



STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

DT 16-872

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. and  
FAIRPOINT COMMUNICATIONS, INC.

Joint Petition for Findings in Furtherance of the  
Acquisition of FairPoint Communications, Inc.  
and its New Hampshire Operating Subsidiaries  
by Consolidated Communications Holdings, Inc.

PREFILED DIRECT TESTIMONY OF  
MICHAEL J. SHULTZ  
ON BEHALF OF  
CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.

January 17, 2017

**PREFILED DIRECT TESTIMONY OF**  
**MICHAEL J. SHULTZ**  
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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Michael J. Shultz. My business address is 350 S. Loop 336 West, Conroe,  
4 Texas 77304.

5 **Q. By whom are you employed and what position do you hold?**

6 A. I am employed by Consolidated Communications, Inc. ("CCI"), a wholly owned  
7 subsidiary of Consolidated Communications Holdings, Inc. ("Consolidated"). I hold the position  
8 of Vice President, Regulatory & Public Policy.

9 **Q. Please describe your educational background and professional background.**

10 A. I received a Bachelor of Arts degree in Economics from the University of Pittsburgh and  
11 a Masters of Business Administration from the University of Dallas. I have held the position of  
12 Vice President, Regulatory & Public Policy with CCI since April 2004. Prior to that date, I held  
13 the role of Senior Director, Regulatory and Industry Affairs with TXU Communications from  
14 November 2002 to April 2004.

15 From 1991 to 1992, I held positions of increasing responsibility with Citizens  
16 Communications (now Frontier Communications). The last position I held was Director, Federal  
17 Regulatory & Compliance. Prior to joining Citizens Communications, I was with the consulting  
18 firm of John Staurulakis, Inc. from 1985 to 1991.

19 I currently serve on the Board of Directors for the National Exchange Carrier  
20 Association. As well, I am a member of the Board of Directors of the Illinois  
21 Telecommunications Association, Pennsylvania Telephone Association, and the Independent

1 Telephone and Telecommunications Alliance. I also serve on The Woodlands Area Economic  
2 Development Partnership.

3 **Q. Please describe your current responsibilities.**

4 **A.** I am responsible for Federal and State regulatory and legislative strategy, advocacy, and  
5 regulatory compliance. In addition, I have responsibility for tariffs, interconnection, industry  
6 relations, settlements, and billing operations.

7 **Q. Have you previously testified before the New Hampshire Public Utilities  
8 Commission (“the Commission”) or another public utility commission?**

9 **A.** I have not previously testified before the Commission. However, I have testified before  
10 the California, Nebraska and Texas Public Utility Commissions.

11 **Q. What is the purpose of your testimony?**

12 **A.** The purpose of my testimony is to support the Joint Petition filed December 29, 2016 in  
13 this docket by Consolidated and FairPoint Communications, Inc. (“FairPoint”). My testimony  
14 provides an overview of the proposed transaction between Consolidated and FairPoint, and  
15 describes Consolidated’s and its affiliated companies’ technical, managerial and financial  
16 capabilities of maintaining the obligations of a New Hampshire incumbent local exchange carrier  
17 (“ILEC”). Additional testimony regarding Consolidated’s technical capabilities is provided by  
18 Mr. Gabe Waggoner, and testimony regarding Consolidated’s financial capabilities is provided  
19 by Mr. Steven Childers.

20

21

1 **II. OVERVIEW OF THE ACQUISITION/MERGER TRANSACTION**

2 **Q. Please describe the proposed transaction in which Consolidated will acquire**  
3 **FairPoint.**

4 **A.** Consolidated and FairPoint have entered into an Agreement and Plan of Merger dated  
5 December 3, 2016 (“Merger Agreement”), which was submitted to the Commission as  
6 Attachment 2 to the Joint Petition that was filed in this docket on December 29, 2016. Pursuant  
7 to the terms of the Merger Agreement, Consolidated will acquire all of the outstanding equity  
8 interests in FairPoint in exchange for Consolidated stock valued at approximately \$1.5 billion  
9 (the “Transaction”). The exchange ratio is .73 shares. Post close, Consolidated shareholders will  
10 own 71.3% of the combined company and FairPoint shareholders will own 28.7%. One director  
11 from the FairPoint Board of Directors will join the Board of Directors of Consolidated, which  
12 will expand from 8 to 9 directors.

