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	02-0636095
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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 (Do not check if a smaller reporting company)	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 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 ex 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	2013
Consumer customers	268,934	277,753	258,769
Voice connections	482,735	503,120	440,253
Data connections	456,100	443,489	407,972
Video connections	117,882	124,229	111,968
Total connections	1,056,717	1,070,838	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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Sources of Revenue

The following table summarizes our sources of revenue for the last three fiscal years:

	2015			2014			2013		
(In millions, except for percentages)	$	% of Revenues		$	% of Revenues		$	% of Revenues	
Commercial and carrier:									
Data and transport services (includes VoIP)	$ 183.3	23.6	%	$ 117.5	18.5	%	$ 94.5	15.7	%
Voice services	103.0	13.3		92.6	14.6		89.8	14.9	
Other	12.3	1.6		11.5	1.8		10.6	1.8	
	298.6	38.5		221.6	34.9		194.9	32.4	
Consumer:									
Broadband (VoIP, data and video)	213.6	27.5		200.8	31.6		195.1	32.5	
Voice services	60.6	7.8		60.2	9.5		63.9	10.6	
	274.2	35.3		261.0	41.1		259.0	43.1	
Equipment sales and service	55.0	7.1		10.0	1.5		—	—	
Subsidies	56.3	7.3		53.2	8.4		52.0	8.6	
Network access	73.9	9.5		75.7	11.9		81.4	13.5	
Other products and services	17.7	2.3		14.2	2.2		14.3	2.4	
Total operating revenues	$ 775.7	100.0	%	$ 635.7	100.0	%	$ 601.6	100.0	%

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 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 VoIP phone services, which range from basic service plans to virtual hosted systems. Our hosted VoIP package utilizes our 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.

In addition to Internet and VoIP services, we also offer a variety of commercial data connectivity services in select markets including private line, WAN and Ethernet services to provide high bandwidth connectivity across point-to-point and multiple site networks. Networking services are available at a variety of speeds up to 10 Gbps. Data center and disaster recovery solutions also provide a reliable and local colocation option for commercial customers. We have also recently launched a suite of Cloud-based services which includes a hosted unified communications solution that replaces the customer's on-site phone systems and data networks, managed network security services and data protection services.

We also offer wholesale services to regional and national interexchange and wireless carriers, including cellular backhaul, dark fiber and other fiber transport solutions with speeds up to 100 Gbps. The demand for backhaul services continues to grow as wireless carriers are faced with escalating consumer and commercial demands for wireless data.

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Voice Services

Voice services include basic local phone and long-distance service packages for business customers. The plans include options for voicemail, conference calling, linking multiple office locations and other custom calling features such as caller ID, call forwarding, speed dialing and call waiting. Services can be charged at a fixed monthly rate, a measured rate or can be bundled with selected services at a discounted rate.

Consumer

Broadband Services

Broadband services include revenue from residential customers for subscriptions to our VoIP, data and video products. We offer high speed Internet access at speeds of up to 1 Gbps, depending on the nature of the network facilities that are available, the level of service selected and the location. Our data service plans also include wireless internet access, email and internet security and protection. Our VoIP digital phone service is also available in certain markets as an alternative to the traditional telephone line. We offer multiple voice service plans with customizable calling features and voicemail. Depending on geographic market availability, our video services range from limited basic service to advanced digital television, which includes several plans each with hundreds of local, national and music channels including premium and pay-per-view channels as well as video on-demand service. Certain customers may also subscribe to our advanced video services, which consist of high-definition television, digital video recorders ("DVR") and/or a whole home DVR. Our Whole Home DVR allows customers the ability to watch recorded shows on any television in the house, record multiple shows at one time and utilize an intuitive on-screen guide and user interface. Video subscribers also have access to our TV Everywhere service which allows subscriber access to full episodes of available shows, movies and live streams using a computer or mobile device.

Voice Services

We offer several different basic local phone service packages and long-distance calling plans, including unlimited flat-rate calling plans. The plans include options for voicemail and other custom calling features such as caller ID, call forwarding and call waiting. The number of local access lines in service directly affects the recurring revenue we generate from end users and continues to be impacted by the industry-wide decline in access lines. We expect to continue to experience modest erosion in voice connections due to competition from alternative technologies, including our own competing VoIP product.

Equipment Sales and Service

As an equipment integrator, we offer network design, implementation and support services, including maintenance contracts, in order to provide integrated communication solutions for our customers. We sell telecommunications equipment, such as key, Private Branch Exchange (“PBX”), IP-based telephone systems and other sophisticated hardware solutions, and offer support services to medium and large business customers. Through our acquisition of Enventis in 2014, we obtained a leading market relationship with Cisco Systems, Inc. and, as a result, are an accredited Master Level Unified Communications and Gold Certified Cisco Partner providing equipment solutions and support for business customers. Our strategic relationship with Cisco as the supplier allows us to deploy a wide range of collaboration, data center and network technology solutions. We earned Cisco’s Master Cloud Builder Specialization and received the Data Center Interconnect designation. We maintain numerous Cisco specializations and authorizations, as well as partner relationships with EMC, NetApp, VMware and other industry-leading vendors in order to provide integrated communication solutions that best fit our customers’ needs.

Subsidies

Subsidies consist of both federal and state subsidies, which are designed to promote widely available, quality telephone service at affordable prices in rural areas. Subsidies are funded by end user surcharges to which telecommunications providers, including local, long-distance and wireless carriers, contribute on a monthly basis. Subsidies are allocated and distributed to participating carriers monthly based upon their respective costs for providing local service. Similar to access charges, subsidies are regulated by federal and state regulatory commissions. See Part I – Item 1 – “Regulatory Environment” below and Item 1A – Risk Factors – “Risks Related to the Regulation of Our Business” for further discussion regarding the subsidies we receive.

Network Access Services

Network access services include interstate and intrastate switched access revenue, network special access services and end user access. Switched access revenue includes access services to other communications carriers to terminate or originate long-distance calls on our network. Special access circuits provide dedicated lines and trunks to business customers and interexchange carriers. Certain of our network access revenues are based on rates set or approved by federal and state regulatory commissions or as directed by law that are subject to change at any time.

Other Products and Services

Other products and services include revenues from telephone directory publishing, video advertising and billing and support services.

No customer accounted for more than 10% of our consolidated operating revenues during the years ended December 31, 2015, 2014 and 2013.

Wireless partnerships

In addition to our core business, we also derive a significant portion of our cash flow and earnings from investments in five wireless partnerships. Wireless partnership investment income is included as a component of other income in the consolidated statements of income. Our wireless partnership investment consists of five cellular partnerships: GTE Mobilnet of South Texas Limited Partnership ("Mobilnet South Partnership"), GTE Mobilnet of Texas RSA #17 Limited Partnership ("RSA #17"), Pittsburgh SMSA Limited Partnership ("Pittsburgh SMSA"), Pennsylvania RSA No. 6(I) Limited Partnership ("RSA 6(I)") and Pennsylvania RSA No. 6(II) Limited Partnership ("RSA 6(II)").

We own 2.34% of the Mobilnet South Partnership. The principal activity of the Mobilnet South Partnership is providing cellular service in the Houston, Galveston and Beaumont, Texas metropolitan areas. Because we have a minor ownership interest and cannot influence operations, we account for this investment using the cost method. Income is recognized only upon cash distributions of our proportionate earnings in the partnership.

We own 20.51% of RSA #17, which serves areas in and around Conroe, Texas. Because we have some influence over the operating and financial policies of this partnership, we account for the investment under the equity method, recognizing income on our proportionate share of earnings. Cash distributions are recorded as a reduction in our investment.

San Antonio MTA, L.P., a wholly owned partnership of Cellco Partnership (doing business as Verizon Wireless), is the general partner for both the Mobilnet South Partnership and RSA #17.

We own 3.60% of Pittsburgh SMSA, 16.67% of RSA 6(I) and 23.67% of RSA 6(II), all of which are majority owned and operated by Verizon Wireless. These partnerships cover territories that almost entirely overlap the markets served by our Pennsylvania ILEC and CLEC operations. Because of our limited influence over Pittsburgh SMSA, we account for the investment using the cost method. RSA 6(I) and RSA 6(II) are accounted for under the equity method.

For the years ended December 31, 2015, 2014 and 2013, we recognized income of $37.0 million, $34.4 million and $37.5 million, respectively, and received cash distributions of $45.3 million, $34.6 million and $34.8 million, respectively, from these wireless partnerships.

Employees

As of December 31, 2015, we employed approximately 1,783 employees, including part-time employees. We also use temporary employees in the normal course of our business.

Approximately 28% of our employees were covered by collective bargaining agreements as of December 31, 2015. For a more detailed discussion regarding how the collective bargaining agreements could affect our business, see Part I - Item 1A – Risk Factors – “Risks Relating to Our Business”.

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Sales and Marketing

The key components of our overall marketing strategy include:

- Organizing our sales and marketing activities around our consumer, commercial and carrier customers;
- Positioning ourselves as a single point of contact for our customers' communications needs;
- Providing customers with a broad array of voice, data and video services and bundling these services whenever possible;
- Identifying and broadening our commercial customer needs by developing solutions and providing integrated service offerings;
- Providing excellent customer service, including 24/7 centralized customer support to coordinate installation of new services, repair and maintenance functions;
- Developing and delivering new services to meet evolving customer needs and market demands; and
- Leveraging history and brand recognition across all market areas.

We currently offer our services through call centers, our website, communication centers and commissioned sales representatives. Our customer service call centers and dedicated sales teams serve as the primary sales channels for consumer, business and carrier services. Our sales efforts are supported by direct mail, bill inserts, newspaper, radio and television advertising, public relations activities, community events and website promotions.

We market our services both individually and as bundled services, including our triple-play offering of voice, data and video services. By bundling our service offerings, we are able to offer and sell a more complete and competitive package of services, which we believe simultaneously increases our average revenue per user ("ARPU") and adds value for the consumer. We also believe that bundling leads to increased customer loyalty and retention.

Network Architecture and Technology

We have made significant investments in our technologically advanced telecommunications networks and continue to enhance and expand our network by deploying technologies to provide additional capacity to our customers. As a result, we are able to deliver high-quality, reliable data, video and voice services in the markets we serve. Our wide-ranging network and extensive use of fiber provide an easy reach into existing and new areas. By bringing the fiber network closer to the customer premises, we can increase our service offerings, quality and bandwidth services. Our existing network enables us to efficiently respond and adapt to changes in technology and is capable of supporting the rising customer demand for bandwidth in order to support the growing amount of wireless data devices in our customers' homes and businesses.

Our networks are supported by advanced 100% digital switches, with a fiber network connecting in all but one of our exchanges. We continue to enhance our copper network to increase bandwidth in order to provide additional products and services to our marketable homes. In addition to our copper plant enhancements, we have deployed fiber-optic cable extensively throughout our network, resulting in a 100% fiber backbone network that supports all of the inter-office and host-remote links, as well as the majority of business parks within our service areas. In addition, this fiber infrastructure provides the connectivity required to provide video service, Internet and long-distance services to all Consolidated residential and commercial customers. Our fiber network utilizes fiber-to-the-home ("FTTH") and fiber-to-the-node ("FTTN") networks to offer bundled residential and commercial services.

We operate fiber networks which we own or have entered into long-term leases for fiber network access. At December 31, 2015, our fiber-optic network consisted of approximately 13,720 route-miles, which includes approximately 4,700 miles of fiber network in Minnesota and surrounding areas, 4,180 miles of fiber network in Texas, approximately 1,690 route-miles of fiber-optic facilities in the Pittsburgh metropolitan area, 1,050 miles of fiber network in Illinois, approximately 1,080 route-miles of fiber optic facilities in California that cover large parts of the greater Sacramento metropolitan area and over 1,020 route-miles of fiber optic facilities in Kansas City that service the greater Kansas City

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area including both Kansas and Missouri. In 2014, we expanded our commercial services into the greater Dallas/Fort Worth market utilizing our existing carrier-class fiber network in this area. This network previously was used to serve our wholesale and carrier customers. In 2014, we began offering fiber based services including dedicated Internet access, wide area network services and hosted private branch exchange (iPBX) to commercial customers in this market.

Through our extensive fiber network, we are also able to support the increased demand on wireless carriers for data bandwidth. In all the markets we serve, we have launched initiatives to support fiber backhaul services to cell sites. As of December 31, 2015, we had 1,224 cell sites under contract with 1,065 connected and 159 scheduled for completion in 2016.

Business Strategies

Diversify revenues and increase revenues per customer

We continue to transform our business and diversify our revenue streams as we adapt to changes in the regulatory environment and advances in technology. As a result of acquisitions, our wireless partnerships and increases in the consumer and commercial demand for data services, we continue to reduce our reliance on subsidies and access revenue. Utilizing our existing network and strategic network expansion initiatives, we are able to acquire and serve a more diversified business customer base and create new long-term revenue streams such as wireless carrier backhaul services. We will continue to focus on growing our broadband and commercial services through the expansion and extension of our fiber network to communities and corridors near our primary fiber routes where we believe we can offer competitive services and increase market share.

We also continue to focus on increasing our revenue per customer, primarily by improving our data market penetration, by increasing the sale of other value-added services and by encouraging customers to subscribe to our service bundles.

Improve operating efficiency

We continue to seek to improve operating efficiency through technology, better practices and procedures and through cost containment measures. Our current focus is on the continued integration of Enventis into our existing operations and creating operating synergies for the combined company. In recent years, we have made significant operational improvements in our business through the centralization of work groups, processes and systems, which has resulted in significant cost savings and reductions in headcount. Because of these efficiencies, we are better able to deliver a consistent customer experience, service our customers in a more cost-effective manner and lower our cost structure. We continue to evaluate our operations in order to align our cost structure with operating revenues while continuing to launch new products and improve the overall customer experience.

Maintain capital expenditure discipline

Across all of our service territories, we have successfully managed capital expenditures to optimize returns through disciplined planning and targeted investment of capital. For example, investments in our networks allows significant flexibility to expand our commercial footprint, offer new service offerings and provide services in a cost-efficient manner while maintaining our reputation as a high-quality service provider. We will continue to invest in strategic growth initiatives to expand our fiber network to new markets and customers in order to optimize new business, backhaul and wholesale opportunities.

Pursue selective acquisitions

We have in the past taken, and expect to continue to take in the future, a disciplined approach in pursuing company acquisitions. When we evaluate potential transactions, important factors include:

- The market;
- The quality of the network;
- The ability to integrate the acquired company efficiently;

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· Significant potential operating synergies exist; and

· The transaction will be cash flow accretive from day one.

We believe all of the above criteria were met in connection with our acquisition of Enventis in 2014. In the long term, we believe that this transaction gives us additional scale and better positions us financially, strategically and competitively to pursue additional acquisitions.

Competition

The telecommunications industry is subject to extensive competition, which has increased significantly in recent years. Technological advances have expanded the types and uses of services and products available. In addition, differences in the regulatory environment applicable to comparable alternative services have lowered costs for these competitors. As a result, we face heightened competition but also have new opportunities to grow our broadband business. Our competitors vary by market and may include other incumbent and competitive local telephone companies; cable operators offering video, data and VoIP products; wireless carriers; long distance providers; satellite companies; Internet service providers and in some cases new forms of providers who are able to offer a broad range of competitive services. We expect competition to remain a significant factor affecting our operating results and that the nature and extent of that competition will continue to increase. See Part I - Item 1A – “Risk Factors – Risks Relating to Our Business”.

In recent years, competition in our incumbent service areas has increased significantly. Except for the traditional multichannel video delivery business, which requires significant capital investment to serve customers, the barriers to entry are not high and technology changes force rapid competitive adjustments. Depending on the market area, we compete against AT&T and a number of other carriers, as well as Comcast, Time Warner, Mediacom, Armstrong, Suddenlink and NewWave communications, in both the commercial and consumer markets. Google also recently launched data and video services in a limited, but growing, number of service areas including the Kansas City market. Our competitors offer traditional telecommunications services as well as IP-based services and other emerging data-based services. Our competitors continue to add features and adopt aggressive pricing and packaging for services comparable to the services we offer.

We continue to face significant competition from wireless and other fiber data providers as the demand for substitute communication services, such as wireless phones and data devices, continues to increase. Customers are increasingly foregoing traditional telephone services and land-based Internet service and relying exclusively on wireless service. In addition, the expanded availability for free or lower cost services, such as video over the Internet, complimentary Wi-Fi service and other streaming devices has increased competition among other providers including online digital distributors for our video and data services.

In most cases, we have entered the cable television service markets as the operator of a second (or subsequent) cable system. Therefore, we face the challenge of drawing customers away from the incumbent cable service provider. Similarly, the possession of comparatively greater size and scale can give an incumbent cable competitor an advantage in both access to and pricing of the program content needed to operate a cable television business. Our competitors, in some cases, possess significantly greater size and scale than we do. In order to meet the competition, we have responded in part by introducing new services and service bundles, offering services in convenient groupings with package discounts and billing advantages, providing excellent customer service and by continuing to invest in our network and business operations.

In our rural markets, services are more costly to provide than service in urban areas as a lower customer density necessitates higher capital expenditures on a per-customer basis. As a result, it generally is not economically viable for new entrants to overlap existing networks in rural territories. Despite the barriers to entry, rural telephone companies still face significant competition from wireless and video providers and, to a lesser extent, competitive telephone companies.

Our other lines of business are subject to substantial competition from local, regional and national competitors. In particular, our wholesale and transport business serves other interexchange carriers and we compete with a variety of service providers including incumbent and competitive local telephone companies and other fiber data companies. For our business systems products, we compete with other equipment providers or value added resellers, network providers, incumbent and competitive local telephone companies and with cloud and data hosting service providers.

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We expect that competition in all of our businesses will continue to intensify as new technologies and changes in consumer behavior continue to emerge.

Regulatory Environment

The following summary does not describe all existing and proposed legislation and regulations affecting the telecommunications industry. Regulation can change rapidly, and ongoing proceedings and hearings could alter the manner in which the telecommunications industry operates. We cannot predict the outcome of any of these developments, nor their potential impact on us. See Part I —Item 1A—"Risk Factors—Risks Related to the Regulation of Our Business".

Overview

Our revenues, which include revenues from such telecommunications services as local telephone service, network access service and toll service, are subject to broad federal and/or state regulation are derived from various sources, including:

- business and residential subscribers of basic exchange services;
- surcharges mandated by state commissions;
- long-distance carriers for network access service;
- competitive access providers and commercial customers for network access service; and
- support payments from federal or state programs.

The telecommunications industry is subject to extensive federal, state and local regulation. Under the Telecommunications Act of 1996 (the "Telecommunications Act"), federal and state regulators share responsibility for implementing and enforcing statutes and regulations designed to encourage competition and to preserve and advance widely available, quality telephone service at affordable prices.

At the federal level, the Federal Communications Commission ("FCC") generally exercises jurisdiction over facilities and services of local exchange carriers, such as our rural telephone companies, to the extent they are used to provide, originate or terminate interstate or international communications. The FCC has the authority to condition, modify, cancel, terminate or revoke our operating authority for failure to comply with applicable federal laws or FCC rules, regulations and policies. Fines or penalties also may be imposed for any of these violations.

State regulatory commissions generally exercise jurisdiction over carriers' facilities and services to the extent they are used to provide, originate or terminate intrastate communications. In particular, state regulatory agencies have substantial oversight over interconnection and network access by competitors of our rural telephone companies. In addition, municipalities and other local government agencies regulate the public rights-of-way necessary to install and operate networks. State regulators can sanction our rural telephone companies or revoke our certifications if we violate relevant laws or regulations.

Federal Regulation

Our rural telephone companies and competitive local exchange companies must comply with the Communications Act of 1934, which requires, among other things, that telecommunications carriers offer services at just and reasonable rates and on non-discriminatory terms and conditions. The 1996 amendments to the Communications Act (contained in the Telecommunications Act discussed below) dramatically changed, and likely will continue to change, the landscape of the industry.

