

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Joint Application of)
Consolidated Communications Holdings, Inc.)
And FairPoint Communications, Inc.,) Docket No. _____
For Approval of the Proposed Acquisition)
Of the Common Stock of)
FairPoint Communications, Inc.)
By Consolidated Communications Holdings, Inc.)
and the Resulting Transfer of Control of)
Bluestem Telephone Company, Inc.,)
Sunflower Telephone Company, Inc.,)
FairPoint Communications Missouri, Inc.)
And ST Long Distance, Inc.)
To Consolidated Communications Holdings, Inc.)

TESTIMONY OF MICHAEL J. SHULTZ

**Vice President of Regulatory and Public Policy
CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.**

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE**
2 **RECORD.**

3 **A.**My name is Michael J. Shultz. My business address is 350 South Loop 336 West,
4 Conroe, TX 77304.

5 **Q. PLEASE DESCRIBE YOUR POSITION AND RESPONSIBILITIES AT**
6 **CONSOLIDATED COMMUNICATIONS.**

7 **A.**I am Vice President of Regulatory and Public Policy, a position I have held since
8 2004.

9 **Q. PLEASE DESCRIBE YOUR EMPLOYMENT HISTORY PRIOR TO**
10 **ASSUMING YOUR CURRENT POSITION, AND PLEASE DETAIL ANY**
11 **PRIOR STATE PUBLIC UTILITY COMMISSION PROCEEDINGS IN**
12 **WHICH YOU HAVE PROVIDED TESTIMONY.**

13 **A.**I have held the position of Vice President, Regulatory & Public Policy with Consoli-
14 dated since April 2004. Prior to that date I held the role of Senior Director, Regulatory and
15 Industry Affairs with TXU Communications from November 2002 to April 2004.

16 From 1991 to 2002 I held positions of increasing responsibility with Citizens Com-
17 munications (now Frontier Communications). The last position I held was Director, Federal
18 Regulatory & Compliance. Prior to joining Citizens Communications, I was with the con-
19 sulting firm John Staurulakis, Inc. from 1985 to 1991.

20 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

21 **A.**I am providing detailed information concerning the pending transaction between
22 Consolidated Communications Holdings, Inc. ("CCHI") and FairPoint Communications, Inc.
23 ("FairPoint"), why this transaction is in the public interest and why this transaction will bene-
24 fit the affected ratepayers within the State of Kansas. Later in my testimony, I will address
25 each of the Commission's Merger Standards.

26 **Q. PLEASE SUMMARIZE THE TRANSACTION.**

1 A. Pursuant to the Agreement and Plan of Merger (the “Merger Agreement”), dated as of
2 December 3, 2016, by and among CCHI, Falcon Merger Sub, Inc. (“Merger Sub”), and Fair-
3 Point, CCHI will acquire all of the outstanding equity interests in FairPoint (the “Transac-
4 tion”) in exchange for CCHI stock. The Transaction is valued at approximately \$1.5 billion,
5 including debt. CCHI will thereby acquire indirect control of FairPoint’s operations in all 17
6 states in which FairPoint presently operates, including Kansas.

7 **Q. PLEASE DESCRIBE THE PARTIES TO THIS TRANSACTION.**

8 A. CCHI is a publicly-traded Delaware corporation (Nasdaq: CNSL) headquartered in
9 Mattoon, Illinois. It is a leading broadband and business communications provider through-
10 out its 11-state service area, leveraging its advanced fiber optic network and multiple data
11 centers to offer a wide range of communications solutions, including data, voice, video, man-
12 aged services, cloud computing and wireless backhaul. Certain of CCHI’s operating subsidi-
13 aries have been providing services for more than a century. Through its wholly-owned
14 subsidiary, Consolidated Communications, Inc. (“CCI”), an Illinois corporation also head-
15 quartered in Mattoon, Illinois, CCHI owns and operates a number of licensed telecommuni-
16 cations providers (collectively, the “Consolidated Companies”) across an 11-state footprint
17 (California, Illinois, Iowa, Kansas, Minnesota, Missouri, North Dakota, Pennsylvania, South
18 Dakota, Texas and Wisconsin) and a fiber network spanning 14,100 miles that reaches 5,500
19 on-net buildings and serves 1,100 connected cellular towers. As of September 30, 2016, the
20 Consolidated Companies served, in aggregate, approximately 462,000 voice connections,
21 470,000 data connections and 109,000 video connections. The services and products current-
22 ly provided by the Consolidated Companies include local and long-distance service, high-
23 speed broadband Internet access, video services, Voice over Internet Protocol (“VoIP”), cus-
24 tom calling features, private line services, carrier grade access services, network capacity

1 services over its regional fiber optic networks, cloud services, data center and managed ser-
2 vices, directory publishing, and equipment sales and services.

3 CCHI and its subsidiaries have approximately 1,800 employees, with 146 of those
4 employees located in Kansas. Its combined operations have approximately \$755 million in
5 annual revenues nationwide for the trailing twelve months ended September 30, 2016.¹

6 FairPoint is a publicly-traded Delaware corporation (NASDAQ: FRP) headquartered
7 in Charlotte, North Carolina. FairPoint functions as a holding company and does not provide
8 any telecommunications services in its own right. Through its subsidiaries, FairPoint pro-
9 vides advanced data, voice, and video technologies to single and multi-site businesses, public
10 and private institutions, consumers, wireless companies, and wholesale resellers in 17 states.
11 It owns and operates a robust fiber network with more than 21,000 route miles of fiber, in-
12 cluding approximately 17,000 route miles of fiber in northern New England. Its network
13 coverage, scalable bandwidth, and transport capacity support enhanced applications, includ-
14 ing next generation mobile and cloud-based communications, such as small cell wireless
15 backhaul technology, voice over IP, data center colocation services, managed services, and
16 disaster recovery.