13 Under the Merger Agreement, Falcon Merger Sub, Inc. (“Merger Sub”), a corporation  
14 wholly owned by Consolidated and formed for purposes of the Transaction, will merge with and  
15 into FairPoint, whereupon Merger Sub will cease to exist and FairPoint will remain as the  
16 surviving corporation. Upon completion of the Transaction, Consolidated will contribute all of  
17 the equity interest in FairPoint to CCI, so that FairPoint will be a direct, wholly owned subsidiary  
18 of CCI. Bob Udell, the current President and Chief Executive Officer of Consolidated, will  
19 continue to serve as President and Chief Executive Officer of the combined company.  
20 Consolidated will continue to be publicly traded, and no person or entity will hold or will control  
21 ten percent or more of the equity or voting equity of Consolidated upon the closing of the

1 Transaction. The combined company will retain the Consolidated Communications name and  
2 will be headquartered in Mattoon, Illinois.

3 Through the Transaction, Consolidated will acquire control of FairPoint's operations in  
4 all 17 states in which FairPoint presently operates, including New Hampshire. The Transaction  
5 thus represents an indirect change in control of FairPoint's subsidiaries, including its four New  
6 Hampshire operating entities: Northern New England Telephone Operations, LLC d/b/a  
7 FairPoint Communications-NNE ("NNETO"); Northland Telephone Company of Maine, Inc.  
8 ("Northland"); Enhanced Communications of Northern New England, Inc. ("ECNNE"); and UI  
9 Long Distance, Inc. ("UILD").

10 **Q. What state and federal approvals are required for the merger to close?**

11 **A.** In addition to the findings under NH RSA 374:30, II that we are seeking in this docket,  
12 the following clearance and approvals are required by federal agencies: 1) the Federal Trade  
13 Commission - Hart Scott Rodino filing (letter confirming expedited authority for Department of  
14 Justice approval was received January 11, 2017); and 2) Federal Communications Commission  
15 Domestic and International Section 214 and wireless license transfer approvals. The states of  
16 Colorado, Georgia, Illinois, Kansas, Maine, New York, Ohio, Pennsylvania, Vermont and  
17 Virginia will require formal approval of this merger. The following states do not require  
18 approval: Alabama, Florida, Massachusetts, Missouri, Oklahoma, and Washington.

19 **Q. What is the status of the proceeding before the Federal Communications**  
20 **Commission?**

21 **A.** The filing for the domestic and international Section 214 authorization was made on  
22 December 20, 2016, and the wireless licenses transfer was made on December 21, 2016. The

1 Wireline Bureau issued the filing docket number WC 16-417 and it was posted for comment on  
2 January 12, 2017.

3 **Q. What approvals are not required for the merger to close?**

4 **A.** After the closing, FairPoint will continue doing business in New Hampshire under the  
5 Consolidated name as a direct subsidiary of Consolidated. The transaction thus requires simple  
6 filings with the Commission to reflect d/b/a changes. Other than those changes, NNETO,  
7 Northland, ECNNE and UILD will continue to operate as they presently operate, pursuant to  
8 existing authority, and will continue to provide services to current retail and wholesale customers  
9 in New Hampshire as indirect subsidiaries of Consolidated. Accordingly, the proposed  
10 transaction does not require the issuance of any certificates of authority to new operating entities  
11 or any designation of new eligible telecommunications carriers (“ETCs”) under state or federal  
12 law.

13 **Q. What is the expected closing date?**

14 **A.** The target date is to close June 30, 2017 or sooner.

15 **Q. Why does the closing need to occur on June 30, 2017 or sooner?**

16 **A.** There are several reasons the closing needs to occur no later than June 30, 2017, and  
17 ideally by May 31, 2017. First, Consolidated has already secured, at very favorable rates, the  
18 necessary funding for the Transaction. The timing and terms of this funding have allowed  
19 Consolidated to significantly reduce risks in its existing capital structure. Ticking fees  
20 commencing at approximately \$4 million per month will begin to accrue to lenders providing the  
21 incremental term financing in mid-January. Second, Consolidated seeks to start to look at  
22 options for improving the existing network infrastructure. A prompt closing will allow

1 Consolidated to minimize monthly loan charges and increase free cash flow that is available for  
2 network operations and services. Finally, there is a competitive disadvantage if Consolidated is  
3 delayed in initiating the integration of FairPoint.

4 **Q. Please describe how the Transaction will affect the operations of FairPoint's New**  
5 **Hampshire subsidiaries.**

6 **A.** Because the Transaction involves only a change of ownership at the holding company  
7 level, it will not affect any of the operations or obligations of FairPoint or its New Hampshire  
8 subsidiaries. As a result of the Transaction, NNETO, Northland, ECNNE and UILD will  
9 become indirect subsidiaries of Consolidated Holdings. Diagrams depicting the pre-and post-  
10 Transaction corporate ownership structures were submitted with the Joint Petition filed in this  
11 docket on December 29, 2016.

