

FAIRPOINT COMMUNICATIONS INC

Form 425

January 04, 2017

- [Click to edit Master title style](#) [Click to edit Master title style](#) 1 Filed by Consolidated Communications Holdings, Inc. pursuant to Rule 425 under the Securities Act of 1933, as amended, and deemed filed pursuant to Rule 14a - 12 under the Securities Exchange Act of 1934, as amended Subject Company: FairPoint Communications, Inc. Commission File No.: 001 - 32408 On January 4, 2017, Consolidated Communications Holdings, Inc. provided the following presentation to investors:

• [Click to edit Master title style](#) [Click to edit Master title style](#) Consolidated Communications Investor Presentation
January 2017 NASDAQ: CNSL

• Click to edit Master title style Click to edit Master title style Safe Harbor 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 communication 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, current expectations, plans, strategies, and anticipated financial results of Consolidated Communications Holdings, Inc. (the “Company”) and FairPoint Communications, Inc. (“FairPoint”), both separately and as a combined entity. There are a number of risks, uncertainties, and conditions that may cause the actual results of the Company and FairPoint, both separately and as a combined entity, to differ materially from those expressed or implied by these forward - looking statements. These risks and uncertainties include the timing and ability to complete the proposed acquisition of FairPoint by the Company, the expected benefits of the integration of the two companies and successful integration of FairPoint’s operations with those of the Company and realization of the synergies from the integration, as well as a number of factors related to the respective businesses of the Company and FairPoint, including economic and financial market conditions generally and economic conditions in the Company’s and FairPoint’s service areas; 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; changes in the valuation of pension plan assets; 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 its common stock; restrictions contained in the Company’s debt agreements that limit the discretion of management in operating the business; legal or regulatory proceedings or other matters that impact the timing or ability to complete the acquisition as contemplated, 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; 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 FairPoint’s network; high costs of regulatory compliance; the competitive impact of legislation and regulatory changes in the telecommunications industry; liability and compliance costs regarding environmental regulations; the possibility of disruption from the integration of the two companies making it more difficult to maintain business and operational relationships; the possibility that the acquisition is not consummated, including, but not limited to, due to the failure to satisfy the closing conditions; the possibility that the merger or the acquisition may be more expensive to complete than anticipated, including as a result of unexpected factors or events; and diversion of management’s attention from ongoing business operations and opportunities. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward - looking statements are discussed in more detail in the Company’s and FairPoint’s respective filings with the SEC, including the Annual Report on Form 10 - K of the Company for the year ended December 31, 2015, which was filed with the SEC on February 29, 2016, under the heading “Item 1A — Risk Factors,” and the Annual Report on Form 10 - K of FairPoint for the year ended December 31, 2015, which was filed with the SEC on March 2, 2016, under the heading “Item 1A — Risk Factors,” and in subsequent reports on Forms 10 - Q and 8 - K and other filings made with the SEC by each of the Company and FairPoint. Many of these circumstances are beyond the ability of the Company and FairPoint to control or predict. Moreover, forward - looking statements necessarily involve assumptions on the part of the Company and FairPoint. These forward - looking statements generally are identified by the words “believe,” “expect,” “anticipate,” “estimate,” “project,” “intend,” “plan,” “should,” “may,” “would,” “will be,” “will continue” or similar expressions. Such forward - looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of the Company and FairPoint, and their respective subsidiaries, both separately and as a combined entity to be different from those expressed or implied in the forward - looking statements. All forward - looking statements attributable to us or

persons acting on the respective behalf of the Company or FairPoint are expressly qualified in their entirety by the cautionary statements that appear throughout this communication. 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 SEC, each of the Company and FairPoint disclaim any intention or obligation to update or revise publicly any forward - looking statements. You should not place undue reliance on forward - looking statements. 3