17 FairPoint and its subsidiaries have approximately 2,600 employees, 5 located in Kan-
18 sas directly supporting the operations of Sunflower Telephone Company, Inc. Its combined
19 operations have approximately \$830 million in annual revenues nationwide for the trailing
20 twelve months ended September 30, 2016.²

¹ Additional information regarding CCHI, including its most recent Forms 10-K and 10-Q, as filed with the Securities and Exchange Commission ("SEC"), is available on our website: <http://ir.consolidated.com/sec.cfm>

² Additional information regarding FairPoint, including its most recent Forms 10-K and 10-Q, as filed with the SEC, is available at <http://phx.corporate-ir.net/phoenix.zhtml?c=122010&p=irol-irhome..>

1 FairPoint is the ultimate parent company of three local exchange companies that hold
2 certificates of convenience in the State of Kansas, pursuant to K.S.A. 66-1,187(h): Bluestem
3 Telephone Company, Inc. (“Bluestem”), Sunflower Telephone Company, Inc. (“Sunflower”) and FairPoint
4 Communications Missouri, Inc. (“FairPoint-MO”) (collectively, the “FairPoint
5 LECs”). FairPoint is also the ultimate parent company of ST Long Distance, Inc., (“ST-LD”) which holds
6 a Certificate of Convenience to resell interexchange services issued by the
7 Commission on December 20, 1996, in Docket No. 97-STLC-317-COC.

8 Bluestem is an incumbent local exchange carrier in the State of Kansas pursuant to
9 K.S.A. 66-1,187(h). Bluestem provides local exchange, intra- and interLATA toll, Internet,
10 and ancillary services to approximately 500 residential and single line business access lines
11 as of September 30, 2016. Bluestem is also a designated Eligible Telecommunications Carrier
12 (“ETC”), under 47 U.S.C. § 214(e)(2), in its Kansas exchanges, pursuant to a Commission
13 order dated December 5, 1997, in Docket No. 98-GIMT-241-GIT. Bluestem, however, has
14 not received Kansas Universal Service Fund support since 2004.

15 Sunflower is an incumbent local exchange carrier in the State of Kansas, pursuant to
16 K.S.A. 66-1,187(h). Sunflower provides local exchange, intra- and interLATA toll, Internet,
17 and ancillary services to approximately 2,300 access lines as of September 30, 2016. Sun-
18 flower is also the designated ETC, under 47 U.S.C. § 214(e)(2), in the aforesaid exchanges,
19 pursuant to a Commission order dated December 5, 1997, in Docket No. 98-GIMT-241-GIT.
20 Like Bluestem, Sunflower has not received Universal Service Fund support since 2004.

21 FairPoint-MO is an incumbent local exchange carrier in the State of Kansas operating
22 pursuant to a Certificate of Convenience issued by this Commission in Docket No. 06-
23 FCMT-858-COC. FairPoint-MO provides local exchange, intra- and interLATA toll, Inter-

1 net, and ancillary services to approximately 220 access lines as of September 30, 2016. Fair-
2 Point-MO has never received an ETC designation in Kansas. FairPoint-MO's primary opera-
3 tions are in Missouri, where it is based.

4 **Q. PLEASE DESCRIBE HOW THE TRANSACTION WILL OCCUR.**

5 A. On December 3, 2016, CCHI, FairPoint, and Merger Sub entered the Merger Agree-
6 ment which, among other things, provides for a business combination by reverse triangular
7 merger ("Merger") whereby Merger Sub will merge with and into FairPoint. As a result of
8 the Merger, the separate corporate existence of Merger Sub will cease, and FairPoint will
9 continue as the surviving corporation. Upon completion of the Merger, CCHI will contribute
10 all of the equity interest in FairPoint to its direct, wholly-owned subsidiary, CCI, so that
11 FairPoint will be a direct, wholly owned subsidiary of CCI.

12 The Transaction will result in an indirect change in control of FairPoint's subsidiar-
13 ies, including its Kansas operating entities, the FairPoint LECs and ST-LD.

14 After the Transaction closes, Bob Udell, the current President and Chief Executive
15 Officer of CCHI, will continue to serve as President and Chief Executive Officer of the com-
16 bined company; and one director from the FairPoint Board of Directors will join the Board of
17 Directors of CCHI, which will expand from eight to nine directors. CCHI will continue to be
18 publicly traded, and no person or entity will hold or control 10 percent or more of the equity
19 or voting equity of CCHI upon closing of the Transaction. The combined company will re-
20 tain the Consolidated Communications name and will be headquartered in Mattoon, Illinois.

21 **Q. PLEASE DESCRIBE HOW THE TRANSACTION WILL BE FINANCED.**

22 A. The Transaction is structured as an exchange of stock. Specifically, FairPoint share-
23 holders will receive 0.730 shares of CCHI stock for each FairPoint share. This computes to
24 an implied purchase price of \$17.00 per FairPoint share, representing a 17.3 percent premium

1 to the share price as of December 2, 2016 and a 27.2 percent premium to the 90-day average
2 FairPoint share price prior to the same date. Thus, there will be no borrowing to acquire stock
3 of FairPoint.

