

# CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.

## FORM 8-K (Current report filing)

Filed 02/06/12 for the Period Ending 02/05/12

Address	121 SOUTH 17TH STREET MATTOON, IL 61938
Telephone	(217) 235-3311
CIK	0001304421
Symbol	CNSL
SIC Code	4813 - Telephone Communications, Except Radiotelephone
Industry	Communications Services
Sector	Services
Fiscal Year	12/31

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 8-K**

**CURRENT REPORT**  
Pursuant to Section 13 or 15(d) of  
the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): **February 5, 2012**

**CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.**  
(Exact name of registrant as specified in its charter)

**Delaware**  
(State of Incorporation)

**000-51446**  
(Commission File Number)

**02-0636095**  
(IRS employer identification no.)

**121 South 17 th Street**  
**Mattoon, Illinois**  
(Address of principal executive offices)

**61938-3987**  
(Zip code)

Registrant's telephone number, including area code: **(217) 235-3311**

**Not Applicable**  
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Item 1.01. Entry into a Material Definitive Agreement.**

On February 5, 2012, Consolidated Communications Holdings, Inc. (the "Company") and SureWest Communications ("SureWest") entered into an Agreement and Plan of Merger (the "Merger Agreement"). The Merger Agreement provides for, among other things, (1) a business combination whereby a newly formed California corporation and wholly-owned subsidiary of the Company, will merge with and into SureWest, with SureWest as the surviving entity (the "First Merger"), and (2) a subsequent business combination whereby SureWest will merge with and into a separate, newly formed California corporation and wholly-owned subsidiary of the Company ("Merger Sub II"), with Merger Sub II as the surviving entity (the "Second Merger" and together with the First Merger, the "Mergers"). As a result of the Mergers, the separate corporate existence of SureWest will cease, and Merger Sub II will continue as the surviving corporation and a wholly-owned subsidiary of the Company.

At the effective time of the First Merger, SureWest's shareholders may elect to exchange each share of SureWest common stock for either \$23 in cash or shares of Consolidated common stock having an equivalent value based on average trading prices for the 20-day period ending two days before the closing of the acquisition, subject to a collar so that there will be a maximum exchange ratio of 1.40565 shares of Consolidated common stock for each share of SureWest common stock and a minimum of 1.03896 shares of Consolidated common stock for each share of SureWest common stock. Overall elections are subject to proration so that 50% of the SureWest shares will be exchanged for cash and 50% for stock. The results of applying the collar and proration provisions are subject to adjustment to ensure the transaction will be treated as a tax-free reorganization for federal income tax purposes.

The Merger Agreement is not subject to any financing contingency. The Company intends to finance the cash portion of the acquisition price with debt and cash on hand. The Company has obtained a commitment for the financing necessary to complete the transaction from Morgan Stanley Senior Funding, Inc.

The Mergers are subject to approval by the Company's and SureWest's stockholders. In addition, the Mergers are subject to federal and state regulatory approvals as well as other customary closing conditions.

The Company and SureWest have made customary representations, warranties and covenants in the Merger Agreement, including SureWest agreeing not to solicit alternative transactions or, subject to certain exceptions, to enter into discussions concerning, or provide confidential information in connection with, an alternative transaction. The Merger Agreement contains certain termination rights for both the Company and SureWest, and further provides that, upon termination of the Merger Agreement under certain circumstances, SureWest may be obligated to pay the Company a termination fee of \$14,675,000.

**Item 7.01. Regulation FD Disclosure.**

On February 6, 2012, the Company and SureWest announced that they had entered into the Merger Agreement. A copy of the press release is attached hereto as Exhibit 99.1 and incorporated herein by reference.

In addition, on February 6, 2012, the Company is making a presentation to investors and analysts, a copy of the written materials for which is attached hereto as Exhibit 99.2 and incorporated herein by reference.

