SPECIAL COUNCIL MEETING
CITY OF CROSSLAKE
WEDNESDAY, SEPTEMBER 3, 2014
6:00 P.M. – CITY HALL

The Council for the City of Crosslake held a Special Council Meeting in the Council Chambers of City Hall on Wednesday, September 3, 2014. The following Council Members were present: Mayor Darrell Schneider, Steve Roe, Gary Heacox, John Moengen and Mark Wessels. Also present were City Administrator/Consultant Dan Vogt, City Clerk Char Nelson, Finance Director/Treasurer Mike Lyonais, General Manager Paul Hoge, Sergeant Erik Lee, Public Works Director Ted Strand, Northland Press Reporter Kate Perkins, Echo Publishing Reporter Nancy Vogt, and Charlesmead Advisors LLC Representatives Frank Gallagher, Brad Williams, and Anwar Gorham. There were approximately ninety people in the audience.

Mayor Schneider called the meeting to order at 6:03 P.M. The purpose of the meeting was to receive report from Charlesmead regarding Crosslake Communication's operations.

Frank Gallagher gave a brief history of Charlesmead Advisors LLC and his experience advising small telephone companies. Mr. Gallagher presented an overview of Crosslake Communication's situation, including the purpose of the study, Crosslake's service territory, products offered, network highlights and employee summary. Mr. Gallagher reviewed telecom, broadband data and video trends for the industry.

Brad Williams gave an overview of how other telecom companies are approaching challenges in today's market and what opportunities there are for growth. Some opportunities include increase to scope and scale, diversification, or hybrid of the two. Expansion into neighboring territory is limited for Crosslake Communications because it is owned by a municipality. Big telecom companies as well as small companies are facing the same challenges.

Anwar Gorham reviewed the financial outlook and metric comparison for Crosslake Communications. A base case 5-year projection shows that Crosslake Communications' revenue is expected to remain constant because broadband is growing and voice is declining. Expenses are expected to continue to rise due to inflation. Crosslake Communications has been successful at marketing cable with an 82% saturation rate. Programming costs have been rising every year for premium channels. Smaller companies have less negotiating leverage.

Frank Gallagher gave an overview of several valuation methodologies used to put values on companies. The base case valuation for Crosslake Communications is from $2.8 to $3.3 million dollars. The discounted cash flow analysis for the next five years shows decreases from $366,000 to $108,000. These amounts do not include the bond principal and interest payments of approximately $450,000 per year. It will be difficult for the City to sustain the transfer from Crosslake Communications of approximately $277,000 each year to offset the City levy. Crosslake Communications needs to increase revenue or decrease expenses. Even if revenue stays flat, operating costs will go up due to inflation. Crosslake Communications could consider outsourcing part of the operations.

Mayor Schneider asked if copper is compatible with fiber, as only a portion of the City has fiber to the home. Mr. Gallagher replied that there is no competition for Crosslake Communications to have fiber to the home and both copper and fiber provide good service to the customer. Anwar Gorham stated that if fiber does not increase the number of subscribers, there is no reason to install it. Brad Williams stated that very few communities have 100% saturation of fiber to the home.

Mark Wessels asked if wireless would eventually overtake fiber users. Frank Gallagher replied that the technology of wireless will not be competitive to fiber anytime soon. Wireless continues to have issues with speed and quality.

Steve Roe asked if satellite is a major competitor for cable. Frank Gallagher replied that satellite is cable's only competition and that most people are drawn to satellite for the initial savings. Brad Williams stated that satellite lacks speed and satellite companies are now looking to partner with cable companies.

The Council recessed at 7:30 P.M. so that written questions from the audience could be compiled.

The Council reconvened at 7:50 P.M.

Questions were raised on why larger companies were used to compare Crosslake Communication's operations. Company size does not matter because all telecom companies are struggling with the same issues.

Questions were raised on what the recommendations of Charlesmead were. Crosslake Communications must take control of expenses. There is little room for Crosslake Communications to grow. Cutting expenses will be necessary. Outsourcing or sharing services are good options.

Paul Hoge answered many questions which included what the top three expenses at the company are: wages, programming and equipment. In response to being asked what would happen to the service if Crosslake Communications were sold, Mr. Hoge stated that all the employees would be let go and services would be limited to what the new owner wanted to provide. Frank Gallagher stated that negotiations could include employee retention and reasonable rates. Dick Elmquist of 13543 Loveland Harbor stated that his son worked for Hickory Tech which was recently sold and all the employees except the installers were laid off. Steve Roe stated that the biggest loser in the sale of the company would be the City. Mayor Schneider stated that another owner would not have the same amount of care for services and customers that the current employees have.

Dave Fischer of 36412 Rushmoor Blvd asked how Crosslake Communications could get to the best case scenario. If the number of subscribers and rates increased at the same time, while operating expenses decreased, the company could increase revenue.

Mark Wessels asked what would happen if the Council were to take no action. Cash flow would continue to decrease to a point that Crosslake Communications would be unable to make its bond payments. The City may have to write a check to Crosslake Communications to keep it running. Taxes would increase. Paul Hoge stated that he is working with Northland Securities to refund the current bond with a principal of 2.8 million and is negotiating for a lower interest rate.

There being no further business at 9:00 P.M., MOTION 09S1-01-14 WAS MADE BY JOHN MOENGEN AND SECONDED BY DARRELL SCHNEIDER TO ADJOURN THE MEETING. MOTION CARRIED WITH ALL AYES.

Respectfully Submitted,

Charlene Nelson

Charlene Nelson
City Clerk

Crosslake City Council Presentation

CROSSLAKE COMMUNICATIONS

September 2014

Charlesmead ADVISORS LLC

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I. *Situation Overview*

Situation Overview

- Crosslake Communications ("Crosslake") provides high-quality services for residents of the City of Crosslake (the "City") and delivers an annual financial contribution to the City
- Telecommunications is transitioning from voice to broadband at an accelerating pace, driven by risks arising from regulation, competition, and technological change
- In view of these industry dynamics, and related financial challenges, the City has undertaken a strategic evaluation of Crosslake's outlook
- In June 2014, Crosslake retained Charlesmead Advisors, LLC ("Charlesmead") to assist in this analysis
- The purpose of today's presentation is to discuss:
    - Telecommunications industry developments and how industry trends might affect Crosslake
    - Crosslake's financial performance and expected future prospects
    - Crosslake's valuation based on current expectations for the business
- Charlesmead is honored to work with Crosslake and the City in this important strategic assessment process

Company Summary

- Crosslake has provided quality telecommunications products and services to businesses and residents in the City since 1925
- **Service Territory**
  - City of Crosslake, Minnesota; service territory defined and restricted by the League of Minnesota Cities
- **Products Offered**
  - Telephone services with multiple calling features
  - High-speed data delivered via fiber-to-the-premise ("FTTP") or copper ("DSL")
  - Digital cable television including HDTV and DVR
  - Other services
    - Computer repair services
    - Remote technology support
- **Network Highlights**
  - Fiber-rich network: all remote terminals are fiber-fed; 45% of customer connections are FTTP
    - Management has plans to increase FTTP penetration to 100% in three phases over the next 10-15 years
  - Certain portions of the company's coaxial network are operating a 330 MHz cable television system
    - IPTV is not currently an option for the company due to the cost of a system conversion
- **Employee Summary**
  - Current employee count: 11
    - Open manager-level positions in IT and Operations

II. Wireline Industry Dynamics

Telecom Trends at a Glance

- Year-over-year ("YoY") access line loss rates have been stable for the last two years
  - The six public RLECs reported average and median line loss of -4.8% and -4.7% in 2Q14, respectively
  - Windstream reported notably negative losses of -6.3%, while Frontier improved from a line loss rate of -7.9% in 2Q13 to -3.4% in 2Q14
- Broadband subscribership stable in 2Q14
  - Average YoY growth improved slightly to 1.0% in 2Q14
  - Revenue generating units (access lines, HSD, and video subs) continue to decline
    - Cable is reporting slightly improved RGU growth (1.3% v. 0.4% in 2Q13)
    - The RLEC rate of RGU decline was stable in 2Q14 at -2.3%
- YoY revenue change improved to -3.9% in 2Q14 from -5.0% in 1Q14
  - Weakness reported at the top line for Alaska Communications Systems, Consolidated, Frontier and Windstream
- Operating cash flow (earnings before interest, taxes, depreciation and amortization, or "EBITDA") margins remain stable
  - Median industry EBITDA margin up slightly to 38.5% in 2Q14 from 38.1% in 1Q14
  - Margins are mixed for 6 rural carriers with 4 improving and 2 declining

Broadband Data and Video Trends

Broadband Data

- Cable continues to dominate broadband customer additions
  - Net adds of 350K in 2Q14 vs 300K in 2Q13
  - Cable sub growth of 4.5% in 2Q14 vs 5.2% in 2Q13 and 5.8% in 1Q14
  - Telco sub growth of 1.0% in 2Q14 vs 2.5% in 2Q13 and 1.0% in 1Q14
  - Cable broadband market share remains stable at 59.5% in 2Q14
  - Broadband penetration as percentage of occupied households was 70.6% in 2Q14
- Cable continues to take share from DSL, but FiOS and U-verse broadband are strong
- For the first time cable broadband subs exceed cable video subs (49.915m vs. 49.910m)

Video

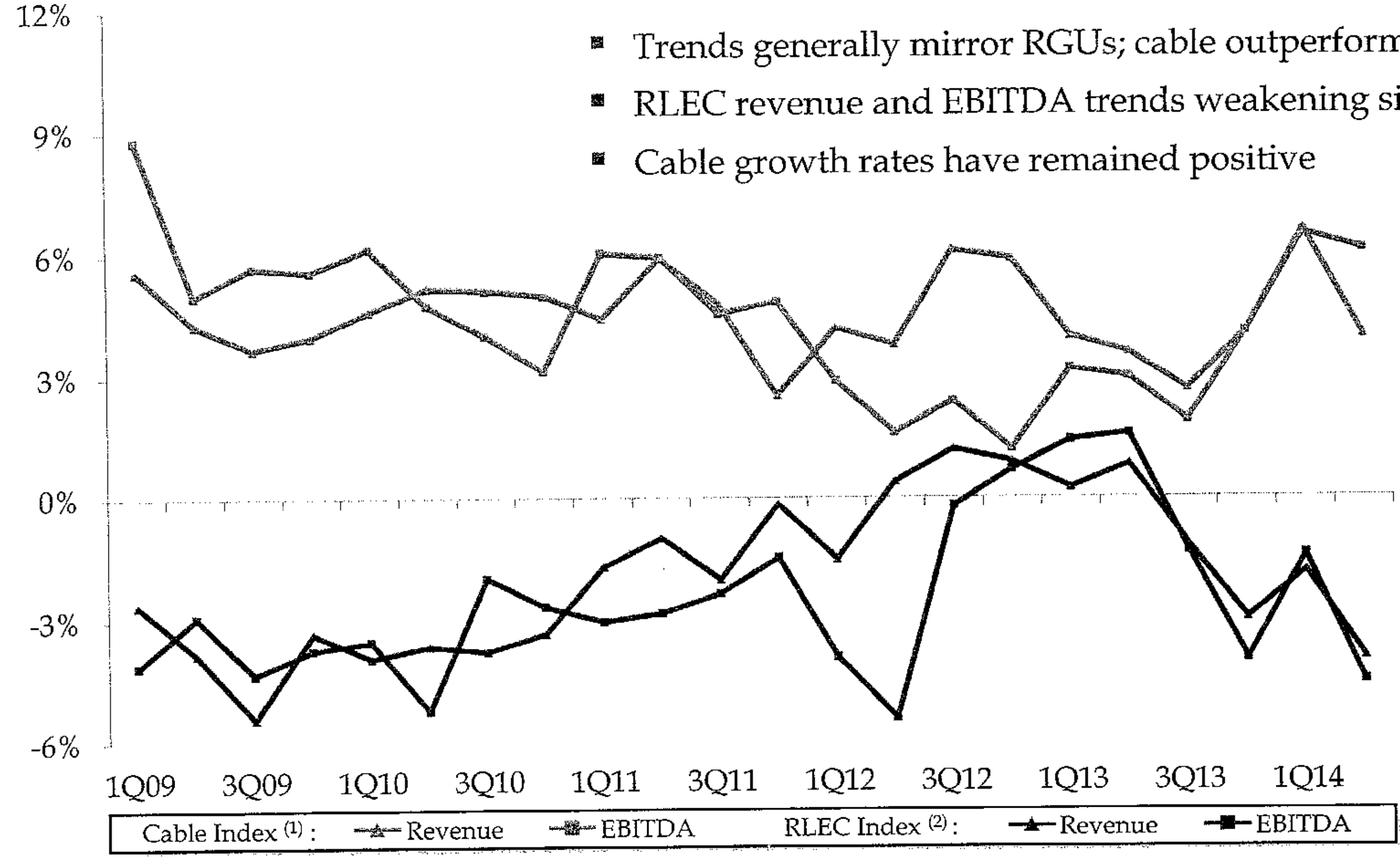
- Relatively stable competitive dynamics in spite of rising prices
  - Video losses moderated in 2Q14
    - Cable lost 445K customers, while telcos added 290K
  - Price increases at major cable companies keeping revenue growth in the single digits (4.0% in 2Q14 v. 3.6% in 2Q13) despite subscriber losses
  - Total video subscribers decreased by 311K in 2Q14 despite telco adds of 290K subscribers
- Pay TV lost subs for the second consecutive quarter; subscriber growth has fallen sharply since 4Q09
  - In 2Q14, satellite subs declined by 78K, cable TV subs slipped by 523K and telco subs grew by 290K
  - Video market share: cable 54%, satellite 35%, telco 11%

Source: UBS Equity Research, and company data

Revenue and EBITDA Trends

Year-over-Year Change in Revenue and EBITDA

- Trends generally mirror RGUs; cable outperforming
- RLEC revenue and EBITDA trends weakening since 2Q13
- Cable growth rates have remained positive



Source: Company filings and press releases
(1) Cable index is comprised of CVC, CHTR, CMCSA, and TWC.
(2) RLEC index is comprised of CTL, CNSL, FTR, and WIN.