4 However, CCHI will incur new debt largely to refinance the existing debts of Fair-
5 Point. Specifically, CCI has secured underwritten debt financing — the Incremental Term
6 Loans described below — from Morgan Stanley Senior Funding, Inc., MUFG, TD Securities
7 (USA) LLC, The Toronto-Dominion Bank, New York Branch, and Mizuho Bank, Ltd. (the
8 “Lenders”) to finance the redemption or repayment of the outstanding long-term debt of
9 FairPoint, currently approximately \$915 million, and to pay costs associated with the Trans-
10 action. The total amount of the incremental note is \$935 million. FairPoint’s existing indebt-
11 edness consists of (a) a term loan in the amount of approximately \$615 million due 2019 with
12 a weighted average rate of approximately 7.50% (“FairPoint Term Loan”) and (b) 8.75%
13 notes due 2019 in an aggregate amount of \$300 million (“FairPoint Notes”).

14 **Q. PLEASE DESCRIBE THE DEBT FINANCING FOR THE TRANSACTION**
15 **AND ANY OTHER EXISTING DEBT FINANCING OF CCHI.**

16 **A.** On October 5, 2016, CCI entered into a Third Amended and Restated Credit Agree-
17 ment, which was subsequently amended by Amendment No. 1, dated as of December 14,
18 2016 and Amendment No. 2, dated as of December 21, 2016 (the “Credit Agreement”). The
19 Credit Agreement consists of the following credit facilities: (1) an initial term loan of \$900
20 million (the “Initial Term Loan”); (2) incremental term loan commitments of \$935 million
21 (“Incremental Term Loans” and together with the Initial Term Loan, the “Term Loans”); and
22 (3) a revolving loan facility in an aggregate amount of up to \$110 million (the “Revolver”
23 and together with the Term Loans, the “Credit Facilities”). Amendment No. 2 added the In-
24 cremental Term Loans for purposes of the Transaction.

1 The Initial Term Loan was used to repay existing debt of CCI. The Incremental Term
2 Loans, which will be borrowed on or about the date of closing of the Transaction, are ex-
3 pected to repay and redeem certain existing indebtedness of FairPoint and to pay certain fees
4 associated with the Transaction. CCI has borrowed \$10 million under the Revolver, which
5 has \$100 million available for additional borrowing. The Revolver may be used for working
6 capital and general corporate purposes.

7 The Term Loans have a maturity date of October 5, 2023 (subject to earlier maturity
8 of March 31, 2022 under certain conditions). The Term Loans have an interest rate of LIBOR
9 plus 3.00% subject to a 1.00% LIBOR floor. LIBOR is calculated based on a three-month
10 adjusted LIBOR rate.

11 The Revolver has a maturity date of October 5, 2021. The Revolver has an interest
12 rate of LIBOR plus 2.50-3.25%.

13 The Credit Facilities are guaranteed and secured by substantially all the assets of
14 CCHI and certain of its current and future subsidiaries.

15 In addition, CCI has issued \$500 million in senior unsecured notes that mature on
16 October 1, 2022, and have an interest rate of 6.50% (the "Senior Unsecured Notes" and to-
17 gether with the Credit Facilities, the "Financings"). The Senior Unsecured Notes are guaran-
18 teed by CCHI and certain of its current and future subsidiaries. The Senior Notes were used
19 in part to redeem the remaining principal amount of 10.875% Senior Notes due 2020.

20 **Q. PLEASE DISCUSS WHETHER THE TERMS OF THE INCREMENTAL**
21 **TERM LOANS ARE SUPERIOR TO THE TERMS OF FAIRPOINT'S**
22 **EXISTING INDEBTEDNESS.**

23 **A.**Solely comparing current interest rates, the answer is yes. As stated above, the inter-
24 est rate for the Incremental Term Loans is LIBOR plus 3.00%, which currently equals 4.00%.

1 In contrast, the FairPoint Term Loan has a weighted average rate of approximately 7.50%
2 and the FairPoint Notes have an interest rate of 8.75%. The incremental notes reduce interest
3 expense significantly.

4 **Q. PLEASE DISCUSS WHETHER THE TERMS OF THE INCREMENTAL**
5 **TERM LOANS COMPARE FAVORABLY WITH FINANCING**
6 **ARRANGEMENTS FOR RECENT COMPARABLE TRANSACTIONS.**

7 **A.** To our knowledge, there are no recent comparable transactions. However, looking at
8 CCHI's prior transactions, the Incremental Term Loans have the same terms as the Initial
9 Term Loan and are arguably better than the terms of the Senior Unsecured Notes, both of
10 which were used in part for the acquisition of SureWest and Enventis, including refinancing
11 the debt of the acquired companies.

12 **Q. PLEASE DISCUSS WHETHER THE KANSAS LECS WILL BE REQUIRED**
13 **TO PROVIDE A GUARANTY OR PLEDGE OF ASSETS AS SECURITY FOR**
14 **THE FINANCING ARRANGEMENTS OF CCHI.**

15 **A.** Yes, under the terms of the Credit Agreement, future acquired subsidiaries of CCHI
16 are required to provide a guaranty and pledge their assets as security for the Credit Facilities.
17 In addition, under the terms of the Senior Unsecured Notes, future acquired subsidiaries are
18 required to provide a guaranty. Therefore, Licensees will provide a guaranty for the Credit
19 Facilities and the Senior Unsecured Notes and pledge their assets as security for the Credit
20 Facilities. The subsidiary guaranties are a common requirement for these sorts of financing
21 arrangement and the pledge of assets for the Credit Facilities helped secure a lower interest
22 rate for those facilities.

23 **Q. PLEASE DISCUSS WHETHER THE COMBINED COMPANY'S**
24 **LEVERAGE RATIO WILL BE BETTER THAN FAIRPOINT'S CURRENT**
25 **LEVERAGE RATIO.**

1 A. Upon the closing of the Transaction, CCHI will reduce its overall net leverage ratio
2 from 4.4 times adjusted EBITDA for the last 12 months (as of September 30, 2016, before
3 synergies) to 3.8 times adjusted EBITDA (including expected run-rate synergies). FairPoint's
4 current net leverage ratio is 3.6 times.