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## Safe Harbor

Any statements other than statements of historical facts, including statements about management's beliefs and expectations, are forward-looking statements and should be evaluated as such. These statements are made on the basis of management's views and assumptions regarding future events and business performance. Words such as "estimate," "believe," "anticipate," "expect," "intend," "plan," "target," "project," "should," "may," "will" and similar expressions are intended to identify forward-looking statements. Forward-looking statements (including oral representations) involve risks and uncertainties that may cause actual results to differ materially from any future results, performance or achievements expressed or implied by such statements. These risks and uncertainties include the ability of Consolidated Communications Holdings, Inc. (the "Company") to complete the SureWest acquisition, successfully integrate the operations of SureWest and realize the synergies from the acquisition, as well as a number of other factors related to the businesses of the Company and SureWest, including various risks to stockholders of not receiving dividends and risks to the Company's ability to pursue growth opportunities if the Company continues to pay dividends according to the current dividend policy; various risks to the price and volatility of the Company's common stock; the substantial amount of debt and the Company's ability to repay or refinance it or incur additional debt in the future; the Company's need for a significant amount of cash to service and repay the debt and to pay dividends on the Company's common stock; changes in the valuation of pension plan assets; restrictions contained in the Company's debt agreements that limit the discretion of management in operating the business; regulatory changes, including changes to subsidies, rapid development and introduction of new technologies and intense competition in the telecommunications industry; risks associated with the Company's possible pursuit of acquisitions; economic conditions in the Company's and SureWest's service areas; system failures; losses of large customers or government contracts; risks associated with the rights-of-way for the network; disruptions in the relationship with third party vendors; losses of key management personnel and the inability to attract and retain highly qualified management and personnel in the future; changes in the extensive governmental legislation and regulations governing telecommunications providers and the provision of telecommunications services; telecommunications carriers disputing and/or avoiding their obligations to pay network access charges for use of the Company's and SureWest's network; high costs of regulatory compliance; the competitive impact of legislation and regulatory changes on the telecommunications industry; and liability and compliance costs regarding environmental regulations. These and other risks and uncertainties are discussed in more detail in the Company's and SureWest's filings with the Securities and Exchange Commission, including our respective reports on Form 10-K and Form 10-Q.

Many of these risks are beyond management's ability to control or predict. All forward-looking statements attributable to the Company, SureWest or persons acting on behalf of each of them are expressly qualified in their entirety by the cautionary statements and risk factors contained in this communication and the companies' filings with the Securities and Exchange Commission. Because of these risks, uncertainties and assumptions, you should not place undue reliance on these forward-looking statements. Furthermore, forward-looking statements speak only as of the date they are made. Except as required under the federal securities laws or the rules and regulations of the Securities and Exchange Commission, we do not undertake any obligation to update or review any forward-looking information, whether as a result of new information, future events or otherwise.

## Prospectus/Proxy Statement

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This material is not a substitute for the prospectus/proxy statement the Company and SureWest will file with the Securities and Exchange Commission. **Investors in the Company or SureWest are urged to read the prospectus/proxy statement, which will contain important information, including detailed risk factors, when it becomes available.** The prospectus/proxy statement and other documents which will be filed by the Company and SureWest with the Securities and Exchange Commission will be available free of charge at the Securities and Exchange Commission's website, www.sec.gov, or by directing a request when such a filing is made to Consolidated Communications, 121 South 17th Street, Mattoon, IL 61938, Attention: Investor Relations; or to SureWest Communications, 8150 Industrial Avenue, Building A, Roseville, California 95678, Attention: Investor Relations. A final proxy statement or prospectus/proxy statement will be mailed to the Company's shareholders and shareholders of SureWest.

This communication shall not constitute an offer to sell or the solicitation of an offer to buy securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

#### Proxy Solicitation

The Company and SureWest, and certain of their respective directors, executive officers and other members of management and employees are participants in the solicitation of proxies in connection with the proposed transactions. Information about the directors and executive officers of the Company is set forth in the proxy statement for the Company's 2011 annual meeting of shareholders. Information about the directors and executive officers of SureWest is set forth in the proxy statement for SureWest's 2011 annual meeting of shareholders and SureWest's Form 10-K for the year ended December 31, 2010. Investors may obtain additional information regarding the interests of such participants in the proposed transactions by reading the prospectus/proxy statement for such proposed transactions when it becomes available.

#### **Item 9.01. Financial Statements and Exhibits.**

##### **(d) Exhibits**

<u>No.</u>	<u>Description</u>
99.1	Press release dated February 6, 2012
99.2	Investor/Analyst Presentation Materials

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: February 6, 2012

Consolidated Communications Holdings, Inc.