Defining Strategy in Today's Telecommunications Industry

Opportunities

- Additional broadband penetration
- Organic CLEC & business-focused opportunities
- Wholesale fiber transport
- Hosted and managed services
- Acquisitions
  - CLEC
  - Fiber
  - Hosted and managed services
  - ILEC

Challenges

- Regulatory reforms ongoing
- Continued cable competition
- Continued wireless voice substitution
- Increasing costs of capital
- Decreasing credit availability
- Wireless data substitution

ILEC Strategic Approaches

- ILECs are pursuing strategic approaches to reduce reliance on support and voice revenues

Increase Scope & Scale	Diversification	Hybrid
▪ Increase scope and scale of ILEC operations through M&A ▪ Rationalize cost structures over a larger revenue base	▪ Reduce regulatory exposure ▪ Geographic diversification ▪ Expand network assets and business lines–CLEC & fiber ▪ Enter business services–data centers, managed services, cloud services	▪ Grow ILEC scope and scale ▪ Simultaneously pursue business diversification

- Mergers and acquisitions are valuable tools in executing on these strategies
- Pure-play ILEC transactions appear to be important but transitional strategic steps
- Common transaction criteria within the industry include
  - Focus on sustainable data-centric services
  - Attractive markets (competition, geographic proximity, demographics, etc.)
  - Meaningful synergy / cost saving opportunities (ability to integrate and operate efficiently)
  - Strong growth and/or diversification potential (enhanced focus on faster growth segments – broadband, business, IT services, fiber transport, Internet infrastructure, etc.)
  - High-quality, well-positioned network
  - Reasonable price relative to strategic value (cash flow accretive?)
  - Positive impact on overall financial position (manageable leverage levels, enhanced operating profile and results)

Overview of Strategic Approaches

	Increase Scope & Scale	Focus on Diversification	Hybrid – Increase Scale & Diversify	Hybrid – Increase Scale & Diversify
Example	Frontier	Windstream	CenturyLink	Consolidated
Notable Initiatives / Acquisitions	• Verizon 14-state operations • Commonwealth • Southern New England Telephone (from AT&T)	• PAETEC • Hosted Solutions • Q-Comm • NuVox • Iowa Telecom • REIT Asset Spin-Off	• Embarq • Qwest • Savvis • Smaller technology-focused tuck-ins for Savvis	• Enventis (HickoryTech) • SureWest • North Pittsburgh • Emphasis on high-bandwidth services, IPTV with HD/DVR and bundling
Pros	• Synergies / scale • Reduced regulated revenue • Potential to grow broadband in underserved areas • Better position for future acquisitions and competition	• Synergies / scale • De-emphasize regulatory rev • Increase exposure to business revenue • Grow business service offerings • Reduce residential and voice • De-lever through spin off	• Synergies / scale • Reduced regulatory revenue • Potential to grow broadband • Diversification thru Qwest long-haul network • Data center / managed services exposure	• Synergies / scale • Fewer transactional risks • Bundles with video & HSD driving low line losses (~4%) • Focus on core reduces business risk
Cons	• Integration challenges • Execution risk • Dependence on legacy telco • Regulatory conditions	• Integration challenges • Execution risk • Greater cyclicality • More competitive • Separation of assets from ops	• Integration challenges • Execution risk • Legacy telco operations remain primary business • Regulatory conditions	• Limited growth prospects • More exposure to regulated revenue • Reliance on legacy telco
Results to Date	• Successfully completed systems conversions and exceeded synergy targets on VZW and CTCO acquisitions • Broadband investment ahead of target • 54% of HHs @ 20Mbps+ • Reduced YoY residential customer losses to < 3.0%	• Focused on integrating new businesses and systems • Strong HSD penetration • > 70% of revenue from business and broadband • > 30,000 fiber route miles	• Replacing legacy losses with strategic revenues • Slowing access line losses • Enterprise growth • Increased synergy guidance for acquisitions; achieved Qwest synergies ($450m) earlier than anticipated	• IPTV penetration > 15%; > 25% in some markets • Data and video subscribers approaching connections • > 80% of revenue from business and broadband • Viewed as an acquisition target

Consolidated Transformation Case Study

December 2007

Acquired North Pittsburgh Systems for $362.6m
60,000 ILEC and 67,000 CLEC access lines
16,500 DSL subscribers

July 2012

Acquired SureWest Communications for $324m
106,800 residential and 8,400 business customers

June 2014

Agreed to Acquire Enventis for $350m
72,000 RGUs and 4,200+ miles of fiber
Strategic services ≈78% of total revenues

2005 Revenue	
Local Calling	31.3%
Network Access	22.8%
Subsidies	19.1%
Long Distance	5.7%
Voice Total	**78.9%**
Data and Internet	9.2%
Directory	4.2%
Transport	3.6%
Other	4.1%
Access Lines	82,197
Broadband Subs	55,163
Video Subscribers	2,146

Recent Network Investment

Wireless backhaul (FTTT): 805 sites
20+ Mbps: 80% of lines
10+ Mbps: 96% of lines
Business and data: 82% of revenue

2013 Revenue	
Local Calling	17.7%
Network Access	18.7%
Subsidies	8.6%
Long Distance	3.2%
Voice Total	**48.2%**
Data and Internet	44.9%
Other	6.9%
Access Lines	256,805
Broadband Subs	255,239
Video Subscribers	110,613

- ≈80% voice revenue
- ≈19% support revenue
- <10% data revenue

→

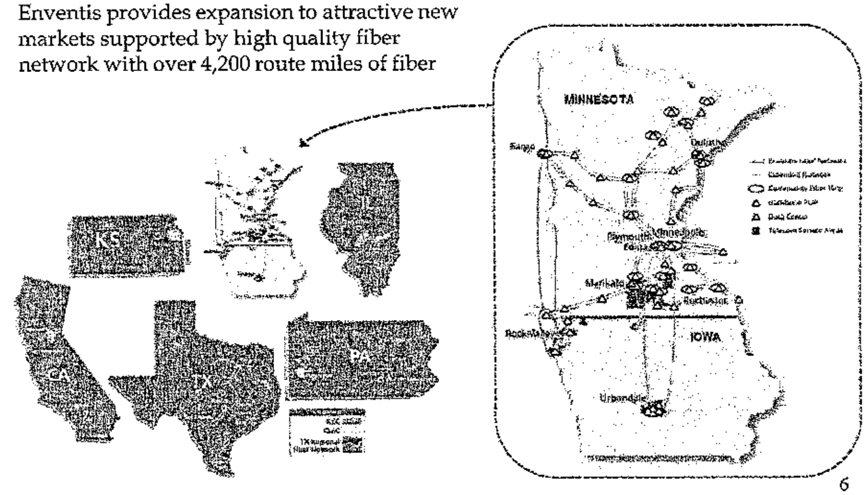
- Significantly larger, more diversified
- <50% voice revenue
- <9% support revenue
- Strong data and video platform
- ≈45% data revenue

Consolidated to Acquire Enventis (HickoryTech)

- **Announced:** June 30, 2014
- **Target:** Enventis Corporation (NASDAQ: ENVE) (formerly, HickoryTech)
- **Buyer:** Consolidated Communications (NYSE: CNSL)
- **Price:** All-stock transaction, exchanging 0.7402 shares of CNSL for each ENVE share, in a merger valued at $350 million, including net debt of $123 million as of 3/31/14 (80% of pro forma ownership will be Consolidated shareholders).
- **Dividends:** $1.55, same as Consolidated's current dividend, while Enventis shareholders will realize a 91% increase.
- **Assets:** Enventis contributes operations in Minnesota, Iowa, North Dakota, and Wisconsin supporting 39,055 access lines, 21,178 data customers, 11,788 video subscribers, and 90 FTTT wireless sites. The acquisition of Enventis provides Consolidated with an opportunity to expand to attractive new markets through a 4,200-mile high-quality fiber network.
- **Valuation:** 1.9x LTM Revenue [1]
  7.3x LTM Adjusted EBITDA before synergies [1]
  5.6x LTM pro forma EBITDA after synergies [1][2]
- **Expected Closing:** 4Q2014
- **Comments:** Merger of two business and broadband providers in a deleveraging event for Consolidated. Pro forma business and broadband services are expected to account for 78% of total revenues. Consolidated's total debt to adjusted EBITDA is expected to improve from 4.28x to 3.90x, while net debt to adjusted EBITDA is projected to improve from 4.25x to 3.84x. Annual operating synergies of $14 million are expected by the end of the second year.

Combined Company Footprint

Enventis provides expansion to attractive new markets supported by high quality fiber network with over 4,200 route miles of fiber



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Combined Company Footprint [1]

($ in millions)	Consolidated Standalone	Combined Company	Pro Forma w. Synergies [2]
Revenue	$600	$785	$785
Adjusted EBITDA	284	332	346
Capital Expenditures	105	134	134
Free Cash Flow [3]	179	198	212
Total Debt [4]	$1,215	$1,349	$1,349
Net Debt [4]	1,208	1,330	1,330
Total Debt/Adj. EBITDA [4]	4.28x	4.06x	3.90x
Net Debt/Adj. EBITDA [4]	4.25x	4.00x	3.84x

Source: Consolidated press release and presentations
(1) Data is as of or for the twelve month period ended March 31, 2014.
(2) Assumes $14 million of pre-tax full run-rate opex synergies; excludes impact of estimated fees, expenses, and integration costs.
(3) Defined as Adjusted EBITDA less capital expenditures
(4) Debt balance and leverage metrics net of debt discount of $4.391 million and $1.653 million for Term Loan and Senior Notes, respectively.

EATEL Acquires Venyu and Vision Communications

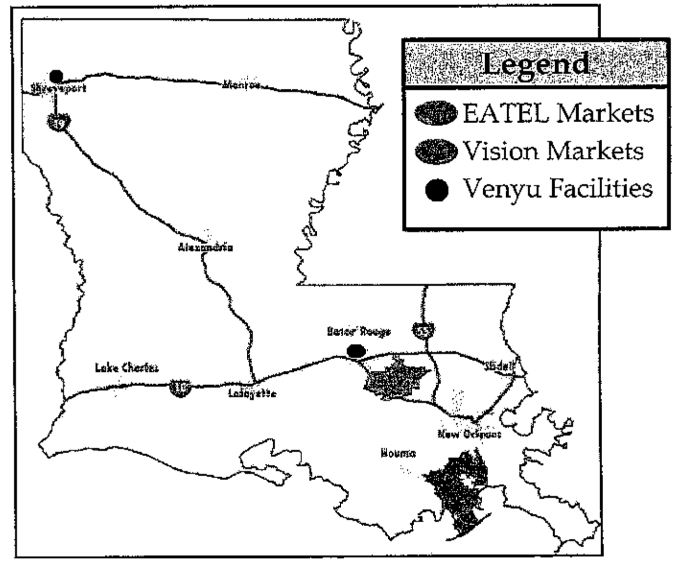
Venyu Solutions

- **Announced/Closed:** August 31, 2013
- **Assets:** Venyu is a national provider of data center, managed hosting, cloud, virtualization, and data protection solutions. Venyu has been a pioneer in offsite backup and was one of the first service providers in the country to leverage virtualization for disaster recovery. Founded in 1989 and headquartered in Baton Rouge, Venyu has approximately 75 employees and operates three data center facilities. In 2011, Venyu built a state-of-the-art 10,000 sq. ft. data center within Bossier City's Cyber Innovation Center. The company will become a wholly owned subsidiary of EATEL and maintain its headquarters, data center locations, existing service offerings, staff and the senior management team.

Vision Communications

- **Announced/Closed:** September 20, 2011/January 5, 2012
- **Assets:** Founded in 1945, Vision provides a broad array of advanced telecommunications services including digital cable TV, high-speed Internet access, local and long distance voice, and commercial data services. Headquartered in Larose, Louisiana, Vision serves residential and commercial customers throughout central and southern Lafourche and southern Jefferson Parishes. Vision served approximately 9,850 access lines at announcement.

EATEL Pro Forma Service Territory



- **Transaction Comments:** EATEL, founded in 1935, is a leading regional telecommunications service provider. EATEL was one of the first companies in the country to build a 100% fiber network to provide customers a broad array of integrated digital services including TV, Internet, and phone. EATEL also owns Sunshine Media, a leading regional yellow pages service provider. The acquisitions enable EATEL to expand and diversify its service territory throughout the State of Louisiana, as well as the surrounding states.