• Click to edit Master title style Click to edit Master title style Important Merger Information Important Merger Information and Additional Information This communication does not constitute an offer to sell or the solicitation of an offer to buy any securities or a solicitation of any vote or approval. In connection with the proposed transaction, the Company and FairPoint will file relevant materials with the SEC. The Company will file a Registration Statement on Form S - 4 that includes a joint proxy statement of the Company and FairPoint and which also constitutes a prospectus of the Company. The Company and FairPoint will mail the final joint proxy statement/prospectus to their respective stockholders. Investors are urged to read the joint proxy statement/prospectus regarding the proposed transaction when it becomes available, because it will contain important information. The joint proxy statement/prospectus and other relevant documents that have been or will be filed by the Company and FairPoint with the SEC are or will be available free of charge at the SEC's website, www.sec.gov, or by directing a request when such a filing is made to Consolidated Communications Holdings, Inc., 121 South 17th Street, Mattoon, IL 61938, Attention: Investor Relations or to FairPoint Communications, Inc., 521 East Morehead Street, Suite 500, Charlotte, North Carolina 28202, Attention: Secretary. The Company, FairPoint and certain of their respective directors, executive officers and other members of management and employees may be considered participants in the solicitation of proxies in connection with the proposed transaction. Information about the directors and executive officers of the Company is set forth in its definitive proxy statement, which was filed with the SEC on March 28, 2016. Information about the directors and executive officers of FairPoint is set forth in its definitive proxy statement, which was filed with the SEC on March 25, 2016. These documents can be obtained free of charge from the sources listed above. Investors may obtain additional information regarding the interests of such participants by reading the joint proxy statement/prospectus the Company and FairPoint will file with the SEC when it becomes available. 4

• Click to edit Master title style Click to edit Master title style Service Area and Network Operations in 11 states
14,100 fiber route miles 5,500 on - net lit buildings Customer Base Diverse carrier, commercial and consumer
customer base Business and Broadband focus 83% of revenue 470,000 data/Internet connections Consolidated at a
Glance \$ 755M Revenue LTM \$ 313M Adjusted EBITDA LTM 1,800 employees Proven track record of successful
M&A: CTC, Enventis, SureWest, North Pitt, TXU CNSL annual dividend \$1.55/share Consolidated at a Glance 5

• Click to edit Master title style Click to edit Master title style Executing on Our Strategy Diversify and improve revenue trends Maintain effective capital deployment Improve operating efficiency Pursue selective acquisitions Sustain and Grow Cash Flow, Increase Shareholder Value 6

• Click to edit Master title style Click to edit Master title style Leveraging a Fiber - Rich Network Consumer •
Bandwidth demand • Diverse markets • Network availability • OTT transition Carrier • Bandwidth demand • Network
presence in less competitive markets • Wireless backhaul growth Commercial • Bandwidth demand • Sales engine •
Diverse markets • Network deployment • Capex availability Three Key Customer Groups 7

• Click to edit Master title style Click to edit Master title style FairPoint Acquisition Rationale 8 • Regional fiber rich network spanning over 21k route miles • Over \$ 1 billion in capital invested in infrastructure and technology since 2009 • Extensive fiber - to - the - tower footprint and 90%+ broadband coverage High Quality, Enterprise – Class Fiber Network • Expands network reach and scale – 35k fiber route miles, 8k fiber - connected buildings and 3k fiber - to - the - tower connections • Opportunity to leverage Consolidated’s enhanced product suite and consultative sales approach across FairPoint’s markets • Doubles the revenue base and adjusted EBITDA (including synergies) Material Increase in Scale • History of successfully integrating acquisitions with track record of exceeding synergy targets – TXU (2004), North Pittsburgh (2007), SureWest (2012), Enventis (2014) • Plan to leverage successful consultative sales approach across customer groups Proven Integration Track Record • Expected to achieve \$55MM in annual run - rate synergies • Transaction is meaningfully accretive to free cash flow per share • Maintain attractive return of capital program – \$1.55 per share dividend • Pro forma net leverage of 3.8x at close (including run - rate synergies) (1) • Greater strategic and financial flexibility going forward Note 1. Includes expected run - rate synergies of \$55MM Source Company Filings Highly Compelling Financial Benefits

• Click to edit Master title style Click to edit Master title style Transaction Summary 9 Notes 1. Based on average exchange ratio of 0.6222 derived from close of previous 30 trading days as of December 2, 2016 2. Balance sheet data as of September 30, 2016 3. Calculated using midpoint of 2016E EBITDA guidance of \$245 – \$255MM; Includes expected run - rate synergies of \$55MM 4. FairPoint's has 27.9MM fully diluted shares outstanding based on 0.7300 exchange ratio and Consolidated's closing share price of \$28.38 as of December 2, 2016 and Consolidated's 51.0MM fully diluted shares outstanding • Consolidated to acquire FairPoint in a 100% stock transaction – Fixed exchange ratio of 0.7300, implying a 17% (1) premium to the 30 - day average exchange ratio Transaction Consideration and Structure • 71.3% (4) Consolidated shareholders • 28.7% (4) FairPoint shareholders Pro Forma Ownership • Financing commitment secured to refinance existing FairPoint debt Financing • Closing expected by mid - 2017 Closing • Hart - Scott - Rodino, FCC and certain state regulatory approvals • Consolidated and FairPoint shareholders will have the opportunity to vote on the deal Approvals • Transaction value of \$1.5Bn, including net debt of \$887MM (2) • Implied EBITDA multiple of 5.9x (pre - synergies) / 4.8x (full synergies) (3) Transaction Value / Multiples Source Company Filings, FactSet