By: /s/ Steven L. Childers

Name: Steven L. Childers  
Title: Chief Financial Officer

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**EXHIBIT INDEX**

<u>No.</u>	<u>Description</u>
99.1	Press release dated February 6, 2012
99.2	Investor/Analyst Presentation Materials

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## Consolidated Communications to Acquire SureWest Communications

- **Combines Consolidated's strong cash flow business with SureWest's growth strategy**
- **Free cash flow accretive in first year, excluding merger and integration costs**
- **Deleveraging transaction improves capital structure**
- **Maintains current dividend and improves the payout ratio**
- **Combined company to achieve greater scale and scope as a more effective competitor**

MATTOON, Ill., Feb. 6, 2012 (GLOBE NEWSWIRE) -- Consolidated Communications Holdings, Inc. (Nasdaq:CNSL) and SureWest Communications (Nasdaq:SURW) have entered into a definitive agreement under which Consolidated will acquire all the outstanding shares of SureWest in a cash and stock transaction valued at \$23.00 per share, or a total of approximately \$340.9 million, exclusive of debt.

Under the terms of the agreement, SureWest's shareholders may elect to exchange each share of SureWest common stock for either \$23.00 in cash or shares of Consolidated common stock having an equivalent value based on average trading prices for the 20-day period ending two days before the closing of the acquisition, subject to a collar. Overall elections are subject to proration such that 50 percent of the SureWest shares will be exchanged for cash and 50 percent for stock. The stock portion of the transaction will be received tax free. The transaction will be accretive to Consolidated's free cash flow per share in the first full year following closing, excluding integration costs, and the transaction is deleveraging to Consolidated. The consideration represents a 47% premium to SureWest's stock price as of the close on February 3, 2012.

The strategic combination provides enhanced scale with operations in six states and approximately 1,775 employees. Together, Consolidated and SureWest will expand upon the strong reputations each has built with its customers and in the communities served. The diversification of revenue and cash flow streams across multiple customer segments and geographies provides a platform for growth.

"This transaction combines our cash flow generating business with SureWest's growth oriented strategy resulting in a financially strong company with a robust balance sheet and attractive dividend payout ratio," said Bob Currey, Consolidated's President and Chief Executive Officer. "SureWest has built one of the highest quality networks in the industry and transformed itself into a leading broadband provider. The combined company will create a broader platform from which to expand our products and services to meet the demands of our customers. We look forward to working with the SureWest employees to grow the business."

"Both Consolidated and SureWest have a long history of delivering the highest quality products and services to its customers," said Steve Oldham, President and Chief Executive Officer of SureWest. "From a customer perspective, the transaction creates scale by combining our proven capabilities in delivering leading edge digital TV and broadband services as a stronger, more competitive communications company. We believe the transaction is in the best interests of our company, our customers, our communities and our shareholders."

### Transaction Details

On a pro forma basis, for the twelve months ending September 30, 2011, the combined company would have had revenues of approximately \$620 million. SureWest currently serves 130,000 residential subscribers and 15,700 commercial businesses in the greater Kansas City and Sacramento regions, which contain over 321,700 residential marketable homes to SureWest. Consolidated is an established communications company providing a wide range of advanced services including voice, data and video services to residential and business customers in Illinois, Pennsylvania and Texas.

The transaction is expected to generate annual operating synergies of approximately \$25 million and annual capital expenditure synergies of \$5 million to \$10 million, which are expected to be fully realized by the end of the first full year after close on a run-rate basis. Consolidated expects to incur merger and integration costs, excluding closing costs, of approximately \$20 million to \$25 million over the first two years following closing. In addition, Consolidated will be in a position to benefit from SureWest's net operating losses of approximately \$67 million, as of September 30, 2011. The merger is subject to standard closing conditions including federal and state regulatory approvals and the approval by both Consolidated and SureWest shareholders.

Wells Fargo Securities, LLC acted as financial advisor to Consolidated on the transaction and rendered a fairness opinion to the Board of Directors of Consolidated. Morgan Stanley also served as financial advisor to Consolidated and Schiff Hardin LLP acted as legal advisor. UBS Investment Bank acted as financial advisor to SureWest and Orrick, Herrington & Sutcliffe LLP acted as legal advisor.

This transaction is not subject to any financing conditions. Morgan Stanley Senior Funding, Inc. has provided Consolidated with \$350 million of committed debt financing in conjunction with the acquisition. These funds will be used to refinance the debt of SureWest and pay for the cash portion of the purchase price.

### Teleconference and Webcast Information

The Company will host a conference call today at 11:00 a.m. Eastern Time / 10:00 a.m. Central Time to discuss the acquisition. The call is being webcast and archived on the "Investor Relations" section of the Company's website at <http://www.consolidated.com>. If you do not have internet access, the conference call dial-in number is 1-877-374-3981 with pass code 50453998. International parties can access the call by dialing 1-253-237-1158. A telephonic replay of the conference call will also be available starting three hours after completion of the call until February 13, 2012 at midnight Eastern Time. To hear the replay, parties in the United States and Canada should call 1-855-859-2056 and international parties should call 1-404-537-3406.