Removal of Entry Barriers

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The Telecommunications Act imposes a number of interconnection and other requirements on all local communications providers. All telecommunications carriers have a duty to interconnect directly or indirectly with the facilities and equipment of other telecommunications carriers. Local exchange carriers, including our rural telephone companies, are required to:

· Allow other carriers to resell their services;

· Provide number portability where feasible;

· Ensure dialing parity, meaning that consumers can choose their default local or long-distance telephone company without having to dial additional digits;

· Ensure that competitors' customers receive non-discriminatory access to telephone numbers, operator service, directory assistance and directory listings;

· Afford competitors access to telephone poles, ducts, conduits and rights-of-way; and

· Establish reciprocal compensation arrangements with other carriers for the transport and termination of telecommunications traffic.

Furthermore, the Telecommunications Act imposes on incumbent telephone companies (other than rural telephone companies that maintain their so-called "rural exemption" as our subsidiaries do) additional obligations to:

· Negotiate interconnection agreements with other carriers in good faith;

· Interconnect their facilities and equipment with any requesting telecommunications carrier, at any technically feasible point, at non-discriminatory rates and on non-discriminatory terms and conditions;

· Offer their retail services to other carriers for resale at discounted wholesale rates;

· Provide reasonable notice of changes in the information necessary for transmission and routing of services over the incumbent telephone company's facilities or in the information necessary for interoperability; and

· Provide, at rates, terms and conditions that are just, reasonable and non-discriminatory, for the physical collocation of other carriers' equipment necessary for interconnection or access to unbundled network elements ("UNEs") at the premises of the incumbent telephone company.

Access Charges

On November 18, 2011, the FCC released its comprehensive order on intercarrier compensation and universal service reform. See “FCC Access Charge and Universal Service Reform Order” below for detailed discussion on the FCC order.

A significant portion of our rural telephone companies’ revenues come from network access charges paid by long-distance and other carriers for using our companies’ local telephone facilities for originating or terminating calls within our service areas. The amount of network access revenues our rural telephone companies receive is based on rates set or approved by federal and state regulatory commissions, and these rates are subject to change at any time.

Intrastate network access charges are regulated by state commissions. The FCC order on intercarrier compensation and universal service reform required state access charges to mirror interstate access charges, and as of July 1, 2013, all switched intrastate access charges mirror interstate access charges.

The FCC regulates the prices we may charge for the use of our local telephone facilities to originate or terminate interstate and international calls. The FCC has structured these prices as a combination of flat monthly charges paid by customers and both usage-sensitive (per-minute) charges and flat monthly charges paid by long-distance or other carriers.

The FCC regulates interstate network access charges by imposing price caps on Regional Bell Operating Companies and other large incumbent telephone companies. These price caps can be adjusted based on various formulas, such as inflation and productivity, and otherwise through regulatory proceedings. Incumbent telephone companies, such as our local telephone companies, may elect to base network access charges on price caps, but are not required to do so. All of our incumbent telephone companies have elected for price cap regulation.

We believe that price cap regulation gives us greater pricing flexibility for interstate services, especially in the increasingly competitive special access segment. It also provides us with the potential to increase our net earnings by becoming more productive and introducing new services. As we have acquired new properties we have converted them to federal price cap regulation.

Traditionally, regulators have allowed network access rates for rural areas to be set higher than the actual cost of terminating or originating long-distance calls as an implicit means of subsidizing the high cost of providing local service in rural areas. Following a series of federal court decisions ruling that subsidies must be explicit rather than implicit, the FCC adopted reforms in 2001 that reduced per-minute network access charges and shifted a portion of cost recovery, which historically was imposed on long-distance carriers, to flat-rate, monthly subscriber line charges imposed on end-user customers. While the FCC also increased explicit subsidies to rural telephone companies through the Universal Service Fund, the aggregate amount of interstate network access charges paid by long-distance carriers to access providers, such as our rural telephone companies, has decreased and may continue to decrease.

Unlike the federal system, California, Illinois, Iowa and Minnesota do not provide an explicit subsidy in the form of a universal service fund for companies of our size. Therefore, while subsidies from the Federal Universal Service Fund offset the decrease in revenues resulting from the reduction in interstate network access rates, there was no corresponding offset for the decrease in revenues from the reduction in California and Illinois intrastate network access rates. In Iowa, Minnesota, Pennsylvania and Texas, the intrastate network access rate regime applicable to our rural telephone companies does not mirror the FCC regime, so the impact of the reforms was revenue neutral.

In recent years, carriers have become more aggressive in disputing the FCC's interstate access charge rates and the application of access charges to their telecommunications traffic. We believe these disputes have increased, in part, because advances in technology have made it more difficult to determine the identity and jurisdiction of traffic, giving carriers an increased opportunity to challenge access costs for their traffic. For example, in September 2003, Vonage Holdings Corporation filed a petition with the FCC to preempt an order of the Minnesota Public Utilities Commission asserting jurisdiction over Vonage. The FCC determined that it was impossible to divide Vonage's VoIP service into interstate and intrastate components without negating federal rules and policies. Accordingly, the FCC found it was an interstate service not subject to traditional state telephone regulation. While the FCC order did not specifically address whether intrastate access charges were applicable to Vonage's VoIP service, the fact that the service was found to be solely interstate raises that concern. We cannot predict what other actions other long-distance carriers may take before the FCC or with their local exchange carriers, including our rural telephone companies, to challenge the applicability of access charges. Due to the increasing deployment of VoIP services and other technological changes, we believe these types of disputes and claims are likely to increase.

Unbundled Network Element Rules

The unbundling requirements have been some of the most controversial provisions of the Telecommunications Act. In its initial implementation of the law, the FCC generally required incumbent telephone companies to lease a wide range of UNE's to CLECs. Those rules were designed to enable competitors to deliver services to their customers in combination with their existing networks or as recombined service offerings on a UNE platform ("UNE-P"), which allowed competitors with no facilities of their own to purchase all the elements of local telephone service from the incumbent and resell them to customers. These unbundling requirements, and the duty to offer UNEs to competitors, imposed substantial costs on the incumbent telephone companies and made it easier for customers to shift their business to other carriers. After a court challenge and a decision vacating portions of the UNE rules, the FCC issued revised rules in February 2005 that reinstated some unbundling requirements for incumbent telephone companies that are not protected by the rural exemption, but eliminated the UNE-P option and certain other unbundling requirements.

Each of the subsidiaries through which we operate our local telephone businesses is an incumbent telephone company and provides service in rural areas. As discussed above, the Telecommunications Act exempts rural telephone companies from certain of the more burdensome interconnection requirements. However, the Telecommunications Act provides that the rural exemption will cease to apply to competing cable companies if and when the rural carrier introduces video services in a service area, in which case, a competing cable operator providing video programming and seeking to provide

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telecommunications services in the area may interconnect. Since each of our subsidiaries now provides video services in their major service areas, the rural exemption no longer applies to cable company competitors in those service areas. Additionally, in Texas, the Public Utilities Commission of Texas ("PUCT") has removed the rural exemption for our Texas subsidiaries with respect to telecommunications services furnished by Sprint Communications, L.P. on behalf of cable companies. Our ILEC subsidiaries in California, Illinois, Iowa, Minnesota and Pennsylvania still have the rural exemption in place. We believe the benefits of providing video services outweigh the loss of the rural exemptions to cable operators.

Under its current rules, the FCC has eliminated unbundling requirements for ILECs providing broadband services over fiber facilities, but continues to require unbundled access to mass-market narrowband loops. ILECs are no longer required to unbundle packet switching services. In addition, the FCC found that CLECs generally are not at a disadvantage at certain wire center locations in regard to high bandwidth (DS-1 and DS-3) loops, dark fiber loops and dedicated interoffice transport facilities. However, where a disadvantage persists, ILECs continue to be required to unbundle loops and transport facilities.

The FCC rules regarding the unbundling of network elements did not have an impact on our Illinois and Pennsylvania ILEC operations because these ILECs have rural exemptions. Our CLEC operations were not significantly affected by the 2005 changes to the UNE rules because they use their own switching for business customers that are served by high capacity loops. Our Pennsylvania CLEC has a commercial agreement with Verizon that sets the terms of the pricing and provisioning of lines previously served utilizing UNE-P, including Verizon switching service. Less than 5% of our Pennsylvania CLEC access lines are provisioned utilizing this commercial arrangement. Although the costs for this arrangement will increase over time pursuant to the terms of the agreement, our relatively low use of Verizon's switching and our ability to migrate some of the lines to alternative provisioning sources will limit the overall impact on our current cost structure. The CLEC has experienced moderate increases in the overall cost to provision high-capacity loops, interoffice transport facilities and dark fiber as a result of the FCC's changes to unbundling requirements for those facilities. In December 2012, our subsidiary Consolidated Communications Enterprise Services. Inc. ("CCES"), entered into a 5-year wholesale special access agreement with AT&T, which moved us off of the UNE platform, reduced costs and gave us greater flexibility. This agreement applies to our CLEC operations in California, Illinois, Kansas, Missouri and Texas.

In 2006, Verizon filed a petition requesting that the FCC refrain from applying a number of regulations to the Verizon operations in six major metropolitan markets, including the Pittsburgh market area. Among other things, Verizon urged the FCC to forbear from applying loop and transport unbundling regulations, claiming there was sufficient competition in the Pittsburgh market to mitigate the need for these rules. The FCC denied Verizon's petition in December 2007, but a federal court of appeals remanded this decision to the FCC for further analysis in 2009. If the FCC grants this remanded petition or any similar forbearance petitions in markets in which our CLEC operates, our cost to obtain access to loop and transport facilities would increase substantially for the 5%, or less, of the lines provisioned under the commercial agreement discussed above. In 2013, AT&T filed to amend its interstate access tariff with the FCC to eliminate the 5-year term discounts on its special access services. We filed a petition to reject AT&T's filing, and on December 9, 2013, the FCC suspended AT&T's filing pending investigation. The FCC has not yet issued a ruling in this matter.

Promotion of Universal Service

In general, telecommunications service in rural areas is more costly to provide than service in urban areas. The lower customer density means that switching and other facilities serve fewer customers and loops are typically longer, requiring greater expenditures per customer to build and maintain. By supporting the high cost of operations in rural markets, Universal Service Fund ("USF") subsidies promote widely available, quality telephone service at affordable prices in rural areas. Revenues from federal and certain states' USFs totaled $56.3 million, $53.2 million and $52.0 million in 2015, 2014 and 2013, respectively.

In order for an eligible telecommunications carrier ("ETC") to receive high-cost support, the USF/Intercarrier Compensation ("ICC") Transformation Order requires states to certify annually that USF support is used only for the provision, maintenance and upgrading of facilities and services for which the support is intended. States, in turn, require that ETCs file certifications with them as the basis for the state filings with the FCC. Failure to meet the annual data and certification deadlines can result in reduced support to the ETC based on the length of the delay in certification. Each of our rural telephone companies has been designated as an ETC. For calendar year 2013, the California state certification was due to be filed with the FCC on or before October 1, 2012. We were notified in January 2013 that SureWest Communications ("SureWest") did not submit the required certification to the California Public Utilities Commission

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(“CPUC”) in time to be included in its October 1, 2012 submission to the FCC. In January 2013, we filed a certification with the CPUC and filed a petition with the FCC for a waiver of the filing deadline for the annual state certification. In February 2013, the CPUC filed a certification with the FCC with respect to SureWest. In October 2013, the Wireline Competition Bureau of the FCC denied our petition for a waiver of the annual certification deadline. In November 2013, we applied for a review of the decision made by the FCC staff by the full Commission. Management is optimistic that the Company may prevail in its application to the Commission and receive USF funding for the period January 1, 2013 through June 30, 2013 based on the change in SureWest’s USF filing status caused by the change in the ownership of SureWest, the lack of formal notice by the FCC regarding this change in filing status, the fact that SureWest had a previously filed certification of compliance in effect with the FCC for the two quarters for which USF was withheld and the FCC’s past practice of granting waivers to accept late filings in similar situations. However, due to the denial of our petition by the Wireline Competition Bureau and the uncertainty of the collectability of previously recognized revenues, in December 2013 we reversed $3.0 million of previously recognized revenues until such time that the Commission has the opportunity to reach a decision on our application for review.

FCC Access Charge and Universal Service Reform Order

In November 2011, the FCC released a comprehensive order on access charge and universal service reform (the “Order”). The access charge portion of the Order systematically reduces minute-of-use-based interstate access, intrastate access and reciprocal compensation rates over a six to nine year period to an end state of bill-and-keep, in which each carrier recovers the costs of its network through charges to its own subscribers, not through intercarrier compensation. The reductions apply to terminating access rates and usage, with originating access to be addressed by the FCC in a later proceeding. To help with the transition to bill-and-keep, the FCC created two mechanisms. The first is an Access Recovery Mechanism (“ARM”) which is funded from the Connect America Fund (“CAF”), and the second is an Access Recovery Charge (“ARC”) which is recovered from end users. The universal service portion of the Order redirects support from voice services to broadband services, and is now called the CAF. The initial release of the Order mandated that, in order to receive CAF funding, carriers must agree to provide broadband capability to 100% of their customer base at a minimum speed of 4 Mbps downstream and 1Mbps upstream.

In the Order, holding companies with price cap study areas and rate of return study areas are mandated to move each of their interstate rate of return study areas to price cap for universal service purposes only. The intercarrier compensation rules will keep rate of return study areas under the rate of return intercarrier compensation transitions plan and the price cap study areas under the price cap intercarrier compensation transition.

In 2012, CAF Phase I was implemented, which froze USF support to price cap carriers until the FCC implemented a broadband cost model to shift support from voice services to broadband services. The Order also modified the methodology used for ICC traffic exchanged between carriers. The initial phase of ICC reform was effective on July 1, 2012, beginning the transition of our terminating switched access rates to bill-and-keep over a seven year period, and as a result, our network access revenue decreased approximately $1.3 million during 2015.

In December 2014, the FCC released a report and order that addressed, among other things, the transition to CAF Phase II funding for price cap carriers, the acceptance criteria for CAF Phase II funding and the annual reporting requirements, and it also introduced CAF Phase III. For companies that accept the CAF Phase II funding, there is a three year transition period in instances in which their current CAF Phase I funding exceeds the CAF Phase II funding. If CAF Phase II funding exceeds CAF Phase I funding, the transitional support is waived and CAF Phase II funding begins immediately. Companies are required to commit to a statewide build out requirement to 10 Mbps downstream and 1 Mbps upstream in funded locations. We accepted the CAF Phase II funding in August 2015. The annual funding under CAF Phase I of $36.6 million will be replaced by annual funding under CAF Phase II of $13.9 million through 2020. In the state of Iowa, where CAF Phase II funding is greater than the CAF Phase I funding, the CAF Phase II funding will be received with a retroactive payment back to January 1, 2015. For all other states, funding under CAF Phase II is less than funding under CAF Phase I. The acceptance of funding at the lower level will transition over a three year period, beginning in August 2015, at the rates of 75% of the CAF Phase I funding level in the first year, 50% in the second year and 25% in the third year.

The annual reporting requirements include (i) filings of annual certifications that the carrier is both meeting its public interest obligations and is offering comparable broadband rates and (ii) the filing of a Service Quality Improvement plan. The initial plan must be filed by July 1, 2016, with progress reports filed every year thereafter. The plan must include, among other things, the total amount of CAF Phase II funding used to fund capital expenditures in the previous year and certification that the carrier is meeting the required interim deployment milestones.

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State Regulation

California

The CPUC has the power, among other things, to establish rates, terms and conditions for intrastate service, to prescribe uniform systems of accounts and to regulate the mortgaging or disposition of public utility properties.

In an ongoing proceeding relating to the New Regulatory Framework, the CPUC adopted Decision 06-08-030 in 2006, which grants carriers broader pricing freedom in the provision of telecommunications services, bundling of services, promotions and customer contracts. This decision adopted a new regulatory framework, the Uniform Regulatory Framework ("URF"), which among other things (i) eliminates price regulation and allows full pricing flexibility for all new and retail services, (ii) allows new forms of bundles and promotional packages of telecommunication services, (iii) allocates all gains and losses from the sale of assets to shareholders and (iv) eliminates almost all elements of rate of return regulation, including the calculation of shareable earnings. In December 2010, the CPUC issued a ruling to initiate a new proceeding to assess whether, or to what extent, the level of competition in the telecommunications industry is sufficient to control prices for the four largest ILECs in the state. Subsequently, the CPUC issued a ruling temporarily deferring the proceeding. When the CPUC may open this proceeding is unclear and on hold at this time. The CPUC's actions in this and future proceedings could lead to new rules and an increase in government regulation. The Company will continue to monitor this matter.

Illinois

Our Illinois rural telephone company holds the necessary certifications in Illinois to provide long-distance and payphone services. We are required to file tariffs with the Illinois Commerce Commission ("ILCC") or post written service offerings on its website, but generally can change the prices, terms and conditions stated in its tariffs on one day's notice, with prior notice of price increases to affected customers. Our CLEC services are not subject to any significant state regulations in Illinois.

Our Illinois rural telephone company is certified by the ILCC to provide local telephone services. This entity operates as a distinct company from a regulatory standpoint. As described below, Consolidated Communications of Illinois Company (formerly known as Illinois Consolidated Telephone Company) ("CCIC") has elected the option under Illinois law to have its rates, terms and conditions of service subject to market regulation that is regulated by competition in the market. Although, as explained above, the FCC has preempted certain state regulations pursuant to the Telecommunications Act, Illinois retains the authority to impose requirements on our Illinois rural telephone company to preserve universal service, protect public safety and welfare, ensure quality of service and protect consumers. Our

Illinois rural telephone company has not had a general rate proceeding before the ILCC since 1983.

The Illinois General Assembly has made major revisions and added significant new provisions to the portions of the Illinois Public Utilities Act governing the regulation and obligations of telecommunications carriers on a number of occasions since 1985. In 2007, the Illinois legislature addressed competition for cable and video services and authorized statewide licensing by the ILCC to replace the existing system of individual town franchises. This legislation also imposed substantial state-mandated consumer service and consumer protection requirements on providers of cable and video services. The requirements generally became applicable to us on January 1, 2008, and we are operating in compliance with the law. Although we have franchise agreements for cable and video services in all the towns we serve, this statewide franchising authority will simplify the process in the future. In 2010, the Illinois General Assembly passed Public Act 96-0927, which updates the telecommunications statute, allowing ILECs, beginning January 1, 2011, to elect deregulation of local services. CCIC elected this option effective April 1, 2014. Under this option, CCIC's rates for local services became "competitive" and no longer subject to rate of return regulation, and certain other service quality obligations are reduced. CCIC is obligated to make certain basic local exchange service packages available to customers. Public Act 96-0927 also specified that local exchange carriers may not charge intrastate access rates at levels higher than their interstate access rates. The Governor of Illinois signed the bill into law on June 15, 2010. In June 2013, the Illinois legislature approved additional amendments to the telecommunications statute. The new telecommunications legislation made minor changes to the telecommunications statute. The current telecommunications statute is currently scheduled to sunset July 1, 2017.

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Texas

Our Texas rural telephone companies are each certified by the PUCT to provide local telephone services in their respective territories. In addition, our Texas long-distance and transport subsidiaries are registered with the PUCT as interexchange carriers. The transport subsidiary has also obtained a service provider certificate of operating authority ("SPCOA") to better assist the transport subsidiary with its operations in municipal areas. Recently, to assist with expanding services offerings, CCES also obtained a SPCOA from the PUCT. While our Texas rural telephone company services are extensively regulated, our other services, such as long-distance and transport services, are not subject to any significant state regulation.

Our Texas rural telephone companies operate as distinct companies from a regulatory standpoint. Each is separately regulated by the PUCT in order to preserve universal service, protect public safety and welfare, ensure quality of service and protect consumers. Each Texas rural telephone company must file and maintain tariffs setting forth the terms, conditions and prices for its intrastate services.

Currently, both of our Texas rural telephone companies have immunity from adjustments to their rates, including their intrastate network access rates, because they elected "incentive regulation" under the Texas Public Utilities Regulatory Act ("PURA"). In order to qualify for incentive regulation, our rural telephone companies agreed to fulfill certain infrastructure requirements. In exchange, they are not subject to challenge by the PUCT regarding their rates, overall revenues, return on invested capital or net income.