5 **Q. PLEASE COMPARE THE CURRENT CREDIT RATINGS OF CCHI AND**
6 **FAIRPOINT AND EXPLAIN IF ANY RATING AGENCIES HAVE**
7 **PROVIDED GUIDANCE ON THE CREDIT RATING FOR THE COMBINED**
8 **COMPANY.**

9 A. CCHI is currently rated as Ba3 by Moody's and rated as B+ by Standard & Poor's.
10 By comparison, FairPoint is currently rated by Moody's as B2, two levels below CCHI, and
11 rated by Standard & Poor's as B, one level below CCHI. The ratings agencies have reviewed
12 this transaction and our ratings will stay the same. CCHI's superior credit rating has allowed
13 it to obtain better terms for the Incremental Term Loan than FairPoint likely could obtain if it
14 independently decided to refinance the FairPoint Term Loan and FairPoint Notes. Further,
15 that credit rating will also provide CCHI better access to debt and equity markets in the fu-
16 ture.

17 **Q. PLEASE DISCUSS WHETHER THE TRANSACTION REQUIRES**
18 **APPROVAL IN OTHER JURISDICTIONS.**

19 A. Yes, the parties have submitted Hart-Scott-Rodino filings to the Federal Trade Com-
20 mission and the U.S. Department of Justice and are seeking approval from the Federal Com-
21 munications Commission and the state regulatory agencies in the following states: Colorado,
22 Georgia, Illinois, Maine, New Hampshire, New York, Ohio, Pennsylvania, Vermont, and
23 Virginia. CCHI and FairPoint are targeting closing during the 2Q 2017.

24 **Q. PLEASE DISCUSS WHETHER THE TRANSACTION REQUIRES ANY**
25 **CHANGES IN THE DAY-TO-DAY OPERATIONS OF THE THREE**
26 **FAIRPOINT LECS.**

1 A. No. Each of these companies will continue to operate after the Transaction exactly as
2 it does today, providing the same services to its customers over the same network, pursuant
3 to the same rates, terms and conditions, and using the same operational support systems and
4 billing platforms. Although, after the closing of the Transaction, I expect that CCHI will re-
5 view the operational practices of each subsidiary and will adopt best practices across all of its
6 business footprint, this process will take time and will be done with care. By way of example,
7 CCHI is still in the process of integrating the subsidiaries it acquired from Enventis Corpora-
8 tion in 2014. CCHI has considerable experience in integrating new acquisitions, and will do
9 so in a way that will not be disruptive to the day-to-day customer experience.

10 **Q. PLEASE DISCUSS WHAT MOTIVATED CCHI TO PURSUE THE**
11 **ACQUISITION OF FAIRPOINT.**

12 A. CCHI has a proven record of successfully acquiring and operating telecommunica-
13 tions providers. The company has found that by increasing the scale of its operations, it is
14 able to achieve greater operating efficiency due to standardization of procedures, centralized
15 purchasing (achieving better pricing from vendors), increasing the scope and utilization of its
16 transmission networks, and other advantages. Since 2004, CCHI has successfully completed
17 the following acquisitions:

- 18 • In April 2004, CCHI acquired TXU Communications, which brought two rural
19 local exchange carriers (“RLECs”) in southeast Texas into the Consolidated fami-
20 ly;
- 21 • In December 2007, CCHI acquired North Pittsburgh Systems, Inc., which brought
22 an ILEC serving suburban Pittsburgh and rural western Pennsylvania, a CLEC
23 serving metropolitan Pittsburgh and Nauticom, a data hosting company, into the
24 Consolidated family;

- In July 2012, CCHI purchased SureWest Communications, which extended CCHI's operations to Roseville and Sacramento, California, and to the Kansas City metropolitan area. Operations in the Kansas City area are conducted by its subsidiary, Consolidated Communications Enterprise Services, Inc. ("CCES"), pursuant to Certificates of Convenience granted in Docket Nos. 16-EVMT-178-CCN and 15-COSC-219-CCN. CCES also holds a Video Service Authorization issued by this Commission in Docket No. 08-EVMT-1088-VSA.
- In October 2014, CCHI acquired Enventis Corporation and its subsidiaries, which added operations in Minnesota (including two ILECs serving rural Blue Earth county), Iowa, Wisconsin, North Dakota and South Dakota.
- In July 2016, Consolidated acquired the assets of Champaign Telephone Company and its subsidiary, a private business-communications provider in the Champaign-Urbana, Illinois area.

Q. HAVE YOU REVIEWED THIS COMMISSION'S MERGER STANDARDS?

A. Yes, I have. It is my understanding, based on a telephone conference call with Commission Staff on December 15, 2016, that the Merger Standards articulated in the Order on Merger Standards issued on August 9, 2016 in Docket Nos. 16-KCPE-593-ACQ, 16-EPDE-410-ACQ, 16-ITCE-512-ACQ will be applicable to this Transaction.

Q. PLEASE ADDRESS EACH OF THE MERGER STANDARDS ARTICULATED BY THE COMMISSION.

A. Yes, I will address each one individually.

Q. PLEASE ADDRESS THE EFFECT OF THE PROPOSED TRANSACTION ON THE FINANCIAL CONDITION OF THE NEWLY CREATED ENTITY AS COMPARED TO THE FINANCIAL CONDITION OF THE STAND-ALONE ENTITIES IF THE TRANSACTION DID NOT OCCUR.