• Click to edit Master title style Click to edit Master title style 1,100 2,400 Consolidated Pro Forma Attractive Assets, Regional Fiber Networks 10 Source Company Filings Consolidated FairPoint Operating States Fiber Network Lines FL NM MD TX OK KS NE SD ND MT W Y CO UT ID AZ NV W A CA OR KY NY PA MI N H MA CT VA WV OH IN IL NC TN SC AL AR LA MO IA MN WI GA MS VT NJ DE ME RI FairPoint Core Market Roseville Sacramento Fargo Twin Cities Duluth Mankato Des Moines Kansas City Dallas Lufkin Conroe Katy Houston St.Louis Mattoon Indianapolis Pittsburgh Gibsonia Note 1. Consolidated and FairPoint metrics rounded to nearest hundred 14,10 0 35,10 0 Consolidated Pro Forma Fiber Network Miles (1) +2.5x 5,500 8,500 Consolidated Pro Forma On - Net Buildings (1) +1.5x Fiber Wireless Tower Sites (1) +2.2x As of September 30, 2016, TTM On - Net Buildings (1) Fiber Network Miles (1) Fiber Connected Towers (1)

• Click to edit Master title style Click to edit Master title style Significant Increase in Scale 11 Note 1. Includes Access and Data and Internet Services Revenue 755 1,586 Consolidated Pro Forma Pro Forma Revenue +2.1x Source Company Filings Pro Forma Revenue As of September 30, 2016, TTM, \$ in M Pro Forma Revenue Mix 55 313 621 Consolidated Pro Forma EBITDA Synergies +2.0x Pro Forma EBITDA (2) As of September 30, 2016 Pro Forma EBITDA Business and Broadband 72 % (1) Res. Voice & Other 22% Subsidies 7%

• Click to edit Master title style Click to edit Master title style State Coverage 11 17 24 Fiber Network Miles 14,100
21,000 35,100 On-Net Buildings 5,500 3,000 8,500 Fiber Connected Towers 1,100 1,300 2,400 Voice Connections
462,200 377,400 839,600 Data and Internet Connections 470,500 325,000 795,500 Pro Forma Operating Statistics 12
Notes 1. Excluding four overlapping states 2. Includes "Residential Voice Lines" 3. Includes "Broadband Subscribers"
and "Ethernet Circuits" 4. Does not adjust for redundancy Source Company Filings, Consolidated and FairPoint metrics
rounded to nearest hundred (2) (3) (4) (1) Pro Forma

• Click to edit Master title style Click to edit Master title style \$55M Annual in Synergies 13 Operating Costs • Corporate • Network and Operational Efficiencies • IT Support • Public Company Costs • Professional Services • Back office systems ~\$45mm annually ~\$10mm annually Description Amount Consolidated has a proven track record of successful integration and meeting or exceeding synergy targets Vendor and Outsourced Costs

• Click to edit Master title style Click to edit Master title style 2002 Consolidated M&A History Revenue Leverage
2004 2007 2012 2014 \$ 118M \$ 312M \$ 426M \$ 623M \$ 787M 5.4x * Calculated pro forma for each respective
acquisition includes full fun - rate of synergies. 4.4x 4.0x 3.9x 4.0x State 14

• Click to edit Master title style Click to edit Master title style Wireless Partnerships, Diversification • Five partnerships with Verizon Wireless and overlap with certain ILEC and CLEC markets • Strategic investments diversify our cash flows and provide a hedge against legacy declines 1 Received approximately \$10M in non - recurring distributions in Q3 - 15 from the sale and leaseback of towers CNSL Cash Distributions (\$ in millions) 2010 2011 2012 2013 2014 2015 Q3 16 LTM \$27.4 \$28.3 \$29.1 \$34.8 \$34.6 \$45.3 \$34.4 1 15