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the business; regulatory changes, including changes to subsidies, rapid development and introduction of new technologies and intense competition in the telecommunications industry; risks associated with Consolidated's possible pursuit of acquisitions; system failures; losses of large customers or government contracts; risks associated with the rights-of-way for the network; disruptions in the relationship with third party vendors; losses of key management personnel and the inability to attract and retain highly qualified management and personnel in the future; changes in the extensive governmental legislation and regulations governing telecommunications providers and the provision of telecommunications services; telecommunications carriers disputing and/or avoiding their obligations to pay network access charges for use of Consolidated's and SureWest's network; high costs of regulatory compliance; the competitive impact of legislation and regulatory changes in the telecommunications industry; and liability and compliance costs regarding environmental regulations. These and other risks and uncertainties are discussed in more detail in Consolidated's and SureWest's filings with the Securities and Exchange Commission, including their reports on Form 10-K and Form 10-Q. Many of these risks are beyond management's ability to control or predict. All forward-looking statements attributable to Consolidated or persons acting on behalf of us are expressly qualified in their entirety by the cautionary statements and risk factors contained in this press release and Consolidated's filings with the Securities and Exchange Commission. Because of these risks, uncertainties and assumptions, you should not place undue reliance on these forward-looking statements. Furthermore, forward-looking statements speak only as of the date they are made. Except as required under the federal securities laws or the rules and regulations of the Securities and Exchange Commission, Consolidated does not undertake any obligation to update or review any forward-looking information, whether as a result of new information, future events or otherwise.

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CONTACT: Consolidated Communications Contact:  
Matt Smith, Treasurer & Investor Relations  
217-258-2959  
[matthew.smith@consolidated.com](mailto:matthew.smith@consolidated.com)

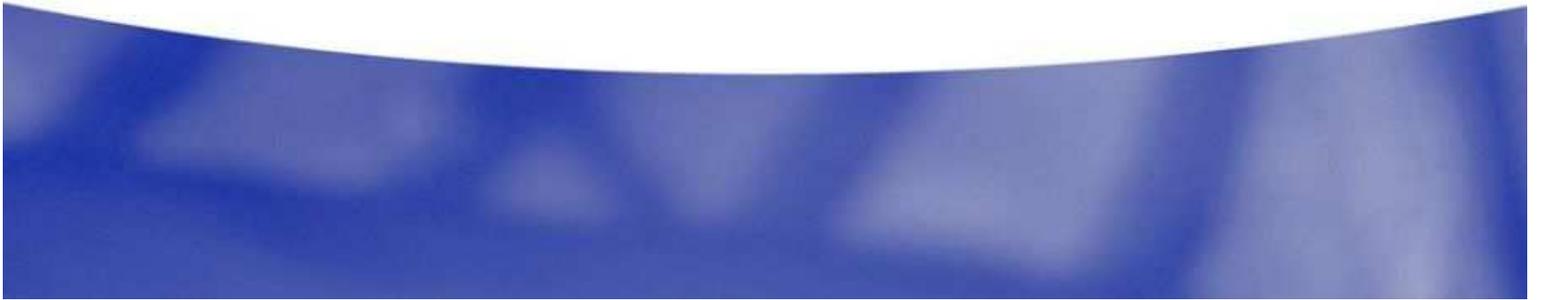
SureWest Communications Contact:  
Misty Wells, Investor Relations Manager  
916-786-1799  
[investor@surewest.com](mailto:investor@surewest.com)

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## Acquisition of SureWest Communications

February 6, 2012



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- **Bob Currey, President and Chief Executive Officer**
- **Steve Childers, Chief Financial Officer**

- **Combines Consolidated's strong and stable cash flow business with SureWest's growth oriented broadband and overbuilder strategy**
- **Results in a financially strong company with a robust balance sheet, attractive dividend payout ratio and the ability to delever over time**
  - Free cash flow accretive in first full year of operations (after synergies)
  - Meaningfully reduces leverage
- **Diversifies revenue and cash flow streams across multiple business lines and geographies**
  - RLEC, CLEC, cable, fiber and wireless
  - Pro forma business and broadband services will represent over 70% of revenues
- **Creates a platform for future growth through acquisitions to fill in our national footprint and organically through investments in our existing markets**

