

Profile: Touch America

Another company that had no business investing as much as it did in its business was Touch America. Touch America began its life as the Montana Power Company, a diversified provider of energy and energy services based in Butte, Mont. Like the Williams Companies and Southern Pacific Rail, it learned that it could monetize the long-haul rights of way it held by placing microwave systems and, later, fiber-optic lines on them. Beginning in the early 1990s, it built a small telecommunications subsidiary that sold capacity on its own network to other carriers and companies that needed capacity in Montana and the surrounding states. It bought a long-distance company called TRI Touch America, eventually taking that name for its telecommunications business.

During the late 1990s, in an effort to gain a larger foothold in the industry, Montana Power began to buy IRUs from other long-distance network builders. As the telecommunications business continued to grow, Montana Power made two fateful business decisions at about the same time: it began the process of selling off all of its energy holdings and it bought part of Qwest's network and customer base.

Divesting the energy business generated about \$1.3 billion for the corporation, now named Touch America. In doing so, it exited a stable business in which it operated since 1912 for the great unknown of a telecommunications market that had grown at impressive rates only since the mid-1990s. Coincidentally, Touch America spent a total of about \$1.3 billion building its network.

Touch America's executives, led by Robert Gannon and Michael Meldahl were experienced utility executives with little experience in the telecommunications market. Montana Power operated an internal telecommunications network beginning shortly after divestiture, but that in no way qualified the company's management to convert itself into a telecommunications carrier in a competitive market. Gannon was a long-time lawyer for Montana Power. Meldahl was a long-

regulatory approval for an RBOC-involved merger. And, coincidentally, both happened at the top of the telecom bubble in mid-2000.

The Qwest deal also included agreements between the two carriers for each to use the others' network to haul various sorts of telecommunications traffic. These agreements almost immediately ended up in court.

Touch America's fundamental problem when dealing with Qwest was that Touch America didn't figure the Qwest deal was a short-term proposition. Touch America should have known that, as soon as Qwest received permission to offer long-distance services in the 14-state region area, it would stop handing any traffic over to Touch America's network in favor of its own. Qwest gained long-distance approval in nine of its 14 states in December 2002. By 2002, Touch America was already in a death spiral, though. Its network traffic was dropping rapidly, mostly because the bulk of its revenue traffic came from Qwest, its largest customer and now chief litigation opponent. Touch America had little else in the way of business operations, having sold off the energy business. Like e.spire, it gained early expertise in constructing networks and held itself out as a provider of construction services. Like Velocita, Touch America also had contracts from AT&T to help in a national network build that would allow Touch America to retain some of the capacity it built. But the revenue from these lines of business could not keep the overall business afloat.

Touch America's stock was a dot-com darling for a very short period of time. It announced its strategy of exiting the slow-growth energy business for supposedly greener pastures right at the top of the market. Before the new strategy, Touch America's stock was selling in the \$40 to \$45 range. Catching the last wave of the market mania, the stock moved from \$40 on March 1, 2000, to a high of \$65.75 on March 29, 2000. In late 2000, though, stock market investors were looking for naked emperors and found one in Touch America. The stock price at the end of 2000 was \$20.75. It recovered briefly to about \$25 in January, 2001, but from there began its long slide into oblivion.

With revenue declining at a rapid pace, it was just a matter of time before Touch America's \$1 billion network was just another asset in bankruptcy court. The final push came from the resolution of its disputes with Qwest. Within 90 days of a March 2003 arbitrator's ruling that Touch America owed Qwest \$59.6 million, Touch America filed for bankruptcy. The network that was built for \$1.3 billion was sold out of bankruptcy for \$68 million, about 5 cents on the dollar.