PURA prescribes two different forms of incentive regulation in Chapter 58 and Chapter 59. Under either election, the rates, including network access rates, an incumbent telephone company may charge for basic local services generally cannot be increased from the amount(s) on the date of election without PUCT approval. Even with PUCT approval, increases can only occur in very specific situations. Pricing flexibility under Chapter 59 is extremely limited. In contrast, Chapter 58 allows greater pricing flexibility on non-basic network services, customer-specific contracts and new services.

Initially, both of our Texas rural telephone companies elected incentive regulation under Chapter 59 and fulfilled the applicable infrastructure requirements, but they changed their election status to Chapter 58 in 2003, which gives them some pricing flexibility for basic services, subject to PUCT approval. The PUCT could impose additional infrastructure requirements or other restrictions in the future. Any requirements or restrictions could limit the amount of cash that is available to be transferred from our rural telephone companies to the parent entities and could adversely affect our ability to meet our debt service requirements and repayment obligations.

In September 2005, the Texas legislature adopted significant additional telecommunications legislation. Among other things, this legislation created a statewide video franchise for telecommunications carriers, established a framework to deregulate the retail telecommunications services offered by incumbent local telecommunications carriers, imposed concurrent requirements to reduce intrastate access charges and directed the PUCT to initiate a study of the Texas Universal Service Fund.

Texas Universal Service

The Texas Universal Service Fund is administered by the National Exchange Carrier Association. PURA, the governing law, directs the PUCT to adopt and enforce rules requiring local exchange carriers to contribute to a state universal service fund that helps telecommunications providers offer basic local telecommunications service at reasonable rates in high-cost rural areas. The Texas Universal Service Fund is also used to reimburse telecommunications providers for revenues lost for providing lifeline service. Our Texas rural telephone companies receive disbursements from this fund. Our Texas ILECs receive two state funds, the small and rural incumbent local exchange company plan High Cost Fund ("HCF") and the high cost assistance fund ("HCAF"). The HCF is a line-based fund used to keep local rates low. The rate is applied on all residential lines and up to five single business lines. The amount we receive from the HCAF is a frozen monthly amount that was originally developed to offset high intrastate toll rates.

In September 2011, the Texas state legislature passed Senate Bill No. 980/House Bill No. 2603 which, among other things, mandated the PUCT to review the Universal Service Fund and issue recommendations by January 1, 2013 with the intent to effectively reduce the size of the Universal Service Fund. This would be accomplished by implementing an urban floor to offset state funding reductions with a phase-in period of four years. The PUCT recommended that (i) frozen line counts be lifted effective September 1, 2013 and (ii) rural and urban local rate benchmarks be developed. The large company

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fund review was completed in September 2012 and the PUCT addressed the small fund participants in Docket 41097 Rate Rebalancing ("Docket 41097"), as discussed below.

In June 2013, the Texas state legislature passed Senate Bill No. 583 ("SB 583"). The provisions of SB 583 were effective September 1, 2013 and froze HCF and HCAF support for the remainder of 2013. As of January 1, 2014, our annual $1.4 million HCAF support was eliminated and the frozen HCF support returned to funding on a per line basis. In July 2013, the Company entered into a settlement agreement with the PUCT on Docket 41097, which was approved by the PUCT in August 2013. In accordance with the provisions of the settlement agreement, the HCF draw will be reduced by approximately $1.2 million annually over a four year period beginning June 1, 2014 through 2018. However, we have the ability to fully offset this reduction with increases to residential rates where market conditions allow, which the Company filed for and implemented in 2014 and 2015.

In addition, the PUCT is required to develop a needs test for post-2017 funding and has held workshops on various proposals. The PUCT issued its recommendation to the Texas state commissioners in May 2014, which was approved in December 2014. The needs test allows for a one-time disaggregation of line rates from a per line flat rate, then a competitive test must be met to receive funding. The deadline for submission of the needs test is December 31, 2016. We expect to complete the needs test as required and file for continued funding by the 2016 deadline.

Pennsylvania

The Pennsylvania Public Utilities Commission ("PAPUC") regulates the rates, the system of financial accounts for reporting purposes and certain aspects of service quality, billing procedures and universal service funding, among other things, related to our rural telephone company and CLEC's provision of intrastate services. In addition, the PAPUC sets the rates and terms for interconnection between carriers within the guidelines ordered by the FCC. Pennsylvania intrastate rates are regulated under a statutory framework referred to as Act 183. Under this statute, rates for non-competitive intrastate services are allowed to increase based on an index that measures economy-wide price increases. In return, we committed to continue to upgrade our network to ensure that all our customers would have access to broadband services, and to deploy a ubiquitous broadband (defined as 1.544 Mbps) network throughout our entire service area by December 31, 2008, which we did.

Pennsylvania Universal Service and Access Charges

In 2011, the PAPUC issued an intrastate access reform order reducing intrastate access rates to interstate levels in a three-step process, which began in March 2012. With the release of the FCC order in November 2011, the PAPUC temporarily issued a stay. A final stay was issued in 2012 to implement the FCC ordered intrastate access rate changes. The PAPUC had indicated that it would address state universal funding in 2013, but delayed conducting a proceeding pending any state legislative activity that may occur in the 2015 legislative session. The Company will continue to monitor this matter.

Minnesota, Iowa and North Dakota

Our subsidiaries, Crystal Communications, Inc., Enventis Telecom, Inc. and IdeaOne Telecom, Inc. are CLECs. A company must file for CLEC or interexchange authority to operate with the appropriate public utility commission in each state it serves. Our CLECs provide a variety of services to both residential and business customers in multiple jurisdictions for local and interexchange services. Our CLECs provide services with less regulatory oversight than our ILEC companies.

Our subsidiaries Consolidated Communications of Minnesota Company (formerly Mankato Citizens Telephone Company) ("CCMN"), Consolidated Communications of Mid-Communications Company (formerly Mid-Communications, Inc.) ("CCMC") and Consolidated Communications of Iowa Company (formerly Heartland Telecommunications Company of Iowa) ("CCIA") are ILECs. CCMN and CCMC are public utilities operating pursuant to indeterminate permits issued by the Minnesota Public Utilities Commission ("MPUC"). CCIA is also a public utility, which operates pursuant to a certificate of public convenience and necessity issued by the Iowa Utilities Board ("IUB"). Due to the size of our ILEC companies, neither the MPUC nor the IUB regulates our rates of return or profits. In Minnesota, regulators monitor CCMN and CCMC price and service levels. In Iowa, CCIA is not rate-regulated. Our companies can change local rates by evaluating various factors including economic and competitive circumstances.

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Local Government Authorizations

In Illinois, we historically have been required to obtain franchises from each incorporated municipality in which our rural telephone company operates. An Illinois state statute prescribes the fees that a municipality may impose for the privilege of originating and terminating messages and placing facilities within the municipality. Our Illinois telephone operations may also be required to obtain permits for street opening and construction, or for operating franchises to install and expand fiber optic facilities. These permits or other licenses or agreements typically require the payment of fees.

Similarly, Texas incumbent telephone companies had historically been required to obtain franchises from each incorporated municipality in which they operated. Texas law now provides that incumbent telephone companies do not need to obtain franchises or other licenses to use municipal rights-of-way for delivering services. Instead, payments to municipalities for rights-of-way are administered through the PUCT and through a reporting process by each telecommunications provider. Incumbent telephone companies are still required to obtain permits from municipal authorities for street opening and construction, but most burdens of obtaining municipal authorizations for access to rights-of-way have been streamlined or removed.

Our Texas rural telephone companies still operate pursuant to the terms of municipal franchise agreements in some territories served by Consolidated Communications of Fort Bend Company. As the franchises expire, they are not being renewed.

California, Iowa, Minnesota and Pennsylvania operate under a structure in which each municipality may impose various fees.

Regulation of Broadband and Internet Services

Video Services

Our cable television subsidiaries each require a state or local franchise or other authorization in order to provide cable service to customers. Each of these subsidiaries is subject to regulation under a framework that exists in Title VI of the Communications Act.

Under this framework, the responsibilities and obligations of franchising bodies and cable operators have been carefully defined. The law addresses such issues as the use of local streets and rights of way; the carriage of public, educational and governmental channels; the provision of channel space for leased commercial access; the amount and payment of franchise fees; consumer protection; and similar issues. In addition, Federal laws place limits on the common ownership of cable systems and competing multichannel video distribution systems, and on the common ownership of cable systems and local telephone systems in the same geographic area. Many provisions of the federal law have been implemented through FCC regulations. The FCC has expanded its oversight and regulation of the cable television-related matters recently. In some cases, it has acted to assure that new competitors in the cable television business are able to gain access to potential customers and can also obtain licenses to carry certain types of video programming.

The Communications Act also authorizes the licensing and operation of open video systems (“OVS”). An OVS is a form of multichannel video delivery that was initially intended to accommodate unaffiliated providers of video programming on the same network. The OVS regulatory structure also offered a means for a single provider to serve less than an entire community. Our Kansas City operations in Missouri utilize an OVS that allows us to operate in only a part of Kansas City.

A number of state and local provisions also affect the operation of our cable systems. The California legislature adopted the Digital Infrastructure and Video Competition Act of 2006 (“DIVCA”) to encourage further entrance of telephone companies and other new cable operators to compete against the large incumbent cable operators. DIVCA changed preexisting California law to require new franchise applicants to obtain franchise authorizations on the state level. In addition, DIVCA established a general set of state-defined terms and conditions to replace numerous terms and conditions that had applied uniquely in local municipalities, and it repealed a state law that had prohibited local governments from adopting terms for new competitive franchises that differed in any material way from the incumbent’s franchise, even if competitive circumstances were very different. Some portions of this law are also available to incumbent cable operators with existing local franchises who compete against us.

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A state franchising law has also been enacted in Kansas. While these laws have reduced franchise burdens on our subsidiaries and have made it easier for them to seek out and enter new markets, they also have reduced the entry barriers for others who may want to enter our cable television markets.

Federal law and regulation also affects numerous issues related to video programming and other content.

Under federal law, certain local television broadcast stations (both commercial and non-commercial) can elect, every three years, to take advantage of rules that require a cable operator to distribute the station's content to the cable system's customers without charge, or to forego this "must-carry" obligation and to negotiate for carriage on an arm's length contractual basis, which typically involves the payment of a fee by the cable operator, and sometimes involves other consideration as well. The current three year cycle began on January 1, 2012. The Company has successfully negotiated agreements with all of the local television broadcast stations that would have been eligible for "must carry" treatment in each of its markets. As anticipated, fees under retransmission consent agreements generally underwent marked increases for the 2012 through 2015 period.

Federal law and regulations regulate access to certain programming content that is delivered by satellite. The FCC has provisions in place that ban certain discriminatory practices and unfair acts, and include a presumption that the withholding of regional sports programming by content affiliates of incumbent cable operators is presumptively unlawful. The existing FCC complaint process for program access for both satellite and terrestrially-delivered content is governed on a case-by-case basis. The FCC currently is considering adopting rules that could make it less burdensome for competing multichannel video programming providers who are denied access to cable-affiliated satellite programming on reasonable terms and conditions to pursue and meet evidentiary standards with respect to program access complaints. That proceeding remains pending before the FCC.

The FCC adopted an order banning exclusive contracts between affiliates where the programming is sent via terrestrial media, and banning certain other unfair acts, making it clear that the withholding of regional sports programming and high definition television programming by content affiliates of incumbent cable operators would receive special attention. Unlike the satellite provisions, the new rules will not expire. The FCC's order was upheld in an appeals court decision issued on March 12, 2010.

In connection with the FCC's approval of a cable transaction involving Comcast and Time Warner in July 2006, the parties' regional sports networks were subject to certain program access rules until July 2012. The FCC did not extend these obligations beyond July 2012. This does not change the existing Comcast/NBC Universal merger conditions which expire in 2018, as described below. It is unknown what, if any, impact this decision will have on us.

In early 2010, Comcast proposed to enter into a joint venture with NBC Universal, through which it would acquire control of numerous NBC properties, including both broadcast and cable television programming operations of

NBC. In early 2011, the FCC and the Department of Justice (“DOJ”) approved the transaction, with a significant number of conditions designed to promote programming diversity, to limit the ability of the combined entity to affect competition adversely, and to protect newly emerging markets such as independent OTT video. These conditions include requirements for program access and carriage, non-discrimination in making programming available, limits on bundling that would affect competition and the relationship of the joint venture to emerging on-line competition. In addition, conditions were imposed to maintain independence within the NBC unit in dealing with competing cable operators. The parties agreed to the conditions and the transaction was completed during 2011. Most of the conditions will have a duration of seven years.

The contractual relationships between cable operators and most providers of content who are not television broadcast stations generally are not subject to FCC oversight or other regulation. The majority of providers of content to our subsidiaries, including content providers affiliated with incumbent cable operators such as Comcast, but who are not subject to any FCC or DOJ conditions, do so through arm’s length contracts where the parties have mutually agreed upon the terms of carriage and the applicable fees.

The transition to digital television (“DTV”) has led the FCC to adopt and implement new rules designed to ease the shift. These rules also can be expected to make broadcast content more accessible over the air to smartphones, personal computers and other non-television devices. Local television broadcast stations will also be able to offer more content over their assigned digital spectrum after the DTV transition, including additional channels.

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The Company continues to monitor the emergence of video content options for customers that have become available over the Internet, and that may be made available for free, by individual subscription or in conjunction with a separate cable service agreement. In some cases, this involves the ability to watch episodes of desirable network television programming and to procure additional content related to programs carried on linear cable channels. These options have increased significantly, and can lead cable television customers to terminate or reduce their level of services. At this time, OTT programming options cannot duplicate the nature or extent of desirable programming carried by cable systems, and the market is still comparatively nascent, but in light of changing technology and events such as the Comcast-NBC transaction, the OTT market will continue to grow and evolve rapidly.

Cable operators depend, to some degree, upon their ability to utilize the poles (and conduit) of electric and telephone utilities. The terms and conditions under which such attachments can be made were established in the federal Pole Attachment Act of 1978, as amended. The Pole Attachment Act outlined the formula for calculating the fee to be charged for the use of utility poles, a formula that assesses fees based on the proportionate amount of space assigned for use and an allocation of certain qualified costs of the pole owner. The FCC has put a structure in place for pole attachment regulation that has covered cable operators and other types of providers. The FCC has adopted new rules that apply a single rate to all providers who use poles, whether they are cable operators, telecommunications providers, or Internet providers, even if they use the attachment to offer more than one service. These rules only affect attachments in states where the federal rules apply. States have the option to opt out of the federal formula and to regulate pole attachments independently. Illinois, Iowa, Kansas, Minnesota, Missouri, Pennsylvania and Texas follow the FCC pole attachment framework. California has elected to separately regulate pole attachments and pole attachment rates. The FCC decision has been appealed, and the ultimate outcome of the appeal cannot be predicted.

Cable operators are subject to longstanding cable copyright obligations where they pay copyright fees for some types of programming that are considered secondary retransmissions. The copyright fees are updated from time to time, and are paid into a pool administered by the United States Copyright Office for distribution to qualifying recipients.

The FCC has so far declined to require that cable operators allow unaffiliated Internet service providers to gain access to customers by using the network of the operator's cable system. The FCC also has considered the benefits of a requirement that cable operators offer programming on their systems on an a la carte or themed basis, but to date has not adopted regulations requiring such action. These matters may resurface in the future, particularly as the OTT market grows. In light of the fact that programming is increasingly being made available through Internet connections, some cable operators have considered their own a la carte alternatives. Content owners with linear channels also are moving toward greater "on demand" programming, offerings that maintain the value of their linear channels for customers.

The outcome of pending matters cannot be determined at this time but can lead to increased costs for the Company in connection with our provision of cable services and can affect our ability to compete in the markets we serve.

Internet Services

The provision of Internet access services is not significantly regulated by either the FCC or the state commissions. However, the FCC has been moving toward the imposition of some controls on the provision of Internet access. In 2002, in part to place cable modem service and Digital Subscriber Line ("DSL") service on an equal competitive footing, the FCC asserted jurisdiction over these services as "information services" under Title I of the Communications Act, and removed them from treatment under Title II of the Act, but to date it has not determined what regulatory framework, if any, is appropriate for Internet services under Title I.

The FCC has also adopted policy principles to signal its objectives with respect to high-speed Internet and related services. These principles are intended to encourage broad customer access to the content and applications of their choice, to promote the unrestricted use of lawful equipment by users of Internet services and to promote competition among providers.

In 2009, the FCC proposed to enact rules related to Internet access services, relying in part on the policy principles that it had earlier adopted, but expanding their reach and adding additional provisions. The adoption of the rules as they have been proposed would prohibit discrimination with respect to applications providers, among other things, subject to reasonable network management by an Internet access service provider.

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While this initiative was getting underway, a Federal appeals court decision in April 2010 assessed the FCC's authority over Internet services under the Communications Act, and invalidated action taken by the FCC that was based on authority that the FCC thought it possessed. The FCC asserted that it has jurisdictional authority in some areas related to the promotion of an "open Internet" or "net neutrality". Notwithstanding the court setback, the FCC elected to adopt rules in this regard in December 2010. That action was appealed to a Federal appeals court, and in January 2014, the U.S. Court of Appeals for the D.C. Circuit found that the FCC does have the authority to implement regulation of the Internet if those rules reasonably advance the promotion of broadband deployment and do not violate other statutory requirements.

As a result of the ruling, the FCC intends to reclassify broadband Internet services as a telecommunications service subject to regulation under Title II of the Telecommunications Act of 1996, and in March 2015, the FCC released its net neutrality order, which applies to all wireline and wireless providers of broadband Internet services. The net neutrality order addresses several areas that will be regulated and others that are subject to forbearance. The regulations disallow blocking, throttling and paid prioritization by Internet service providers. The net neutrality order also requires providers to disclose certain information to consumers regarding rates, fees, data allowances and packet loss. Finally, it gives the FCC codified enforcement authority and it forbears on certain Title II regulations. We do not believe the net neutrality order will result in significant changes to the services we provide our customers, nor do we believe it will have a material impact on our financial position or results of operations.

The Federal Trade Commission ("FTC") is currently assessing certain advertising and marketing practices of Internet-related companies, as well as the use of the Internet in connection with other businesses. FTC action can affect the manner of operation of some of our businesses. The outcome of pending matters cannot be determined at this time but can lead to increased costs for the Company in connection with our provision of Internet services, and can affect our ability to compete in the markets we serve.

Item 1A. Risk Factors.

Our operations and financial results are subject to various risks and uncertainties, including but not limited to those described below, that could adversely affect our business, financial condition, results of operations, cash flows and the trading price of our common stock.

Risks Relating to Our Business

We expect to continue to face significant competition in all parts of our business and the level of competition could intensify among our customer channels. The telecommunications, Internet and digital video businesses are highly competitive. We face actual or potential competition from many existing and emerging companies, including other incumbent and competitive local telephone companies, long-distance carriers and resellers, wireless companies, Internet service providers, satellite companies, and cable television companies, and in some cases by new forms of providers who are able to offer competitive services through software applications, requiring a comparatively small initial investment. Due to consolidation and strategic alliances within the industry, we cannot predict the number of competitors we will face at any given time.

The wireless business has expanded significantly and has caused many subscribers with traditional telephone and land-based Internet access services to give up those services and to rely exclusively on wireless service. Consumers are finding individual television shows of interest to them through the Internet and are watching content that is downloaded to their computers. Some providers, including television and cable television content owners, have initiated what are called over-the-top (“OTT”) services that deliver video content to televisions and computers over the Internet. OTT services can include episodes of highly-rated television series in their current broadcast seasons. They also can include content that is related to broadcast or sports content that we carry, but that is distinct and may be available only through the alternative source. Finally, the transition to digital broadcast television has allowed many consumers to obtain high-definition local broadcast television signals (including many network affiliates) over-the-air using a simple antenna. Consumers can pursue each of these options without foregoing any of the other options. We may not be able to successfully anticipate and respond to many of these various competitive factors affecting the industry, including regulatory changes that may affect our competitors and us differently, new technologies, services and applications that may be introduced, changes in consumer preferences, demographic trends and discount or bundled pricing strategies by competitors. The incumbent telephone carrier in the markets we serve enjoys certain business advantages, including size, financial resources, favorable regulatory position, a more diverse product mix, brand recognition and connection to virtually all of our customers and potential customers. The largest cable operators also enjoy certain business advantages, including size, financial resources, ownership of or superior access to desirable programming and other content, a more diverse product mix, brand recognition and first-in-field advantages with a customer base that generates positive cash flow for its operations. Our competitors continue to add features, increase data speeds and adopt aggressive pricing and packaging for services comparable to the services we offer. Their success in selling some services competitive with ours among our various customer channels can lead to revenue erosion in other related areas. We face intense competition in our markets for long-distance, Internet access, video service and other ancillary services that are important to our business and to our growth strategy. If we do not compete effectively we could lose customers, revenue and market share; customers may reduce their usage of our services or switch to a less profitable service; and we may need to lower our prices or increase our marketing efforts to remain competitive.