• Click to edit Master title style Click to edit Master title style Investment Highlights Diversified and stable EBITDA and cash flow 11 - state network 14,100 fiber route miles CTC, Enventis, SURW, North Pitt, TXU Broadband network IP services Extensive telecom expertise Consistent results supporting dividend Extensive Fiber Network Track record of successful deals Advanced Products Experienced Team 16

• [Click to edit Master title style](#) [Click to edit Master title style](#) [Appendix - Use of Non - GAAP Measures - Adjusted EBITDA Reconciliation - Net Leverage - Revenue Categories - Cash Available to Pay Dividends](#) 17

• Click to edit Master title style Click to edit Master title style Use of Non - GAAP Measures This presentation includes disclosures regarding “EBITDA”, “adjusted EBITDA”, “cash available to pay dividends ” and the related “dividend payout ratio”, “total net debt to last twelve month adjusted EBITDA coverage ratio”, “adjusted diluted net income per share” and “adjusted net income attributable to common stockholders” , all of which are non-GAAP financial measures and described in this section as not being in compliance with Regulation S -X. Accordingly, they should not be construed as alternatives to net cash from operating or investing activities, cash and cash equivalents, cash flows from operations, net income or net income per share as defined by GAAP and are not, on their own, necessarily indicative of cash available to fund cash needs as determined in accordance with GAAP. In addition, not all companies use identical calculations, and the non-GAAP financial measures may not be comparable to other similarly titled measures of other companies. A reconciliation of the differences between these non -GAAP financial measures and the most directly comparable financial measures presented in accordance with GAAP is included in the tables that follow. Adjusted EBITDA is comprised of EBITDA, adjusted for certain items as permitted or required by the lenders under our credit agreement in place at the end of each quarter in the periods presented. The tables that follow include an explanation of how adjusted EBITDA is calculated for each of the periods presented with the reconciliation to net income . EBITDA is defined as net earnings before interest expense, income taxes, depreciation and amortization on a historical basis. Cash available to pay dividends represents adjusted EBITDA plus cash interest income less (1) cash interest expense, (2) capital expenditures and (3) cash income taxes; this calculation differs in certain respects from the similar calculation used in our credit agreement. We present adjusted EBITDA, cash available to pay dividends and the related dividend payout ratio for several reasons. Management believes adjusted EBITDA, cash available to pay dividends and the dividend payout ratio are useful as a means to evaluate our ability to fund our estimated uses of cash (including interest on our debt) and pay dividends. In addition, we have presented adjusted EBITDA, cash available to pay dividends and the dividend payout ratio to investors in the past because they are frequently used by investors, securities analysts and other interested parties in the evaluation of companies in our industry, and management believes presenting them here provides a measure of consistency in our financial reporting. Adjusted EBITDA and cash available to pay dividends, referred to as Available Cash in our credit agreement, are also components of the restrictive covenants and financial ratios contained in our credit agreement that requires us to maintain compliance with these covenants and limit certain activities, such as our ability to incur debt and to pay dividends . The definitions in these covenants and ratios are based on adjusted EBITDA and cash available to pay dividends after giving effect to specified charges. In addition, adjusted EBITDA, cash available to pay dividends and the dividend payout ratio provide our board of directors with meaningful information to determine, with other data, assumptions and considerations, our dividend policy and our ability to pay dividends under the restrictive covenants in our credit agreement and to measure our ability to service and repay debt. We present the related “total net debt to last twelve month adjusted EBITDA coverage ratio” principally to put other non-GAAP measures in context and facilitate comparisons by investors, security analysts and others; this ratio differs in certain respects from the similar ratio used in our credit agreement. These measures differ in certain respects from the ratios used in our senior notes indenture. These non-GAAP financial measures have certain shortcomings. In particular, adjusted EBITDA does not represent the residual cash flows available for discretionary expenditures, since items such as debt repayment and interest payments are not deducted from such measure. Similarly, while we may generate cash available to pay dividends, we are not required to use any such cash to pay dividends, and the payment of any dividends is subject to declaration by our board of directors, compliance with applicable law and the terms of our credit agreement. Because adjusted EBITDA is a component of the dividend payout ratio and the ratio of total net debt to last twelve month adjusted EBITDA, these measures are also subject to the material limitations discussed above. In addition, the ratio of total net debt to last twelve month adjusted EBITDA is subject to the risk that we may not be able to use the cash on the balance sheet to reduce our debt on a dollar -for-dollar basis. Management believes these ratios are useful as a means to evaluate our ability to incur additional indebtedness in the future. We present the non-GAAP measures adjusted diluted net income per share and adjusted diluted net income attributable to common stockholders because our net income and net income per share are regularly affected by items that occur at irregular intervals or are non-cash items. We believe that disclosing these measures assists investors, securities analysts and other interested parties in evaluating both our company over time and the relative performance of the companies in our industry. 18