12 The Transaction will be seamless to all current FairPoint retail and wholesale customers  
13 in New Hampshire and in all other states in which FairPoint conducts business, as well as to all  
14 carriers with which FairPoint interconnects (including, without limitation, Rural Local Exchange  
15 Carriers ("RLECs")). Immediately after the Transaction, FairPoint and its subsidiaries will  
16 remain intact and will continue to adhere to their contractual and other obligations, including  
17 NNETO's current retail and wholesale obligations as an ILEC-ELEC.

18 **Q. Will the Transaction cause any of FairPoint's existing retail or wholesale services in**  
19 **New Hampshire to be discontinued or interrupted?**

20 **A.** No. Existing retail and wholesale services, as well as interconnection-based services  
21 with other carriers, will continue uninterrupted as the result of the Transaction. Customers will not  
22 experience any change in services, rates, or terms and conditions of service. There will be no



1 cutovers to new systems and no changes to billing systems or operational support systems in  
2 connection with the closing of the Transaction. Existing tariffs, interconnection agreements,  
3 retail catalogs and customer agreements will not be affected by the Transaction and will remain  
4 in effect. Future changes, if any, in rates, terms and conditions of service will be made in  
5 accordance with applicable statutes and/or rules.

6  
7 **III. CONSOLIDATED'S CAPABILITIES TO MAINTAIN FAIRPOINT'S NEW**  
8 **HAMPSHIRE ILEC OBLIGATIONS**

9  
10 **A. APPLICABLE LEGAL STANDARD**

11 **Q. What is your understanding of the legal standard that applies to the Commission's**  
12 **review of the Transaction?**

13 **A.** My understanding is that NH RSA 374:30, II applies. That statute provides that an ILEC  
14 that is an ELEC may transfer its New Hampshire franchise, works or system if the Commission  
15 finds that the utility to which the transfer is to be made is technically, managerially and  
16 financially capable of maintaining the obligations of an ILEC set forth in RSA 362:8 and RSA  
17 374:22-p.

18 **Q. What are the obligations of an ILEC-ELEC under RSA 362:8?**

19 **A.** The obligations of an ILEC-ELEC under RSA 362:8 are those:

- 20 (1) arising under the Commission's authority under the federal Communications  
21 Act of 1934, as amended;  
22  
23 (2) that arose prior to February 1, 2011, relating to availability of broadband  
24 services, soft disconnect processes and capital expenditure commitments  
25 within the state;  
26

1 (3) relating to the provision of services to competitive local exchange carriers  
2 (“CLECs”), interexchange carriers, and wireless carriers, regardless of  
3 technology; and  
4

5 (4) arising under RSA 374:22-p (basic service, rate caps and reporting) and RSA  
6 374:30, II (relating to the transfer of utility franchise, works or system).  
7  
8

9 **Q. What are the obligations of an ILEC-ELEC under RSA 374:22-p?**

10 **A.** RSA 374:22-p, VIII sets forth the following obligations for ILEC-ELECs:

11 (1) ILECs are prohibited from discontinuing basic service, regardless of  
12 technology used, in any portion of their franchise area unless the  
13 Commission determines that the public good will not be adversely affected  
14 by such withdrawal of service;  
15

16 (2) ILEC-ELECs’ rates for basic service may not increase by more than 5  
17 percent for Lifeline Telephone Assistance customers and by more than 10  
18 percent for all other basic service customers in each of the 8 years after the  
19 effective date of this paragraph or the effective date of an existing alternative  
20 plan of regulation. However, the Commission may approve additional rate  
21 adjustments to reflect changes in federal, state, or local government taxes,  
22 mandates, rules, regulations, or statutes; and  
23

24 (3) ILEC-ELECs must report basic service rate changes to the Commission.  
25

26 **Q. Is FairPoint currently meeting the above-stated obligations?**

27 **A.** As indicated in the prefiled testimony of Michael Reed submitted on behalf of  
28 FairPoint in this docket, FairPoint is currently meeting all of the above-stated obligations.

29 **Q. Does Consolidated possess the technical, managerial and financial capabilities to  
30 maintain the above-stated obligations?**

31 **A.** Yes. As described in my testimony below, as well as in the prefiled testimony of Messrs.  
32 Waggoner and Childers, Consolidated and its affiliated companies possess the necessary  
33 technical, managerial and financial capabilities to maintain the above-stated obligations.  
34

1           **B.     CONSOLIDATED'S TECHNICAL CAPABILITIES**

2     **Q.     Please describe Consolidated's vision, mission and values.**

3     **A.     Our Vision:** We will be the preferred choice for communication solutions by delivering a  
4 better customer experience and investing in our people and technology.