Charlesmead Advisors, LLC served as exclusive financial advisor to EATEL in these transactions.

ILEC Internet Infrastructure Acquisitions and Investments

ILEC	Data Center	Description
COMPORIUM Making Life Easier	Immedion	> Comporium has been the principal investor since founding in 2007 > Operates four data centers in South Carolina and provides an integrated suite of managed services and infrastructure solutions for critical business applications > Services include colocation, dedicated Internet access, data backup & recovery, network monitoring, virtualized dedicated services, and security
NORTH STATE BUSINESS Powerful network, people who care.	Data Chambers by NORTH STATE	> Acquired in 2012: Two data centers and disaster recovery space located within a 120,000 square-foot facility in Winston-Salem; 30,000 square-foot facility in Raleigh; 50,000 square-foot facility in Charlotte > Delivers data center services with remote hands, cloud services, managed database, firewall, and VPNs, data protection and backup, advanced server, desktop, network, and application monitoring
TDS®	OneNeck® a TDS company	> Formed through the combination of several acquisitions > Vital Support Systems (Des Moines) – June 2012. Three data centers totaling 130,000 sq. ft. in Madison; Des Moines and Cedar Falls, IA > OneNeck IT Services (Scottsdale) – June 2011: leading hosted application management and MSP offering a suite of ERP outsourcing solutions > VISI (Twin Cities) acquired March 2010. Operates two data centers and over 70,000 gross square feet; serving 10,000 business and residential customers
EATEL	VENYU	> Acquired in 2013: Operates data center facilities in Baton Rouge and Shreveport-Bossier City, Louisiana; currently expanding operations > Offers cloud hosting, colocation, managed hosting, colocation hosting, cloud backup, and disaster recovery

Source: Company filings, press releases, and investor presentations.

III. *Financial Outlook and Metric Comparison*

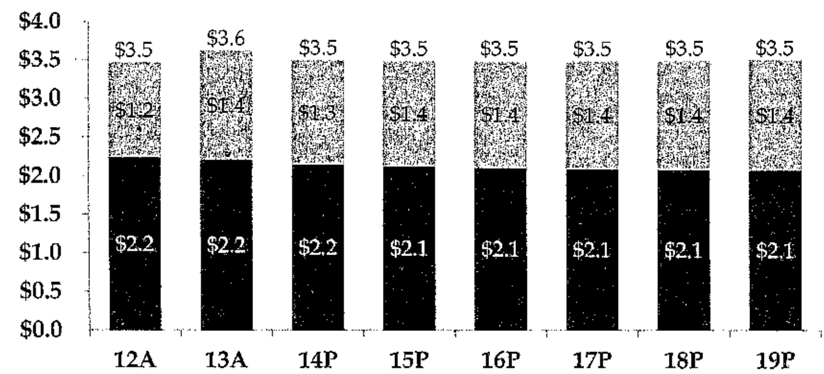
Income Statement Projections – Base Case

	2012A	2013P	2014B	2015B	2016B	2017B	2018B	2019B	14-19 CAGR
Telephone Revenue	$ 2,240,573	$ 2,209,336	$ 2,150,510	$ 2,127,490	$ 2,108,785	$ 2,094,365	$ 2,084,210	$ 2,078,312	-0.7%
Cable Revenue	1,229,212	1,412,886	1,347,350	1,362,085	1,377,045	1,392,236	1,407,661	1,423,326	1.1%
Total Operating Revenue	$ 3,469,786	$ 3,622,222	$ 3,497,860	$ 3,489,575	$ 3,485,830	$ 3,486,600	$ 3,491,871	$ 3,501,637	0.0%
Operating Revenue Growth		*4.4%*	*-3.4%*	*-0.2%*	*-0.1%*	*0.0%*	*0.2%*	*0.3%*	
Telephone Cash Operating Expenses	1,783,748	1,738,542	1,860,100	1,875,269	1,890,956	1,907,161	1,923,885	1,941,128	0.9%
Telephone EBITDA	$ 456,825	$ 470,794	$ 290,410	$ 252,222	$ 217,829	$ 187,204	$ 160,325	$ 137,184	-13.9%
Telephone EBITDA Margin	*20.4%*	*21.3%*	*13.5%*	*11.9%*	*10.3%*	*8.9%*	*7.7%*	*6.6%*	
Cable Cash Operating Expenses	960,769	1,044,203	1,069,260	1,085,326	1,101,606	1,118,103	1,134,820	1,151,760	1.5%
Cable EBITDA	$ 268,443	$ 368,682	$ 278,090	$ 276,759	$ 275,439	$ 274,133	$ 272,841	$ 271,566	-0.5%
Cable EBITDA Margin	*21.8%*	*26.1%*	*20.6%*	*20.3%*	*20.0%*	*19.7%*	*19.4%*	*19.1%*	
Total EBITDA	$ 725,268	$ 839,477	$ 568,500	$ 528,981	$ 493,269	$ 461,336	$ 433,166	$ 408,749	-6.4%
EBITDA Margin	*20.9%*	*23.2%*	*16.3%*	*15.2%*	*14.2%*	*13.2%*	*12.4%*	*11.7%*	
Operating Transfers to City	277,209	277,238	277,500	276,843	276,546	276,607	277,025	277,800	0.0%
Adjusted EBITDA	$ 1,002,477	$ 1,116,715	$ 846,000	$ 805,824	$ 769,814	$ 737,943	$ 710,191	$ 686,549	-4.1%
Adjusted EBITDA Margin	*28.9%*	*30.8%*	*24.2%*	*23.1%*	*22.1%*	*21.2%*	*20.3%*	*19.6%*	
Capital Expenditures	$ 271,594	$ 424,638	$ 215,000	$ 298,907	$ 298,586	$ 298,652	$ 299,104	$ 299,940	6.9%
% of Total Revenue	*7.8%*	*11.7%*	*6.1%*	*8.6%*	*8.6%*	*8.6%*	*8.6%*	*8.6%*	

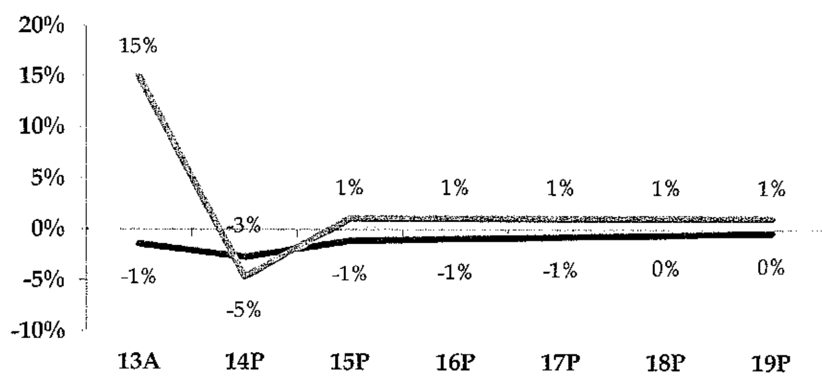
Source: Management and Charlesmead analysis

Income Statement Metrics – Base Case

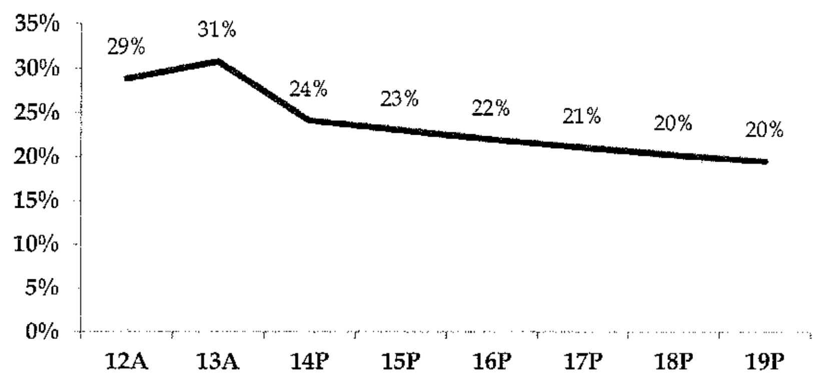
Revenue (in millions)



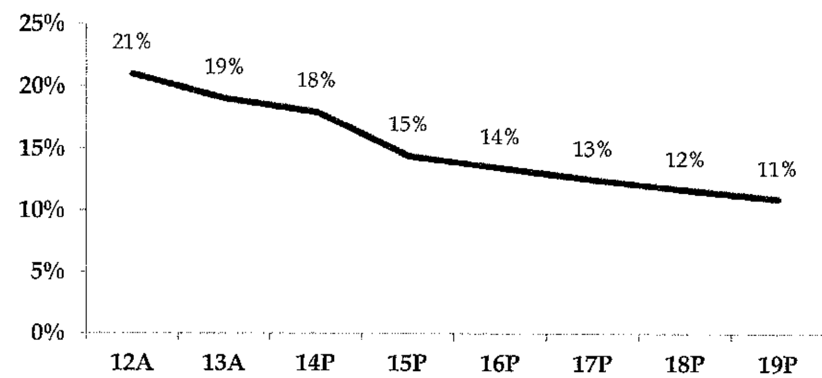
Revenue Growth



Adjusted EBITDA Margin



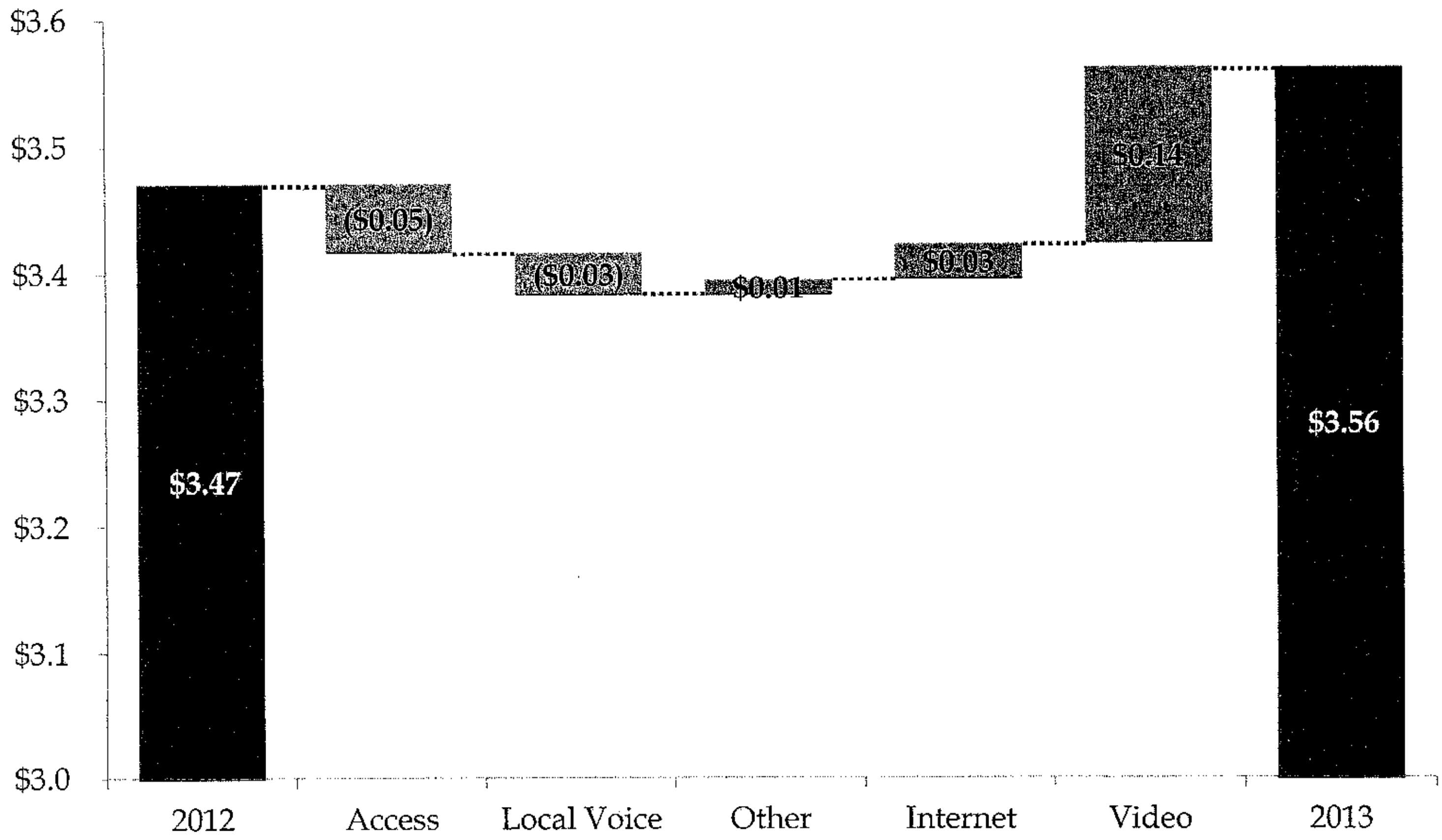
Free Cash Flow Margin (1)



