

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

Consolidated Communications Holdings, Inc.
Form 10-K
February 26, 2019
Table of Contents

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, 2018

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.)

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

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 every Interactive Data File required to be submitted 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 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2018, the aggregate market value of the shares held by non-affiliates of the registrant's common stock was \$846,847,934 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 21, 2019, the registrant had 71,187,301 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2019 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 filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2018.

Table of Contents

TABLE OF CONTENTS

	PAGE
<u>PART I</u>	
<u>Item 1. Business</u>	1
<u>Item 1A. Risk Factors</u>	19
<u>Item 1B. Unresolved Staff Comments</u>	27
<u>Item 2. Properties</u>	27
<u>Item 3. Legal Proceedings</u>	28
<u>Item 4. Mine Safety Disclosures</u>	28
<u>PART II</u>	
<u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	28
<u>Item 6. Selected Financial Data</u>	30
<u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	32
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	56
<u>Item 8. Financial Statements and Supplementary Data</u>	56
<u>Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	56
<u>Item 9A. Controls and Procedures</u>	56
<u>Item 9B. Other Information</u>	59
<u>PART III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	59
<u>Item 11. Executive Compensation</u>	59
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	59
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	59

<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>	59
<u>PART IV</u>		
<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules</u>	60
<u>Item 16.</u>	<u>Form 10-K Summary</u>	64
<u>SIGNATURES</u>		65

Table of Contents

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 Private 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 the actual results of Consolidated Communications Holdings, Inc. and its subsidiaries (“Consolidated,” the “Company,” “we,” “our” or “us”) 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 expressions. 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, undue reliance should not be placed on forward-looking statements, which are based on the information currently available to us and 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.

Item 1. Business.

Consolidated Communications Holdings, Inc. is a Delaware holding company with operating subsidiaries that provide a wide range of communication solutions to consumer, commercial and carrier channels across a 23-state service area. 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 in 1924. We were incorporated under the laws of Delaware in 2002, and through our predecessors, we have been providing communication services in many of the communities we serve for more than a century.

In addition to our focus on organic growth in our commercial and carrier channels, we have achieved business growth and a diversification of revenue and cash flow streams that have created a strong platform for future growth through our acquisitions over the last decade. 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 first two years subsequent to the acquisition date. The acquisition of Enventis Corporation (“Enventis”) in October 2014 generated annual operating synergies of approximately \$17.0 million during the first two years subsequent to the acquisition date. As a result of the acquisition of FairPoint Communications, Inc. (“FairPoint”) in July 2017, as described below, we expect to generate annual operating synergies of approximately \$75.0 million over the first two years subsequent to the acquisition date. Through these acquisitions, we have positioned our business to provide services in rural, suburban and metropolitan markets, with service territories spanning the country.

Recent Business Developments

On July 3, 2017, we completed the acquisition of FairPoint pursuant to the terms of a definitive agreement and plan of merger (as amended, the “Merger Agreement”) and acquired all the issued and outstanding shares of FairPoint in exchange

Table of Contents

for shares of our common stock. As a result, FairPoint became a wholly-owned subsidiary of the Company. FairPoint was an advanced communications provider to business, wholesale and residential customers within its service territory, which spanned across 17 states. FairPoint owned and operated a robust fiber-based network with more than 22,000 route miles of fiber, including 17,000 route miles of fiber in northern New England. The financial results for FairPoint have been included in our consolidated financial statements as of the acquisition date. The acquisition reflects our strategy to diversify revenue and cash flows among multiple products and to expand our network to new markets.

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 this 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 website 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 website is not part of this report or any other report we file with or furnish to the SEC. The public may read and copy reports, proxy and information statements and other information we file with the SEC at the SEC’s website at www.sec.gov.

Description of Our Business

Consolidated is a broadband and business communications provider offering a wide range of communication solutions to consumer, commercial and carrier customers across a 23-state service area and an advanced fiber network spanning 37,000 fiber route miles across many rural areas and metro communities. Our business product suite includes: data and Internet solutions, voice, data center services, security services, managed and IT services, and an expanded suite of cloud services. We provide wholesale solutions to wireless and wireline carriers and other service providers including data, voice, network connections and custom fiber builds and last mile connections. We offer residential high-speed Internet, video, phone and home security services as well as multi-service residential and small business bundles. Consolidated is dedicated to turning technology into solutions, connecting people and enriching how our customers work and live.