1 A. To be clear, the Transaction will not result in a newly created entity. Rather, FairPoint
2 and its subsidiaries will continue to exist and will retain their current corporate identities, but
3 will be owned ultimately by CCHI. CCHI (NASDAQ: CNSL) is financially sound. CCHI's
4 SEC Form 10-K Annual Report for calendar year 2015 is available online at
5 <http://ir.consolidated.com/sec.cfm>.

6 During calendar year 2015, CCHI had total operating revenues of \$775.7 million, ad-
7 justed EBITDA³ of \$329 million, and net cash from operations of \$219 million. As of De-
8 cember 31, 2015, CCHI had over \$2.1 billion in total assets and approximately \$1.9 in total
9 liabilities, including \$1.4 billion in long-term debt and capital lease obligations. CCHI dis-
10 tributed \$78 million in dividends to its shareholders and generated a payout ratio of approxi-
11 mately 67%. CCHI currently has a bond rating of Ba3. FairPoint has a bond rating of B3,
12 which is a step lower than CCHI's.

13 As previously stated, under the Merger Agreement, the transaction value is \$1.5 bil-
14 lion, including debt. CCHI will assume FairPoint's existing liabilities and refinance approx-
15 imately \$915 million in long-term debt on more favorable terms, so that the combined
16 company is projected to be significantly deleveraged as a benefit of the transaction.

17 Upon the closing, CCHI will reduce its overall net leverage from 4.4 times adjusted
18 EBITDA for the last 12 months (as of September 30, 2016, before synergies) to 3.8 times
19 adjusted EBITDA (including expected run-rate synergies).

20 From a financial standpoint, CCHI's securement of \$935 million in debt financing to
21 be used, among other things, to refinance FairPoint's existing \$915 million debt brings great-

³ "EBITDA" is defined as net earnings before interest expense, income taxes, and depreciation and amortization. "Adjusted EBITDA" is comprised of EBITDA, adjusted for certain items as permitted or required under CCHI's Credit Facilities. These measures are common measures of operating performance in the telecommunications industry and are useful, with other data, as a means of evaluating a company's ability to fund its estimated uses of cash.

1 er certainty and reduced risk to the Transaction and for Kansas consumers and thus promises
2 to yield affirmative public interest benefits. The terms of CCHI's Incremental Term Loans
3 are more favorable than the terms of FairPoint's existing debt facilities. In particular, CCHI
4 was able to leverage its favorable credit rating and credit market profile (vis-à-vis FairPoint)⁴
5 to obtain financing for the Transaction at an interest rate of 4%,⁵ whereas the FairPoint Term
6 Loan has a weighted average rate of approximately 7.50% and the FairPoint Notes have an
7 interest rate of 8.75% for a blended interest rate of approximately 7.9%. This substantial sav-
8 ings in interest expense will lower risk and improve financial and strategic flexibility going
9 forward for the combined company. It will allow CCHI to proceed through its stated integra-
10 tion on a measured and methodical pace without the pressures that could have arisen from
11 less favorable credit terms. It also reduces risk and financial pressure on FairPoint and the
12 FairPoint LECs, as it was unlikely that FairPoint could have achieved terms and rates compa-
13 rable to those obtained by CCHI if it had to access the credit market outside of this Transac-
14 tion and secure stand-alone financing.

15 Additional details concerning the public interest benefits of the Transaction can be
16 found in the Public Interest Statement appended to the Domestic Section 214 Application
17 filed with Federal Communications Commission ("FCC"), a copy of which is attached hereto
18 as Attachment A.

19 **Q. PLEASE ADDRESS THE REASONABLENESS OF THE PURCHASE PRICE,**
20 **INCLUDING WHETHER THE PURCHASE PRICE WAS REASONABLE IN**
21 **LIGHT OF THE SAVINGS THAT CAN BE DEMONSTRATED FROM THE**

⁴ Joint Applicants submit that CCHI has a more favorable reputation and profile than FairPoint in credit mar-
kets generally allowing for better access to capital. For example, CCHI has a Moody's rating of Ba3 versus Fair-
Point's rating of B2, a two level or "notch" difference. Similarly, CCHI has a Standard & Poor's rating of B+ versus
FairPoint's rating of B, a one level or "notch" difference.

⁵ See *infra*. Pp. 7-8.

1 **MERGER AND WHETHER THE PURCHASE PRICE IS WITHIN A**
2 **REASONABLE RANGE.**

3 **A.** Included as Attachment B to my testimony is an analysis of 17 telecommunications
4 transactions, dating back to 2012. This list depicts Equity Control Premiums and Enterprise
5 Value Control Premiums for each of the transactions, including CCHI's acquisition of En-
6 ventis Corporation in 2014 and its acquisition of SureWest in 2012.

7 Each of the transactions must be judged separately, based on its own merits because
8 of the nature of each acquisition target, and their debt/equity ratio. On December 3, 2016, the
9 date this transaction was announced, CCHI's offering price represented a 17.3 percent equity
10 control premium to FairPoint's then-current share price.

11 This is well within the zone of reasonableness as compared to the 17 transactions in
12 Attachment B.

13 As further discussed below, this purchase price was arrived at using an assumption of
14 \$55 million in annualize savings, expected to be achieved within two years.

15 **Q. PLEASE ADDRESS WHETHER RATEPAYER BENEFITS RESULTING**
16 **FROM THE TRANSACTION CAN BE QUANTIFIED.**

17 Customers will benefit from increased operating synergies (estimated at \$55 million
18 annually within two years of closing) and reduced leverage (*i.e.*, the pro forma balance sheet
19 capital structure of the combined company will provide significantly improved financial and
20 strategic flexibility).

21 No portion of the acquisition premium will be allocated to the FairPoint LECs. Rate-
22 payers of the FairPoint LECs will not see any rate increases to their regulated local exchange
23 services as the result of this Transaction.