Telephone | Cable

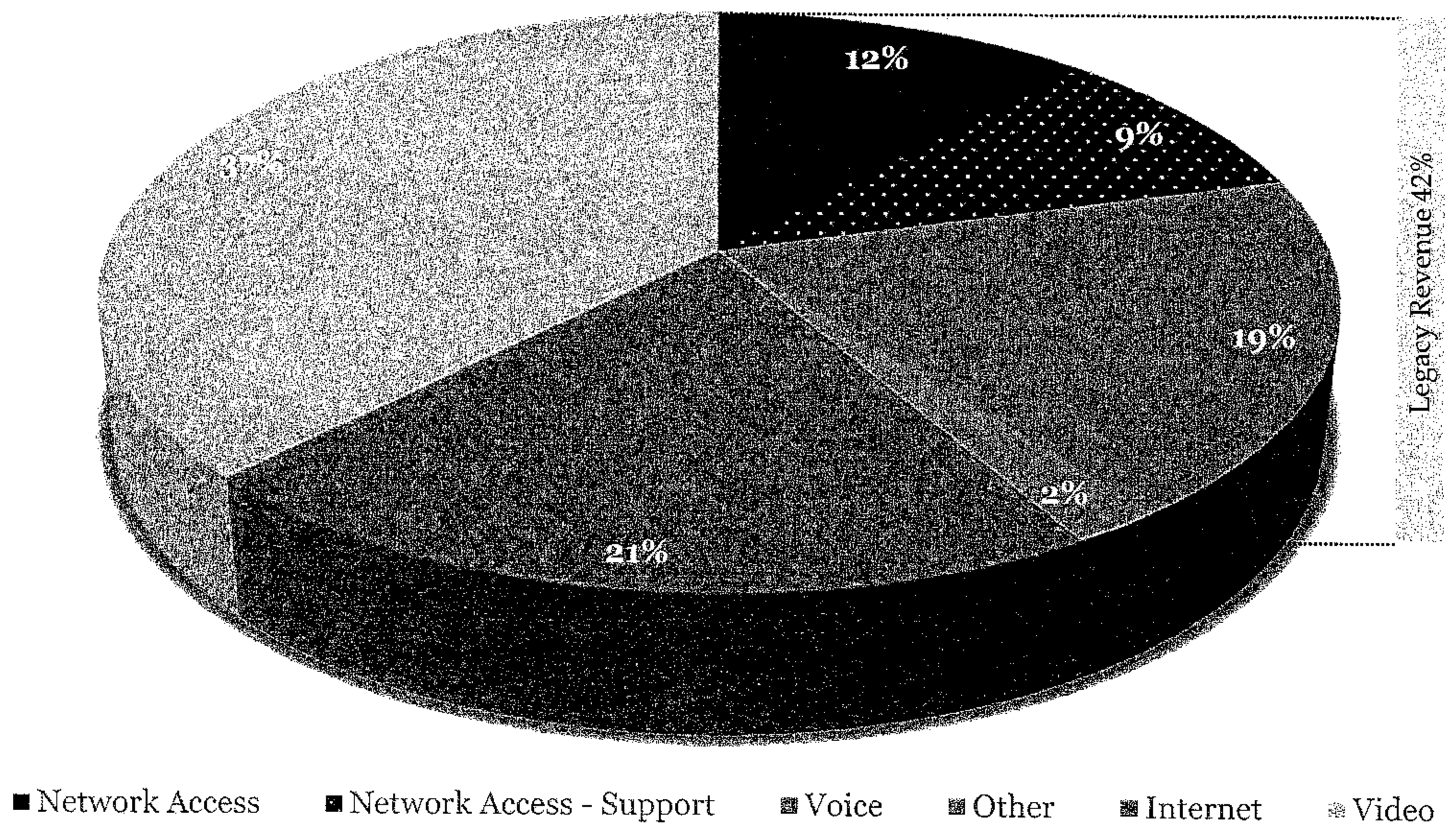
Source: Management and Charlesmead analysis
(1) Free cash flow is defined as Adjusted EBITDA less capital expenditures.

Changes in 2013 Revenue ($s in millions)



Source: Management and Charlesmead analysis

2013 Revenue Composition



Source: Management and Charlesmead analysis

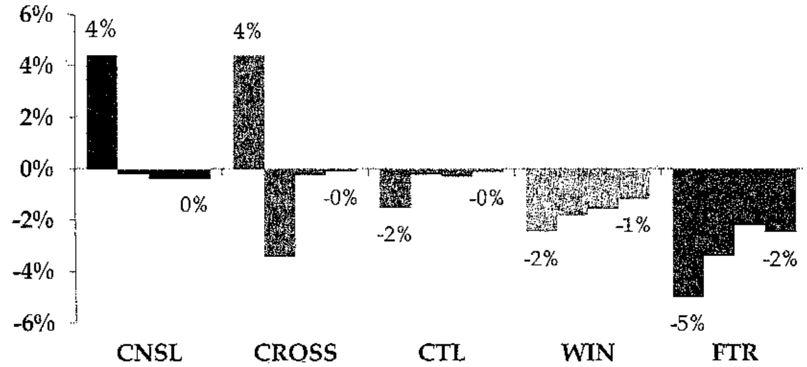
ILEC – Metric Summary

Company	Voice Subs (000s)	Total RGUs (000s)	Penetration of ALs		Monthly Revenue per AL	Monthly Revenue per RGU	Business as % of Total Revenue	RGUs per Voice Sub
			HSD	Video				
CenturyLink	12,707	18,762	47.7%	NA	$ 112.48	$ 76.18	36.5%	1.5
Consolidated communications	371	741	70.0%	30.0%	$ 135.87	$ 67.95	78.0% (2)	2.0
Frontier Communications	3,026	5,352	63.8%	13.0%	$ 111.58	$ 63.10	50.9%	1.8
windstream communications (1)	1,670	3,218	69.1%	23.6%	$ 110.74	$ 57.48	61.7%	1.9
Crosslake Communications	2	5	81.8%	114.1%	$ 176.92	$ 59.79	NA	3.0

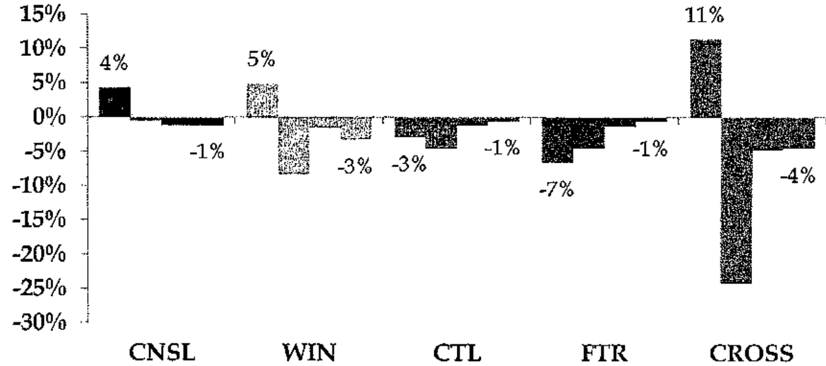
Source: Press releases, SEC filings, and Charlesmead analysis
(1) Windstream operational metric data reflects only residential subscriber counts.
(2) Consolidated data includes broadband revenue.

ILEC – Financial Metric Trends (2013 – 2016P)

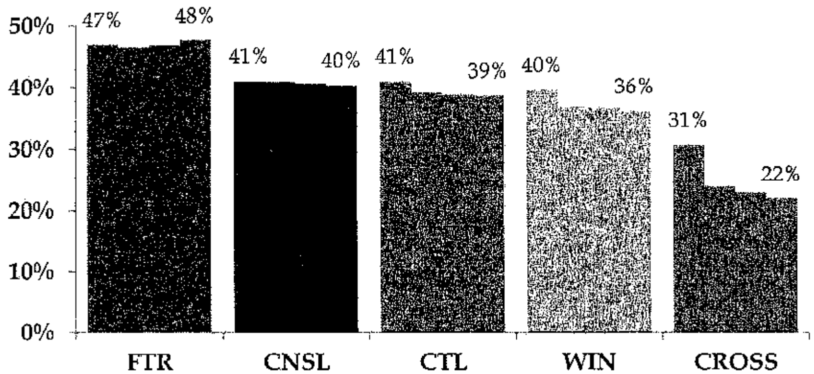
Revenue Growth



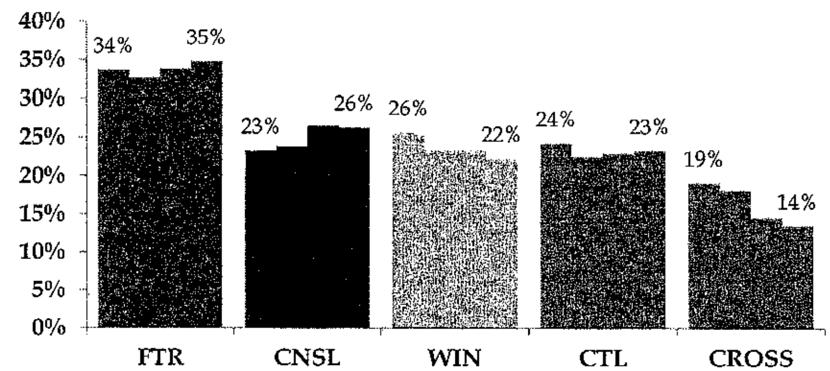
EBITDA Growth



EBITDA Margin



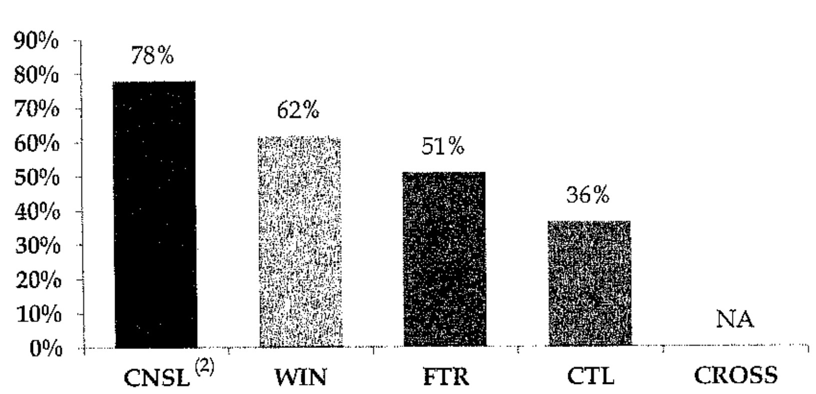
EBITDA less Capex as a % of Revenue



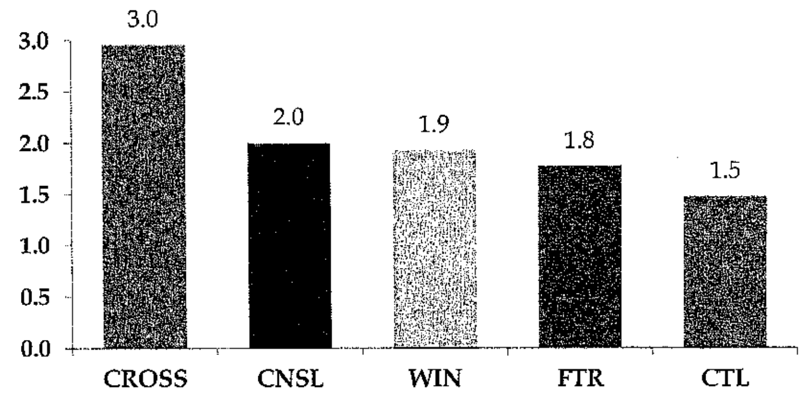
Source: Press releases, SEC filings, and Charlesmead analysis

ILEC – Analysis of Financial Metrics (1)

