

Edgar Filing: Consolidated Communications Holdings, Inc. - Form 10-K

Consolidated Communications Holdings, Inc.
Form 10-K
February 29, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 000-51446

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

02-0636095
(I.R.S.
Employer
Identification
No.)

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121 South 17th Street, Mattoon, Illinois 61938-3987
(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock—\$0.01 par value	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See definitions of "large accelerated filer" "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of June 30, 2015, the aggregate market value of the shares held by non-affiliates of the registrant's common stock was \$1,010,007,952 based on the closing price as reported on the NASDAQ Global Select Market. The market value calculations exclude shares held on the stated date by registrant's directors and officers on the assumption such shares may be shares owned by affiliates. Exclusion from these public market value calculations does not necessarily conclude affiliate status for any other purpose.

On February 15, 2016, the registrant had 50,470,096 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2016 Annual Meeting of Shareholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. Such proxy statement will be

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filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2015.

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PART I

Note About Forward-Looking Statements

The Securities and Exchange Commission (“SEC”) encourages companies to disclose forward-looking information so that investors can better understand a company’s future prospects and make informed investment decisions. Certain statements in this Annual Report on Form 10-K, including those relating to the impact on future revenue sources, pending and future regulatory orders, continued expansion of the telecommunications network and expected changes in the sources of our revenue and cost structure resulting from our entrance into new communications markets, are forward-looking statements and are made pursuant to the safe harbor provisions of the Securities Litigation Reform Act of 1995. These forward-looking statements reflect, among other things, our current expectations, plans, strategies and anticipated financial results. There are a number of risks, uncertainties and conditions that may cause our actual results to differ materially from those expressed or implied by these forward-looking statements. Many of these circumstances are beyond our ability to control or predict. Moreover, forward-looking statements necessarily involve assumptions on our part. These forward-looking statements generally are identified by the words “believe”, “expect”, “anticipate”, “estimate”, “project”, “intend”, “plan”, “should”, “may”, “will”, “would”, “will be”, “will continue” or similar expressions. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of Consolidated Communications Holdings, Inc. and its subsidiaries (“Consolidated”, the “Company”, “we” or “our”) to be different from those expressed or implied in the forward-looking statements. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements that appear throughout this report. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in Part I – Item 1A – “Risk Factors”. Furthermore, forward-looking statements speak only as of the date they are made. Except as required under federal securities laws or the rules and regulations of the SEC, we disclaim any intention or obligation to update or revise publicly any forward-looking statements. You should not place undue reliance on forward-looking statements.

Item 1. Business.

Consolidated Communications Holdings, Inc. is a Delaware holding company with operating subsidiaries that provide integrated communications services in consumer, commercial and carrier channels in California, Illinois, Iowa, Kansas, Minnesota, Missouri, North Dakota, Pennsylvania, South Dakota, Texas, and Wisconsin. We were founded in 1894 as the Mattoon Telephone Company by the great-grandfather of one of the members of our Board of Directors, Richard A. Lumpkin. After several acquisitions, the Mattoon Telephone Company was incorporated as the Illinois Consolidated Telephone Company on April 10, 1924. We were incorporated under the laws of Delaware in 2002, and through our predecessors we have provided telecommunications services for more than a century.

In addition to our focus on organic growth in our commercial and carrier channels, our acquisitions over the last decade have achieved business growth and the diversification of revenue and cash flow streams, and they have created

a strong platform for future growth. Our strategic approach to evaluating potential transactions includes analysis of the market opportunity, the quality of the network, our ability to integrate the acquired company efficiently and the potential for creating significant operating synergies and generating positive cash flow at the inception of each acquisition. Operating synergies are created through the use of consistent platforms, convergence of processes and functional management of the combined entities. We measure our synergies during the first two years following an acquisition. For example, the acquisition of our Texas properties in 2004 tripled the size of our business and gave us the requisite scale to make system and platform decisions that would facilitate future acquisitions. The acquisition of our Pennsylvania properties in 2007 achieved synergies in excess of \$12.0 million in annualized savings, which at the time, represented approximately 20% of their operating expense. The acquisition of SureWest Communications in 2012 achieved synergies of \$29.5 million during the two years subsequent to the acquisition date. As a result of the acquisition of Enventis Corporation, a Minnesota corporation (“Enventis”), in October 2014, as described below, we expect to generate annual operating synergies of approximately \$17.0 million, which will be phased in over the first two years subsequent to the acquisition date as integration projects are completed. Through these acquisitions, we have positioned our business to provide services in rural, suburban and metropolitan markets, with service territories spanning the country.

We provide a wide range of services and products that include local and long-distance service, high-speed broadband Internet access, video services, Voice over Internet Protocol (“VoIP”), private line services, carrier grade access services, network capacity services over our regional fiber optic networks, cloud data services, data center and managed services, directory publishing and equipment sales.

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Recent Business Developments

Enventis Merger

On October 16, 2014, we completed our merger with Enventis and acquired all the issued and outstanding shares of Enventis in exchange for shares of our common stock. As a result, Enventis became a wholly-owned subsidiary of the Company. Enventis is an advanced communications provider, which services consumer, commercial and wholesale carrier customer channels primarily in the upper Midwest. The acquisition reflects our strategy to diversify revenue and cash flows amongst multiple products and to expand our network to new markets. The financial results for Enventis have been included in our consolidated financial statements as of the acquisition date. See Note 3 to the consolidated financial statements included in this report in Part II – Item 8 – “Financial Statements and Supplementary Data” for a more detailed discussion of the transaction.