We must adapt to rapid technological change. If we are unable to take advantage of technological developments, or if we adopt and implement them more slowly than our competitors, we may experience a decline in the demand for our services. Our industry operates in a technologically complex environment. New technologies are continually developed and products and services undergo constant improvement. Emerging technologies offer consumers a variety of choices for their communication and broadband needs. To remain competitive, we will need to adapt to future changes in technology to enhance our existing offerings and to introduce new or improved offerings that anticipate and respond to the varied and continually changing demands of our various customer channels. Our business and results of operations could be adversely affected if we are unable to match the benefits offered by competing technologies on a timely basis or at an acceptable cost, if we fail to employ technologies desired by our customers before our competitors do so or if we do not successfully execute on our technology initiatives.

New technologies, particularly alternative methods for the distribution, access and viewing of content, have been, and will likely continue to be, developed that will further increase the number of competitors that we face and drive changes in consumer behavior. Consumers seek more control over when, where and how they consume content and are increasingly interested in communication services outside of the home and in newer services in wireless Internet technology and devices such as tablets, smartphones and mobile wireless routers that connect to such devices. These new technologies, distribution platforms and consumer behaviors may have a negative impact on our business.

In addition, evolving technologies can reduce the costs of entry for others, resulting in greater competition and significant new advantages to competitors. Technological developments could require us to make significant new capital investment in order to remain competitive with other service providers. If we do not replace or upgrade our network and its technology once it becomes obsolete, we will be unable to compete effectively and will likely lose customers. We also may be placed at a cost disadvantage in offering our services. Technology changes are also allowing individuals to bypass telephone companies and cable operators entirely to make and receive calls, and to provide for the distribution and viewing of video programming without the need to subscribe to traditional voice and video products and services. Increasingly, this can be done over wireless facilities and other emerging mobile technologies as well as traditional wired networks. Wireless companies are aggressively developing networks using next-generation data technologies, which are capable of delivering high-speed Internet service via wireless technology to a large geographic footprint. As these technologies continue to expand in availability and reliability, they could become an effective alternative to our high-speed Internet services. Although we use fiber optics in parts of our networks, including in some residential areas, we continue to rely on coaxial cable and copper transport media to serve customers in many areas. The facilities we use to offer our video services, including the interfaces with customers, are undergoing a rapid evolution, and depend in part on the products, expertise and capabilities of third parties. If we cannot develop new services and products to keep pace with technological advances, or if such services and products are not widely embraced by our customers, our results of operations could be adversely impacted.

Shifts in our product mix may result in declines in operating profitability. Margins vary among our products and services. Our profitability may be impacted by technological changes, customer demands, regulatory changes, the competitive nature of our business and changes in the product mix of our sales. These shifts may also result in our long-lived assets becoming impaired or our inventory becoming obsolete. We review long-lived assets for potential impairment if certain events or changes in circumstances indicate that impairment may be present. We currently manage potential inventory obsolescence through reserves, but future technology changes may cause inventory obsolescence to exceed current reserves.

Video content costs are substantial and continue to increase. We expect video content costs to continue to be one of our largest operating costs associated with providing video service. Video programming content includes cable-oriented programming designed to be shown in linear channels, as well as the programming of local over-the-air television stations

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that we retransmit. In addition, on-demand programming is being made available in response to customer demand. In recent years, the cable industry has experienced rapid increases in the cost of programming, especially the cost of sports programming and local broadcast station retransmission content. Programming costs are generally assessed on a per-subscriber basis, and therefore, are directly related to the number of subscribers to which the programming is provided. Our relatively small base of subscribers limits our ability to negotiate lower per-subscriber programming costs. Larger providers can often qualify for discounts based on the number of their subscribers. This cost difference can cause us to experience reduced operating margins, while our competitors with a larger subscriber base may not experience similar margin compression. In addition, escalators in existing content agreements cause cost increases that are out of line with general inflation. While we expect these increases to continue, we may not be able to pass our programming cost increases on to our customers, particularly as an increasing amount of programming content becomes available via the Internet at little or no cost. Also, some competitors or their affiliates own programming in their own right and we may be unable to secure license rights to that programming. As our programming contracts with content providers expire, there can be no assurance that they will be renewed on acceptable terms or that they will be renewed at all, in which case we may be unable to provide such programming as part of our video services packages and our business and results of operations may be adversely affected.

We receive cash distributions from our wireless partnership interests and the continued receipt of future distributions is not guaranteed. We own five wireless partnership interests consisting of 2.34% of GTE Mobilnet of South Texas Limited Partnership, which provides cellular service in the Houston, Galveston and Beaumont, Texas metropolitan areas; 3.60% of Pittsburgh SMSA Limited Partnership, which provides cellular service in and around the Pittsburgh metropolitan area; 20.51% of GTE Mobilnet of Texas RSA #17 Limited Partnership (“RSA #17”); 16.67% of Pennsylvania RSA 6(I) Limited Partnership (“RSA 6(I)”) and 23.67% of Pennsylvania RSA 6(II) Limited Partnership (“RSA 6(II)”). RSA #17 provides cellular service to a limited rural area in Texas. RSA 6(I) and RSA 6(II) provide cellular service in and around our Pennsylvania service territory.

In 2015, 2014 and 2013, we received cash distributions from these partnerships of $45.3 million, $34.6 million and $34.8 million, respectively. The cash distributions we receive from these partnerships are based on our percentage of ownership and the partnerships’ operating results, cash availability and financing needs, as determined by the General Partner at the date of the distribution. We cannot control the timing, dollar amount or certainty of any future cash distributions from these partnerships. In the absence of the receipt of cash distributions from these partnerships, we may be unable to fulfill our long-term obligations or our ability to pay cash dividends to our shareholders may be restricted. If we do not receive cash distributions from these partnerships in the future, or if the amount of cash distributions decreases, our results of operations could be adversely affected.

A disruption in our networks and infrastructure could cause delays or interruptions of service, which could cause us to lose customers and incur additional expenses. Our customers depend on reliable service over our network. The primary risks to our network infrastructure include physical damage to lines, security breaches, capacity limitations, power surges or outages, software defects and disruptions beyond our control, such as natural disasters and acts of terrorism. From time to time in the ordinary course of business, we will experience short disruptions in our service due to factors such as physical damage, inclement weather and service failures of our third party service providers. We could experience more significant disruptions in the future. Disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause us to lose customers and incur unexpected expenses.

Our business may be harmed if we are unable to maintain data security. We are dependent upon automated information technology processes and systems. Any failure to maintain the security of our data and our employees' and customers' confidential information, including the breach of our network security or the misappropriation of confidential information, could result in fines, penalties, litigation and loss of customers and revenues. Any such failure could adversely impact our business, financial condition and results of operations.

We have employees who are covered by collective bargaining agreements. If we are unable to enter into new agreements or renew existing agreements before they expire, we could have a work stoppage or other labor actions that could materially disrupt our ability to provide services to our customers. As of December 31, 2015, approximately 28% of our employees were covered by collective bargaining agreements. These employees are hourly workers located in Texas, Pennsylvania, Minnesota and Illinois service territories and are represented by various unions and locals. Our relationship with these unions generally has been satisfactory, but occasional work stoppages can occur. All of the existing collective bargaining agreements expire between 2016 through 2018, of which one contract covering 9% of our employees will expire in 2016.

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We cannot predict the outcome of negotiations of the collective bargaining agreements covering our employees. If we are unable to reach new agreements or renew existing agreements, employees subject to collective bargaining agreements may engage in strikes, work stoppages or slowdowns, or other labor actions, which could materially disrupt our ability to provide services. New labor agreements, or the renewal of existing agreements, may impose significant new costs on us, which could adversely affect our financial condition and result of operations. While we believe our relations with the unions representing these employees are good, any protracted labor disputes or labor disruptions by any of our employees could have a significant negative effect on our financial results and operations.

We may be unable to obtain necessary hardware, software and operational support from third party vendors. We depend on third party vendors to supply us with a significant amount of hardware, software and operational support necessary to provide certain of our services and to maintain, upgrade and enhance our network facilities and operations and to support our information and billing systems. Some of our third-party vendors are our primary source of supply for products and services for which there are few substitutes. If any of these vendors should experience financial difficulties, have demand that exceeds their capacity or they cannot otherwise meet our specifications, our ability to provide some services may be materially adversely affected in which case our business, results of operations and financial condition may be adversely affected.

The loss of our certification or designation by key equipment manufacturers or business partners, or a partner losing its position as a leading provider of technology solutions would adversely impact our suite of business products and services. We provide various equipment solutions to our business customers. The equipment and product lines are provided by various manufacturers from which we also provide hardware and IT consulting solutions for our business customers. If our providers of equipment and certain technology solutions fall out of favor in the marketplace, our success as a distributor or implementer may decline or be delayed as we seek alternative providers. The loss of any special designations or authorizations may affect our success as a leading distributor. It is also possible that we may lose the certified technicians who build the basis for our qualifications.

If we cannot obtain and maintain necessary rights-of-way for our network, our operations may be interrupted and we would likely face increased costs. We are dependent on easements, franchises and licenses from various private parties, such as established telephone companies and other utilities, railroads and long-distance companies, and from state highway authorities, local governments and transit authorities for access to aerial pole space, underground conduits and other rights-of-way in order to construct and operate our networks. Some agreements relating to rights-of-way may be short-term or revocable at will, and we cannot be certain that we will continue to have access to existing rights-of-way after the governing agreements are terminated or expire. If any of our right-of-way agreements were terminated or could not be renewed, we may be forced to remove our network facilities from the affected areas, relocate or abandon our networks, which would interrupt our operations, force us to find alternative rights-of-way and make unexpected capital expenditures.

Our ability to retain certain key management personnel and attract and retain highly qualified management and other personnel in the future could have an adverse effect on our business. We rely on the talents and efforts of key management personnel, many of whom have been with our company and in our industry for decades. While we maintain long-term and emergency transition plans for key management personnel and believe we could either identify internal candidates or attract outside candidates to fill any vacancy created by the loss of any key management personnel, the loss of one or more of our key management personnel and the ability to attract and retain highly qualified technical and management personnel in the future could have a negative impact on our business, financial condition and results of operations.

Future acquisitions could be expensive and may not be successful. From time to time we make acquisitions and investments and enter into other strategic transactions. In connection with these types of transactions, we may incur unanticipated expenses; fail to realize anticipated benefits; have difficulty incorporating the acquired businesses; disrupt relationships with current and new employees, customers and vendors; incur significant indebtedness or have to delay or not proceed with announced transactions. The occurrence of any of the foregoing events could have a material adverse effect on our business, results of operations, cash flows and financial condition.

Risks Relating to Current Economic Conditions

Unfavorable changes in financial markets could adversely affect pension plan investments resulting in material funding requirements to meet our pension obligations. We expect that we will continue to make future cash contributions to our pension plans, the amount and timing of which will depend on various factors including funding regulations, future investment performance, changes in future discount rates and mortality tables and changes in participant demographics. Unfavorable fluctuations or adverse changes in any of these factors, most of which are outside our control, could impact the funded status of the plans and increase future funding requirements. Returns generated on plan assets have historically funded a large portion of the benefits paid under these plans. If the financial markets experience a downturn and returns fall below the estimated long-term rate of return, our future funding requirements could increase significantly, which could adversely affect our cash flows from operations.

Weak economic conditions may have a negative impact on our business, results of operations and financial condition. Downturns in the economic conditions in the markets and industries we serve could adversely affect demand for our products and services and have a negative impact on our results of operations. Economic weakness or uncertainty may make it difficult for us to obtain new customers and may cause our existing customers to reduce or discontinue their services to which they subscribe. This risk may be worsened by the expanded availability of free or lower cost services, such as video over the Internet, or substitute services, such as wireless phones and data devices. Weak economic conditions may also impact the ability of third parties to satisfy their obligations to us.

Risks Relating to Our Common Stock and Payment of Dividends

Our Board of Directors could, at its discretion, depart from or change our dividend policy at any time. Our Board of Directors maintains a current dividend practice for the payment of quarterly dividends at an annual rate of approximately $1.55 per share of common stock. We are not required to pay dividends and our stockholders do not have contractual or other legal rights to receive them. Our Board of Directors may decide at any time, in its discretion, to decrease the amount of dividends, change or revoke the dividend policy or discontinue paying dividends entirely. Our ability to pay dividends is dependent on our earnings, capital requirements, financial condition, expected cash needs, debt covenant compliance and other factors considered relevant by our Board of Directors. If we do not pay dividends, for whatever reason, shares of our common stock could become less liquid and the market price of our common stock could decline.

We might not have sufficient cash to maintain current dividend levels. Our debt agreements, applicable state, legal and corporate law, regulatory requirements and other risk factors described in this section, could materially reduce the cash available from operations or significantly increase our capital expenditure requirements, and these outcomes could cause funds not to be available when needed in an amount sufficient to support our current dividend practice.

If we continue to pay dividends at the level currently anticipated under our dividend policy, our ability to pursue growth opportunities may be limited. Our dividend practice could limit, but not preclude, our ability to grow. If we continue paying dividends at the level currently anticipated, we may not retain a sufficient amount of cash to fund a material expansion of our business, including any acquisitions or growth opportunities requiring significant and unexpected capital expenditures. For that reason, our ability to pursue any material expansion of our business may depend on our ability to obtain third-party financing. We cannot guarantee that such financing will be available to us on reasonable terms or at all.

Our organizational documents could limit or delay another party's ability to acquire us and, therefore, could deprive our investors of a possible takeover premium for their shares. A number of provisions in our amended and restated certificate of incorporation and bylaws will make it difficult for another company to acquire us. Among other things, these provisions:

- Divide our Board of Directors into three classes, which results in roughly one-third of our directors being elected each year;

- Provide that directors may only be removed for cause and then only upon the affirmative vote of holders of two-thirds or more of the voting power of our outstanding common stock;

- Require the affirmative vote of holders of two-thirds or more of the voting power of our outstanding common stock to amend, alter, change or repeal specified provisions of our amended and restated certificate of incorporation and bylaws;

- Require stockholders to provide us with advance notice if they wish to nominate any candidates for election to our Board of Directors or if they intend to propose any matters for consideration at an annual stockholders meeting; and

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- Authorize the issuance of so-called “blank check” preferred stock without stockholder approval upon such terms as the Board of Directors may determine.

We also are subject to laws that may have a similar effect. For example, federal, California, Illinois, Minnesota and Pennsylvania telecommunications laws and regulations generally prohibit a direct or indirect transfer of control over our business without prior regulatory approval. Similarly, Section 203 of the Delaware General Corporation Law restricts our ability to engage in a business combination with an “interested stockholder”. These laws and regulations make it difficult for another company to acquire us, and therefore, could limit the price that investors might be willing to pay in the future for shares of our common stock. In addition, the rights of our common stockholders will be subject to, and may be adversely affected by, the rights of holders of any class or series of preferred stock that we may issue in the future.

Risks Relating to Our Indebtedness and Our Capital Structure

We have a substantial amount of debt outstanding and may incur additional indebtedness in the future, which could restrict our ability to pay dividends and fund working capital and planned capital expenditures. As of December 31, 2015, we had $1,393.6 million of debt outstanding. Our substantial level of indebtedness could adversely impact our business, including:

- We may be required to use a substantial portion of our cash flow from operations to make principal and interest payments on our debt, which will reduce funds available for operations, future business opportunities, strategic initiatives and dividends;
- We may have limited flexibility to react to changes in our business and our industry;
- It may be more difficult for us to satisfy our other obligations;
- We may have a limited ability to borrow additional funds or to sell assets to raise funds if needed for working capital, capital expenditures, acquisitions or other purposes;
- We may become more vulnerable to general adverse economic and industry conditions, including changes in interest rates; and
- We may be at a disadvantage compared to our competitors that have less debt.

We cannot guarantee that we will generate sufficient revenues to service our debt and have adequate funds left over to achieve or sustain profitability in our operations, meet our working capital and capital expenditure needs, compete successfully in our markets, or pay dividends to our stockholders.

Our credit agreement and the indentures governing our 2022 Notes contain covenants that limit management’s discretion in operating our business and could prevent us from capitalizing on opportunities and taking other corporate actions. Among other things, our credit agreement limits or restricts our ability (and the ability of certain of our subsidiaries), and the separate indentures governing the 2022 Notes limit the ability of our subsidiary, Consolidated Communications, Inc., and its restricted subsidiaries to: incur additional debt and issue preferred stock; make restricted payments, including paying dividends on, redeeming, repurchasing or retiring our capital stock; make investments and prepay or redeem debt; enter into agreements restricting our subsidiaries' ability to pay dividends, make loans or transfer assets to us; create liens; sell or otherwise dispose of assets, including capital stock of, or other ownership interests in subsidiaries; engage in transactions with affiliates; engage in sale and leaseback transactions; engage in a business other than telecommunications; and consolidate or merge.

In addition, our credit agreement requires us to comply with specified financial ratios, including ratios regarding total leverage and interest coverage. Our ability to comply with these ratios may be affected by events beyond our control. These restrictions limit our ability to plan for or react to market conditions, meet capital needs or otherwise constrain our activities or business plans. They also may adversely affect our ability to finance our operations, enter into acquisitions or engage in other business activities that would be in our interest.

A breach of any of the covenants contained in our credit agreement, in any future credit agreement, or in the separate indentures governing the 2022 Notes, or our inability to comply with the financial ratios could result in an event of default, which would allow the lenders to declare all borrowings outstanding to be due and payable. If the amounts outstanding under our credit facilities were to be accelerated, we cannot assure that our assets would be sufficient to repay in full the money owed. In such a situation, the lenders could foreclose on the assets and capital stock pledged to them.

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We may not be able to refinance our existing debt if necessary, or we may only be able to do so at a higher interest expense. We may be unable to refinance or renew our credit facilities and our failure to repay all amounts due on the maturity dates would cause a default under the credit agreement. Alternatively, any renewal or refinancing may occur on less favorable terms. If we refinance our credit facilities on terms that are less favorable to us than the terms of our existing debt, our interest expense may increase significantly, which could impact our results of operations and impair our ability to use our funds for other purposes, such as to pay dividends.

Our variable-rate debt subjects us to interest rate risk, which could impact our cost of borrowing and operating results. Certain of our debt obligations are at variable rates of interest and expose us to interest rate risk. Increases in interest rates could negatively impact our results of operations and operating cash flows. We utilize interest rate swap agreements to convert a portion of our variable-rate debt to a fixed-rate basis. However, we do not maintain interest rate hedging agreements for all of our variable-rate debt and our existing hedging agreements may not fully mitigate our interest rate risk, may prove disadvantageous or may create additional risks. Changes in fair value of cash flow hedges that have been de-designated or determined to be ineffective are recognized in earnings. Significant increases or decreases in the fair value of these cash flow hedges could cause favorable or adverse fluctuations in our results of operations.