1 In addition, Applicants believe that the Transaction allows the combined company to
2 offer advanced products and services and consumer choice for telecommunications and
3 broadband services in the service areas of the FairPoint LECs. CCHI has extensive experi-
4 ence in providing telecommunications and related services and maintaining and investing in
5 facilities in rural and small urban areas. In particular, CCHI has had substantial success inte-
6 grating acquired companies. It did so in 2004 when it acquired its Texas properties from
7 TXU; in 2007 when it integrated the North Pittsburgh Telephone Company; in 2013 when it
8 acquired SureWest; and again in 2014 when it acquired Enventis and its ILECs in Minnesota.
9 With each ILEC acquisition, CCHI has made it a priority to upgrade the broadband capability
10 of its network. Currently, the CCHI's operating subsidiaries (collectively, the "Consolidated
11 Companies") provide at least 20 Mbps download speeds to 90 percent of their broadband
12 customers.

13 Current and future customers of the FairPoint LECs will also enjoy the benefit of the
14 Consolidated Companies' record of providing a high-quality customer experience. These
15 benefits will extend to installation and service appointment processes; consumer-friendly
16 pricing and packaging choices; and the delivery of further advanced broadband services.
17 CCHI will continue to fulfill the FairPoint LECs' historic commitment to their communities.

18 **Q. PLEASE DISCUSS WHETHER THERE ARE OPERATIONAL SYNERGIES**
19 **THAT JUSTIFY PAYMENT OF A PREMIUM IN EXCESS OF BOOK**
20 **VALUE.**

21 Applicants have estimated approximately \$55 million in merger-related efficiencies
22 annually, expected to be achieved within two years. While some of these efficiencies are re-
23 lated to corporate overhead, a significant component of the efficiencies are related to network
24 and operations costs. CCHI will leverage existing network locations to unify and connect the

1 companies' disparate ILEC and CLEC networks into a single national network, connected
2 through 10 Gbps links, consolidating functions including ISP uplinks and cybersecurity.
3 CCHI and FairPoint operate ILECs in four of the same states. In Kansas, the combined enti-
4 ties have ILEC and CLEC operations, although those operations do not overlap, as depicted
5 by Attachment C.

6 Connecting the combined companies' properties in this fashion will enhance the secu-
7 rity and stability of the network, promote the availability of improved broadband speed and
8 speed the process of making video service available to more customers.

9 The Transaction offers an opportunity for greater network efficiencies. As part of the
10 anticipated merger-related synergies of \$55 million to be achieved in two years, the parties
11 expect at least \$10 million of that to be attributed to network access synergies.

12 **Q. PLEASE DISCUSS THE EFFECT OF THE PROPOSED TRANSACTION ON**
13 **THE EXISTING COMPETITION.**

14 Since the service territory does not overlap with the service territories of the FairPoint
15 LECs, the Transaction will not reduce the number of competitors in any Kansas territory, and
16 may even enhance competition in the service areas of the combined company.

17 Consolidated offers an expansive suite of communications products in its existing
18 markets, and anticipates introducing new services, such as video services, to the FairPoint
19 markets. The Transaction is likely to benefit the marketplace for communications and broad-
20 band services in Kansas by improving the capacity of the FairPoint LECs (which will be con-
21 trolled by CCHI) to compete on a more equal footing with providers of cable and wireless
22 services. The Transaction will allow CCHI to leverage its enhanced product suite and its con-
23 sultative sales approach across FairPoint's markets, including Bluestem, Sunflower and Fair-
24 Point-MO.

1 After the closing, CCHI expects to continue to invest in technologically advanced tel-
2 communications networks and to enhance and expand its network by deploying technolo-
3 gies to provide additional capacity to its customers. Where necessary, CCHI continues to
4 enhance an existing copper network to increase bandwidth in order to provide additional
5 products and services to marketable homes.

6 CCHI is committed to bringing fiber closer to the customer premise across its net-
7 works so that it can increase its service offerings, service quality and bandwidth services.
8 CCHI presently deploys a 100% fiber backbone network that supports all of the inter-office
9 and host-remote links, as well as the majority of office parks, within its service areas. This
10 fiber connectivity provides the connectivity required to provide video service Internet access
11 service and long-distance services to all CCHI residential and business customers. In addi-
12 tion, its fiber network uses fiber-to-the-home (“FTTH”) and fiber-to-the-node (“FTTN”)
13 networks to offer bundled residential and business services.

14 In addition, CCHI’s extensive fiber network supports the increased demand on wire-
15 less carriers for data bandwidth. In all the markets it presently serves, CCHI has launched
16 initiatives to support fiber backhaul services to cell sites. As of December 31, 2015, CCHI
17 had 1,224 cell sites under contract with 1,065 connected and 159 scheduled for completion
18 by Year End 2016.

19 The transaction will have no adverse effect on the services provided to the retail or
20 wholesale customers of Bluestem, Sunflower or FairPoint-MO in Kansas, who will continue
21 to receive the services presently provided by those local exchange carriers under the existing
22 tariffs currently on file with the Commission.

1 CCHI does not anticipate any rate increases to the local exchange services of Kansas
2 consumers will result from this Transaction. In fact, CCHI does not anticipate any rate in-
3 creases in the near future other than those mandated by the FCC from time to time as offsets
4 to reduced access rates. Because the FairPoint LECs will continue to operate under their ex-
5 isting authority, no transfers of assets will take place as a result of the Transaction (although
6 the FairPoint LECs will pledge their assets as part of the Credit Facilities).