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	2016	2015	2016	2015
Net income (loss)	7,089	\$ 2,745	\$ 15,148	\$ (5,354)
Add (subtract):				
Income tax expense (benefit)	4,991	2,220	22,287	(2,258)
Interest expense, net	19,075	19,174	56,827	60,277
Depreciation and amortization	43,224	46,057	130,855	133,264
EBITDA	74,379	70,196	225,117	185,929
Adjustments to EBITDA (1):				
Other, net (2)	1,993	9,103	7,373	53,148
Investment income (accrual basis)	(8,735)	(10,601)	(24,636)	(26,046)
Investment distributions (cash basis)	8,638	19,996	23,218	34,162
Non-cash compensation (3)	862	742	2,666	2,265
Adjusted EBITDA	77,137	\$ 89,436	\$ 233,738	\$ 249,458

Footnotes for Adjusted EBITDA: (1) These adjustments reflect those required or permitted by the lenders under our credit agreement. (2) Other, net includes income attributable to noncontrolling interests, acquisition and non-recurring related costs, and certain miscellaneous items. (3) Represents compensation expenses in connection with our Restricted Share Plan, which because of the non-cash nature of the expenses are excluded from adjusted EBITDA. September 30, Three Months Ended September 30, Consolidated Communications Holdings, Inc. Schedule of Adjusted EBITDA Calculation (Dollars in thousands) (Unaudited) Nine Months Ended 19

• Click to edit Master title style Click to edit Master title style Net Leverage Summary of Outstanding Debt Term loan, net of discount \$2,872 882,103\$ Revolving loan 8,000 Senior unsecured notes due 2022, net of discount \$4,453 495,547 Capital leases 17,141 Total debt as of September 30, 2016 1,402,791\$ Less deferred debt issuance costs (10,813) Less cash on hand (33,403) Total net debt as of September 30, 2016 1,358,575\$ Adjusted EBITDA for the last twelve months ended September 30, 2016 313,184\$ Total Net Debt to last twelve months Adjusted EBITDA 4.34x Consolidated Communications Holdings, Inc. Total Net Debt to LTM Adjusted EBITDA Ratio (Dollars in thousands) (Unaudited) 20

[Click to edit Master title style](#) [Click to edit Master title style](#) Revenue Categories Q3'15 Q4'15 Q1'16 Q2'16 Q3'16
 Commercial and carrier: Data and transport services (includes VoIP) 47,198\$ 47,969\$ 49,112\$ 48,558\$ 49,653\$
 Voice services 25,463 25,288 25,025 25,323 25,098 Other 3,208 3,621 2,624 2,703 3,481 75,869 76,878 76,761
 76,584 78,232 Consumer: Broadband (VoIP, Data and Video) 52,956 52,863 54,559 53,103 51,363 Voice services
 15,143 14,829 14,491 14,028 13,717 68,099 67,692 69,050 67,131 65,080 Equipment sales and service 14,759 10,080
 9,640 10,448 17,695 Subsidies 13,905 13,524 13,074 12,982 11,681 Network access 16,912 16,563 16,813 16,305
 15,536 Other products and services 4,414 3,454 3,508 3,421 3,317 Total operating revenue 193,958\$ 188,191\$
 188,846\$ 186,871\$ 191,541\$ Consolidated Communications Holdings, Inc. Consolidated Revenue by Category
 (Dollars in thousands) (Unaudited) 21

• Click to edit Master title style Click to edit Master title style Cash Available to Pay Dividends Consolidated Communications Holdings, Inc. Cash Available to Pay Dividends (Dollars in thousands) (Unaudited) Three Months Ended Nine Months Ended September 30, 2016 September 30, 2016 Adjusted EBITDA 77,137\$ 233,738\$ - Cash interest expense (18,257) (54,759) - Capital expenditures (31,887) (94,158) - Cash income (taxes)/refund (616) 132 Cash available to pay dividends 26,377\$ 84,953\$ Dividends Paid 19,622\$ 58,796\$ Payout Ratio 74.4% 69.2% Note: The above calculation excludes the principal payments on our debt 22