Risks Related to the Regulation of Our Business

We are subject to a complex and uncertain regulatory environment, and we face compliance costs and restrictions greater than those of many of our competitors. Our businesses are subject to regulation by the Federal Communications Commission (“FCC”) and other federal, state and local entities. Rapid changes in technology and market conditions have resulted in changes in how the government addresses telecommunications, video programming and Internet services. Many businesses that compete with our Incumbent Local Exchange Carrier (“ILEC”) and non-ILEC subsidiaries are comparatively less regulated. Some of our competitors are either not subject to utilities regulation or are subject to significantly fewer regulations. In contrast to our subsidiaries regulated as cable operators and satellite video providers, competing on-demand and OTT providers and motion picture and DVD firms have almost no regulation of their video activities. Recently, federal and state authorities have become more active in seeking to address critical issues in each of our product and service markets. The adoption of new laws or regulations, or changes to the existing regulatory framework at the federal or state levels, could require significant and costly adjustments that would adversely affect our business plans. New regulations could impose additional costs or capital requirements, require new reporting, impair revenue opportunities, potentially impede our ability to provide services in a manner that would be attractive to our customers and us and potentially create barriers to enter new markets or to acquire new lines of business. We face continued regulatory uncertainty in the immediate future. Not only are these governmental entities continuing to move forward on these matters, their actions remain subject to reconsideration, appeal and legislative modification over an extended period of time, and it is unclear how their actions will ultimately impact our markets. We cannot predict future developments or changes to the regulatory environment or the impact such developments or changes may have on us.

We receive support from various funds established under federal and state laws, and the continued receipt of that support is not assured. A significant portion of our revenues come from network access and subsidies. An order adopted by the FCC in 2011 (the "Order") significantly impacts the amount of support revenue we receive from the Universal Service Fund ("USF"), Connect America Fund ("CAF") and intercarrier compensation ("ICC"). The Order reformed core parts of the USF, broadly recast the existing ICC scheme, established the CAF to replace support revenues provided by the current USF and redirected support from voice services to broadband services. In 2012, CAF Phase I was implemented, which froze USF support to price cap carriers until the FCC implemented a broadband cost model to shift support from voice services to broadband services.

In December 2014, the FCC released a report and order that addressed, among other things, the transition to CAF Phase II for price cap carriers and the acceptance criteria for CAF Phase II funding. For companies that accept the CAF Phase II funding, there is a three year transition period in instances in which their current CAF Phase I funding exceeds the CAF Phase II funding. If CAF Phase II funding exceeds CAF Phase I funding, the transitional support is waived and CAF Phase II funding begins immediately. We accepted the CAF Phase II funding in August 2015. The annual funding under CAF Phase I of $36.6 million will be replaced by annual funding under CAF Phase II of $13.9 million through 2020. In the state of Iowa, where CAF Phase II funding is greater than the CAF Phase I funding, the CAF Phase II funding will be received with a retroactive payment back to January 1, 2015. For all other states, funding under CAF Phase II is less than funding under CAF Phase I. The acceptance of funding at the lower level will transition over a three year period, beginning in

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August 2015, at the rates of 75% of the CAF Phase I funding level in the first year, 50% in the second year and 25% in the third year.

The Order also modifies the methodology used for ICC traffic exchanged between carriers. The initial phase of ICC reform was effective on July 1, 2012, beginning the transition of our terminating switched access rates to bill-and-keep over a seven year period. As a result of implementing the provisions of the Order, our network access revenue decreased approximately $1.3 million during 2015. We anticipate that network access revenue will continue to decline as a result of the Order through 2018 by as much as $1.9 million, $4.8 million and $6.8 million in 2016, 2017 and 2018, respectively.

We receive subsidy payments from various federal and state universal service support programs, including high-cost support, Lifeline and E-Rate programs for schools and libraries. The total cost of the various federal universal service programs has increased significantly in recent years, putting pressure on regulators to reform the programs and to limit both eligibility and support. We cannot predict when or how such matters will be decided or the effect on the subsidy payments we receive. However, future reductions in the subsidy payments we receive may directly affect our profitability and cash flows.

Increased regulation of the Internet could increase our cost of doing business. Current laws and regulations governing access to, or commerce on, the Internet are limited. As the Internet continues to become more significant, federal, state and local governments may adopt new rules and regulations applicable to, or apply existing laws and regulations to, the Internet. At the federal level, the FCC intends to reclassify broadband Internet services as a telecommunications service subject to regulation under Title II of the Telecommunications Act of 1996, and in March 2015, the FCC released its net neutrality order, which applies to all wireline and wireless providers of broadband Internet services. The net neutrality order addresses several areas that will be regulated and others that are subject to forbearance. The regulations disallow blocking, throttling and paid prioritization by Internet service providers. The net neutrality order also requires providers to disclose certain information to consumers regarding rates, fees, data allowances and packet loss. Finally, it gives the FCC codified enforcement authority and it forbears on certain Title II regulations.

We are subject to extensive laws and regulations relating to the protection of the environment, natural resources and worker health and safety. Our operations and properties are subject to federal, state and local laws and regulations relating to the protection of the environment, natural resources and worker health and safety, including laws and regulations governing and creating liability in connection with the management, storage and disposal of hazardous materials, asbestos and petroleum products. We are also subject to laws and regulations governing air emissions from our fleet vehicles. As a result, we face several risks, including:

- Hazardous materials may have been released at properties that we currently own or formerly owned (perhaps through our predecessors). Under certain environmental laws, we could be held liable, without regard to fault, for the costs of investigating and remediating any actual or threatened contamination at these properties and for contamination associated with disposal by us, or by our predecessors, of hazardous materials at third-party disposal sites.

- We could incur substantial costs in the future if we acquire businesses or properties subject to environmental requirements or affected by environmental contamination. In particular, environmental laws regulating wetlands, endangered species and other land use and natural resources may increase the costs associated with future business or expansion or delay, alter or interfere with such plans.

- The presence of contamination can adversely affect the value of our properties and make it difficult to sell any affected property or to use it as collateral.

- We could be held responsible for third-party property damage claims, personal injury claims or natural resource damage claims relating to contamination found at any of our current or past properties.

The cost of complying with environmental requirements could be significant. Similarly, the adoption of new environmental laws or regulations, or changes in existing laws or regulations or their interpretations, could result in significant compliance costs or unanticipated environmental liabilities.

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Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our corporate headquarters are located at 121 S. 17th Street, Mattoon, Illinois, a leased facility. We also own and lease office facilities and related equipment for administrative personnel, central office buildings and operations in California, Illinois, Iowa, Kansas, Minnesota, Missouri, North Dakota, Pennsylvania and Texas.

In addition to land and structures, our property consists of equipment necessary for the provision of communication services, including central office equipment, customer premises equipment and connections, pole lines, video head-end, remote terminals, aerial and underground cable and wire facilities, vehicles, furniture and fixtures, computers and other equipment. We also own certain other communications equipment held as inventory for sale or lease.

In addition to plant and equipment that we wholly-own, we utilize poles, towers and cable and conduit systems jointly-owned with other entities and lease space on facilities to other entities. These arrangements are in accordance with written agreements customary in the industry.

We have appropriate easements, rights of way and other arrangements for the accommodation of our pole lines, underground conduits, aerial and underground cables and wires. See Note 11 in the Notes to the consolidated financial statements and Part II – Item 7 – "Management's Discussion and Analysis of Financial Condition and Results of Operations" for information regarding our lease obligations.

Item 3.Legal Proceedings.

In 2014, Sprint Corporation, Level 3 Communications, Inc. and Verizon Communications Inc. filed lawsuits against us and many others in the industry regarding the proper charges to be applied between interexchange and local exchange carriers for certain calls between mobile and wireline devices that are routed through an interexchange carrier. The plaintiffs are refusing to pay these access charges in all states and are seeking refunds of past charges paid. The disputed amounts total $2.4 million and cover periods dating back to 2006. CenturyLink, Inc. filed to bring all related suits to the U.S. District Court's Judicial Panel on multi district litigation. This panel is granted authority to transfer the pretrial proceedings to a single court for civil cases involving common questions of fact. On November 17, 2015, the U.S. District Court in Dallas, Texas ruled in favor of the defendants, although we expect that the plaintiffs will file an appeal. We have interconnection agreements in place with all wireless carriers and the applicable traffic is being billed at current access rates, therefore, we do not expect any potential settlement or judgment to have an adverse material impact on our financial results or cash flows.

On April 14, 2008, Salsgiver Inc., a Pennsylvania-based telecommunications company, and certain of its affiliates ("Salsgiver") filed a lawsuit against us and our former subsidiaries North Pittsburgh Telephone Company and North Pittsburgh Systems Inc. in the Court of Common Pleas of Allegheny County, Pennsylvania alleging that we had prevented Salsgiver from connecting their fiber optic cables to our utility poles. Salsgiver sought compensatory and punitive damages as the result of alleged lost projected profits, damage to its business reputation and other costs. Salsgiver originally claimed to have sustained losses of approximately $125.0 million. We believe that these claims are without merit and that the alleged damages are completely unfounded. We had recorded approximately $0.4 million in 2011 in anticipation of the settlement of this case. During the quarter ended September 30, 2013, we recorded an additional $0.9 million, which included estimated legal fees. A jury trial concluded on May 14, 2015 with the jury ruling in our favor. Salsgiver subsequently filed a post-trial motion asking the judge to overturn the jury verdict. That motion was denied. On June 17, 2015, Salsgiver filed an appeal in the Pennsylvania Superior Court. Salsgiver's brief was filed with the Superior Court on December 4, 2015, and the Company filed its response on January 18, 2016. We anticipate that oral argument will be scheduled within the next six months. We believe that, despite the appeal, the $1.3 million currently accrued represents management's best estimate of the potential loss if the verdict is overturned in Salsgiver's favor.

Two of our subsidiaries, Consolidated Communications of Pennsylvania Company LLC ("CCPA") and Consolidated Communications Enterprise Services Inc. ("CCES"), have, at various times, received assessment notices from the Commonwealth of Pennsylvania Department of Revenue ("DOR") increasing the amounts owed for Pennsylvania Gross

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Receipt Taxes, and/or have had audits performed for the tax years of 2008 through 2013. In addition, a re-audit was performed on CCPA for the 2010 calendar year. For the calendar years for which we received both additional assessment notices and audit actions, those issues have been combined by the DOR into a single docket for each year.

Pennsylvania generally imposes tax on the gross receipts of telephone messages transmitted wholly within the state and telephone messages transmitted in interstate commerce where such messages originate or terminate in Pennsylvania, and the charges for such messages are billed to a service address in the state. In a 2013 decision involving Verizon Telephone Company of Pennsylvania ("Verizon Pennsylvania"), the Commonwealth Court of Pennsylvania held that the gross receipts tax applies to Verizon Pennsylvania's installation of private phone lines because the sole purpose of private lines is to transmit messages. Similarly, the court held that directory assistance is subject to the gross receipts tax because it makes the transition of messages more effective. However, the court did not find Verizon Pennsylvania's nonrecurring charges for the installation of telephone lines, moves of and changes to telephone lines and services and repairs of telephone lines to be subject to the gross receipts tax as no telephone messages are transmitted when Verizon Pennsylvania performs nonrecurring services.

On appeal, the Supreme Court of Pennsylvania recently held in Verizon Pennsylvania, Inc. v. Commonwealth of Pennsylvania that charges for the installation of private phone lines, charges for directory assistance and certain nonrecurring charges were all subject to the state's gross receipt tax. The Supreme Court of Pennsylvania found that all of the services, including those related to nonrecurring charges, in some way made transmission more effective or communication more satisfactory even though such services did not involve actual transmission. This is a partial reversal of the 2013 Commonwealth Court of Pennsylvania decision described above, which had ruled that while the charges for the installation of private phone lines and directory assistance were subject to the state's gross receipts tax, the nonrecurring charges in question were not. As a motion for reconsideration has not been filed with the Supreme Court of Pennsylvania, and the period for such filing has expired, the case is now final.

For the CCES subsidiary, the total additional tax liability calculated by the auditors for the calendar years 2008 through 2013 is approximately $4.1 million. Appeals of cases for the audits in calendar years 2008 through 2010 have been filed and received continuances pending the outcome of the Verizon Pennsylvania litigation described above. The preliminary audit findings for the calendar years 2011 through 2013 were received on September 16, 2014. We are awaiting invoices for each of these years, at which time we will prepare to file an appeal with the DOR.

For the CCPA subsidiary, the total additional tax liability calculated by the auditors for the calendar years 2008 through 2013 (using the re-audited 2010 number) is approximately $5.0 million. Appeals of cases for the audits in calendar years 2008, 2009 and the original 2010 audit have been filed and received continuances pending the outcome of the Verizon Pennsylvania litigation described above. The preliminary audit findings for the calendar years 2011 through 2013, as well as the re-audit of 2010, were received on September 16, 2014. We are awaiting invoices for each of these years, at which time we will prepare to file an appeal with the DOR.

We believe that certain of the DOR’s findings regarding the Company’s additional tax liability for the calendar years 2008 through 2013, for which we have filed or plan to file appeals, continue to lack merit. However, in light of the Supreme Court of Pennsylvania’s recent decision, we reassessed our accrual for the additional tax liability for both our CCES and CCPA subsidiaries. During the quarter ended December 31, 2015, we accrued an additional $1.1 million and $1.0 million for our CCES and CCPA subsidiaries, respectively, which increased the total accruals to $1.4 million and $1.2 million, respectively, as of December 31, 2015. These accruals also include the Company’s best estimate of the potential 2014 and 2015 additional tax liabilities. We do not believe that the outcome of these claims will have a material adverse impact on our financial results or cash flows.

From time to time we may be involved in litigation that we believe is of the type common to companies in our industry, including regulatory issues. While the outcome of these other claims cannot be predicted with certainty, we do not believe that the outcome of any of these other legal matters will have a material adverse impact on our business, results of operations, financial condition or cash flows.

Item 4.Mine Safety Disclosures.

Not Applicable.

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PART II

Item 5.Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is traded on the NASDAQ Global Select Market (“NASDAQ”) under the symbol “CNSL”. As of February 12, 2016, there were approximately 4,765 stockholders of record of the Company’s common stock. The following table indicates the high and low stock closing prices of the Company’s common stock as reported on the NASDAQ for each of the quarters ending on the dates indicated:

	2015		2014	
Period	High	Low	High	Low
First quarter	$ 27.86	$ 20.40	$ 20.39	$ 18.41
Second quarter	$ 21.89	$ 19.72	$ 22.29	$ 18.94
Third quarter	$ 21.07	$ 18.89	$ 25.72	$ 21.27
Fourth quarter	$ 22.62	$ 18.79	$ 28.60	$ 24.29

Dividend Policy and Restrictions

Our Board of Directors declared dividends of approximately $0.38738 per share in each of the periods listed above. We expect to continue to pay quarterly dividends at an annual rate of approximately $1.55 per share during 2016. Future dividend payments are at the discretion of our Board of Directors. Changes in our dividend program will depend on our earnings, capital requirements, financial condition, debt covenant compliance, expected cash needs and other factors considered relevant by our Board of Directors. Dividends on our common stock are not cumulative.

See Part II - Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources” for discussion regarding restrictions on the payment of dividends. See Part I – Item 1A – “Risk Factors” of this report, which sets forth several factors that could prevent stockholders from receiving dividends in the future. Additional information concerning dividends may be found in “Selected Financial Data” in Item 6, which is incorporated herein by reference.

Share Repurchases

During the quarter ended December 31, 2015, we repurchased 39,052 common shares surrendered by employees in the administration of employee share-based compensation plans. The following table summarizes the share repurchase activity:

Purchase period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
October 1-October 31, 2015	—	n/a	n/a	n/a
November 1-November 30, 2015	—	n/a	n/a	n/a
December 1-December 31, 2015	39,052	$ 21.60	n/a	n/a

Performance Graph

The following graph shows a five-year comparison of cumulative total shareholder return of our common stock (assuming reinvestment of dividends) with the S&P 500 index, the Dow Jones US Fixed-Line Telecommunications Subsector index and a customized peer group of four companies that includes, in addition to us: Alaska Communications Systems Group, Inc., Otelco, Inc. and Shenandoah Telecommunications Company. The comparison of total return on investment (change in year-end stock price plus reinvested dividends) for each of the periods assumes that $100 was invested on December 31, 2010 in each index and in the peer group. The stock performance shown on the graphs below is not necessarily indicative of future price performance.

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COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Consolidated Communications Holdings, the S&P 500 Index, the Dow Jones US Fixed Line Telecommunications Subsector Index,

and a Peer Group

*$100 invested on December 31, 2010 in stock or index, including reinvestment of dividends.

Fiscal year ending December 31.

	As of December 31,					
(In dollars)	2010	2011	2012	2013	2014	2015
Consolidated Communications Holdings, Inc.	$ 100.00	$ 107.20	$ 97.69	$ 131.59	$ 200.77	$ 162.64
S&P 500	$ 100.00	$ 102.11	$ 118.45	$ 156.82	$ 178.29	$ 180.75
Dow Jones US Fixed-Line Telecommunications Subsector	$ 100.00	$ 106.98	$ 123.16	$ 137.60	$ 142.09	$ 146.67
Peer Group	$ 100.00	$ 66.91	$ 69.33	$ 99.09	$ 133.82	$ 136.17

Sale of Unregistered Securities

During the year ended December 31, 2015, we did not sell any equity securities of the Company which were not registered under the Securities Act of 1933, as amended.

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Item 6.Selected Financial Data.

The selected financial data set forth below should be read in conjunction with Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations", our consolidated financial statements and the related notes, and other financial data included elsewhere in this annual report. Historical results are not necessarily indicative of the results to be expected in future periods.

	Year Ended December 31,				
(In millions, except per share amounts)	2015	2014 (1)	2013	2012 (2)	2011
Operating revenues	$ 775.7	$ 635.7	$ 601.6	$ 477.9	$ 349.0
Cost of products and services (exclusive of depreciation and amortization)	328.4	242.7	222.5	175.9	121.7
Selling, general and administrative expense	178.2	140.6	135.4	108.2	77.8
Acquisition and other transaction costs (3)	1.4	11.8	0.8	20.8	2.6
Intangible asset impairment	—	—	—	1.2	—
Depreciation and amortization	179.9	149.4	139.3	120.3	88.0
Income from operations	87.8	91.2	103.6	51.5	58.9
Interest expense, net and loss on extinguishment of debt (4)(5)(6)	(120.9)	(96.3)	(93.5)	(77.1)	(49.4)
Other income, net	35.2	33.5	37.3	31.2	27.9
Income from continuing operations before income taxes	2.1	28.4	47.4	5.6	37.4
Income tax expense	2.8	13.0	17.5	0.7	13.1
Income (loss) from continuing operations	(0.7)	15.4	29.9	4.9	24.3
Discontinued operations, net of tax	—	—	1.2	1.2	2.7
Net income (loss)	(0.7)	15.4	31.1	6.1	27.0
Net income of noncontrolling interest	0.2	0.3	0.3	0.5	0.6
Net income (loss) attributable to common shareholders	$ (0.9)	$ 15.1	$ 30.8	$ 5.6	$ 26.4
Income (loss) per common share - basic and diluted:					
Income (loss) from continuing operations	$ (0.02)	$ 0.35	$ 0.73	$ 0.12	$ 0.79
Discontinued operations, net of tax (7)	—	—	0.03	0.03	0.09
Net income (loss) per common share - basic and diluted	$ (0.02)	$ 0.35	$ 0.76	$ 0.15	$ 0.88
Weighted-average number of shares - basic and diluted	50,176	41,998	39,764	34,652	29,600

Cash dividends per common share	$ 1.55	$ 1.55	$ 1.55	$ 1.55	$ 1.55
Consolidated cash flow data from continuing operations:					
Cash flows from operating activities	$ 219.2	$ 187.8	$ 168.5	$ 119.7	$ 124.3
Cash flows used for investing activities	(119.5)	(246.9)	(107.4)	(468.5)	(40.7)
Cash flows (used for) provided by financing activities	(90.4)	60.2	(71.6)	257.5	(50.7)
Capital expenditures	133.9	109.0	107.4	77.0	41.8
Consolidated Balance Sheet:					
Cash and cash equivalents	$ 15.9	$ 6.7	$ 5.6	$ 17.9	$ 105.7
Total current assets	126.4	134.1	87.7	109.3	164.7
Net property, plant and equipment	1,093.3	1,137.5	885.4	907.7	337.6
Total assets	2,138.5	2,211.8	1,733.8	1,780.7	1,189.3
Total debt (including current portion)	1,388.8	1,351.2	1,208.3	1,205.0	879.9
Stockholders' equity	250.7	330.8	152.3	136.1	47.8
Other financial data (unaudited):					
Adjusted EBITDA (8)	$ 328.9	$ 288.5	$ 286.5	$ 231.9	$ 185.0

(1) On October 16, 2014, we completed our acquisition of Enventis Corporation ("Enventis") in which we acquired all the issued and outstanding shares of Enventis in exchange for shares of our common stock. The financial results for Enventis have been included in our consolidated financial statements as of the acquisition date.