5           Our Mission: We turn technology into solutions, connecting people and enriching how  
6 they work and live.

7           Our core values describe the "how" alongside the "who" and "what" of our vision and  
8 mission statements. They represent the best of who we are today and aspire to something greater  
9 we wish to become. We have developed six value statements which include a short description of  
10 our meaning of the value:

11           1) Integrity First: Honesty, accountability, and transparency are essential to building  
12 relationships with each other, our customers and the communities we serve. Our culture is built  
13 on trust. We treat each other and our customers as we'd like to be treated. We deliver on our  
14 promise to our customers and our investors.

15           2) People Make the Difference: Our employees are the cornerstone of our success. We  
16 are committed to providing meaningful, challenging work and opportunities for professional  
17 growth in a positive environment.

18           3) Deliver a Better Experience: We strive to put our customers' needs first, exceeding  
19 their expectations with every interaction, both internally and externally.

20           4) Evolve and Constantly Improve: We will evolve to stay ahead of our customers'  
21 needs by embracing change, pursuing innovation and raising the bar to provide a better  
22 experience.

23           5) Build a Stronger Community: We are deeply engaged in the communities we serve.  
24 Through company giving, supporting employee volunteerism, and broadband infrastructure  
25 investment, we make communities better places to work and live.

1           6) Celebrate Successes: In big and small ways, we celebrate accomplishments and show  
2 appreciation for each other and our customers. We foster camaraderie to strengthen our team and  
3 build a fun and positive culture.

4   **Q.    Please describe Consolidated's experience associated with owning and operating an**  
5 **ILEC.**

6   **A.**    Consolidated Communications started over 120 years ago in Mattoon, Illinois as the  
7 Mattoon Telephone Company. It was family owned and operated. It grew through a series of  
8 acquisitions of nearby telephone companies in the 1920's and 1930's and became Illinois  
9 Consolidated Telephone Company ("ICTC"). In 1984, with divestiture, Consolidated  
10 Communications, Inc. ("CCI") was formed and with the bedrock of ICTC, it expanded its line of  
11 businesses to business systems, directory, long distance, operator services, public services and  
12 telemarketing. In 1997, the Lumpkin family sold Consolidated to McLeod USA and in 2002 the  
13 Lumpkin family and 2 private equity firms purchased CCI back from McLeod USA. The next  
14 twelve years, 2004-2016, has seen Consolidated complete an IPO and grow with multiple  
15 acquisitions.

16 **Q.    Please describe Consolidated's growth and recent acquisitions.**

17 **A.**    Consolidated has grown through the following strategic acquisitions.

18           2004 – Consolidated acquired TXU Communications in Texas, which was  
19 comprised of Fort Bend Telephone Company (ILEC), Lufkin-Conroe Telephone Exchange  
20 (ILEC), a fiber transport company, directory and long distance companies. This acquisition  
21 tripled the size of the company.

22           2007 – Consolidated acquired North Pittsburgh Systems, Inc. ("NPSI") in western  
23 Pennsylvania, which is comprised of North Pittsburgh Telephone Company (ILEC), Penn

1 Telecom (CLEC) and Naticom, a web hosting company. The ILEC serves suburban and rural  
2 exchanges north of Pittsburgh, and the CLEC serves metropolitan Pittsburgh, and Naticom.

3           2012 – Consolidated acquired SureWest Communications in California, which is  
4 comprised of SureWest Telephone, SureWest TeleVideo and SureWest Kansas. SureWest  
5 Telephone is the ILEC serving suburban Sacramento. SureWest TeleVideo is a CLEC serving  
6 metropolitan Sacramento and SureWest Kansas is a CLEC and cable provider in the Kansas City  
7 metropolitan area.

8           2014 – Consolidated acquired Enventis, Inc. in Minnesota, which is comprised of  
9 Mankato Citizens Telephone Company (ILEC), Mid-Communications, Inc. (ILEC) and  
10 Heartland Telecommunications Company of Iowa (ILEC), Crystal Communications, Inc.  
11 (CLEC), Enventis Telecom, Inc. (CLEC), and IdeaOne Telecom, Inc. (CLEC). This acquisition  
12 also included Enterprise Integration Services (EIS), an IT business equipment and solutions  
13 company, and NIBI, a telecommunications billing services provider, all serving Iowa,  
14 Minnesota, North Dakota, South Dakota and Wisconsin.

15           2016 – Consolidated acquired Champaign Telephone Company (“CTC”), a CLEC  
16 serving the Champaign-Urbana, Illinois market. This expanded our CLEC footprint and added a  
17 robust fiber network.