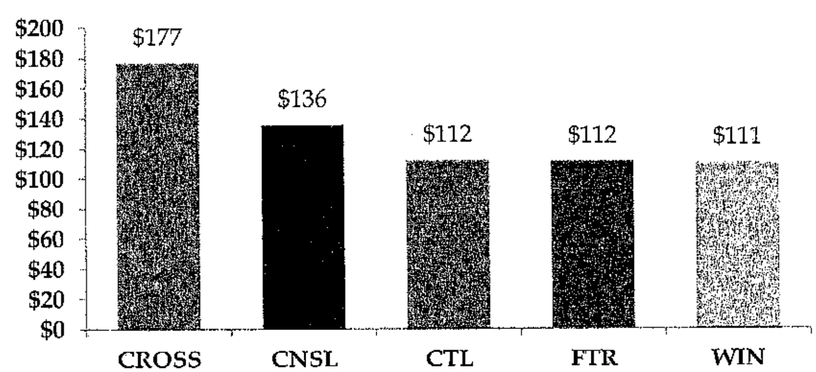
Business as a % of Total Revenue



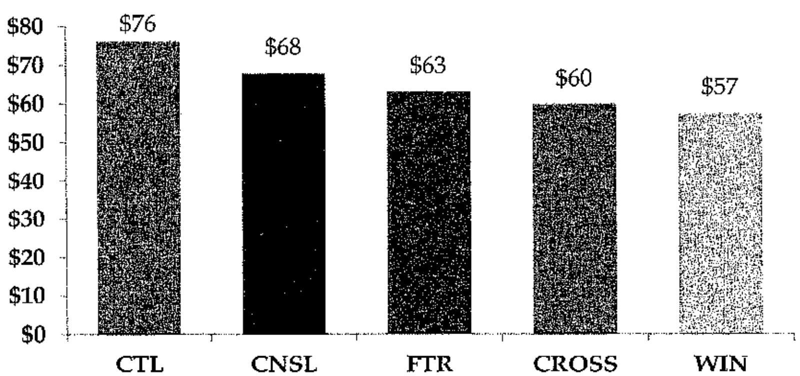
RGUs Per Voice Sub



Monthly Revenue per Voice Subscriber



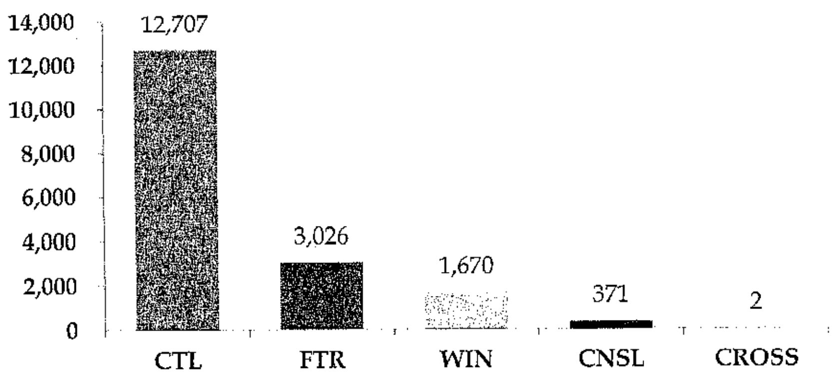
Monthly Revenue per RGU



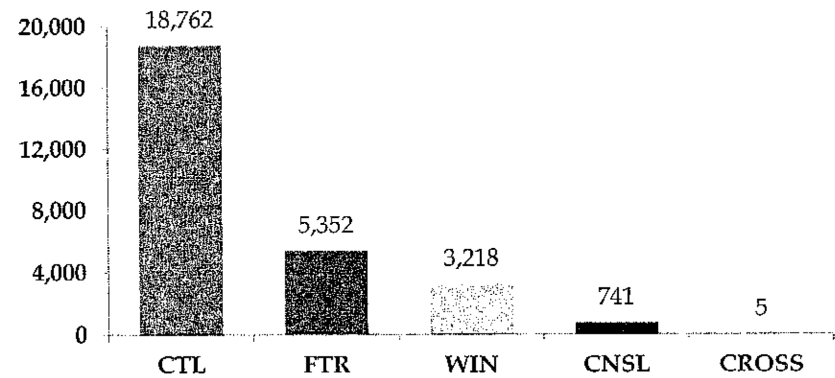
Source: Press releases, SEC filings, and Charlesmead analysis
(1) Windstream operational metric data reflects only residential subscriber counts.
(2) Consolidated data includes broadband revenue.

ILEC – Analysis of Operational Metrics (1)

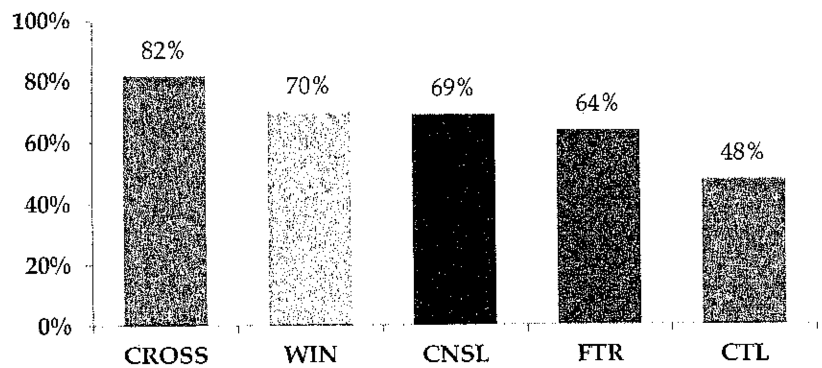
Voice Subscribers (000s)



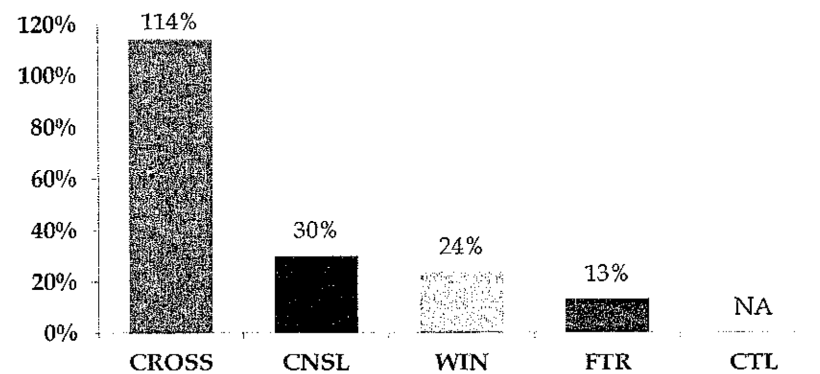
Total RGUs (000s)



High-Speed Data Subs as a % Voice Subs



Video Subs as a % Voice Subs

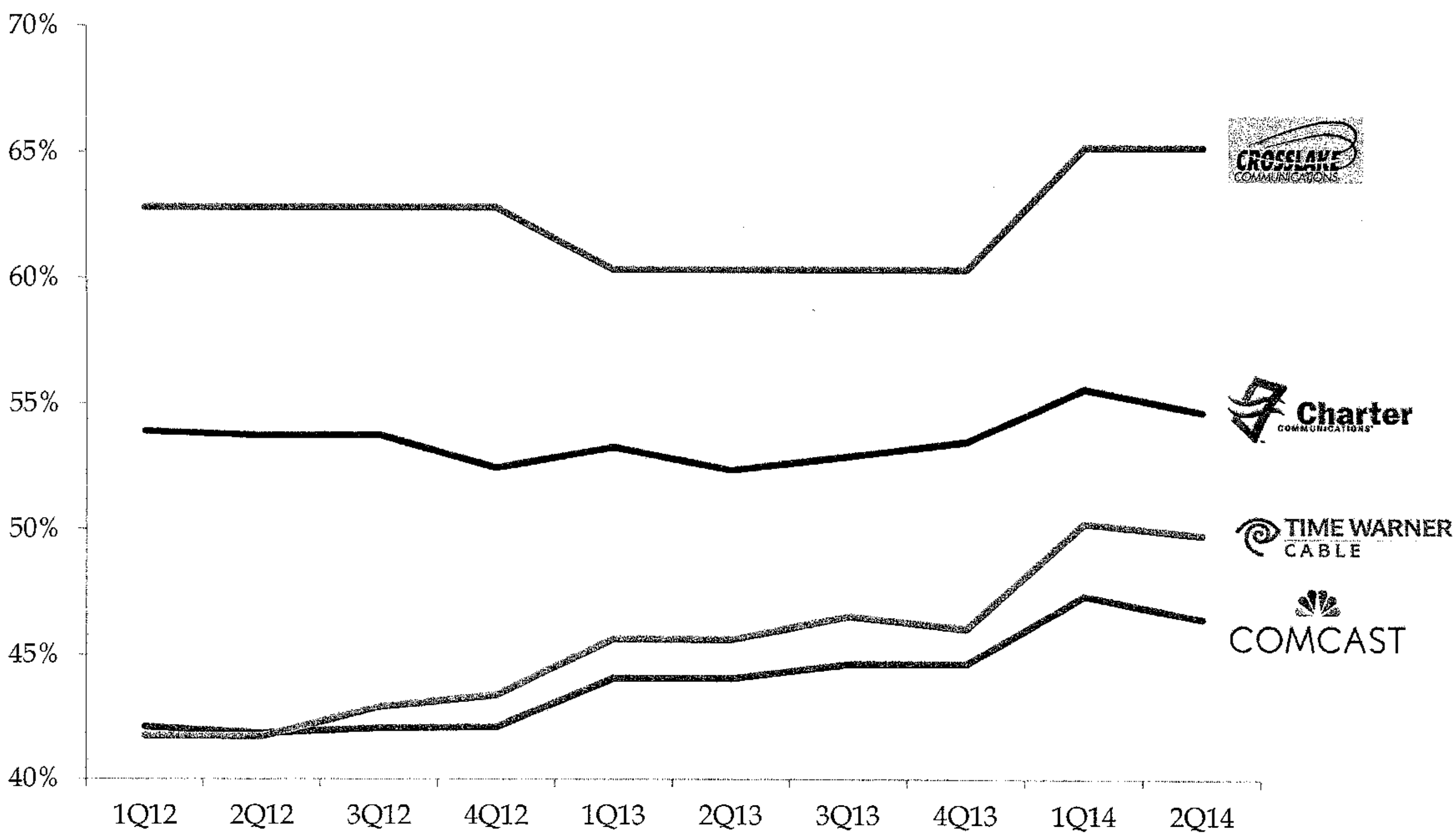


Source: Press releases, SEC filings, and Charlesmead analysis
(1) Windstream operational metric data reflects only residential subscriber counts.

Cable – Metric Summary

Company	Homes Passed (000's)	Total Customers	Penetration Video	Penetration HSD	Penetration Voice	Monthly Video Revenue per Sub	Monthly Revenue per RGU	RGUs per Basic Sub
CABLEVISION	5,048	3,186	55.4%	55.2%	45.2%	$ 94.44	$ 57.62	2.8
Charter Communications	12,816	6,052	34.0%	38.4%	20.7%	$ 83.43	$ 59.95	2.7
COMCAST	54,001	26,800	41.9%	39.0%	20.1%	$ 76.37	$ 59.69	2.4
Mediacom	2,796	1,857	33.5%	35.2%	13.9%	$ 71.30	$ 58.89	2.5
TIME WARNER CABLE	30,030	15,169	37.8%	39.7%	17.6%	$ 75.83	$ 59.31	2.5
WOW! INTERNET · CABLE · PHONE	2,997	853	23.2%	25.2%	14.0%	NA	$ 55.64	2.7
CROSSLAKE COMMUNICATIONS	3	NA	63.8%	45.7%	55.9%	$ 48.21	$ 59.79	2.6

Cable Programming Cost as % of Cable Revenues



Source: Company filings and press releases

IV. Valuation Overview

Overview of Valuation Methodologies

Principal Valuation Methodologies

Comparable Company Trading Analysis

- Appropriate comparable publicly traded companies are selected based on:
  - Strategic focus
  - Size
  - Financial characteristics (margins, profitability, expected growth)
- In telecom, the EV/EBITDA multiple is the most relevant valuation benchmark; it can be based on historical or projected data
- Valuation does not reflect control premiums or synergies

Comparable Company M&A Analysis

- When acquiring a controlling stake in a company, investors are usually willing to pay a premium for the ability to direct company operations
- M&A multiples vary widely due to the differing operating characteristics of the business or assets acquired and the dynamics of a given transaction
- Timing, industry trends and nature of sale are key factors to consider

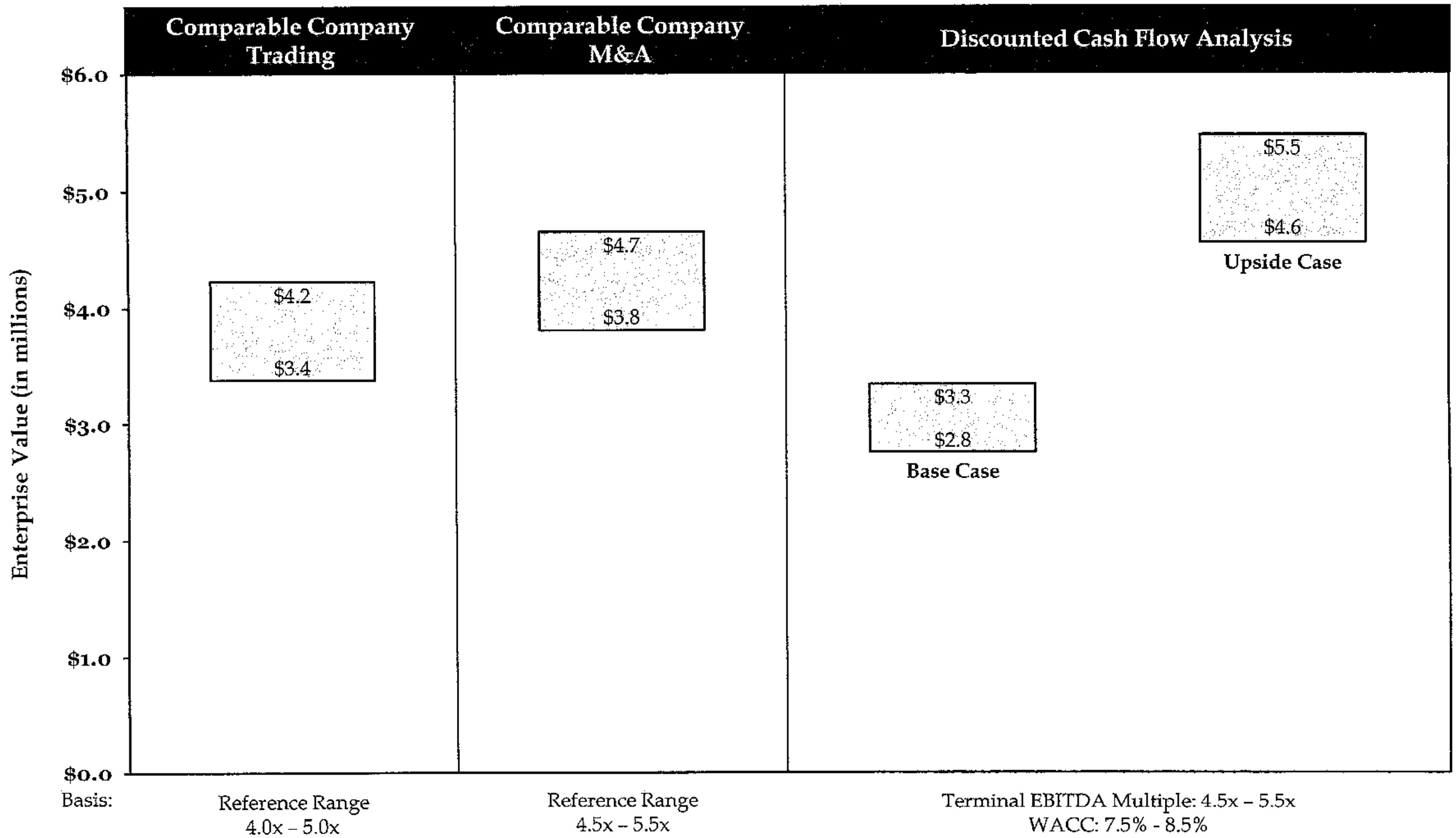
Discounted Cash Flow Analysis

- DCF considers a business's unique position and growth prospects
- Analysis provides the intrinsic value of a business based on future cash flows
- The key determinants of a business's DCF valuation are:
  - Projected free cash flows
  - Discount rate
  - Terminal cash flow multiple
- The results of DCF analysis are extremely sensitive to the assumptions

