

## Lumos marked anniversary with growth in first year

by George Hohmann, Daily Mail Business Editor

CHARLESTON, W.Va. -- Lumos Networks Corp. plans to celebrate its first anniversary in November by lighting a 100-giga-byte circuit and rolling out higher-speed services on its passive optical network system in Charleston, said Timothy Biltz, company president and chief executive officer.

"I'm focused on celebrating that anniversary with meaningful service offerings and enhancements," Biltz said in a wide-ranging interview.

The history of Lumos is intertwined with nTelos, the regional telecommunications company based in Waynesboro, Va.

nTelos had several traditional telephone companies in Virginia, some wireline business here and a fast-growing wireless operation in both states when it bought FiberNet, a fiber optic network operator, in 2010.

The FiberNet acquisition gave the fiber network side of the business enough scale to stand alone and, on Oct. 31, 2011, nTelos split itself into two companies: nTelos Wireless, a cellular business, and Lumos, which operates the traditional telephone companies in Virginia and a 5,800 route-mile fiber-optic network in Virginia, West Virginia and portions of four surrounding states.

Jim Nester, Lumos spokesman, said the company started with about 500 employees. Almost 200 were in West Virginia. Now Lumos has about 600 employees. The number in West Virginia remains at about 200. "We are still hiring sales, customer care and support team members," he said.

Most West Virginia employees work out of an office building on Greenbrier Street at the base of the Yeager Airport hill but Lumos also has offices in Parkersburg, Fairmont, Wheeling, Morgantown, Beckley, Lewisburg and Martinsburg.

Biltz said, "When we say, 'Our technology comes with people,' that's how we brand ourselves. My main job is to make that real."

Both Lumos and nTelos are headquartered in Waynesboro. Lumos' stock is publicly traded on the NASDAQ market under the ticker symbol LMOS. In the six months ended June 30, Lumos posted net income of \$8 million on operating revenues of \$102.2 million.

Biltz has headed Lumos since May, "but I'm not new to the company or our strategy," he said. "I've served on the nTelos board of directors since 2006 and oversaw the strategy of the acquisition and expansion into West Virginia and the subsequent spin off of Lumos as a stand-alone company. So I can speak as a director then and now as CEO."

"We have great respect for what the founders of FiberNet did in West Virginia," Biltz said. "I thought they did a fantastic job of being a very competitive company."

But the entire competitive local exchange carrier business, including a lot of FiberNet's business, was based on getting access from the incumbent telephone provider and reselling services to residential and business end-users, thus giving customers choices.



Bob Wojcieszak

Nichole Feldhaus, Lumos manager of customer care, looks over the company's coverage map with Jenna Siska, the company's public affairs and marketing coordinator.



Bob Wojcieszak

Lumos Network Technician Mark Preast checks out the company's network at the Lumos regional office on Greenbrier Street.



"Most competitive local exchange carriers, including FiberNet, were buying T-1 lines from the incumbent carrier and reselling that," Biltz said. (A T-1 line is a connection that provides data speeds of up to 1.5 megabites per second).

"For a while that was sufficient," Biltz said. "As data demand grew through the mid-2000s, you would buy multiple T-1s and bundle them to get 10-megabites per second. FiberNet did that. What you see in the marketplace, though, is demand for much greater speeds and lower prices.

"The wholesale cost of what FiberNet was buying and selling wasn't changing and retail prices were coming down," he said. "They started to build a fiber network under that, which was very smart, so you have more control of your pricing and you're not indebted to a third-party provider. We are simply accelerating that strategy."

Lumos is focused on building and owning the facilities that underlie what will be its growth business, business data on its own fiber network, where Lumos can control its pricing, he said.

"A relatively new product offering was Metro Ethernet, which FiberNet was not doing. It's a step up in capabilities and solutions. It's not for everybody — the entry point is \$1,000 to \$1,500 a month and can go to \$50,000."

Lumos also is offering a passive optical network system, or PONS. "So we like to think we've accelerated options in our PONS network and introduced a new product," Biltz said.

"We have a PONS network in West Virginia that touches about 2,000 buildings. Most of it is in the Charleston area, although it does extend down the Interstate 64 corridor. Today we offer 10- to 20-megabites-per-second service on that product.

"By the end of the year, through enhancements, we will be able to offer 50-, 100-, 150-, and up to 300-meg services. And in time we will offer a gig service."

It's like going from a highway with one-and-a-half lanes that has traffic congestion to 200- and even a 650-lane highway, he said.

The company expects to invest \$60 million this year. A third of that will be in West Virginia. "That's probably not quite double what FiberNet had been spending going into the acquisition," Biltz said, adding, "At the time of the deal there was an agreement to invest \$40 million within three years. We're ahead of that schedule."

Lumos has "a fantastic base of business in West Virginia that has been relatively underserved," Biltz said. "We see ourselves as a growth company. We're investing capital and human resources.

"We think it is a market ripe for investment, especially for building broadband high-speed data networks. Our strategy is to build networks for the future, not to re-sell networks of the past. We're just getting started. We're picking up speed and velocity."

Of the \$205 million in revenues the company expects this year, "about half will come from data and half will come from legacy voice services," including re-sale voice services and the company's traditional phone companies in Virginia, he said. "Over time, we expect our strategic data revenues to grow to 70 to 80 percent of our business. That growth is being driven by broadband demand. Customers are consuming and using data in staggering leaps and bounds."

Lumos is focused on serving government, medical, education, and large enterprise users. The company also is hauling data to and from cell towers because "we believe that 70 percent of all access to the Internet in five years will originate from a mobile device," Biltz said. "Wireless customers are some of our best customers. Verizon Wireless is our largest customer.

"We think one of the solutions to broadband under-penetration in West Virginia will be high-speed wireless networks and we are enabling that by working with the wireless carriers. We're running fiber to these cell towers. We can provide them with the capacity to provide the highway back to the Internet or the public networks."

The company is embarked on an "edge-out strategy." Said Biltz: "It's like a water stain. Every time we run new fiber it allows us to edge out, make the next connection to the network. We are not a broad-based, universal service provider. There's a role for that and that's the incumbent's."

The Lumos annual report also mentions an "on net" strategy. Biltz explained: "You build a fiber run, say a metro ring where you're servicing several customers. We may have a customer at the beginning of the block and a customer two blocks down with 15 buildings between the two. An 'on net' customer would be a customer along that route. We would just build a connection from our existing fiber to that additional customer.

"Off net means we're selling or re-selling a service. You have higher cost, less (profit) margin, and you don't have the breadth of product offering."

Biltz said, "We're not the cheap provider but I think we're the highest-value provider in the business segment."