We generate the majority of our consolidated operating revenues primarily from subscriptions to our broadband, data and transport services (collectively “broadband services”) marketed to business and residential customers. Our

acquisition of FairPoint in 2017, as described above, provides us significantly greater scale and an expanded fiber network which allows for additional growth opportunities and expansion.

Commercial and carrier services represent the largest source of our operating revenues and are expected to be key growth areas in the future. We are focused on enhancing our broadband and commercial product suite and are continually enhancing our commercial product offerings to meet the needs of our business customers. We leverage our advanced fiber networks and tailor our services for business customers by developing solutions to fit their specific needs. Additionally, we are continuously enhancing our suite of managed and cloud services, which increases efficiency and enables greater scalability and reliability for businesses. We anticipate future momentum in commercial and carrier services as these products gain traction as well as from the demand from customers for additional bandwidth and data-based services.

We market our residential services by leading with broadband or bundled services, which includes high-speed Internet, video and phone services. As consumer demands for bandwidth continue to increase, our focus is on enhancing our broadband services, and progressively increasing broadband speeds. We offer data speeds of up to 1 Gigabits per second (“Gbps”) in select markets, and up to 100 Mbps in markets where 1 Gbps is not yet available, depending on the geographical region. As we continue to increase broadband speeds, we are also able to simultaneously expand the array of services and content offerings that the network provides.

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

Table of Contents

Sources of Revenue

The following tables summarize our sources of revenue and key operating statistics for the last three fiscal years:

	2018		2017		2016		
(In millions, except for percentages)	\$	% of Revenues	\$	% of Revenues	\$	% of Revenues	
Commercial and carrier:							
Data and transport services (includes VoIP)	\$ 349.4	25.0	% \$ 274.2	25.9	% \$ 202.3	27.2	%
Voice services	202.9	14.5	152.7	14.4	94.2	12.7	
Other	56.4	4.0	33.9	3.2	12.5	1.7	
	608.7	43.5	460.8	43.5	309.0	41.6	
Consumer:							
Broadband (Data and VoIP)	253.1	18.1	183.6	17.3	115.2	15.5	
Video services	88.4	6.3	91.4	8.6	94.2	12.6	
Voice services	202.0	14.4	137.7	13.0	55.8	7.5	
	543.5	38.8	412.7	38.9	265.2	35.6	
Equipment sales and service	—	—	—	—	43.1	5.8	
Subsidies	83.4	6.0	62.3	5.9	48.3	6.5	
Network access	152.6	10.9	110.2	10.4	63.8	8.6	
Other products and services	10.9	0.8	13.6	1.3	13.8	1.9	
Total operating revenues	\$ 1,399.1	100.0	% \$ 1,059.6	100.0	% \$ 743.2	100.0	%

Key Operating Statistics

	As of December 31,		
	2018	2017	2016
Consumer customers	628,649	671,300	253,203
Voice connections	902,414	972,178	457,315
Data connections	778,970	783,682	473,403
Video connections	93,065	103,313	106,343
Total connections	1,774,449	1,859,173	1,037,061

The comparability of our consolidated results of operations and key operating statistics was impacted by the FairPoint acquisition that closed on July 3, 2017, as described above. FairPoint's results are included in our consolidated financial statements as of the date of the acquisition.

All telecommunications providers continue to face increased competition as a result of technology changes and legislative and regulatory developments in the industry. We continue to focus on commercial growth opportunities and are continually expanding our commercial product offerings for both small and large businesses to capitalize on industry technological advances. In addition, we expect our broadband services revenue to continue to grow as consumer and commercial demands for data based services increase, which will offset, in part, the anticipated decline in traditional voice services impacted by the ongoing industry-wide reduction in residential access lines.

Commercial and Carrier

Data and Transport Services

We provide a variety of business communication services to small, medium and large business customers, including many services over our advanced fiber network. The services we offer include scalable high-speed broadband Internet access and Voice over Internet Protocol (“VoIP”) phone services, which range from basic service plans to virtual hosted systems. Our hosted VoIP package utilizes soft switching technology and enables our customers to have the flexibility of employing new telephone advances and features without investing in a new telephone system. The package bundles local service, calling features, Internet protocol (“IP”) business telephones and unified messaging, which integrates multiple messaging technologies into a single system and allows the customer to receive and listen to voice messages through email.