7 It should be noted that FairPoint has declined FCC CAF Phase II (high cost) support
8 for its Kansas properties. Neither Sunflower, Bluestem nor FairPoint-MO receives high cost
9 support from the Kansas Universal Service Fund. The Transaction is not expected to affect
10 these entities' current level of participation in either FUSF or KUSF support.

11 **Q. PLEASE ADDRESS THE EFFECT OF THIS TRANSACTION ON THE**
12 **ENVIRONMENT.**

13 **A.** The Transaction is not expected to have any effect on the environment. Further,
14 CCHI has been proactive in its approach to environmental issues. The following link on
15 CCHI's corporate website details the company's environmental policies:

16 <https://www.consolidated.com/about-us/community-matters/environmental-responsibility>.

17 **Q. PLEASE DISCUSS WHETHER THE PROPOSED TRANSACTION WILL BE**
18 **BENEFICIAL ON AN OVERALL BASIS TO STATE AND LOCAL**
19 **ECONOMIES AND TO COMMUNITIES IN THE AREA SERVED BY THE**
20 **RESULTING PUBLIC UTILITY OPERATIONS IN THE STATE.**

21 **A.** CCHI operates each of its subsidiaries as either an ILEC or a CLEC, depending on
22 the territory served by the operating entity. For each service area served by CCHI's seven
23 ILEC entities, the ILEC is a designated ETC under federal law and serves as the carrier-of-
24 last resort ("COLR") or its equivalent under applicable state law.

1 CCHI understands the special challenges that COLRs face in a rapidly changing
2 competitive and regulatory environment. From loss of access lines to declines in interstate
3 revenues and federal subsidies, COLRs must find ways to stabilize their economic footing
4 and to compete effectively for every customer in their service areas.

5 Because of the unpredictability of regulatory changes at the federal and state levels
6 and the economic volatility of the communications marketplace, CCHI must adhere to a mar-
7 ket-by-market analysis of its strategic decisions. For this reason, CCHI has refrained from
8 making specific commitments to the level or pace of investment in particular markets.
9 CCHI's commitment is to leverage its greater scale to achieve greater financial and opera-
10 tional stability in the delivery of services to its communities and customers.

11 Overall, however, as the market demands for bandwidth continue to increase to re-
12 flect increased Internet usage, CCHI has consistently focused on enhancing its product and
13 service offerings, such as its progressively increasing consumer data speeds. CCHI offers da-
14 ta speeds of up to 1 Gigabyte (Gbps) in select markets. Where 1 Gbps speeds are not yet of-
15 fered, the maximum broadband speed is 100 Mbps, depending on geographic market
16 availability. As of September 30, 2016, approximately 28% of the homes served by the Con-
17 solidated Companies subscribed to their data service.

18 CCHI has consistently invested in its networks to stay on the leading edge of commu-
19 nications service in its markets. In calendar year 2015 alone, CCHI invested \$134 million in
20 capital projects and extended its fiber network by over 1,300 route miles while adding broad-
21 band capacity for its residential and commercial customers. As of December 31, 2015,
22 CCHI's residential broadband offerings across its service areas were 89% capable of a 20
23 Mbps service, 42% capable of a 100 Mbps service, and 10% capable of a 1 Gbps service.

1 CCHI's robust consumer broadband speeds allow its operating entities to continue to
2 meet their customers' demand for broadband service that supports the growing trend toward
3 over-the-top ("OTT") content viewing. The availability of 1 Gbps data speed also comple-
4 ments CCHI's wireless home networking ("WiFi") that supports its "TV Everywhere" ser-
5 vice, which allows its subscribers to watch their favorite programs at home or away on a
6 computer, smartphone or tablet.

7 These broadband services are particularly essential to rural, small exchange commu-
8 nities, such as those served by Bluestem, Sunflower and FairPoint-MO.

9 **Q. PLEASE DISCUSS WHETHER THE PROPOSED TRANSACTION WILL**
10 **LIKELY CREATE LABOR DISLOCATIONS THAT MAY BE**
11 **PARTICULARLY HARMFUL TO LOCAL COMMUNITIES, OR THE**
12 **STATE GENERALLY, AND WHETHER MEASURES CAN BE TAKEN TO**
13 **MITIGATE THE HARM.**

14 **A.** Sunflower currently has five employees. These employees are tasked with operations
15 functions, such as maintaining switch facilities and outside plant and performing customer
16 installations. No reductions in force are expected for these five individuals.

17 The principal operations of FairPoint-MO are based in Peculiar, MO. Both Bluestem
18 and FairPoint-MO are staffed by employees based in Peculiar. Again, these employees per-
19 form primarily operations functions, and are not expected to be affected by the Transaction.

20 In its prior acquisitions, CCHI has made it a priority to maintain sufficient operations
21 and other personnel to maintain its network and provide service that meets all service level
22 benchmarks. CCHI plans to do the same for this Transaction.

23 **Q. PLEASE ADDRESS WHETHER THE PROPOSED TRANSACTION WILL**
24 **PRESERVE THE JURISDICTION OF THE COMMISSION AND THE**
25 **CAPACITY OF THE COMMISSION TO EFFECTIVELY REGULATE AND**
26 **AUDIT PUBLIC UTILITY OPERATIONS IN THE STATE.**

1 **A.** CCHI and its operating companies have excellent working relationships with the reg-
2 ulatory bodies overseeing their operations, due in large part to the importance CCHI places
3 on regulatory rules and regulations and its informed and respectful participation in the regu-
4 latory process.

5 In addition to this Commission's approval, the proposed transaction will require ap-
6 proval from public utility regulatory agencies in other states in which FairPoint or its operat-
7 ing subsidiaries presently operate, as well as from the Federal Communications Commission.

