcomes for both parties and that will also be part of the ICG's long-term focus.

Our focus is, plainly spoken, on making money for its investors through the substantial sale of profitable products and services, not solely through the kinds of markers that used to drive the CLEC industry.