(2) In July 2012, we acquired 100% of the outstanding shares of SureWest Communications ("SureWest") in a cash and stock transaction. SureWest results of operations have been included in our consolidated financial statements as of the acquisition date of July 2, 2012.

(3) Acquisition and other transaction costs includes costs incurred related to acquisitions, including severance costs.

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(4) In 2014, we redeemed $72.8 million of the original aggregate principal amount of our $300.0 million 10.875% Senior Notes due 2020 (the "2020 Notes"). In connection with the redemption of the 2020 Notes, we recognized a loss of $13.8 million on the partial extinguishment of debt during the year ended December 31, 2014. In 2015, we redeemed the remaining $227.2 million of the 2020 Notes for $261.9 million and recognized a loss on the extinguishment of debt of $41.2 million during the year ended December 31, 2015.

(5) In 2013, we entered into a Second Amended and Restated Credit Agreement to restate our term loan credit facility. In connection with entering into the restated credit agreement, we incurred a loss on the extinguishment of debt of $7.7 million during the year ended December 31, 2013.

(6) In 2012, we entered into a $350.0 million Senior Unsecured Bridge Loan Facility ("Bridge Facility") to fund the SureWest acquisition. During 2012, we incurred $4.2 million of amortization related to the financing costs and $1.5 million of interest related to ticking fees associated with the Bridge Facility. In addition, in 2012 we entered into a Second Amendment and Incremental Facility Agreement to amend our term loan facility. As a result, we incurred a loss on the extinguishment of debt of $4.5 million related to the repayment of our outstanding term loan.

(7) In September 2013, we completed the sale of the assets and contractual rights of our prison services business for a total cash price of $2.5 million, resulting in a gain of $1.3 million, net of tax. The financial results and net gain from the sale of the prison services business are included in income from discontinued operations for the years ended on or before December 31, 2013.

(8) In addition to the results reported in accordance with accounting principles generally accepted in the United States ("US GAAP" or "GAAP"), we also use certain non-GAAP measures such as EBITDA and adjusted EBITDA to evaluate operating performance and to facilitate the comparison of our historical results and trends. These financial measures are not a measure of financial performance under US GAAP and should not be considered in isolation or as a substitute for net income (loss) as a measure of performance and net cash provided by operating activities as a measure of liquidity. They are not, on their own, necessarily indicative of cash available to fund cash needs as determined in accordance with GAAP. The calculation of these non-GAAP measures may not be comparable to similarly titled measures used by other companies. Reconciliations of these non-GAAP measures to the most directly comparable financial measures presented in accordance with GAAP are provided below.

EBITDA is defined as net earnings before interest expense, income taxes, and depreciation and amortization. Adjusted EBITDA is comprised of EBITDA, adjusted for certain items as permitted or required under our credit facility as described in the reconciliations below. These measures are a common measure of operating performance in the telecommunications industry and are useful, with other data, as a means to evaluate our ability to fund our estimated uses of cash.

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The following tables are a reconciliation of net cash provided by operating activities to Adjusted EBITDA:

	Year Ended December 31,				
(In millions, unaudited)	2015	2014	2013	2012	2011
Net cash provided by operating activities from continuing operations	$ 219.2	$ 187.8	$ 168.5	$ 119.7	$ 124.3
Adjustments:					
Non-cash, stock-based compensation	(3.1)	(3.6)	(3.0)	(2.3)	(2.1)
Other adjustments, net	(59.5)	(31.6)	(24.8)	(9.7)	(10.9)
Changes in operating assets and liabilities	22.6	12.3	28.5	17.6	1.1
Interest expense, net	79.6	82.5	85.8	72.6	49.4
Income taxes	2.8	13.0	17.5	0.7	13.1
EBITDA	261.6	260.4	272.5	198.6	174.9
Adjustments to EBITDA:					
Other, net (a)	(22.3)	(23.9)	(31.5)	(3.9)	(20.4)
Investment distributions (b)	45.3	34.6	34.8	29.2	28.4
Loss on extinguishment of debt (c)	41.2	13.8	7.7	4.5	–
Intangible asset impairment (d)	—	—	—	1.2	–
Non-cash, stock-based compensation (e)	3.1	3.6	3.0	2.3	2.1
Adjusted EBITDA	$ 328.9	$ 288.5	$ 286.5	$ 231.9	$ 185.0

(a) Other, net includes the equity earnings from our investments, dividend income, income attributable to noncontrolling interests in subsidiaries, acquisition and transaction related costs including severance and certain other miscellaneous items.

(b) Includes all cash dividends and other cash distributions received from our investments.

(c) Represents the redemption premium and write-off of unamortized debt issuance costs in connection with the redemption or retirement of our debt obligations.

(d) Represents intangible asset impairment charges recognized during the period.

(e) Represents compensation expenses in connection with the issuance of stock awards, which because of their non-cash nature, these expenses are excluded from adjusted EBITDA.

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Item 7.Management's Discussion and Analysis of Financial Condition and Results of Operations.

Reference is made Part I – Item 1 "Note About Forward-Looking Statements" and Part I – Item 1A "Risk Factors" which describes important factors that could cause actual results to differ from expectations and non-historical information contained herein. In addition, the following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand the results of operations and financial condition of Consolidated Communications Holdings, Inc. ("Consolidated", the "Company", "we" or "our"). MD&A should be read in conjunction with our audited consolidated financial statements and accompanying notes to the consolidated financial statements ("Notes") as of and for each of the three years in the period ended December 31, 2015 included elsewhere in this Annual Report on Form 10-K.

Throughout MD&A, we refer to certain measures that are not a measure of financial performance in accordance with accounting principles generally accepted in the United States ("US GAAP" or "GAAP"). We believe the use of these non-GAAP measures on a consolidated basis provides the reader with additional information that is useful in understanding our operating results and trends. These measures should be viewed in addition to, rather than as a substitute for, those measures prepared in accordance with GAAP. See the Non-GAAP Measures section below for a more detailed discussion on the use and calculation of these measures.

Overview

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, Voice over Internet Protocol ("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.

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

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.

The increase in our operating revenues during 2015 was offset, in part, by an anticipated industry-wide trend of a decline in consumer voice services, access lines and related network access. Many consumers are choosing to subscribe to alternative communications services and competition for these subscribers continues to increase. Excluding the increase in voice connections as a result of the acquisition of Enventis in 2014, total voice connections decreased 5% as of December 31, 2015 as compared to the same period in 2014. Competition from wireless providers, competitive local exchange carriers and, in some cases, cable television providers has increased in recent years in the markets we serve. We have been able to mitigate some of the access line losses through marketing initiatives and product offerings, such as our VoIP service. In addition, our video connection growth is decelerating. Excluding Enventis, total video connections decreased 6% as of December 31, 2015 as compared to the same period in 2014. The consumer's growing acceptance of OTT video services either to augment their current viewing options or to entirely replace their video subscription may impact our future video subscriber base, which could result in a decline in video revenue as well as a reduction in video programing costs. We believe this trend in changing consumer viewing habits will continue to impact our business model and strategy of providing consumers the necessary broadband speed to facilitate OTT content viewing.

As discussed in the "Regulatory Matters" section below, our operating revenues are also impacted by legislative or regulatory changes at the federal and state levels, which could reduce or eliminate the current subsidies revenue we receive. A number of proceedings and recent orders relate to universal service reform, intercarrier compensation and network access charges. There are various ongoing legal challenges to the orders that have been issued. As a result, it is not yet possible to determine fully the impact of the regulatory changes on our operations.

Significant Recent 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. The total value of the purchase consideration exchanged was $257.7 million, excluding $149.9 million paid to extinguish Enventis' outstanding debt. On the date of the merger, we issued an aggregate total of 10.1 million shares of our common stock to the former Enventis shareholders.

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.

In connection with the acquisition, in September 2014, we completed an offering of $200.0 million aggregate principal amount of 6.50% senior notes due 2022 (the "Existing Notes"). The net proceeds from the issuance of the Existing Notes were used to finance the acquisition of Enventis, including related fees and expenses, and to pay the existing indebtedness of Enventis. A portion of the proceeds, together with cash on hand and borrowings under our credit facility, was also used to redeem $72.8 million of our $300.0 million original aggregate principal amount of 10.875% Senior Notes due 2020 (the "2020 Notes"), as described in the "Liquidity and Capital Resources" section below.

Issuance of Additional Senior Notes

On June 8, 2015, we issued an additional $300.0 million in aggregate principal amount of 6.50% Senior Notes due 2022 (the "New Notes" and together with the Existing Notes, the "2022 Notes"). The New Notes were priced at 98.26% of par and resulted in total gross proceeds of approximately $294.8 million, excluding accrued interest. The net proceeds from the issuance of the New Notes were used, in part, to redeem the remaining $227.2 million of the original aggregate principal amount of the 2020 Notes, to pay related fees and expenses and to reduce the outstanding balance of our revolving credit facility. In connection with the redemption of the 2020 Notes, we paid $261.9 million and recognized a loss on extinguishment of debt of $41.2 million during the year ended December 31, 2015.

On October 16, 2015, we completed an exchange offer to register all of the 2022 Notes under the Securities Act of 1933, as amended (the "Securities Act"). The terms of the registered 2022 Notes are substantially identical to the 2022 Notes prior to the exchange, except that the notes are now registered under the Securities Act and the transfer restrictions and registration rights applicable to the original 2022 Notes no longer apply to the registered 2022 Notes. The exchange offer did not impact the aggregate principal amount or the remaining terms of the 2022 Notes outstanding.

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Discontinued Operations

On September 13, 2013, we completed the sale of the assets and contractual rights used to provide communications services to thirteen county jails located in Illinois. The sale was completed for an aggregate purchase price of $2.5 million, resulting in a gain of $1.3 million, net of tax. 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.

Results of Operations

The following tables reflect our financial results on a consolidated basis and key operating statistics as of and for the years ended December 31, 2015, 2014 and 2013.

Financial Data

(In millions, except for percentages)	2015	2014	2013	% Change 2015 vs. 2014	2014 vs. 2013
Operating Revenues					
Commercial and carrier:					
Data and transport services (includes VoIP)	$ 183.3	$ 117.5	$ 94.5	56 %	24 %
Voice services	103.0	92.6	89.8	11	3
Other	12.3	11.5	10.6	7	8
	298.6	221.6	194.9	35	14
Consumer:					
Broadband (VoIP, data and video)	213.6	200.8	195.1	6	3
Voice services	60.6	60.2	63.9	1	(6)
	274.2	261.0	259.0	5	1
Equipment sales and service	55.0	10.0	—	450	—
Subsidies	56.3	53.2	52.0	6	2
Network access	73.9	75.7	81.4	(2)	(7)
Other products and services	17.7	14.2	14.3	25	(1)
Total operating revenues	775.7	635.7	601.6	22	6
Operating Expenses					
Cost of services and products	328.4	242.7	222.5	35	9
Selling, general and administrative costs	178.2	140.6	135.4	27	4
Acquisition and other transaction costs	1.4	11.8	0.8	(88)	1,375

Depreciation and amortization	179.9	149.4	139.3	20	7
Total operating expenses	687.9	544.5	498.0	26	9
Income from operations	87.8	91.2	103.6	(4)	(12)
Interest expense, net	(79.6)	(82.5)	(85.8)	(4)	(4)
Loss on extinguishment of debt	(41.2)	(13.8)	(7.7)	199	79
Other income	35.1	33.5	37.3	5	(10)
Income tax expense	2.8	13.0	17.5	(78)	(26)
Net income (loss)	(0.7)	15.4	29.9	(105)	(48)
Income from discontinued operations, net of tax	—	—	1.2	—	(100)
Net income attributable to noncontrolling interest	0.2	0.3	0.3	(33)	—
Net income (loss) attributable to common shareholders	$ (0.9)	$ 15.1	$ 30.8	(106)	(51)
Adjusted EBITDA (1)	$ 328.9	$ 288.5	$ 286.5	14 %	1 %

(1) A non-GAAP measure. See the Non-GAAP Measures section below for additional information and reconciliation to the most directly comparable GAAP measure.

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Key Operating Statistics

	2015	2014	2013	% Change 2015 vs. 2014		2014 vs. 2013	
Consumer customers	268,934	277,753	258,769	(3)	%	7	%
Voice connections	482,735	503,120	440,253	(4)		14	
Data connections	456,100	443,489	407,972	3		9	
Video connections	117,882	124,229	111,968	(5)		11	
Total connections	1,056,717	1,070,838	960,193	(1)	%	12	%

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.

Operating Revenues

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 VoIP phone services which range from basic service plans to virtual hosted systems. In addition to Internet and VoIP services, we also offer private line data services to businesses that include 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 to accommodate the growth patterns of our business customers. Data center and disaster recovery solutions provide a reliable and local colocation option for commercial customers. We also offer wholesale services to regional and national interexchange and wireless carriers, including cellular backhaul and other fiber transport solutions.

Data and transport services revenue increased $65.8 million during 2015 compared to 2014 and $23.0 million during 2014 compared to 2013. Excluding the addition of Enventis revenue of $57.5 million and $14.1 million, respectively, data and transport services revenue increased $8.3 million and $8.9 million, respectively, primarily from growth in data connections and a continued increase in VoIP, Internet access and Metro Ethernet revenue. Fiber transport and cellular backhaul revenue also increased as network bandwidth demand for wireless data continues to escalate.

Voice Services

Voice services include basic local phone and long-distance service packages for business customers. The plans include options for voicemail, conference calling, linking multiple office locations and other custom calling features such as caller ID, call forwarding, speed dialing and call waiting. Services can be charged at a fixed monthly rate, a measured rate or can be bundled with selected services at a discounted rate.

Voice services revenue increased $10.4 million during 2015 compared to 2014 and $2.8 million during 2014 compared to 2013. Excluding the addition of Enventis revenue of $14.4 million and $3.8 million, respectively, voice services revenue decreased $4.0 million and $1.0 million, respectively, primarily due to a 5% decline in access lines during each period as commercial customers are increasingly choosing alternative technologies, including our own VoIP product, and the broad range of features that Internet based voice services can offer.

Consumer

Broadband Services

Broadband services include revenue from residential customers for subscriptions to our VoIP, data and video products. We offer high speed Internet access at speeds of up to 1 Gbps, depending on the nature of the network facilities that are available, the level of service selected and the location. Our VoIP digital phone service is also available in certain markets

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as an alternative to the traditional telephone line. Depending on geographic market availability, our video services range from limited basic service to advanced digital television, which includes several plans each with hundreds of local, national and music channels including premium and pay-per-view channels as well as video on-demand service. Certain customers may also subscribe to our advanced video services, which consist of high-definition television, digital video recorders ("DVR") and/or a whole home DVR.

Broadband services revenue increased $12.8 million during 2015 compared to 2014. Excluding the addition of Enventis revenue of $13.5 million, broadband services revenue decreased $0.7 million primarily due to an 8% decline in video connections and increased discounts on our data service offerings. We expect data revenue to grow as a result of the rising consumer demand for data-based services. However, the revenue growth was tempered by a decrease in VoIP revenue during that same period due to a decline in voice connections as more consumers have begun to rely exclusively on wireless service.

Broadband services revenue increased $5.7 million during 2014 compared to 2013. Excluding the addition of Enventis revenue of $3.4 million, broadband services revenue increased $2.3 million primarily due to growth in Internet access revenue and video subscriptions revenue.

Voice Services

We offer several different basic local phone service packages and long-distance calling plans, including unlimited flat-rate calling plans. The plans include options for voicemail and other custom calling features such as caller ID, call forwarding and call waiting. Voice services revenue increased $0.4 million during 2015 compared to 2014 and decreased $3.7 million during 2014 compared to 2013. Excluding the addition of Enventis revenue of $5.5 million and $1.5 million, respectively, voice services revenue decreased $5.1 million and $5.2 million, respectively, primarily due to a 9% and 13% decline in voice connections, respectively. The number of local access lines in service directly affects the recurring revenue we generate from end users and continues to be impacted by the industry-wide decline in access lines. We expect to continue to experience modest erosion in voice connections due to competition from alternative technologies, including our own competing VoIP product.

Equipment Sales and Service

Through our acquisition of Enventis in 2014, we obtained a leading market relationship with Cisco Systems, Inc. and, as a result, are an accredited Master Level Unified Communications and Gold Certified Cisco Partner providing equipment solutions and support for business customers. As an equipment integrator, we offer network design, implementation and support services, including maintenance contracts, in order to provide integrated communication solutions for our customers. When an equipment sale involves multiple deliverables, revenue is allocated to each respective element based on relative selling price. Equipment sales and services are non-recurring and changes in revenue can be attributed to the timing and volume of customer sales, which can vary each quarter and result in positive or negative fluctuations in our quarterly operating revenues and expenses. Equipment sales and service revenue increased $45.0 million during 2015 compared to 2014 and $10.0 million during 2014 compared to 2013 due to the acquisition of Enventis.

Subsidies

Subsidies consist of both federal and state subsidies, which are designed to promote widely available, quality telephone service at affordable prices in rural areas. Subsidies revenue increased $3.1 million during 2015 compared to 2014. Excluding the addition of Enventis revenue of $6.8 million, subsidies revenue decreased $3.7 million as a result of a reduction in state funding support for our Texas ILEC and the transition from CAF Phase I to CAF Phase II funding. See the "Regulatory Matters" section below for further discussion of the subsidies we receive.

Subsidies revenue increased $1.2 million during 2014 compared to 2013 primarily from the addition of Enventis revenue.

Network Access Services

Network access services include interstate and intrastate switched access revenue, network special access services and end user access. Switched access revenue includes access services to other communications carriers to terminate or originate long-distance calls on our network. Special access circuits provide dedicated lines and trunks to business customers and interexchange carriers. Network access services revenue decreased $1.8 million during 2015 compared to 2014 and $5.7

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million during 2014 compared to 2013. Excluding the addition of Enventis revenue of $6.0 million and $1.7 million, respectively, network access services revenue decreased $7.8 million and $7.4 million, respectively, primarily due to declines in switched and special access revenues. Special access revenue decreased primarily due to a reduction in the number of our carrier circuits; however, a portion of the decrease can be attributed to carriers shifting to our fiber Metro Ethernet product, contributing to the growth in that area. Switched access revenue decreased primarily as a result of the continuing decline in minutes of use and voice connections.

Other Products and Services

Other products and services include revenues from telephone directory publishing, video advertising and billing and support services. Other products and services revenue increased $3.5 million during 2015 compared to 2014 primarily from the addition of Enventis revenue of $3.9 million for its billing and support services and an increase in video advertising revenues, which was offset by a decline in directory publishing revenue.

Other products and services revenue decreased $0.1 million during 2014 compared to 2013. Excluding the addition of Enventis revenue of $1.4 million, other products and services revenue decreased $1.5 million primarily due to a decline in directory publishing revenue.

Operating Expenses

Cost of Services and Products

Cost of services and products increased $85.7 million during 2015 compared to 2014 primarily due to the addition of the operations for Enventis during 2014, which accounted for $80.3 million of the increase. Video programming costs also increased $5.0 million as costs per program channel continue to rise. Video programming costs are impacted by license fees charged by cable networks, the amount and quality of the content we provide and the number of video subscribers we serve. We anticipate that programming costs will continue to increase due to the rising cost of license fees and as we add additional content and offer video content to various platforms. Network access costs also increased as a result of growth in carrier and wireless backhaul services. However, these increases were partially offset by a decline in employee costs due to a reduction in headcount.

In 2014, cost of services and products increased $20.2 million compared to 2013. The addition of the operations for Enventis during 2014 accounted for $18.8 million of the increase. Video programming costs also increased due to a growth in video connections and an increase in costs per program channel. However, the increase in video programming costs was largely offset by a decline in employee costs due to a reduction in headcount as a result of integration and cost reduction efforts in 2013 as well as a reduction in pension expense in 2014.