Discontinued Operations

On September 13, 2013, we completed the sale of the assets and contractual rights used to provide communications services to inmates in thirteen county jails located in Illinois for a total purchase price of \$2.5 million. In accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 205-20, Discontinued Operations, the financial results of the operations for our prison services business have been reported as discontinued operations in our consolidated financial statements for the year ended December 31, 2013. See Note 3 to the consolidated financial statements included in this report in Part II – Item 8 – “Financial Statements and Supplementary Data” for a more detailed discussion of the transaction.

Available Information

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on our web site at www.consolidated.com, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Copies are also available free of charge upon request to Consolidated Communications, Attn: Vice President Investor Relations and Treasurer, 121 S. 17th Street, Mattoon, Illinois 61938. Our website also contains copies of our Corporate Governance Principles, Code of Business Conduct and Ethics and charter of each committee of our Board of Directors. The information found on our web site is not part of this report or any other report we file with or furnish to the SEC. The public may read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549 on official business days during the hours of 10:00 am to 3:00 pm. The public may obtain information on the operation

of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding our filings at www.sec.gov.

Description of Our Business

We are an integrated communications services company that operates as both an Incumbent Local Exchange Carrier (“ILEC”) and a Competitive Local Exchange Carrier (“CLEC”) dependent upon the territory served. We provide an array of services in consumer, commercial and carrier channels in 11 states, including local and long-distance service, high-speed broadband Internet access, video services, VoIP, custom calling features, private line services, carrier grade access services, network capacity services over our regional fiber optic networks, data center and managed services, directory publishing, equipment sales and cloud data services. The geographic areas we serve are characterized by a balanced mix of growing suburban areas and stable, rural territories. The acquisition of Enventis in 2014 further diversified our operating revenues and cash flows across multiple business lines and markets.

We generate the majority of our consolidated operating revenue primarily from subscriptions to our video and data services (collectively “broadband services”) and transport services to business and residential customers. Revenues increased \$140.0 million during 2015 compared to 2014, primarily from growth in commercial services, total data connections and the acquisition of Enventis in 2014. We expect our broadband services revenue to continue to grow as consumer and commercial demands for data based services increase.

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We continue to focus on commercial and broadband growth opportunities and are continually expanding our commercial product offerings for both small and large businesses to capitalize on industry technological advances. We can leverage our fiber optic networks and tailor our services for business customers by developing solutions to fit their specific needs. We gained strategic advantage through the acquisition of Enventis in 2014, which recently launched a suite of cloud data services that increases efficiency and reduces IT costs for our customers. In addition, we recently launched an enhanced hosted voice product, which enables greater scalability and reliability for businesses. We anticipate future momentum in new commercial services as these new products gain traction.

We market services to our residential customers either individually or as a bundled package. Our “triple play” bundle includes our voice, video and data services. Data connections continue to increase as a result of consumer trends toward increased Internet usage and our enhanced product and service offerings, such as our progressively increasing consumer data speeds. We introduced data speeds of up to 1 Gbps to approximately 20,000 of our fiber-to-the-home customers in our Kansas market and a limited portion of our Pennsylvania market in December 2014 and in our Texas market in the first quarter of 2015, with our California market to follow in 2016. Where 1 Gbps speeds are not yet offered, the maximum broadband speed is 100 Mbps, depending on the geographic market availability. As of December 31, 2015, approximately 29% of the homes in the areas we serve subscribe to our data service.

Our exceptional consumer broadband speed allows us to continue to meet the needs of our customers and the demand for higher speed resulting from the growing trend of over-the-top (“OTT”) content viewing. The availability of 1 Gbps data speed also complements our wireless home networking (“Wi-Fi”) that supports our TV Everywhere service and allows our subscribers to watch their favorite programs at home or away on a computer, smartphone or tablet.

We tailor our services to commercial and carrier customers by developing solutions to fit their specific needs. We provide services to a wide range of commercial customers from sole proprietors and other small businesses to multi-location corporations and telecommunications carriers. Our business suite of services includes local and long-distance calling plans, hosted voice services using Cloud network servers, the added capacity for multiple phone lines, scalable broadband Internet, online back-up and business directory listings.

For larger businesses, we offer data services including dedicated Internet access through our Metro Ethernet network. Wide Area Network (“WAN”) products include point-to-point and multi-point deployments from 2.5 Mbps to 10 Gbps, accommodating the growth patterns of our business customers. Our data centers provide redundant, scalable bandwidth over a self-healing fiber-optic backbone that is protected by uninterrupted power supplies and generator back-ups with direct connection to broadband. We also offer wholesale services to regional and national interexchange and wireless carriers, including cellular backhaul, dark fiber and other fiber-based transport solutions with speeds up to 100 Gbps.

A discussion of factors potentially affecting our operations is set forth in Part I – Item 1A – “Risk Factors”, which is incorporated herein by reference.

Key Operating Statistics

	As of December 31,	
	2015	2014
Consumer customers	268,927	257,753
		258,769
Voice connections	482,733	440,253
Data connections	456,103	407,972
Video connections	117,824	111,968
Total connections	1,056,707	960,193

The comparability of our consolidated results of operations and key operating statistics was impacted by the Enventis acquisition that closed on October 16, 2014, as described above. Enventis' results are included in our consolidated financial statements as of the date of the acquisition. The acquisition provides additional diversification of the Company's revenues and cash flows both geographically and by service type.

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