

Integra, Lightwave ready to meld products, cultures

Merger built on complementary services, not cost-cutting

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As the telecom market goes through a new wave of consolidation, [Integra Telecom Inc.](#)'s pending purchase of [Electric Lightwave Inc.](#) stands out as a particularly good fit between two companies.

The deal also reveals an ingenious approach to growth: adding a different kind of network and a different kind of customer to an already solid business.

"Usually, [companies] have looked to add horizontally, to add more of the same kind of business in a different region," said **Craig Clausen, senior vice president of telecom research firm New Paradigm Resources Group Inc.**, located in Chicago.

That more common approach applies to several recent acquisitions in telecom, including the recombining of companies spun off from AT&T in the mid-1980s. [SBC Communications Inc.](#)'s purchase of [AT&T Corp.](#) (and rebranding as AT&T), and the newly combined company's bid to purchase [BellSouth Corp.](#), brings together companies providing fairly similar services, but in different geographic areas.

While the ELI purchase does add cities in three new states to Integra's footprint, what is just as important is that the merger blends "two different classes of customers, two different types of facilities, that can be leveraged to Integra's advantage," said Clausen.

Integra, formed in 1996 on the Beaverton campus of the Oregon Graduate Institute, has found a market among small to medium-sized businesses, providing them with telephone lines, DSL, and other phone and Internet-related services.

Integra operates in Oregon, Washington, Utah, Minnesota and North Dakota, serving businesses in 18 metropolitan areas. The privately held company has grown to \$155 million in annual revenue, up 12 percent from 2004, and is cash-flow positive.

ELI adds customers in California, Idaho and Arizona, as well as within some of Integra's coverage area. Headquartered in Vancouver, ELI sells high-bandwidth services to larger businesses such as hospitals and retail chains. Its business is enabled by 2,200 miles of

metropolitan-area fiber that includes direct fiber access to almost 600 commercial buildings. ELI also has a 4,700-mile "long-haul" optic-fiber network connecting cities across the country.

ELI was founded in 1991, and was publicly traded from 1997 until 2002, when it was purchased by publicly traded [Citizens Communications Co.](#) of Stamford, Conn. ELI generated \$159 million in revenue in 2005.

Though Integra has been generating cash from operations for quite some time, the company needs to finance the \$243 million purchase from Citizens, the second-largest acquisition among competitive local exchange telecom companies since 2000.

Integra raised \$450 million from CIBC World Markets Corp. and Goldman Sachs Specialty Lending Group to buy ELI. The money in excess of the purchase price paid off Integra's \$175 million in existing debt, and covered \$4 million in capital lease obligations. The financing was in itself a landmark, the biggest new financing deal for a CLEC in the previous five years.

The purchase deal is expected to close in the third quarter of this year.

Once Integra owns ELI's large fiber network, Integra will be able to reduce its reliance on leasing fiber capacity from telecom companies, such as [Qwest Communications International Inc.](#) Integra is presently an ELI customer, so the combined company will realize savings there, too.

However, integrating two very distinct companies, and their equally distinct networks, is a significant task, with substantial costs.

"It will take time, and be a bit of a distraction from normal business," said Clausen. While Integra can expect to see some cost savings over the longer term, "I think the integration costs and cost savings [in the shorter term] will be a wash, at best."

Still, the growth potential for both businesses is attractive, said Clausen. The ability to offer its small to medium-sized business customers a fuller range of high-bandwidth services should increase sales.

Furthermore, with the entire range of services to offer, from POTS, or Plain Old Telephone Service, to ultra-high OC192 -- capacity equivalent to 129,000 phone lines -- Integra should be able to "capture new business in the entire business segment, from small mom-and-pop customers to large enterprises," said John Nee, Integra's vice president of marketing.

Even at twice its prior size, Integra will be competing with giants. Qwest, the smallest of the Bell operating companies, and a competitor in the Western states and Minnesota, is much larger than Integra, at nearly \$14 billion in annual revenue. [Verizon Communications Inc.](#), also a competitor, is a \$75 billion company.

But being smaller has its advantages. Integra and other smaller competitive telecom companies like it "play well with small to medium businesses," said Clausen. "They call for assistance and

can actually speak to a person; they don't have to endure the pain of being forwarded to automatic voice systems, and they get help quickly."

Integra has always promoted hands-on customer service as its specialty, and "applying that concept to ELI's customer base will be an advantage to them," said Clausen.

Blend Integra's 639 employees -- 275 are in Portland -- with ELI's 470 employees, of which 288 are in Vancouver, won't be easy. But there, too, Clausen sees an advantage: similar company cultures.

Integra has an entrepreneurial culture, and though ELI has been owned by Citizens Communications for several years, "ELI was quite entrepreneurial when it was founded, and still has a spirit similar to what you see at Integra," Clausen said.

"They are similar enough to make it work, yet they are dissimilar enough to have different 'lessons learned' that can help each other."

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