18           All of the acquisitions described above had a solid network infrastructure that was  
19 underutilized and provided an opportunity to provide product innovation and quality services to  
20 customers.

21 **Q.     What is Consolidated’s current service area and what operating companies does it**  
22 **own?**

1    **A.**     Consolidated operates in 11 states: California, Illinois, Iowa, Kansas, Minnesota,  
2    Missouri, North Dakota, Pennsylvania, South Dakota, Texas and Wisconsin. Our entities are as  
3    follows:

4           Consolidated Communications of California Company, an ILEC providing service in  
5    Roseville and Citrus Heights California.

6           Consolidated Communications of Illinois Company, an ILEC providing service in rural  
7    central Illinois.

8           Consolidated Communications of Mid-Comm Company, an ILEC providing service in  
9    rural southern Minnesota.

10          Consolidated Communications of Minnesota Company, an ILEC providing service in  
11    Mankato, Minnesota.

12          Consolidated Communications of Pennsylvania Company, LLC, an ILEC providing  
13    service in suburban Pittsburgh.

14          Consolidated Communications of Fort Bend Company, an ILEC providing service in  
15    southeast Texas, with one suburban exchange west of Houston and the rest rural.

16          Consolidated Communications of Texas Company, an ILEC providing service in east and  
17    southeast Texas,

18          Consolidated Communications Enterprise Services, Inc., a company providing non-  
19    regulated services in all of our operating states.

20          East Texas Fiber Line, Inc., a partnership providing fiber transport throughout the eastern  
21    half of Texas.

22          Consolidated Communications Services Company, an administrative company.

1 In each of our operating states we have an excellent business reputation and good  
2 working relationship with the state and federal regulators.

3 **Q. What services does Consolidated provide in these states?**

4 **A.** Consolidated's seven regulated entities provide traditional voice service, network access,  
5 private line, and wholesale digital subscriber line ("DSL") services to consumer, commercial and  
6 carrier customers. We work hard to address early warnings of potential customer issues before  
7 they become actual complaints.

8 Consolidated Communications Enterprise Services, Inc. ("CCES") provides non-  
9 regulated services such as: Voice over Internet Protocol ("VoIP") and unbundled network  
10 element ("UNE")-based voice service; broadband; cloud computing; data centers; fiber services;  
11 internet; video (IPTV in all of our ILEC service areas and CATV in Kansas), security, long  
12 distance, directory, home automation and security. CCES operates as a CLEC in the 11 states  
13 mentioned above. CCES owns 63% of East Texas Fiber Line, Inc., a fiber transport company  
14 and also has minority interest in five Verizon Wireless Rural Service Areas and Standard  
15 Metropolitan Statistical Areas in Pennsylvania and Texas.

16 Consolidated Communications Services Company is an administrative entity handling  
17 payroll.

18 All of Consolidated Holdings' ILEC subsidiaries are designated as Eligible  
19 Telecommunications Carriers ("ETCs") under federal law<sup>1</sup> and serve as carriers of last resort  
20 ("COLRs") (or their equivalents under applicable state law) in their respective service areas. In  
21 addition, CCI's affiliate, Consolidated Communications of Illinois Company (f/k/a Illinois

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<sup>1</sup>See 47 U.S.C. §§ 214(e)(1) and 254(e).

1 Consolidated Telephone Company), is both a tandem switch operator and a provider of E911  
2 services in Illinois.

3 **Q. Please describe Consolidated's technical capabilities to assume ownership control of**  
4 **FairPoint's New Hampshire network and operations and to meet FairPoint's ILEC**  
5 **obligations in New Hampshire.**

6 **A.** Mr. Waggoner's testimony describes the technical competence of Consolidated based on  
7 its experience, and in particular its recent experience with seamlessly integrating acquired  
8 companies, to successfully assume control of the FairPoint network. I would add that  
9 Consolidated, like FairPoint, has over a 120 year history of providing communications services.  
10 We operate multiple types of networks, a traditional time-division multiplexing ("TDM")-based  
11 network, with multiple central offices serving local wire centers for last mile connections to the  
12 end user. All the offices are interconnected by fiber and served by IP based core networks. We  
13 also operate an IP-based network over that same infrastructure. We have multiple network  
14 operations centers ("NOCs") and have built in redundancy to solidify our network. Consolidated  
15 has a proven record of successful operations and is committed to maintaining and improving  
16 operational stability in all the markets it serves.