Selling, General and Administrative Costs

Selling, general and administrative costs increased $37.6 million during 2015 compared to 2014. The acquisition of Enventis in 2014 contributed $29.7 million of the increase. In addition, as part of the Company’s continued integration efforts, an early retirement program was initiated during 2015 to a group of select employees who were 55 years of age or older and who have provided 15 or more years of service. The employees were primarily in non-customer facing positions or positions in which the Company believed the retiree’s workload could be absorbed internally as part of the Company’s continuing cost saving initiatives. The early retirement package was accepted by approximately 60 employees and, as a result, one-time severance costs of $7.2 million were incurred in 2015. The Company expects approximately $4.8 million in future annual savings as a result of the early retirement program. The remaining increase in selling, general and administrative costs was primarily due to an increase in property taxes and regulatory fees and increased pension costs in the current year. These increases were offset in part by a decline in employee-related costs and a reduction in advertising expense in 2015.

Selling, general and administrative costs increased $5.2 million during 2014 compared to 2013 primarily as a result of the addition of the operations for Enventis in 2014, which accounted for $7.2 million of the annual increase. Excluding Enventis, selling, general and administrative expense decreased $2.0 million due to a decline in professional fees for legal and billing services and a reduction in pension costs in 2014. These savings were offset in part by growth in our commercial sales force as a result of the expansion of our commercial services in the Dallas market in 2014. Bad debt expense also increased due to recoveries recognized in 2013.

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Acquisition and Other Transaction Costs

Acquisition and other transaction costs decreased $10.4 million during 2015 compared to 2014 as a result of the acquisition of Enventis, which closed in the fourth quarter of 2014. In 2014, we incurred $11.8 million in transaction related fees in connection with the acquisition of Enventis. Transaction costs consist primarily of legal, finance and other professional fees as well as expenses related to change-in-control payments to former employees of the acquired companies.

Depreciation and Amortization

Depreciation and amortization expense increased $30.5 million during 2015 compared to 2014, primarily as a result of the acquisition of Enventis during 2014 which accounted for $31.4 million of the increase. Excluding the addition of the operations for Enventis, depreciation and amortization expense decreased $0.9 million in 2015 due to certain circuit, network and terminal equipment becoming fully depreciated during 2015, which was offset in part by capital expenditures for internally developed software and outside plant related to integration and success based projects.

In 2014, depreciation and amortization expense increased $10.1 million compared to 2013, primarily as a result of the acquisition of Enventis during 2014 which accounted for $8.0 million of the increase. The remaining increase was primarily associated with ongoing capital expenditures related to network enhancements and success based capital projects for consumer and commercial services.

Regulatory Matters

Our revenues are subject to broad federal and/or state regulation, which include such telecommunications services as local telephone service, network access service and toll service and are derived from various sources, including:

- business and residential subscribers of basic exchange services;
- surcharges mandated by state commissions;
- long distance carriers for network access service;

· competitive access providers and commercial customers for network access service; and

· support payments from federal or state programs.

The telecommunications industry is subject to extensive federal, state and local regulation. Under the Telecommunications Act of 1996, federal and state regulators share responsibility for implementing and enforcing statutes and regulations designed to encourage competition and to preserve and advance widely available, quality telephone service at affordable prices.

At the federal level, the Federal Communications Commission (“FCC”) generally exercises jurisdiction over facilities and services of local exchange carriers, such as our rural telephone companies, to the extent they are used to provide, originate or terminate interstate or international communications. The FCC has the authority to condition, modify, cancel, terminate or revoke our operating authority for failure to comply with applicable federal laws or FCC rules, regulations and policies. Fines or penalties also may be imposed for any of these violations.

State regulatory commissions generally exercise jurisdiction over carriers’ facilities and services to the extent they are used to provide, originate or terminate intrastate communications. In particular, state regulatory agencies have substantial oversight over interconnection and network access by competitors of our rural telephone companies. In addition, municipalities and other local government agencies regulate the public rights-of-way necessary to install and operate networks. State regulators can sanction our rural telephone companies or revoke our certifications if we violate relevant laws or regulations.

FCC Matters

In general, telecommunications service in rural areas is more costly to provide than service in urban areas. The lower customer density means that switching and other facilities serve fewer customers and loops are typically longer, requiring greater expenditures per customer to build and maintain. By supporting the high-cost of operations in rural markets, Universal Service Fund ("USF") subsidies promote widely available, quality telephone service at affordable prices in rural areas. Revenues from the federal and certain states' USFs increased $3.2 million in 2015 compared to 2014 primarily due to the acquisition of Enventis in October 2014.

In order for an eligible telecommunications carrier ("ETC") to receive high-cost support, the USF/Intercarrier Compensation ("ICC") Transformation Order requires states to certify annually that USF support is used only for the provision, maintenance and upgrading of facilities and services for which the support is intended. States, in turn, require that ETCs file certifications with them as the basis for the state filings with the FCC. Failure to meet the annual data and certification deadlines can result in reduced support to the ETC based on the length of the delay in certification. For calendar year 2013, the California state certification was due to be filed with the FCC on or before October 1, 2012. We were notified in January 2013 that SureWest Communications ("SureWest") did not submit the required certification to the California Public Utilities Commission ("CPUC") in time to be included in its October 1, 2012 submission to the FCC. In January 2013, we filed a certification with the CPUC and filed a petition with the FCC for a waiver of the filing deadline for the annual state certification. In February 2013, the CPUC filed a certification with the FCC with respect to SureWest. In October 2013, the Wireline Competition Bureau of the FCC denied our petition for a waiver of the annual certification deadline. In November 2013, we applied for a review of the decision made by the FCC staff by the full Commission. Management is optimistic that the Company may prevail in its application to the Commission and receive USF funding for the period January 1, 2013 through June 30, 2013 based on the change in SureWest's USF filing status caused by the change in the ownership of SureWest, the lack of formal notice by the FCC regarding this change in filing status, the fact that SureWest had a previously filed certification of compliance in effect with the FCC for the two quarters for which USF was withheld and the FCC's past practice of granting waivers to accept late filings in similar situations. However, due to the denial of our petition by the Wireline Competition Bureau and the uncertainty of the collectability of previously recognized revenues, in December 2013 we reversed $3.0 million of previously recognized revenues until such time that the Commission has the opportunity to reach a decision on our application for review.

Our recently acquired Enventis ILEC properties are cost-based rate of return companies. Historically, under FCC rules governing rate making, these ILECs were required to establish rates for their interstate telecommunications services based on projected demand usage for the various services. We projected our earnings through the use of annual cost separation studies, which utilized estimated total cost information and projected demand usage. Carriers were required to follow FCC rules in the preparation of these annual studies. We determined actual earnings from our interstate rates as actual volumes and costs became known. Effective January 1, 2015, our Enventis ILECs are treated as price cap companies for universal service purposes. In March 2015, we filed a petition for waiver to keep them as rate of return companies for switched and special access. The petition was granted in October 2015. We expect certain adjustments to take place over 24 months as a result of exiting the National Exchange Carrier Association ("NECA") pool; however, we do not anticipate that they will be material to our consolidated financial statements or results of operations.

An order adopted by the FCC in 2011 (the "Order") will significantly impact the amount of support revenue we receive from the USF, Connect America Fund ("CAF") and ICC. The Order reformed core parts of the USF, broadly recast the existing ICC scheme, established the CAF to replace support revenues provided by the current USF and redirected support from voice services to broadband services. In 2012, CAF Phase I was implemented, which froze USF support to price cap carriers until the FCC implemented a broadband cost model to shift support from voice services to broadband services. The Order also modified the methodology used for ICC traffic exchanged between carriers. The initial phase of ICC reform was effective on July 1, 2012, beginning the transition of our terminating switched access rates to bill-and-keep over a seven year period, and as a result, our network access revenue decreased approximately $1.3 million during 2015.

In December 2014, the FCC released a report and order that addressed, among other things, the transition to CAF Phase II funding for price cap carriers and the acceptance criteria for CAF Phase II funding. For companies that accept the CAF Phase II funding, there is a three year transition period in instances in which their current CAF Phase I funding exceeds the CAF Phase II funding. If CAF Phase II funding exceeds CAF Phase I funding, the transitional support is waived and CAF Phase II funding begins immediately. Companies are required to commit to a statewide build out requirement to 10 Mbps downstream and 1 Mbps upstream in funded locations. We accepted the CAF Phase II funding in August 2015. The annual funding under CAF Phase I of $36.6 million will be replaced by annual funding under CAF Phase II of $13.9 million through 2020. In the state of Iowa, where CAF Phase II funding is greater than the CAF Phase I funding, the CAF Phase II funding will be received with a retroactive payment back to January 1, 2015. For all other states, funding under CAF Phase II is less than funding under CAF Phase I. The acceptance of funding at the lower level will transition over a

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three year period based on the CAF Phase I funding levels at the rates of 75% in the first year, 50% in the second year and 25% in the third year. For the period from August 2015 through December 2015, the Company received and recognized approximately $6.4 million in total CAF Phase II funding, which includes the retroactive payment for Iowa of approximately $0.6 million.

In March 2015, the FCC released its net neutrality order which applies to all wireline and wireless providers of broadband internet access services. The net neutrality order addresses several areas that will be regulated and others that are subject to forbearance. The regulations disallow blocking, throttling and paid prioritization by internet service providers. The net neutrality order also requires providers to disclose certain information to consumers on rates, fees, data allowances and packet loss. Finally, it gives the FCC codified enforcement authority and it forbears on certain Title II regulations. We are evaluating the net neutrality order, and we currently do not believe the order will result in any significant changes to the services we provide our customers, nor do we believe it will have a material impact on our condensed consolidated financial position or results of operations.

State Matters

California

In an ongoing proceeding relating to the New Regulatory Framework, the CPUC adopted Decision 06-08-030 in 2006, which grants carriers broader pricing freedom in the provision of telecommunications services, bundling of services, promotions and customer contracts. This decision adopted a new regulatory framework, the Uniform Regulatory Framework ("URF"), which among other things (i) eliminates price regulation and allows full pricing flexibility for all new and retail services, (ii) allows new forms of bundles and promotional packages of telecommunication services, (iii) allocates all gains and losses from the sale of assets to shareholders and (iv) eliminates almost all elements of rate of return regulation, including the calculation of shareable earnings. In December 2010, the CPUC issued a ruling to initiate a new proceeding to assess whether, or to what extent, the level of competition in the telecommunications industry is sufficient to control prices for the four largest ILECs in the state. Subsequently, the CPUC issued a ruling temporarily deferring the proceeding. When the CPUC may open this proceeding is unclear and on hold at this time. The CPUC's actions in this and future proceedings could lead to new rules and an increase in government regulation. The Company will continue to monitor this matter.

Pennsylvania

In 2011, the Pennsylvania Public Utilities Commission ("PAPUC") issued an intrastate access reform order reducing intrastate access rates to interstate levels in a three-step process, which began in March 2012. With the release of the FCC order in November 2011, the PAPUC temporarily issued a stay. A final stay was issued in 2012 to implement the FCC ordered intrastate access rate changes. The PAPUC had indicated that it would address state universal funding in 2013, but delayed conducting a proceeding pending any state legislative activity that may occur in the 2015 legislative session. The Company will continue to monitor this matter.

Texas

The Texas Public Utilities Regulatory Act ("PURA") directs the Public Utilities Commission of Texas ("PUCT") to adopt and enforce rules requiring local exchange carriers to contribute to a state universal service fund that helps telecommunications providers offer basic local telecommunications service at reasonable rates in high-cost rural areas. The Texas Universal Service Fund is also used to reimburse telecommunications providers for revenues lost by providing lifeline service. Our Texas rural telephone companies receive disbursements from this fund.

Our Texas ILECs have historically received support from two state funds, the small and rural incumbent local exchange company plan High Cost Fund ("HCF") and the High Cost Assistance Fund ("HCAF"). The HCF is a line-based fund used to keep local rates low. The rate is applied on all residential lines and up to five single business lines. The amount we receive from the HCAF is a frozen monthly amount that was originally developed to offset high intrastate toll rates.

In September 2011, the Texas state legislature passed Senate Bill No. 980/House Bill No. 2603 which, among other things, mandated the PUCT to review the Universal Service Fund and issue recommendations by January 1, 2013 with the intent to effectively reduce the size of the Universal Service Fund. This would be accomplished by implementing an urban floor to offset state funding reductions with a phase-in period of four years. The PUCT recommended that (i) frozen line counts

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be lifted effective September 1, 2013 and (ii) rural and urban local rate benchmarks be developed. The large company fund review was completed in September 2012 and the PUCT addressed the small fund participants in Docket 41097 Rate Rebalancing ("Docket 41097"), as discussed below.

In June 2013, the Texas state legislature passed Senate Bill No. 583 ("SB 583"). The provisions of SB 583 were effective September 1, 2013 and froze HCF and HCAF support for the remainder of 2013. As of January 1, 2014, our annual $1.4 million HCAF support was eliminated and the frozen HCF support returned to funding on a per line basis. In July 2013, the Company entered into a settlement agreement with the PUCT on Docket 41097, which was approved by the PUCT in August 2013. In accordance with the provisions of the settlement agreement, the HCF draw will be reduced by approximately $1.2 million annually over a four year period beginning June 1, 2014 through 2018. However, we have the ability to fully offset this reduction with increases to residential rates where market conditions allow, which the Company filed for in April 2014 and implemented in June 2014.

In addition, the PUCT is required to develop a needs test for post-2017 funding and has held workshops on various proposals. The PUCT issued its recommendation to the Texas state commissioners in May 2014, which was approved in December 2014. The needs test allows for a one-time disaggregation of line rates from a per line flat rate, then a competitive test must be met to receive funding. The deadline for submission of the needs test is December 31, 2016. We expect to complete the needs test as required and file for continued funding by the 2016 deadline.

Other Regulatory Matters

We are also subject to a number of regulatory proceedings occurring at the federal and state levels that may have a material impact on our operations. The FCC and state commissions have authority to issue rules and regulations related to our business. A number of proceedings are pending or anticipated that are related to such telecommunications issues as competition, interconnection, access charges, intercarrier compensation, broadband deployment, consumer protection and universal service reform. Some proceedings may authorize new services to compete with our existing services. Proceedings that relate to our cable television operations include rulemakings on set top boxes, carriage of programming, industry consolidation and ways to promote additional competition. There are various on-going legal challenges to the scope or validity of FCC orders that have been issued. As a result, it is not yet possible to fully determine the impact of the related FCC rules and regulations on our operations.

Non-Operating Items

Interest Expense, Net

Interest expense, net of interest income, decreased $2.9 million during 2015 compared to 2014 primarily due to a reduction in the interest rate for our outstanding senior notes. In June 2015, we issued an additional $300.0 million in 6.50% Senior Notes due 2022, which were used, in part, to redeem our outstanding 10.875% Senior Notes due 2020, as described below. The New Notes were issued as an add-on to the $200.0 million in 6.50% Senior Notes issued in September 2014, the proceeds of which were used, in part, to fund the acquisition of Enventis in October 2014. Interest expense was also reduced in 2015 by declines in non-cash interest expense related to our de-designated interest rate swap agreements and additional financing costs in 2014 related to the bridge loan facility obtained for the Enventis acquisition.

During 2014, interest expense, net of interest income, decreased $3.3 million compared to 2013 primarily due to a reduction in interest expense related to our interest rate swap agreements as a result of the maturity of several agreements during 2013. Interest rates on outstanding borrowings under our Credit Agreement also declined due to the amendment of our Credit Agreement in December 2013. These reductions in interest expense were partially offset by an increase in interest expense related to the issuance of a $200.0 million Senior Note offering in September 2014 used in part to fund the acquisition of Enventis. 2014 also included additional amortization of deferred financing fees of $1.4 million related to the bridge loan facility obtained for the Enventis acquisition.

In 2013, interest rate swaps previously designated as cash flow hedges were de-designated as a result of amendments to our credit agreement. These interest rate swap agreements mature on various dates through September 2016. Prior to de-designation, the effective portion of the change in fair value of the interest rate swaps were recognized in accumulated other comprehensive income (loss) (“AOCI”). The balance of the unrealized loss included in AOCI as of the date the swaps were de-designated is being amortized to earnings over the remaining term of the swap agreements. Changes in fair value of the de-designated swaps are immediately recognized in earnings as interest expense. During the years ended

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December 31, 2015, 2014 and 2013, gains of $0.8 million, $1.6 million and $2.2 million, respectively, were recognized as a reduction to interest expense for the change in fair value of the de-designated swaps.

Loss on Extinguishment of Debt

In 2014, we redeemed $72.8 million of the original aggregate principal amount of our 10.875% Senior Notes due 2020, as described in the "Liquidity and Capital Resources" section below. In connection with the redemption of the 2020 Notes, we paid $84.1 million and recognized a loss of $13.8 million on the partial extinguishment of debt during the year ended December 31, 2014. In 2015, we redeemed the remaining $227.2 million of the 2020 Notes for $261.9 million and recognized a loss on the extinguishment of debt of $41.2 million during 2015.

In 2013, we amended our Credit Agreement to restate and amend our term loan credit facilities. In connection with entering into the amended and restated credit agreement, we incurred a loss on the extinguishment of debt of $7.7 million during the year ended December 31, 2013.

Other Income

Investment income increased $2.2 million in 2015 compared to 2014, primarily due to an increase in earnings from our wireless partnership interests, which was reduced in part by an other-than-temporary impairment loss of $0.8 million during 2015 as a result of the sale of our equity interest in Central Valley Independent Network, LLC. Other, net decreased $0.6 million compared to 2014 primarily due to additional reserves related to disputed tax assessments recognized in 2015.

In 2014, investment income decreased $3.2 million in 2014 compared to 2013, primarily due to lower earnings from our wireless partnership interests. Other, net decreased $0.5 million compared to 2013 due to bond solicitation fees of $0.5 million, and the sale of an office facility and other related assets in Pennsylvania that resulted in a non-cash loss of $0.8 million. Decreases were partially offset by a tentative settlement agreement of $0.9 million reached in a legal dispute in the prior year.

Income Taxes

Income taxes decreased $10.2 million in 2015 compared to 2014. Our effective rate was 131.9% for 2015 compared to 45.8% for 2014. In 2015, we placed additional valuation allowances on state NOL and state tax credit carryforwards of $3.9 million and $1.1 million, respectively, and related deferred tax asset of $0.2 million and $0.7 million, respectively. We also recorded a net increase of $1.9 million to our net state deferred tax liabilities and a corresponding increase to our state tax expense due to changes in state deferred income tax rates. In 2014, we released the full $1.5 million valuation allowance and related deferred tax asset of $0.5 million maintained against the Federal NOL carryforwards subject to separate return limitation year restrictions and placed a valuation allowance on the state tax credit carryforwards of $0.5 million and related deferred tax asset of $0.3 million. The acquisition of Enventis on October 16, 2014 resulted in changes to our unitary state filings and correspondingly our state deferred income taxes. These changes resulted in a net increase of $2.1 million to our net state deferred tax liabilities and a corresponding increase to our state tax. In addition, we incurred non-deductible transaction costs in relation to the acquisition that resulted in an increase to our tax provision of $0.7 million. Exclusive of these adjustments, our effective tax rate for 2015 would have been approximately 7.9% compared to 36.6% for 2014. The 2015 effective tax rate differed from the federal and state statutory rates primarily due to state tax credits and differences in allocable income for the Company's state tax filings.

Income taxes decreased $4.5 million in 2014 compared to 2013. Our effective rate was 45.8% for 2014 compared to 36.9% for 2013. In 2014, we released the full $1.5 million valuation allowance and related deferred tax asset of $0.5 million maintained against the Federal NOL carryforwards subject to separate return limitation year restrictions and placed a valuation allowance on the state tax credit carryforwards of $0.5 million and related deferred tax asset of $0.3 million. The acquisition of Enventis on October 16, 2014 resulted in changes to our unitary state filings and correspondingly our state deferred income taxes. These changes resulted in a net increase of $2.1 million to our net state deferred tax liabilities and a corresponding increase to our state tax. In addition, we incurred non-deductible transaction costs in relation to the acquisition that resulted in an increase to our tax provision of $0.7 million. During 2013, we recognized $1.2 million of our previously unrecognized tax benefits, which resulted in a decrease to our tax expense of $0.8 million, due to the expiration of a state statute of limitations. We also recognized approximately $0.7 million of tax expense during 2013 to adjust our 2012 provision to match our 2012 returns. Exclusive of these adjustments, our effective tax rate for 2014 would have been approximately 36.6% compared to 37.1% for 2013.