Valuation requires the application of several methodologies suited to the circumstances and purpose of the analysis

Valuation Summary

($ in millions)



Source: Management and Charlesmead analysis

Valuation Ranges

($ in thousands)

Valuation Methodology	Multiple	Relevant Multiple Range		Charlesmead Reference Range		2014P EBITDA		Implied Enterprise Valuation Range			
Comparable Company Trading Analysis											
	2014P Adjusted EBITDA	5.4x	8.8x	4.0x	5.0x	$	846	$	3,384	$	4,230
Comparable M&A Transaction Analysis											
	2014P Adjusted EBITDA	4.5x	8.7x	4.5x	5.5x	$	846	$	3,807	$	4,653
Discounted Cash Flow Analysis											
Base Case	Terminal EBITDA Multiple			4.5x	5.5x			$	2,757	$	3,345
	WACC			7.5%	8.5%						
Upside Case	Terminal EBITDA Multiple			4.5x	5.5x			$	4,560	$	5,481
	WACC			7.5%	8.5%						

Source: Management and Charlesmead analysis

A. *Comparable Company Analysis*

Comparable Company Trading Analysis – High Yielding ILECs

($ in millions, except per share and subscriber data)

VALUATION DATA
(As of 2Q14)

Company	Ticker	Price 8/26/14	LTM EPS [1]	Price / EPS [2] LTM	Price / EPS [2] 2014E	Price / EPS [2] 2015E	Price/Free Cash Flow [2][3] LTM	Price/Free Cash Flow [2][3] 2014E	Dividend Yield [4]	Equity Value	Enterprise Value [5]	EV as a Multiple of Revenue LTM	EV as a Multiple of Revenue 2014E [2]	EV as a Multiple of EBITDA LTM	EV as a Multiple of EBITDA 2014E [2]
CenturyLink	CTL	$ 41.38	$ 2.73	15.1 x	15.7 x	16.9 x	8.2 x	8.7 x	5.2 %	$ 23,622	$ 44,400	2.4 x	2.5 x	6.1 x	6.2 x
Consolidated Communcations [6]	CNSL	24.00	1.07	22.5	25.8	24.0	9.9	11.3	6.5	967	2,184	3.6	3.6	7.7	8.8
Frontier Communications	FTR	6.69	0.23	29.1	37.2	31.9	7.1	9.8	6.0	6,704	13,816	3.0	3.0	6.4	6.5
Windstream Communications [7]	WIN	11.29	0.36	31.0	75.3	66.4	7.4	10.1	8.9	6,804	15,537	2.6	2.7	7.0	7.1
Mean:				24.4 x	38.5 x	34.8 x	8.2 x	10.0 x	6.6 %			2.9 x	2.9 x	6.8 x	7.2 x
Median:				25.8	31.5	27.9	7.8	10.0	6.2			2.8	2.8	6.7	6.8

PERFORMANCE DATA
(As of 2Q14)

Company	Revenue Generating Units [8] Total	Revenue Generating Units [8] LTM Growth	Access Line Data Total	Access Line Data LTM Growth	LTM Margins EBITDA	LTM Margins Net Income	LTM Margins Free Cash Flow	2Q13 - 2Q14 Growth Revenue	2Q13 - 2Q14 Growth EBITDA	2Q13 - 2Q14 Growth Net Income	Current Dividend [4]	Dividend Payout as % of LTM Net Income	Dividend Payout as % of LTM Free Cash Flow	Leverage Ratios Net Debt / EBITDA	Leverage Ratios EBITDA / Int. Expense
CenturyLink	18,762,000	(2.5) %	12,707,000	(4.7) %	39.9 %	8.6 %	15.8 %	0.4 %	(2.4) %	(2.2) %	$ 2.16	79.0 %	43.0 %	2.9 x	5.5 x
Consolidated Communcations [6]	740,971	(1.1)	370,535	(4.7)	47.3	7.2	16.3	(0.2)	(0.6)	7.5	1.55	145.1	64.1	4.3	3.5
Frontier Communications	5,351,703	0.7	3,026,281	(3.0)	46.5	4.9	20.1	(3.6)	(7.6)	(12.4)	0.40	173.7	42.6	3.3	3.3
Windstream Communications [7]	3,586,200	(5.5)	1,670,300	(6.3)	37.7	3.7	15.5	(2.4)	(6.5)	NM	1.00	274.7	65.8	3.9	3.8
Mean:		(2.1) %		(4.7) %	42.9 %	6.1 %	16.9 %	(1.5) %	(4.3) %	(2.4) %	$ 1.28	168.1 %	53.9 %	3.6 x	4.0 x
Median:		(1.8)		(4.7)	43.2	6.1	16.0	(1.3)	(4.5)	(2.2)	1.27	159.4	53.5	3.6	3.7

Source: Company reports, Yahoo! Finance, and Wall Street equity research
Notes:
NA = Not Available; NM = Not Meaningful
(1) Adjusted for one-time gains and losses.
(2) Estimates based on Wall Street equity research.
(3) Free cash flow equals EBITDA less cash interest expense, cash taxes, and capital expenditures.
(4) Dividend reflects the current dividend policy on an annualized basis.
(5) Enterprise value equals equity value plus total debt less cash and cash equivalents.
(6) Consolidated data is pro forma for the acquisition of Surewest.
(7) Windstream data is pro forma for acquisitions.
(8) Revenue generating units include ILEC access lines, CLEC access lines, high-speed data subscribers, video subscribers, and wireless subscribers.
(9) Excluded from mean calculation.

Comparable Company Trading Analysis – Pure Play ILECs

($ in millions, except per share and subscriber data)

VALUATION DATA
(As of 2Q14)

Company	Ticker	Price 8/26/14	LTM EPS [1]	Price / EPS [2] LTM	Price / EPS [2] 2014E	Price / EPS [2] 2015E	Price/Free Cash Flow [2][3] LTM	Price/Free Cash Flow [2][3] 2014E	Dividend Yield [4]	Equity Value	Enterprise Value [5]	EV as a Multiple of Revenue LTM	EV as a Multiple of Revenue 2014E [2]	EV as a Multiple of EBITDA LTM	EV as a Multiple of EBITDA 2014E [2]
Alaska Communications	ALSK	$ 1.80	$ (0.15)	(12.3) x	180.0 x	25.7 x	26.7 x	NA x	0.0 %	$ 89	$ 500	1.6 x	1.6 x	5.7 x	5.4 x
Alteva (Warwick Valley) [7]	ALTV	5.73	NM	NM	NA	NA	NM	NA	0.0	34	(5)	(0.1)	NA	(0.6)	NA
FairPoint	FRP	16.02	NM	NM	NM	NM	8.3	NA	0.0	428	1,323	1.4	1.4	5.0	6.2
Hawaiian Telcom	HCOM	27.40	1.77	15.5	NA	NA	25.9	NA	0.0	310	568	1.4	NA	4.8	NA
HickoryTech	ENVE	17.38	0.58	30.0	NA	NA	NM	NA	3.5	238	365	1.9	NA	7.5	NA
Lumos Networks	LMOS	14.90	0.66	22.6	22.6	21.6	(867.8)	604.7	3.8	339	671	3.3	3.4	7.3	7.5
New Ulm Telecom [8]	NULM	7.43	0.59	12.7	NA	NA	8.4	NA	4.4	38	78	2.0	NA	5.3	NA
Otelco [9]	OTEL	4.99	NM	NM	NM	NM	1.3	NM	0.0	15	134	1.8	NA	4.5	NA
Mean				13.7 x	101.3 x	23.7 x	(132.8) x	604.7 x	1.5 %			1.7 x	2.1 x	4.9 x	6.3 x
Median				15.5	101.3	23.7	8.4	604.7	0.0			1.7	1.6	5.2	6.2

PERFORMANCE DATA
(As of 2Q14)

Company	Revenue Generating Units [6] Total	Revenue Generating Units [6] LTM Growth	Access Line Data Total	Access Line Data LTM Growth	LTM Margins EBITDA	LTM Margins Net Income	LTM Margins Free Cash Flow	2Q13 - 2Q14 Growth Revenue	2Q13 - 2Q14 Growth EBITDA	2Q13 - 2Q14 Growth Net Income	Current Dividend [4]	Dividend Payout as % of LTM Net Income	Dividend Payout as % of LTM Free Cash Flow	Leverage Ratios Net Debt / EBITDA	Leverage Ratios EBITDA / Int. Expense
Alaska Communications	295,130	(2.9) %	126,912	(4.5) %	27.6 %	(2.3) %	1.0 %	(17.6) %	(29.9) %	NM %	$ 0.00	NM %	NM %	4.7 x	2.4 x
Alteva (Warwick Valley) [7]	11,231	(8.0)	11,231	(8.0)	23.9	5.7	19.6	2.1	NM	NM	0.00	NM	NM	NM	NM
FairPoint	1,181,268	(5.1)	847,847	(7.1)	28.4	(5.6)	5.5	(3.8)	(3.3)	NM	0.00	NM	NM	3.4	3.3
Hawaiian Telcom	507,572	(2.0)	372,735	(5.5)	30.3	5.1	3.0	(0.2)	(3.1)	(12.4)	0.00	NM	NM	2.2	7.2
HickoryTech	71,508	(1.6)	38,574	(6.2)	25.9	4.2	5.0	5.5	2.8	(17.8)	0.60	103.6	NM	2.6	11.2
Lumos Networks	122,177	(10.9)	117,022	(11.6)	45.5	7.4	(0.2)	(4.1)	(7.4)	(16.5)	0.56	85.0	(3,261.5)	3.6	6.0
New Ulm Telecom [8]	53,127	(2.3) [10]	27,979	(5.3) [10]	37.0	7.6	11.4	2.9 [10]	(2.5) [10]	(10.9)	0.33	56.2	37.5	2.7	15.1
Otelco [9]	93,700	(9.8)	60,863	(15.0)	39.0	6.6 [10]	15.8	(6.0) [10]	(12.7) [10]	NM	0.00	NM	NM	4.0	3.1
Mean		(5.8) %		(8.3) %	32.2 %	3.2 %	7.6 %	(3.0) %	(8.2) %	(14.4) %	$ 0.19	81.6 %	(1612.0) %	3.3 x	6.9 x
Median		(4.0)		(6.7)	29.4	5.4	5.3	(2.0)	(3.3)	(14.5)	0.00	85.0	(1612.0)	3.4	6.0

Source: Company reports, Yahoo! Finance, and Wall Street equity research

Notes:
NA = Not Available; NM = Not Meaningful
(1) Adjusted for one-time gains and losses.
(2) Estimates based on Wall Street equity research.
(3) Free cash flow equals EBITDA less cash interest expense, cash taxes, and capital expenditures.
(4) Dividend reflects the current dividend policy on an annualized basis.
(5) Enterprise value equals equity value plus total debt less cash and cash equivalents.
(6) Revenue generating units include ILEC access lines, CLEC access lines, high-speed data subscribers, video subscribers, and wireless subscribers
(7) Alteva data is as of or for the twelve month period ended September 30, 2013.
(8) New Ulm Telecom data includes former Hector Communications properties from date of transaction closing.
(9) Otelco data is pro forma for the company's emergence from bankruptcy.
(10) Excluded from mean calculation.