17 The Consolidated Companies employ a skilled workforce of approximately 1,800  
18 employees with extensive telecommunications experience. On average, each employee  
19 possesses 12 years of experience. In addition to their own resources, the Consolidated  
20 Companies intend to draw upon FairPoint's resources to meet the ILEC obligations set forth in  
21 RSA 362:8 and RSA 374:22-p. Consolidated will honor FairPoint's collective bargaining  
22 agreements with FairPoint's union employees. After the closing, FairPoint employees will have



1 the same rights under employment agreements or at-will employment arrangements as they now  
2 have. Consolidated will evaluate the potential for realizing efficiencies through the elimination  
3 of overlapping executive and corporate functions of the combined company as we get closer to  
4 the closing date.

5 As indicated in the prefiled direct testimony of Mr. Reed in this docket, FairPoint is  
6 currently meeting all of the ILEC obligations listed in RSA 362:8 and RSA 374-p:22. Because  
7 FairPoint and its operating subsidiaries, including NNETO and Northland, will remain intact and  
8 continue their current systems and operations after the Transaction closes, FairPoint's existing  
9 obligations as a New Hampshire ILEC-ELEC will continue to be fulfilled in a seamless fashion.  
10 All of FairPoint's existing obligations under its interconnection agreements, tariffs, contracts and  
11 other arrangements, including its obligations under the federal Telecommunications Act to  
12 provide wholesale services (47 U.S.C. §§ 251 and 252) and to serve as an ETC will be  
13 unaffected by the Transaction. Consolidated will cause FairPoint to maintain its obligations  
14 arising under the Commission's authority under the federal Act and those relating to the  
15 provision of services to CLECs, RLECs, interexchange carriers and wireless carriers, as required  
16 by RSA 362:8, I. and III. Moreover, because there are no systems or billing conversions  
17 required in connection with the Transaction, the Transaction will be seamless to FairPoint's  
18 wholesale and retail customers.

19 **Q. Will this Transaction involve any operational transition issues similar to those**  
20 **associated with FairPoint's acquisition of Verizon's Northern New England assets in 2008?**

21 **A.** No. As a holding company stock transaction and merger, the Transaction has no  
22 similarities to the 2008 acquisition of Verizon New England's Northern New England wireline  
23 operations by FairPoint. The 2008 transaction required the development of Operations Support

1 Systems (“OSS”) and other systems and involved a transition services agreement between  
2 FairPoint and Verizon. FairPoint’s back-office systems for OSS and billing are now well-  
3 established, and following the Transaction, those systems will continue to operate as they  
4 currently do. Consolidated expects that after closing, the combined companies’ management  
5 will begin evaluating all systems, including Consolidated’s legacy systems, to determine which  
6 ones best suit the needs of the larger company, and initiate an integration plan to unify systems  
7 company-wide. Consolidated expects this process to take between 12 and 24 months.

8 **C. CONSOLIDATED’S MANAGERIAL CAPABILITIES**

9 **Q. Please describe Consolidated’s current management structure.**

10 **A.** Consolidated’s experienced management team is regionally aligned for operations and  
11 sales, and functionally aligned for administrative functions. The leadership team averages 25  
12 years of industry experience and has a wide variety of experiences not only with Consolidated,  
13 but also working in larger Local Exchange Carriers (LECs) like Bell of Pennsylvania and  
14 Frontier, and CLECs like Integra.

15 **Q. What members of the Consolidated management team are expected to be involved**  
16 **in New Hampshire following the merger and in what capacity?**

17 **A.** Consolidated’s senior management personnel who will be primarily responsible for  
18 managing the proposed transition and for overseeing FairPoint’s continued operations after the  
19 closing include:

20 a. C. Robert Udell, Jr., President and Chief Executive Officer

21 b. Steven Childers, Chief Financial Officer

- 1 c. Steven Shirar, Chief Information Officer
- 2 d. Michael Shultz, Vice President—Regulatory and Public Policy
- 3 e. Michael Smith, Chief Marketing Officer
- 4 f. Gabe Waggoner, Vice President Operations
- 5 g. Tom White, Chief Technology Officer
- 6 h. Ryan Whitlock, Vice President Human Resources
- 7 i. Carol Wirsbinski, Chief Sales Officer

8 **Attachment MJS-1** submitted herewith contains the biographies of these key  
9 Consolidated management team members who will be involved in this transaction. It has not yet  
10 been determined which specific Consolidated team members will have primary oversight of New  
11 Hampshire operations management post-closing. Consolidated is committed to maintaining and  
12 improving on the current service quality in New Hampshire and will ensure that it has  
13 management personnel dedicated to New Hampshire and available to work collaboratively with  
14 New Hampshire stakeholders, regulators, communities and customers.