8 As previously stated, Bluestem, Sunflower and FairPoint-MO will continue to operate
9 as they have been. All existing pricing, terms and conditions will remain in place. This
10 Transaction should have no effect on the Commission's ability to continue to regulate these
11 companies as rate-of-return local exchange companies. CCES will continue to hold its Certif-
12 icates of Convenience at the Commission under the name Consolidated Communications En-
13 terprise Services, Inc. and will maintain its operations in the Kansas City metro area.

14 **Q. PLEASE DISCUSS THE EFFECT OF THE TRANSACTION ON AFFECTED**
15 **PUBLIC UTILITY SHAREHOLDERS.**

16 **A.** As stated earlier, FairPoint shareholders will receive 0.730 shares of CCHI stock for
17 each FairPoint share based on an implied purchase price of \$17.00. This represents a 17.3
18 percent premium to the current share price as of December 2, 2016 and a 27.2 percent premi-
19 um to the last 90-day average FairPoint share price prior to the same date.

20 Currently FairPoint does not issue a dividend to its shareholders; after the transaction
21 they will receive CCHI's current dividend of \$1.55 per share.

22 **Q. PLEASE ADDRESS WHETHER THE TRANSACTION MAXIMIZES THE**
23 **USE OF KANSAS ENERGY RESOURCES.**

1 A. I confirm that Sunflower, Bluestem and FairPoint-MO each receive electric service
2 pursuant to the tariffs available to small commercial entities.

- 3 • Sunflower receives electric service in its various exchanges from Wheat-
4 land Electric, City of Sharon Springs, and Midwest Energy.
- 5 • Bluestem receives service from Westar, Flint Hills Rural Electric Coop-
6 erative and Lynn-Coffey County Rural Electric Association.
- 7 • FairPoint-MO receives service from Kansas City Power and Light.

8 I presume that any issues related to the Kansas energy source mix utilized by these
9 entities would be addressable in Commission dockets pertaining to the electric wholesale
10 providers utilized by these electric distribution utilities and cooperatives.

11 **Q. PLEASE ADDRESS WHETHER THE TRANSACTION WILL REDUCE THE**
12 **POSSIBILITY OF ECONOMIC WASTE.**

13 A. I confirm that FairPoint's customers will benefit from operational efficiencies that
14 will result from the transaction. Among the 11 states in which CCHI presently operates and
15 the 17 states in which FairPoint operates, there are four overlapping states. The Transaction,
16 if approved, is expected to achieve approximately \$55 million in annual run-rate synergies
17 after two years, with \$45 million in annual savings from reduced operating costs and \$10
18 million in annual savings in vendor and other third-party costs.

19 The combined company will also have superior access to capital. CCI has already re-
20 ceived a commitment to refinance FairPoint's existing \$915 million in debt obligations,
21 which will allow CCHI to reduce its overall net leverage at closing from 4.4x (as of Septem-
22 ber 30, 2016) to 3.8x (including the expected run-rate synergies). FairPoint's net leverage as
23 of September 30, 2016 is 3.6x.

1 With a scale that allows greater operational efficiencies and access to capital, the
2 combined company will be better positioned to continue CCHI's demonstrated commitment
3 to revenue transformation and financial and operational stability in all the markets it serves.
4 CCHI is hopeful that operational synergies, a higher free flow of cash, a lower leverage ratio,
5 and greater economic power will create opportunities for investment in the existing FairPoint
6 markets, including the Sunflower, Bluestem and FairPoint-MO.

7 It is our strong belief that this transaction will result in economic efficiencies and will
8 not result in economic waste.

9 **Q. PLEASE DISCUSS WHAT IMPACT, IF ANY, THE TRANSACTION HAS ON**
10 **PUBLIC SAFETY.**

11 **A.** Sunflower, Bluestem and FairPoint-MO currently provide 911 service in the various
12 exchanges and communities they serve. The current arrangements will be unchanged as the
13 result of this transaction. Those arrangements are:

- 14 • Sunflower's exchanges in Tribune, Leoti, Mariental, Jetmore and Sharon
15 Springs/Weskan/Wallace are connected to Public Safety Answering Points (PSAPs)
16 operated by the local counties/sheriff's departments. Sunflower hands off the 911
17 circuits directly to those public safety entities.
- 18 • Bluestem exchanges located in Lyon County are directly connected to the Lyon
19 County Sheriff, who operates the county PSAP. Likewise, the portions of the ex-
20 changes which are located in Chase County are directly connected to the Chase Coun-
21 ty Sheriff's office, which operates the PSAP. The portion of the Bluestem exchanges
22 in Marion, Morris and Wabaunsee Counties that are not directly connected to a coun-
23 ty PSAP dial local numbers, which are then call-forwarded to the county Sheriff's de-
24 partment.

- FairPoint-MO customers in Miami County have 911 trunks connected to the PSAP in Paola, KS.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

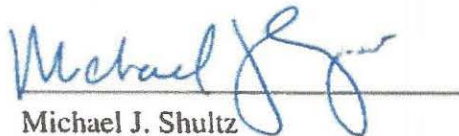
A. Yes, it does. However, we would be happy to respond to questions or supplement this testimony if it will expedite the review and approval of our application.

VERIFICATION

STATE OF TEXAS)

COUNTY OF MONTGOMERY)ss.

I, Michael J. Shultz, being duly sworn on oath, state that I am Vice President -
Regulatory and Public Policy for Consolidated Communications, that I have read the foregoing
Testimony and know the contents thereof, and that the facts set forth therein are true and correct
to the best of my knowledge, information and belief.


Michael J. Shultz

Subscribed and sworn to before me this 6th day of January, 2017

My Commission Expires: 4-8-2020