Comparable M&A Transaction Analysis

- Consolidation continues—increasing competition, regulatory reforms, synergistic benefits
- Operating focus of acquirers remains on broadband, scale and cost savings, free cash flow growth and diversification
- Valuations are impacted by increasing competition, fundamentals and regulatory risk
- Expect consolidation among smaller carriers to accelerate in the wake of Federal reforms
- Selected recent acquisitions are detailed below

Announced	Target / Seller	State(s)	Acquiror	Transaction Value ($ mil)	Acquired Access Lines	Transaction Value / LTM Revenue	Transaction Value / LTM EBITDA	Transaction Value / Access Line
6/30/14	Envenits (formerly HickoryTech)	Minnesota / Iowa	Consolidated Communications	$ 350.0	39,055	1.9x	7.3x	$ 8,962
12/17/13	AT&T Connecticut	Connecticut	Frontier Communications	2,000.0	900,000	1.6x	5.9x	2,222
11/28/12	FairPoint Communications (Idaho)	Idaho	Blackfoot Communications	30.0	5,400	3.8x	6.0x	5,556
9/25/12	Millington Telephone Company	Tennessee	Ritter Communications	NA	20,000	NA	NA	NA
2/6/12	SureWest Communications	California / Kansas	Consolidated Communications	538.0	146,000	2.2x	6.3x	3,685
9/20/11	Vision Communications	Louisiana	EATEL	NA	9,850	NA	NA	NA
4/4/11	Shoreham Telephone Company	Vermont	Otelco	4.5	4,975	1.9x	NA	905
4/22/10	Qwest Communications	National	CenturyLink	22,400.0	10,266,000	1.8x	5.1x	2,182
11/24/09	Iowa Telecommunications Services	Iowa, Minnesota	Windstream Corporation	1,100.0	214,000	4.1x	8.7x	5,140
9/8/09	Lexcom, Inc.	North Carolina	Windstream Corporation	141.0	23,000	3.2x	5.9x	6,130
5/13/09	Verizon (14 States)	National	Frontier Communications	8,600.0	4,800,000	2.0x	4.5x	1,792
5/11/09	D&E Communications	Pennsylvania	Windstream Corporation	330.0	165,000	2.2x	5.2x	2,000

Summary Statistics			
Maximum	4.1x	8.7x	$ 8,962
Mean	2.5x	6.1x	3,857
Median	2.1x	5.9x	2,954
Minimum	1.6x	4.5x	905

Source: Press releases, SEC filings, and Charlesmead analysis

B. Discounted Cash Flow Analysis

Discounted Cash Flow Analysis – Base Case

VALUATION ANALYSIS		
DCF Assumptions		
Working Capital as a % of Revenue		10.0%
Terminal EBITDA Multiple		5.0x
WACC		8.0%
Enterprise Value		
PV of Yearly Free Cash Flow	$	708
PV of Terminal Value		2,336
Enterprise Value	$	3,045

ENTERPRISE VALUATION SENSITIVITY ANALYSIS					
	Terminal EBITDA Multiple				
WACC	4.0x	4.5x	5.0x	5.5x	6.0x
7.0%	$ 2,680	$ 2,924	$ 3,169	$ 3,414	$ 3,659
7.5%	2,628	2,867	3,106	3,345	3,584
8.0%	2,577	2,811	3,045	3,278	3,512
8.5%	2,528	2,757	2,985	3,213	3,441
9.0%	2,480	2,704	2,927	3,150	3,373

FINANCIAL PROJECTIONS

	CY 2013	CY 2014P	CY 2015P	CY 2016P	CY 2017P	CY 2018P	CY 2019P
Total Revenue	$ 3,622	$ 3,498	$ 3,490	$ 3,486	$ 3,487	$ 3,492	$ 3,502
Adjusted EBITDA	1,117	846	806	770	738	710	687
EBIT	237	(8)	38	78	116	150	183
Payments to City	(277)	(278)	(277)	(277)	(277)	(277)	(278)
Net Operating Profit After Tax	$ (40)	$ (285)	$ (239)	$ (198)	$ (161)	$ (127)	$ (95)
Depreciation and Amortization	$ 880	$ 854	$ 768	$ 691	$ 622	$ 560	$ 504
Change in Working Capital	1,924	12	1	0	(0)	(1)	(1)
Capital Expenditures	(425)	(215)	(299)	(299)	(299)	(299)	(300)
Annual Free Cash Flow	**$ 2,339**	**$ 366**	**$ 231**	**$ 195**	**$ 163**	**$ 134**	**$ 108**
Terminal Value							**$ 3,433**

Source: Management and Charlesmead analysis

Discounted Cash Flow Analysis – Upside Case

VALUATION ANALYSIS	
DCF Assumptions	
Working Capital as a % of Revenue	10.0%
Terminal EBITDA Multiple	5.0x
WACC	8.0%
Enterprise Value	
PV of Yearly Free Cash Flow	$ 1,406
PV of Terminal Value	3,605
Enterprise Value	$ 5,011

ENTERPRISE VALUATION SENSITIVITY ANALYSIS

	Terminal EBITDA Multiple				
WACC	4.0x	4.5x	5.0x	5.5x	6.0x
7.0%	$ 4,460	$ 4,838	$ 5,216	$ 5,593	$ 5,971
7.5%	4,374	4,743	5,112	5,481	5,850
8.0%	4,290	4,650	5,011	5,371	5,732
8.5%	4,208	4,560	4,912	5,264	5,617
9.0%	4,128	4,472	4,816	5,160	5,505

FINANCIAL PROJECTIONS

	CY 2013	CY 2014P	CY 2015P	CY 2016P	CY 2017P	CY 2018P	CY 2019P
Total Revenue	$ 3,622	$ 3,498	$ 3,575	$ 3,656	$ 3,740	$ 3,827	$ 3,918
Adjusted EBITDA	1,117	846	884	924	967	1,012	1,059
EBIT	237	(8)	116	233	345	452	555
Payments to City	(277)	(278)	(284)	(290)	(297)	(304)	(311)
Net Operating Profit After Tax	$ (40)	$ (285)	$ (168)	$ (57)	$ 48	$ 148	$ 245
Depreciation and Amortization	$ 880	$ 854	$ 768	$ 691	$ 622	$ 560	$ 504
Change in Working Capital	1,924	12	(8)	(8)	(8)	(9)	(9)
Capital Expenditures	(425)	(215)	(306)	(313)	(320)	(328)	(336)
Annual Free Cash Flow	**$ 2,339**	**$ 366**	**$ 286**	**$ 313**	**$ 341**	**$ 372**	**$ 404**
Terminal Value							**$ 5,297**

Source: Management and Charlesmead analysis

Income Statement Projections – Upside Case

	2012A	2013P	2014B	2015B	2016B	2017B	2018B	2019B	14-19 CAGR
Telephone Revenue	$ 2,240,573	$ 2,209,336	$ 2,150,510	$ 2,185,679	$ 2,222,607	$ 2,261,382	$ 2,302,095	$ 2,344,843	1.7%
Cable Revenue	1,229,212	1,412,886	1,347,350	1,389,592	1,433,231	1,478,316	1,524,897	1,573,025	3.1%
Total Operating Revenue	$ 3,469,786	$ 3,622,222	$ 3,497,860	$ 3,575,271	$ 3,655,838	$ 3,739,698	$ 3,826,991	$ 3,917,869	2.3%
Operating Revenue Growth		4.4%	-3.4%	2.2%	2.3%	2.3%	2.3%	2.4%	
Telephone Cash Operating Expenses	1,783,748	1,738,542	1,860,100	1,882,067	1,904,443	1,927,240	1,950,471	1,974,150	1.2%
Telephone EBITDA	$ 456,825	$ 470,794	$ 290,410	$ 303,612	$ 318,164	$ 334,141	$ 351,623	$ 370,694	5.0%
Telephone EBITDA Margin	20.4%	21.3%	13.5%	13.9%	14.3%	14.8%	15.3%	15.8%	
Cable Cash Operating Expenses	960,769	1,044,203	1,069,260	1,092,813	1,117,154	1,142,310	1,168,308	1,195,176	2.3%
Cable EBITDA	$ 268,443	$ 368,682	$ 278,090	$ 296,779	$ 316,077	$ 336,006	$ 356,588	$ 377,849	6.3%
Cable EBITDA Margin	21.8%	26.1%	20.6%	21.4%	22.1%	22.7%	23.4%	24.0%	
Total EBITDA	$ 725,268	$ 839,477	$ 568,500	$ 600,391	$ 634,241	$ 670,147	$ 708,212	$ 748,543	5.7%
EBITDA Margin	20.9%	23.2%	16.3%	16.8%	17.3%	17.9%	18.5%	19.1%	
Operating Transfers to City	277,209	277,238	277,500	283,641	290,033	296,686	303,611	310,821	2.3%
Adjusted EBITDA	$ 1,002,477	$ 1,116,715	$ 846,000	$ 884,033	$ 924,274	$ 966,833	$ 1,011,823	$ 1,059,364	4.6%
Adjusted EBITDA Margin	28.9%	30.8%	24.2%	24.7%	25.3%	25.9%	26.4%	27.0%	
Capital Expenditures	$ 271,594	$ 424,638	$ 215,000	$ 306,248	$ 313,149	$ 320,332	$ 327,809	$ 335,594	9.3%
% of Total Revenue	7.8%	11.7%	6.1%	8.6%	8.6%	8.6%	8.6%	8.6%	

Source: Management and Charlesmead analysis

V. *Strategic Summary and Closing Observations*

Crosslake's Potential Strategic Opportunities

Competing with Private Enterprises

- Construction company (with Emily Telephone)
- Digital media (photo and video) transfers
- Regional call answering center
- Security system installation and monitoring service
- Securus reseller (Inmate calling service)
- Acquire 700 or 600 MHz spectrum licenses

Outside the City of Crosslake

- CLEC or cable edge-out service deployment
- Data center acquisition
- ILEC acquisition
- Serve Northern Minnesota's state and federal offices (none in market)

Crosslake's Potential Strategic Opportunities

May Not Generate Significant Local Scale

- Computer sales and service business
- Department of Motor Vehicles (proximity to Pine River)
- NOAA Weather Radio Transmitter
- Radio Shack
- Radio station
- Recycling center (electronic or general)
- Sell company webinars
- Smart Grid network for Crow Wing Power
- Wireless Internet Service Provider (WISP)

Not Economically Viable

- Offer VoIP services using the company's softswitch (possible for 2015)
- Broadband Visions CATV network partnership (does not improve economics)
- Join Cooperative Network System (members must be cooperatives)
- Purchase SBA Communications local wireless tower (not for sale)
- Satellite TV partnership (DISH Network or DirecTV) (does not improve economics)

Strategic Summary

- Financial outlook (based on the Base Case projections)
  - Expectation of flat revenue during the projection period, following a budgeted decline in 2014
  - Telephone operational EBITDA declines at an average of ≈14% per year
  - Cable operating cash flows decline, as the margin falls from 26.1% in 2013 to 19.1% in 2019
  - Consolidated adjusted EBITDA margin falls from 30.8% in 2013 to 24.2% in 2014, and then gradually declines each year to 19.6% in 2019
  - Significant drivers of margin contraction include
    - Regulatory reforms that reduce highly profitable access and support revenue;
    - Growth in video and broadband lines of business that tend to be lower margin; and
    - Higher cable programming costs
  - Larger carriers are managing the transformation process by diversifying through acquisitions and growth in other businesses including wireless services and data centers

- Valuation perspectives
  - Base Case DCF valuation range: $2.8 to $3.3 million; below transactional value

- Crosslake's options include:
  - Improve local revenues and/or reduce company cost structure
  - Gain greater flexibility to pursue potential strategic opportunities (up to the City and state governing bodies)
  - Divestiture or combination with another operator (in part or entirety)

Appendix – Charlesmead Professionals

Charlesmead Professionals

FRANCIS X. GALLAGHER, JR., MANAGING PARTNER

Francis X. Gallagher, Jr., is Managing Partner and Co-Founder of Charlesmead Advisors, LLC. Mr. Gallagher has executed a wide range of financing and merger and acquisition assignments in his 15 years as an investment banker. Representative buy-side advisory assignments in the wireline arena include the representation of Iowa Telecommunications in its acquisition of Sherburne TeleSystems, and TDS in its acquisition of managed services provider Visi Incorporated. Representative sell-side transactions include the representation of Lakedale Telephone in its sale to Iowa Telecommunications and Hutchinson Telephone in its sale to New Ulm Telcom. In the wireless sector, Mr. Gallagher has advised Sprint affiliates Northern PCS, Gulf Coast Wireless and Enterprise PCS in their respective sales to Sprint Nextel, and also advised Blackfoot Telephone Cooperative in the sale of its wireless division to Alta Communications.

Prior to co-founding Charlesmead Advisors, Mr. Gallagher spent almost 15 years at Legg Mason and Stifel Nicolaus, where he headed the Telecommunications & Media Investment Banking Group. Prior to becoming an investment banker, Mr. Gallagher practiced mergers and acquisitions and securities law. Mr. Gallagher began his career at New York-based Winthrop, Stimson, Putnam & Roberts where he was resident for three years in that firm's London office. Mr. Gallagher holds a B.A. degree from Georgetown University, where he graduated cum laude, and a law degree from Georgetown University Law Center.