15 **Q. Please describe Consolidated's managerial experience in merging with acquired**  
16 **companies such as FairPoint.**

17 **A.** Consolidated has had substantial success integrating acquired companies as described  
18 earlier in my testimony. Consolidated employs a highly-structured project management  
19 approach to each acquisition which includes collaboration with its counterparties. In our  
20 experience, two-way communication is the cornerstone to successful and smooth transition.

1 Senior management will continue to work closely with FairPoint management before and after  
2 closing to ensure employees and customers are kept informed.

3 **Q. Please describe Consolidated's plan for managing its New Hampshire operations.**

4 **A.** Consolidated's management structure today is functionally aligned for back office  
5 functions and regionally aligned for operations and sales. For example, an operations manager in  
6 New Hampshire may manage employees in New Hampshire, as well as other states like Maine  
7 and Vermont. A marketing manager in New Hampshire may be involved with marketing on a  
8 national basis. We have not yet determined the final reporting structures for management  
9 employees. However, Consolidated will ensure that it has management personnel with  
10 responsibility for New Hampshire and available to work collaboratively with New Hampshire  
11 stakeholders, regulators, communities and customers.

12 **Q. Please describe Consolidated Holdings' managerial capabilities to assume**  
13 **ownership control of FairPoint's New Hampshire network and operations and to meet**  
14 **FairPoint's ILEC obligations in New Hampshire.**

15 **A.** The Consolidated Companies' management has significant experience operating ILECs  
16 in rural and small urban markets, and has successfully served customers in such markets,  
17 bringing innovative broadband and video services while running a financially sound company  
18 with the ability to invest and maintain the network and foster growth. In addition, Consolidated  
19 is familiar with FairPoint's obligations as a successor to a Regional Bell Operation Company  
20 ("RBOC"). Consolidated has many of the same requirements in our operating areas, including  
21 interconnection obligations, pole attachments and local access and transport area ("LATA")  
22 tandem provider obligations, to name a few. We are very experienced in those areas and work

1 with the other CLECs and carriers. The wholesale performance assurance plan is the one item  
2 that Consolidated, as an ILEC, has not been required to implement; however, with this  
3 Transaction, FairPoint's wholesale carrier group does have that experience and will continue to  
4 provide that service post- close. In short, Consolidated's management will ensure that all of  
5 FairPoint's existing ILEC obligations will continue to be met.

6 **D. CONSOLIDATED'S FINANCIAL CAPABILITIES**

7 **Q. Please describe Consolidated's financial and operating results for the last five years.**

8 **A.** We would characterize our financial and operating results for the last five years as being  
9 very consistent and very solid on a stand-alone basis and especially good as compared to our  
10 peer group. For 2012, we reported revenues of \$477.9 million and adjusted EBITDA<sup>2</sup> of \$231.9  
11 million. Given our focus on our organic growth strategy as well as our acquisition strategy, in  
12 2016, we estimate that revenue will be approximately \$743.0 million and adjusted EBITDA will  
13 be approximately \$306.0 million. These numbers are normalized for the sale of Enterprise  
14 Integration Services, Inc. ("EIS") in December, 2016.

15 Part of the growth in revenue and adjusted EBITDA is due to our recent acquisitions,  
16 which I summarized above. Our organic growth strategy is focused on growing broadband and  
17 business services for both enterprise and carrier/wholesale customer channels. Over 89% of  
18 addressable homes can get 20 Mbps of broadband speed, while 42% can get 100 Mbps and we  
19 can deliver a 1 Gig consumer product in all our markets. Currently, over 75% of our addressable  
20 homes can get IPTV directly from Consolidated.

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<sup>2</sup> Earnings before interest, taxes, depreciation and amortization.

1           Mr. Childers' prefiled testimony provides more detail on Consolidated's financial and  
2 operating results over the last five years. However, I want to reiterate Consolidated's  
3 commitment to reinvesting in our businesses. We have continued to invest 16-17% of our  
4 revenue back into the business with a focus of providing our residential customers with faster  
5 speeds of broadband, enhanced streaming capabilities for video and, when we can generate  
6 adequate returns for green field opportunities, to build fiber directly to the home. At the same  
7 time, as we deal with industry trends of erosion in our legacy voice services (including access)  
8 and reduced subsidy revenues due to the implementation of the Connect America Funding  
9 ("CAF") plan for high cost support, Consolidated strives to provide enhanced services, such as  
10 cloud offerings, and fiber extensions of our network on behalf of our major customers. In short,  
11 Consolidated focuses on stabilizing revenues, differentiating ourselves from our competition  
12 based on quality of product and quality of service, while continuing our disciplined approach to  
13 growing the business and diversifying our revenue streams through acquisitions.