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Non-GAAP Measures

In addition to the results reported in accordance with US GAAP, we also use certain non-GAAP measures such as EBITDA and adjusted EBITDA to evaluate operating performance and to facilitate the comparison of our historical results and trends. These financial measures are not a measure of financial performance under US GAAP and should not be considered in isolation or as a substitute for net income as a measure of performance and net cash provided by operating activities as a measure of liquidity. They are not, on their own, necessarily indicative of cash available to fund cash needs as determined in accordance with GAAP. The calculation of these non-GAAP measures may not be comparable to similarly titled measures used by other companies. Reconciliations of these non-GAAP measures to the most directly comparable financial measures presented in accordance with GAAP are provided below.

EBITDA is defined as net earnings before interest expense, income taxes, and depreciation and amortization. Adjusted EBITDA is comprised of EBITDA, adjusted for certain items as permitted or required under our credit facility as described in the reconciliations below. These measures are a common measure of operating performance in the telecommunications industry and are useful, with other data, as a means to evaluate our ability to fund our estimated uses of cash.

The following tables are a reconciliation of net cash provided by operating activities to adjusted EBITDA for the years ended December 31, 2015, 2014 and 2013:

	Year Ended December 31,		
(In thousands, unaudited)	2015	2014	2013
Net cash provided by operating activities from continuing operations	$ 219,179	$ 187,785	$ 168,530
Adjustments:			
Non-cash, stock-based compensation	(3,060)	(3,636)	(3,028)
Loss on extinguishment of debt	(41,242)	(13,785)	(7,657)
Other adjustments, net	(18,297)	(17,793)	(17,093)
Changes in operating assets and liabilities	22,671	12,252	28,486
Interest expense, net	79,618	82,537	85,767
Income taxes	2,775	13,027	17,512
EBITDA	261,644	260,387	272,517
Adjustments to EBITDA:			
Other, net (1)	(22,360)	(23,920)	(31,529)
Investment distributions (2)	45,316	34,600	34,833
Loss on extinguishment of debt	41,242	13,785	7,657
Non-cash, stock-based compensation (3)	3,060	3,636	3,028
Adjusted EBITDA	$ 328,902	$ 288,488	$ 286,506

(1) Other, net includes the equity earnings from our investments, dividend income, income attributable to noncontrolling interests in subsidiaries, acquisition and transaction related costs including severance and certain other miscellaneous items.

(2) Includes all cash dividends and other cash distributions received from our investments.

(3) Represents compensation expenses in connection with issuance of stock awards, which because of the non-cash nature of these expenses are excluded from adjusted EBITDA.

Liquidity and Capital Resources

Outlook and Overview

Our operating requirements have historically been funded from cash flows generated from our business and borrowings under our credit facilities. We expect that our future operating requirements will continue to be funded from cash flows from operating activities, existing cash and cash equivalents, and, if needed, from borrowings under our revolving credit facility and our ability to obtain future external financing. We anticipate that we will continue to use a substantial portion

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of our cash flow to fund capital expenditures, meet scheduled payments of long-term debt, make dividend payments and to invest in future business opportunities.

The following table summarizes our cash flows:

	Years Ended December 31,		
(In thousands)	2015	2014	2013
Cash flows provided by (used in):			
Operating activities:			
Continuing operations	$ 219,179	$ 187,785	$ 168,530
Discontinued operations	—	—	(4,174)
Investing activities			
Continuing operations	(119,540)	(246,861)	(107,436)
Discontinued operations	—	—	2,331
Financing activities			
Continuing operations	(90,440)	60,204	(71,554)
Increase (decrease) in cash and cash equivalents	$ 9,199	$ 1,128	$ (12,303)

Cash Flows Provided by Operating Activities

Net cash provided by operating activities from continuing operations was $219.2 million in 2015, an increase of $31.4 million as compared to 2014. Cash provided by operating activities increased primarily as a result of the additional cash flows provided by the addition of the Enventis operations as well as an increase in cash distributions from our wireless partnerships in 2015. These increases were offset in part by changes in working capital primarily due to the timing in receipts for accounts receivable, a decline in advance billings related to equipment sales and a decline in accounts payable related to the timing in payments to suppliers.

Cash Flows Used In Investing Activities

Net cash used in investing activities from continuing operations was $119.5 million during 2015, a decrease of $127.3 million from 2014 primarily due to cash used for the acquisition of Enventis in 2014.

Capital Expenditures

Capital expenditures continue to be our primary recurring investing activity and were $133.9 million in 2015, an increase of $24.9 million compared to 2014. Capital expenditures for 2016 are expected to be $125.0 million to $130.0 million, of which approximately 63% is planned for success-based capital projects for consumer, commercial and carrier initiatives. Capital expenditures in 2016 and subsequent years will depend on various factors, including competition, changes in technology, regulatory changes and the timing in the deployment of new services. We expect to continue to invest in existing and new services and the expansion of our fiber network in order to retain and acquire more customers through a broader set of products and an expanded network footprint.

Acquisition of Enventis

In 2014, we acquired all of the issued and outstanding shares of Enventis for shares of our common stock and cash in lieu of fractional shares. The purchase price consisted of cash and the repayment of debt of $139.6 million, net of cash acquired, and the issuance of shares of the Company's common stock valued at $257.7 million. The funds required to repay Enventis' outstanding debt was financed in part with the sale of $200.0 million in aggregate principal amount of 6.50% Senior Notes due 2022, as described below.

Cash Flows Provided by (Used In) Financing Activities

Net cash provided by financing activities from continuing operations consists primarily of our proceeds and principal payments on long-term borrowings and the payment of dividends.

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Long-term Debt

The following table summarizes our indebtedness as of December 31, 2015:

(In thousands)	Balance	Maturity Date	Rate(1)		
6.50% Senior Notes, net of discount	$ 495,107	October 1, 2022	6.50	%	
Term loan 4, net of discount	888,460	December 23, 2020	LIBOR plus 3.25	%	
Revolving loan	10,000	December 23, 2018	LIBOR plus 3.00	%	
Capital leases	7,580	May 31, 2021	9.36	%	(2)
	$ 1,401,147				

(1) At December 31, 2015, the 1-month London Interbank Offered Rate ("LIBOR") applicable to our borrowings was 0.42%. The Term 4 loan is subject to a 1.00% LIBOR floor.

(2) Weighted-average rate.

Credit Agreement

In December 2013, the Company, through certain of its wholly owned subsidiaries, entered into a Second Amended and Restated Credit Agreement with various financial institutions (the "Credit Agreement") to replace the Company's previously amended credit agreement. The Credit Agreement consists of a $75.0 million revolving credit facility and initial term loans in the aggregate amount of $910.0 million ("Term 4"). The Credit Agreement also includes an incremental term loan facility which provides the ability to request to borrow up to $300.0 million of incremental term loans subject to certain terms and conditions. Borrowings under the senior secured credit facility are secured by substantially all of the assets of the Company and its subsidiaries, with the exception of Consolidated Communications of Illinois Company (formerly known as Illinois Consolidated Telephone Company) and our majority-owned subsidiary, East Texas Fiber Line Incorporated.

The Term 4 loan was issued in an original aggregate principal amount of $910.0 million with a maturity date of December 23, 2020. The Term 4 loan contains an original issuance discount of $4.6 million, which is being amortized over the term of the loan. The Term 4 loan requires quarterly principal payments of $2.3 million, which commenced March 31, 2014, and has an interest rate of LIBOR plus 3.25% subject to a 1.00% LIBOR floor.

Our revolving credit facility has a maturity date of December 23, 2018 and an applicable margin (at our election) of between 2.50% and 3.25% for LIBOR-based borrowings or between 1.50% and 2.25% for alternate base rate borrowings, depending on our leverage ratio. Based on our leverage ratio at December 31, 2015, the borrowing margin for the next three month period ending March 31, 2016 will be at a weighted-average margin of 3.00% for a LIBOR-based loan or 2.00% for an alternate base rate loan. The applicable borrowing margin for the revolving credit facility is adjusted quarterly to reflect the leverage ratio from the prior quarter-end. As of December 31, 2015 and 2014, borrowings of $10.0 million and $39.0 million, respectively, were outstanding under the revolving credit facility. A stand-by letter of credit of $1.6 million, issued in connection with the Company's insurance coverage, was outstanding under our revolving credit facility as of December 31, 2015. The stand-by letter of credit is renewable annually and reduces the borrowing availability under the revolving credit facility. As of December 31, 2015, $63.4 million was available for borrowing under the revolving credit facility.

The weighted-average interest rate on outstanding borrowings under our credit facility was 4.24% and 4.20% at December 31, 2015 and 2014, respectively. Interest is payable at least quarterly.

Net proceeds from asset sales exceeding certain thresholds, to the extent not reinvested, are required to be used to repay loans outstanding under the credit agreement.

Credit Agreement Covenant Compliance

The credit agreement contains various provisions and covenants, including, among other items, restrictions on the ability to pay dividends, incur additional indebtedness, and issue capital stock. We have agreed to maintain certain financial ratios, including interest coverage and total net leverage ratios, all as defined in the credit agreement. As of December 31, 2015, we were in compliance with the credit agreement covenants.

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In general, our credit agreement restricts our ability to pay dividends to the amount of our Available Cash as defined in our credit agreement. As of December 31, 2015 and including the $19.6 million dividend declared in November 2015 and paid on February 1, 2016, we had $245.9 million in dividend availability under the credit facility covenant.

Under our credit agreement, if our total net leverage ratio (as defined in the credit agreement), as of the end of any fiscal quarter, is greater than 5.10:1.00, we will be required to suspend dividends on our common stock unless otherwise permitted by an exception for dividends that may be paid from the portion of proceeds of any sale of equity not used to fund acquisitions, or make other investments. During any dividend suspension period, we will be required to repay debt in an amount equal to 50.0% of any increase in Available Cash, among other things. In addition, we will not be permitted to pay dividends if an event of default under the credit agreement has occurred and is continuing. Among other things, it will be an event of default if our total net leverage ratio and interest coverage ratio as of the end of any fiscal quarter is greater than 5.25:1.00 and less than 2.25:1.00, respectively. As of December 31, 2015, our total net leverage ratio under the credit agreement was 4.23:1.00, and our interest coverage ratio was 4.12:1.00.

Senior Notes

6.50% Senior Notes due 2022

On June 8, 2015, we completed an offering of $300.0 million in aggregate principal amount of 6.50% Senior Notes due 2022. The New Notes were priced at 98.26% of par with a yield to maturity of 6.80% and resulted in total gross proceeds of approximately $294.8 million, excluding accrued interest. The discount and deferred debt issuance costs of $4.5 million incurred in connection with the issuance of the New Notes are being amortized using the effective interest method over the term of the notes. The net proceeds from the issuance of the New Notes were used, in part, to redeem the remaining $227.2 million of our original $300.0 million aggregate principal amount of 10.875% Senior Notes due 2020 and to pay related fees and expenses and to reduce the amount outstanding on the revolving credit facility. In connection with the redemption of the 2020 Notes, we paid $261.9 million and recognized a loss on extinguishment of debt of $41.2 million during the year ended December 31, 2015.

The New Notes were issued as additional notes under the same indenture pursuant to which the $200.0 million aggregate principal amount of 6.50% Senior Notes due 2022 were previously issued on September 18, 2014. The Existing Notes were priced at par, which resulted in total gross proceeds of $200.0 million. The net proceeds from the issuance of the Existing Notes were used to finance the acquisition of Enventis, including related fees and expenses, and to repay the existing indebtedness of Enventis. A portion of the net proceeds, together with cash on hand and borrowings from the revolving credit facility, were also used to redeem $72.8 million of the original aggregate principal amount of the 2020 Notes in 2014.

The 2022 Notes mature on October 1, 2022 and interest is payable semi-annually on April 1 and October 1 of each year. Consolidated Communications, Inc. (“CCI”) is the primary obligor under the 2022 Notes, and we and certain of our wholly-owned subsidiaries have fully and unconditionally guaranteed the 2022 Notes. The 2022 Notes are senior unsecured obligations of the Company.

On October 16, 2015, we completed an exchange offer to register all of the 2022 Notes under the Securities Act. The terms of the registered notes are substantially identical to those of the 2022 Notes prior to the exchange, except that the 2022 Notes are now registered under the Securities Act and the transfer restrictions and registration rights previously applicable to the original 2022 Notes do not apply to the registered 2022 Notes. The exchange offer did not impact the aggregate principal amount or the remaining terms of the 2022 Notes outstanding.

Senior Notes Covenant Compliance

Subject to certain exceptions and qualifications, the indenture governing the 2022 Notes contains customary covenants that, among other things, limits CCI’s and its restricted subsidiaries’ ability to: incur additional debt or issue certain preferred stock; pay dividends or make other distributions on capital stock or prepay subordinated indebtedness; purchase or redeem any equity interests; make investments; create liens; sell assets; enter into agreements that restrict dividends or other payments by restricted subsidiaries; consolidate, merge or transfer all or substantially all of its assets; engage in transactions with its affiliates; or enter into any sale and leaseback transactions. The indenture also contains customary events of default.

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Among other matters, the 2022 Notes indenture provides that CCI may not pay dividends or make other restricted payments, as defined in the indenture, if its total net leverage ratio is 4.75:1.00 or greater. This ratio is calculated differently than the comparable ratio under the Credit Agreement; among other differences, it takes into account, on a pro forma basis, synergies expected to be achieved as a result of certain acquisitions not yet reflected in historical results. At December 31, 2015, this ratio was 4.33:1.00. If this ratio is met, dividends and other restricted payments may be made from cumulative consolidated cash flow since April 1, 2012, less 1.75 times fixed charges, less dividends and other restricted payments made since May 30, 2012. Dividends may be paid and other restricted payments may also be made from a “basket” of $50.0 million, none of which has been used to date, and pursuant to other exceptions identified in the indenture. Since dividends of $253.1 million have been paid since May 30, 2012, including the quarterly dividend declared in November 2015 and paid on February 1, 2016, there was $351.5 million of the $604.6 million of cumulative consolidated cash flow since May 30, 2012 available to pay dividends as of December 31, 2015. At December 31, 2015, the Company was in compliance with all terms, conditions and covenants under the indenture governing the 2022 Notes.

Capital Leases

We lease certain facilities and equipment under various capital leases which expire between 2015 and 2021. As of December 31, 2015, the present value of the minimum remaining lease commitments was approximately $7.6 million, of which $1.8 million was due and payable within the next twelve months. The leases require total remaining rental payments of $9.4 million as of December 31, 2015, of which $4.3 million will be paid to LATEL LLC, a related party entity.

Dividends

We paid $78.2 million and $62.3 million in dividend payments to shareholders during 2015 and 2014, respectively. In November 2015, our board of directors declared a quarterly dividend of $0.38738 per common share, which was paid on February 1, 2016 to stockholders of record at the close of business on January 15, 2016. In addition, on February 19, 2016, our board of directors declared its next quarterly dividend of $0.38738 per common share, which is payable on May 2, 2016 to stockholders of record at the close of business on April 15, 2016. Our current annual dividend rate is approximately $1.55 per share.

The cash required to fund dividend payments is in addition to our other expected cash needs, which we expect to fund with cash flows from our operations. In addition, we expect we will have sufficient availability under our revolving credit facility to fund dividend payments in addition to any expected fluctuations in working capital and other cash needs, although we do not intend to borrow under this facility to pay dividends.

We believe that our dividend policy will limit, but not preclude, our ability to grow. If we continue paying dividends at the level currently anticipated under our dividend policy, we may not retain a sufficient amount of cash, and may need to seek refinancing, to fund a material expansion of our business, including any significant acquisitions or to pursue growth opportunities requiring capital expenditures significantly beyond our current expectations. In addition, because we expect a significant portion of cash available will be distributed to holders of common stock under our dividend policy, our ability to pursue any material expansion of our business will depend more than it otherwise would on our ability to obtain third-party financing.

Sufficiency of Cash Resources

The following table sets forth selected information regarding our financial condition.

	December 31,	
(In thousands, except for ratio)	2015	2014
Cash and cash equivalents	$ 15,878	$ 6,679
Working capital (deficit)	(17,892)	(21,930)
Current ratio	0.88	0.86

Our net working capital position improved $4.0 million as of December 31, 2015 as compared to 2014 primarily as a result of an increase in cash and cash equivalents due in part to a decline in accounts receivable and additional cash distributions from our wireless partnerships in the current year. Income tax receivable also increased primarily due to the loss on the extinguishment of debt recognized in 2015. The improvement in working capital was also due to a decline in current liabilities as a result of a decrease in accrued compensation at December 31, 2015. The change in working capital was also impacted by the adoption as of December 31, 2015 of Accounting Standards Update No. 2015-17 (“ASU 2015-17”),

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Balance Sheet Classification of Deferred Taxes, which requires all deferred tax assets and liabilities to be classified as noncurrent in the consolidated balance sheet. The adoption of this guidance resulted in the reclassification of approximately $12.4 million of net deferred tax assets from current assets to noncurrent net deferred tax liabilities at December 31, 2015. Prior period amounts were not retrospectively adjusted.

Our most significant use of funds in 2016 is expected to be for: (i) dividend payments of between $78.0 million and $80.0 million; (ii) interest payments on our indebtedness of between $73.0 million and $75.0 million and principal payments on debt of $9.1 million; and (iii) capital expenditures of between $125.0 million and $130.0 million. In the future, our ability to use cash may be limited by our other expected uses of cash, including our dividend policy, and our ability to incur additional debt will be limited by our existing and future debt agreements.

We believe that cash flows from operating activities, together with our existing cash and borrowings available under our revolving credit facility, will be sufficient for at least the next twelve months to fund our current anticipated uses of cash. After that, our ability to fund these expected uses of cash and to comply with the financial covenants under our debt agreements will depend on the results of future operations, performance and cash flow. Our ability to fund these expected uses from the results of future operations will be subject to prevailing economic conditions and to financial, business, regulatory, legislative and other factors, many of which are beyond our control.

We may be unable to access the cash flows of our subsidiaries since certain of our subsidiaries are parties to credit or other borrowing agreements, or subject to statutory or regulatory restrictions, that restrict the payment of dividends or making intercompany loans and investments, and those subsidiaries are likely to continue to be subject to such restrictions and prohibitions for the foreseeable future. In addition, future agreements that our subsidiaries may enter into governing the terms of indebtedness may restrict our subsidiaries' ability to pay dividends or advance cash in any other manner to us.

To the extent that our business plans or projections change or prove to be inaccurate, we may require additional financing or require financing sooner than we currently anticipate. Sources of additional financing may include commercial bank borrowings, other strategic debt financing, sales of nonstrategic assets, vendor financing or the private or public sales of equity and debt securities. There can be no assurance that we will be able to generate sufficient cash flows from operations in the future, that anticipated revenue growth will be realized, or that future borrowings or equity issuances will be available in amounts sufficient to provide adequate sources of cash to fund our expected uses of cash. Failure to obtain adequate financing, if necessary, could require us to significantly reduce our operations or level of capital expenditures which could have a material adverse effect on our financial condition and the results of operations.

Surety Bonds

In the ordinary course of business, we enter into surety, performance, and similar bonds as required by certain jurisdictions in which we provide services. As of December 31, 2015, we had approximately $3.8 million of these bonds outstanding.

Contractual Obligations

As of December 31, 2015, our contractual obligations were as follows:

(In thousands)	Less than 1 Year	1 - 3 Years	3 - 5 Years	Thereafter	Total
Long-term debt	$ 9,100	$ 28,200	$ 864,500	$ 500,000	$ 1,401,800
Interest on long-term debt (1)	70,502	139,843	137,612	65,000	412,957
Interest rate swaps (2)	1,222	1,058	—	—	2,280
Capital leases	2,485	4,494	2,091	370	9,440
Operating leases	5,219	8,698	6,613	5,532	26,062
Unconditional purchase obligations:					
Unrecorded (3)	56,729	34,249	16,070	14,539	121,587
Recorded (4)	40,398	—	—	—	40,398
Pension funding	3,882	—			