BRADLEY P. WILLIAMS, JD, SENIOR PARTNER

Bradley P. Williams, JD, is a Senior Partner and co-founder at Charlesmead Advisors, LLC, and also is a Partner at Balhoff & Williams, LLC. Mr. Williams joined the predecessor firm to Balhoff & Williams in 2005 and became a Partner at Balhoff, Rowe & Williams in 2007. Previously, Mr. Williams was a member of the Strategic Planning & Business Development group at Lowe's Companies Inc., the Fortune 50 home improvement retailer. Prior to joining Lowe's, Mr. Williams worked with Mr. Balhoff in the award-winning Telecommunications Equity Research Group at Legg Mason, focusing on incumbent and rural local exchange carriers. Prior to joining Legg Mason, Mr. Williams was a co-founder of eSprocket / Beachfire, a venture-backed company that evolved into one of the pioneers in mediation technology solutions for the financial services sector. Previously, he served as a financial executive for a holding company that integrated, through acquisitions, a significant regional freight rail network. After being admitted to the North Carolina Bar, Mr. Williams began his career as an investment banker focusing on private financings and transactional advisory services in First Union's Capital Markets Group. He has a BA in Economics from the University of North Carolina and a JD from the University of North Carolina School of Law.

Charlesmead Professionals

MICHAEL J. BALHOFF, CFA, SENIOR PARTNER

Michael J. Balhoff, CFA, is a Senior Partner and co-founder at Charlesmead Advisors, LLC, and is Managing Partner at Balhoff & Williams, LLC, a professional services firm that provides financial-regulatory consulting and advisory services to companies, investors and policymakers in the communications and energy industries. Before founding the predecessor firm to Balhoff & Williams, Mr. Balhoff headed the Technology and Telecommunications Equity Research Group at Legg Mason and, in the final seven of his sixteen years as a senior analyst at Legg Mason, he covered equities in the incumbent local exchange carrier industry. Prior to joining Legg Mason in 1989, Mr. Balhoff taught at the graduate and undergraduate levels. Mr. Balhoff has a doctorate in Canon Law and four master's degrees, including an MBA—concentration finance—from the University of Maryland. He is a CFA charterholder and is a member of the Baltimore Security Analysts Society. Mr. Balhoff has been named in six annual awards as a Wall Street Journal All-Star Analyst for his recommendations on the Telecommunications industry. His coverage of telecommunications, and especially rural telecommunications, was named by Institutional Investor magazine as the top telecommunications boutique in the country in 2003.

ANWAR A. GORHAM, ASSOCIATE

Anwar A. Gorham, is an Associate at Charlesmead Advisors, LLC. Mr. Gorham has executed a wide range of financing and merger and acquisition assignments in his career as an investment banker. Representative buy-side advisory assignments in the Internet infrastructure and telecommunications industries include the representation of North State Communications in its acquisition of data center operator DataChambers, TDS in its acquisition of managed services provider Visi Incorporated, and Iowa Telecommunications in its acquisition of Sherburne TeleSystems. Representative sell-side transactions include the representation of OneNeck IT Services in its sale to TDS, Lakedale Telephone in its sale to Iowa Telecommunications, and CC Communications in its sale of its wireless network assets to Commnet, a subsidiary of Atlantic Tele-Network, Inc.

Prior to joining Charlesmead Advisors, Mr. Gorham spent five years at Stifel Nicolaus Weisel, where he worked in the Communications & Media Investment Banking Group. Prior to becoming an investment banker, Mr. Gorham interned at the Federal Reserve Bank of Chicago where he worked in the Regional Research department. Mr. Gorham holds a B.S. degree in Business Administration with concentrations in Finance and Economics from American University, where he graduated magna cum laude from the University Honors program.

September 3, 2014
6:00 P.M. – City Hall

Crosslake City Council Presentation from
Charlesmead Advisors LLC
Crosslake Communications

Name: Roger Peterson

Address: 13121 Mitinda Shores Rd.

Presentation Questions: It wasn't clear to me what 15% would be saved by out sourcing work. Also are the jobs lost in Crosslake worth anything?

City of Crosslake

September 3, 2014
6:00 P.M. – City Hall

Crosslake City Council Presentation from
Charlesmead Advisors LLC
Crosslake Communications

Name: Chuck Coté

Address: 13254 East Shore Rd. Crosslake

Presentation Questions: Why Compare C.C. to Public Companies instead of other Municipaly owned Companies?

City of Crosslake

September 3, 2014
6:00 P.M. – City Hall

Crosslake City Council Presentation from
Charlesmead Advisors LLC
Crosslake Communications

Name: Cyndi Perkins

Address: XLake Comm.

Presentation Questions Why didn't the presentation contain any information on small like companies offering triple play?

September 3, 2014
6:00 P.M. – City Hall

Crosslake City Council Presentation from
Charlesmead Advisors LLC
Crosslake Communications

Name: Cyndi Perkins

Address: Xlake Comm.

Presentation Questions: Page 18

2014 - 2018 cable revenues (projections) are shown as less than 2013 revenue. What did you assume to drive this decrease; especially when programmer costs ~~in~~ continue to increase some double digit increases

City of Crosslake

September 3, 2014
6:00 P.M. – City Hall

Crosslake City Council Presentation from
Charlesmead Advisors LLC
Crosslake Communications

Name: ______________________

Address: ______________________

Presentation Questions CAN PUBLIC GET A COPY OF
the report

CITY OF Crosslake

September 3, 2014
6:00 P.M. – City Hall

Crosslake City Council Presentation from
Charlesmead Advisors LLC
Crosslake Communications

Name: Dick Dietz

Address: 38659 Manhattan Dr

Presentation Questions I don't know what your charge from the council was but for $40,000 I would have thought you might have at least one recommendation

September 3, 2014
6:00 P.M. – City Hall

Crosslake City Council Presentation from
Charlesmead Advisors LLC
Crosslake Communications

Crosslake

1 Why are we Changing something which works well?

Name: ~~2~~ Why are we comparing Crosslake Public asset with privately owned, publicly traded companies?

Address: 3 Why do we need to get bigger? Have we lost revenue in Crosslake to competitors because of our size?

Presentation Questions:

4 "Deemphasizing voice" sounds like less local service for Crosslake, why would we do that?

5 Have you ever consulted with a Public

Crosslake

September 3, 2014
6:00 P.M. – City Hall

Crosslake City Council Presentation from
Charlesmead Advisors LLC
Crosslake Communications

Name: Warren Kleinsasser

Address: 12286 Arrowhead Lane

Presentation Questions: p.23 or 24 said Revenue per customer was 177^{00} (per month I assume). This was much higher than for the other 4 companies listed, some as low as $\$113^{00}$. Then p.28 says RGM costs are similar between companies. What is the basis for this apparent discrepancy??

September 3, 2014
6:00 P.M. – City Hall

Crosslake City Council Presentation from
Charlesmead Advisors LLC
Crosslake Communications

Name: GARY HELTEMES

Address: 33569 LAKE ST
CROSSLAKE,

Presentation Questions 1. It was stated there are 5-10 ~~public~~ City owned Companies in US. How do we compare to those?

2. Could Crosslake join Forces with other small ~~Companies~~ Companies to negotiate rates.

September 3, 2014
6:00 P.M. – City Hall

Crosslake City Council Presentation from
Charlesmead Advisors LLC
Crosslake Communications

Name: LAURA MUNSON

Address: 15024 WILDERNESS TRAIL

Presentation Questions 1) WITH ONLY 5-10 MUNICIPALITY OWNED COMPANIES IN THE NATION, WERE ANY COMPARISONS DONE WITH THESE?

2) CABLE PROGRAMMING COSTS RUN HIGH AT 66%. WHAT IS THE FORECASTED RATE OF THESE COSTS IN 2019 WITH THE EBITDA's forecasted decline @ 19.6%?

City of Crosslake

September 3, 2014
6:00 P.M. – City Hall

Crosslake City Council Presentation from
Charlesmead Advisors LLC
Crosslake Communications

Name: John Forney

Address: 11797 Whitefish Ave., Crosslake

Presentation Questions: As a community of predominately retired people ("immigrants" in the data world, not "natives"), the issue is one of good service quality that contributes to the overall quality of life in Crosslake (excellence in services and resources). Where does service fit in the equation?

Crosslake

September 3, 2014
6:00 P.M. – City Hall

Crosslake City Council Presentation from
Charlesmead Advisors LLC
Crosslake Communications

Name: DAVE FISCHER

Address: 36412 RUSHMOOR BLVD

Presentation Questions 1) WHY ARE THERE NO COMMENTS ON MARKETING STRATEGIES OR PRICING STRATEGIES?

CITY OF Crosslake

September 3, 2014
6:00 P.M. – City Hall

Crosslake City Council Presentation from
Charlesmead Advisors LLC
Crosslake Communications

Name: DAVE FISCHER

Address: 36412 RUSHMOOR BLVD

Presentation Questions 1) IS THIS THE COMPLTE REPORT OR
IS THIS PRESENTATION JUST A SUMMARY?
2) CAN REPORT BE PLACED ON CITY WEBSITE?

Crosslake

September 3, 2014
6:00 P.M. – City Hall

Crosslake City Council Presentation from
Charlesmead Advisors LLC
Crosslake Communications

Name: Carol Roy

Address: 36573 Shores Dr, C.L.

Presentation Questions: What is Cross Lake Communications going to change To become a Profitable, belt Tightening, budget minded Rural Com. Co?

Crosslake

September 3, 2014
6:00 P.M. – City Hall

Crosslake City Council Presentation from
Charlesmead Advisors LLC
Crosslake Communications

Name: Roger Roy

Address: 36573 Shores Dr, C.L.

Presentation Questions: Crosslake Com. cannot grow if you are unable to provide constistant reliable phone service at a competive rates. You MUST cut expenses, lower employee load.

September 3, 2014
6:00 P.M. – City Hall

Crosslake City Council Presentation from
Charlesmead Advisors LLC
Crosslake Communications

Name: Deb Doerfler

Address: 16668 CR 36, Crosslake

Presentation Questions: 1) With the existing equip + fiber line is Crosslake Comm. positioned to increase bandwidth? 2) If it's not equipped to grow revenues what is $ projected to make it so?

#3 Most important - If Crosslake Comm. payment goes down, or goes away, what is the projected property tax increase to citizens?

Crosslake

September 3, 2014
6:00 P.M. – City Hall

Crosslake City Council Presentation from
Charlesmead Advisors LLC
Crosslake Communications

Name: Doug STERLK

Address: 11486 Manhattan ~~Ha~~ Pt Blvd

Presentation Questions What would Happen
To service if company
was sold

September 3, 2014
6:00 P.M. – City Hall

Crosslake City Council Presentation from
Charlesmead Advisors LLC
Crosslake Communications

Name: James Roegge

Address: 13452 E Shore Rd

Presentation Questions: What were the threats or concerns which prompted the council to commission this study/report?

Is the council actually considering selling this asset?

City of Crosslake

September 3, 2014
6:00 P.M. – City Hall

Crosslake City Council Presentation from
Charlesmead Advisors LLC
Crosslake Communications

Name: Dewed Nevin

Address: 15024 Wilderness trail

Presentation Questions What is the Cost per month for residenc to subscribe compared to other Markets

Crosslake

September 3, 2014
6:00 P.M. – City Hall

Crosslake City Council Presentation from
Charlesmead Advisors LLC
Crosslake Communications

Name: Roger Lyon

Address: 13402 Hidden Valley Rd

Presentation Questions: How do you arrive at 1% growth for cable? Does this take into account business & residential growth, which will be greater in the future compared to the past years of recession?

September 3, 2014
6:00 P.M. – City Hall

Crosslake City Council Presentation from
Charlesmead Advisors LLC
Crosslake Communications

Wags
programs
plat

Name: Brent Backhaus

Address: 12153 Whitefish

Presentation Questions What are the 3 top expense items and 3 recommendations for each to lower them significantly

City of Crosslake

September 3, 2014
6:00 P.M. – City Hall

Crosslake City Council Presentation from
Charlesmead Advisors LLC
Crosslake Communications

Name: Warren Kleinsasser

Address: 12286 Arrowhead Lane

Presentation Questions: Does CLC have a mission statement?
Does it include something about value for the cost?

We do have a Mission Statement, if anyone wants a copy please let me know

September 3, 2014
6:00 P.M. – City Hall

Crosslake City Council Presentation from
Charlesmead Advisors LLC
Crosslake Communications

Name: MIKE ERICKSON

Address: 12304 ABC DR.

Presentation Questions: CAN YOU INCREASE CABLE CUSTOMER BASE, AND IS THERE AN OPPURTUNITY WITH MOVIES ON DEMAND.

City of Crosslake

September 3, 2014
6:00 P.M. – City Hall

Crosslake City Council Presentation from
Charlesmead Advisors LLC
Crosslake Communications

Name: DAVE FISCHER

Address: 36412 RUSHMOOR BLVD

Presentation Questions THERE SEEMS TO BE A CONCERN OVER LEVEL OF DEBT. IS THE DEBT OUT OF LINE FOR ~~A~~ SIMILAR COMPANIES?

City of Crosslake

September 3, 2014
6:00 P.M. – City Hall

Crosslake City Council Presentation from
Charlesmead Advisors LLC
Crosslake Communications

Name: Darrin Mitchell

Address: 37299 Aspen Way, Crosslake

Presentation Questions In the event that the City Council decides to sell Crosslake Communications, how would the city Council pay the balance of the utility Bond loan at 4.1 million dollars?