# Transaction Summary

<b>Price Per Share:</b>	\$23.00; cash / stock election with proration to achieve 50% cash / 50% stock
<b>Transaction Value:</b>	\$341 million, exclusive of net debt of \$197 million as of 9/30/2011 <sup>(1)</sup>
<b>Pro Forma Ownership:</b>	~78% Consolidated shareholders / ~22% SureWest shareholders <sup>(1), (2)</sup>
<b>Collar:</b>	Each SureWest share exchanged for stock will receive \$23 per share in Consolidated stock provided the Consolidated share price is within a $\pm 15\%$ band at closing
<b>LTM Adj. EBITDA Multiples<sup>(3)</sup>:</b>	6.3x (before synergies) / 4.8x (after synergies)
<b>Pro Forma Net Leverage<sup>(3)</sup>:</b>	4.2x (before synergies) / 3.9x (after synergies)
<b>Financing:</b>	Committed financing to repay SureWest debt and fund cash consideration
<b>Required Approvals:</b>	Hart-Scott-Rodino, FCC and certain state regulatory approvals
<b>Governance:</b>	SureWest will appoint one Director to Consolidated's Board
<b>Expected Closing:</b>	Q3 or Q4 2012

<sup>(1)</sup> Based on Consolidated share price of \$19.25 as of 2/3/2012 (mid-point of the collar)

<sup>(2)</sup> Based on Consolidated and SureWest fully diluted shares outstanding

<sup>(3)</sup> Based on reported LTM Adjusted EBITDA as of 9/30/2011

- **Maintain focus on organic growth**
  - Continue aggressive broadband penetration plans
  - Use greater scale and scope to be more effective competitor
  - Expand footprint where payback analysis supports it
  - Selectively deploy capital for backhaul and other wholesale opportunities
  - Exploit video capabilities to drive ARPU
  
- **Improve operating efficiency & deliver cost synergies**
  - Streamline organization structure
  - Integrate the back offices & systems
  - Consolidated corporate/public company functions
  
- **Sustain and grow value to stockholders over long term**
  - Maintain cash flow to support dividend
  - Manage through respective regulatory process
  - Deliver optimal capital structure with delevering profile

- **Advanced voice, video and data communications provider**
- **Network technology leader with advanced networks**
- **Focused on long-term growth**

## Geographic Footprint



(\$ in Millions)

## Key Metrics <sup>(1)</sup>

### LTM Financial Summary

Total Revenue	\$246.2M
Y-o-Y growth rate	2.9%
Adjusted EBITDA	\$84.6M
Y-o-Y growth rate	5.3%

### Customer Statistics

Total Residential RGUs	266,500
Video	64,900
Voice	100,300
Data	101,300
Business Customers	15,700

### Total Marketable Homes

<b>Total Marketable Homes</b>	<b>321,700</b>
Fiber	158,500
% of total	49.3%
870 MHz hybrid fiber coaxial in Kansas City	94,000
% of total	29.2%
Copper in Sacramento	69,200
% of total	21.5%

<sup>(1)</sup> Based on public filings as of 9/30/2011

- **Fiber-optics based high speed Internet, customized data and Ethernet transport service, Data center and disaster recovery solutions, VoIP phone systems, IPTV, Wireless backhaul**

### Sacramento – 343 Mile Fiber Ring



### Kansas City – 60 Mile Fiber Ring



# Benefits of the Combination

## Synergies

- **Approximately \$25 million in annual run-rate opex synergies**
- **\$5 million to \$10 million in annual run-rate capex synergies**

## Pro Forma Capital Structure

- **Pro forma total and net leverage of 4.1x and 3.9x (after synergies)**
- **Senior secured leverage below 3.0x (after synergies)**
- **Combined company expected to delever significantly over time**

## Tax Benefits

- **\$67 million of estimated SureWest NOLS as of 9/30/2011**

## Dividend Policy

- **Maintain Consolidated's annual dividend of \$1.55 per share**
- **Improves dividend payout ratio**

## Successful Integration Track Record

- **Capitalize on management's integration experience**
  - Texas properties in 2004 – tripled size of company
  - North Pittsburgh properties in 2007 – exceeded synergy guidance

- **Combines Consolidated's strong and stable cash flow business with SureWest's growth oriented broadband and overbuilder strategy**
- **Results in a financially strong company with a robust balance sheet, attractive dividend payout ratio and the ability to delever over time**
- **Diversifies revenue and cash flow streams across multiple business lines and geographies**
- **Creates a platform for future growth through acquisitions to fill in our national footprint and organically through investments in our existing markets**

***Compelling transaction for Consolidated Shareholders***

Q&A



**Consolidated**<sup>®</sup>  
communications