14 **Q.     From Consolidated's perspective, what are the key indicators of Consolidated's**  
15 **financial soundness?**

16 **A.**     As Mr. Childers' prefiled testimony indicates, Consolidated is focused on growing and  
17 sustaining free cash flow. To that end, we measure our financial health by the diversity of  
18 revenue and strive for over 80% of revenue mix to come from strategic revenues (i.e. consumer  
19 broadband, commercial and carrier), consistently investing 16-17% of revenue back into the  
20 business to promote broadband speeds and enhanced services, maintaining a payout ratio with  
21 respect to our dividend of 65-70% of free cash flow (as defined in our credit agreement) and  
22 improving leverage.

1 Due to a recent refinancing, we have no debt maturities until 2022, and our average cost  
2 of debt is approximately 5%. Consolidated's ability to secure financing for this transaction in  
3 advance of closing at terms slightly favorable to its expectations but at a significantly lower  
4 interest rate than FairPoint's existing facility further demonstrates the financial health of  
5 Consolidated. In addition, Consolidated's financing will not be up for renegotiation until 2022,  
6 three years later than FairPoint's current financing, which adds to the financial certainty that  
7 Consolidated brings.

8 **Q. Does Consolidated expect the acquisition of FairPoint to provide it with greater**  
9 **financial strength?**

10 **A.** Yes. The merger will strengthen our balance sheet by deleveraging and will be accretive  
11 to cash flow, thereby strengthening the dividend payout ratio. The incremental credit facility  
12 improves on the financing currently in place with FairPoint's current credit facility. As indicated  
13 in Mr. Childers' testimony, Consolidated's credit ratings are significantly better than FairPoint's,  
14 such that when that when the companies are combined, the increased scale will improve our  
15 access to capital.

16 **Q. Please describe any cost savings or "synergies" associated with the transaction, how**  
17 **those were determined, and over what timeframe they will be realized.**

18 **A.** We anticipate net \$55M in total synergies in the first two years from closing, based on  
19 the pace of integration. This estimate was developed based on analysis of FairPoint's network,  
20 IT infrastructure, and organization structure. \$10M of the total synergies is related to public  
21 company costs, professional services and back-office systems savings. \$45M represents the  
22 elimination of overlapping executive and corporate functions, and the expected efficiencies of  
23 corporate, network optimization and IT savings.

1 **Q. Please describe Consolidated Holdings' financial capabilities to assume ownership**  
2 **control of FairPoint's New Hampshire network and operations and to meet FairPoint's**  
3 **ILEC obligations in New Hampshire.**

4 **A.** Mr. Childers' prefiled testimony describes in detail Consolidated's financial competence  
5 to assume ownership control of FairPoint's New Hampshire network. Mr. Childers also  
6 describes the financial model and pro forma financial projections Consolidated has developed for  
7 this acquisition, explains the favorable financing Consolidated has secured and explains our  
8 financial projections for the combined company. In sum, Consolidated has been a financially  
9 solid company for over a century and has a successful track record of integrating acquisitions.  
10 Each acquisition has improved the quality of our network and infrastructure, improved our  
11 competitive capabilities and our financial strength. We have accomplished all this while  
12 continuing to invest in broadband and infrastructure, pushing fiber to more homes each year. We  
13 maintain excellent credit ratings as compared to our peers. All of this demonstrates  
14 Consolidated's financial capabilities to assume FairPoint's operations and ILEC obligations in  
15 New Hampshire.

16  
17 **IV. CONCLUSION**

18 **Q. Based on your knowledge, expertise and experience does Consolidated have the**  
19 **technical, managerial and financial capabilities to maintain FairPoint's ILEC obligations**  
20 **in New Hampshire?**

21 **A.** Yes. This transaction will strengthen an already strong company, and provide growth  
22 opportunities by enhancing scale with a fiber-rich network that will extend across 24 states. In  
23 addition, it creates a highly competitive business and broadband company with a superior



1 network to deliver best-in-class services and experiences to consumer, commercial and carrier  
2 customers. This transaction is already fully funded, which brings market certainty and solidifies  
3 Consolidated's already secure financial position.

4 Although Consolidated, on its own, possesses the necessary capabilities to maintain  
5 FairPoint's ILEC obligations in New Hampshire, these capabilities are strengthened given that  
6 FairPoint's operating entities and systems will remain in place post-closing. Given that FairPoint  
7 is currently meeting its New Hampshire ILEC obligations, those obligations will continue to be  
8 met by the combined company after the transaction closes. In short, Consolidated possesses the  
9 requisite technical, managerial and financial capabilities to maintain FairPoint's ILEC  
10 obligations in New Hampshire.

11 **Q. Does this conclude your prefiled direct testimony?**

12 **A.** Yes.

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