

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

In the Matter of the Joint Application of
CONSOLIDATED COMMUNICATIONS
HOLDINGS, INC.,
CONSOLIDATED COMMUNICATIONS, INC.
and
WH ACQUISITION II CORP.

AND

SUREWEST COMMUNICATIONS,
SUREWEST TELEPHONE (U 1015 C),
SUREWEST LONG DISTANCE (U 5817 C), and
SUREWEST TELEVIDEO (U 6324 C)

To Authorize the Acquisition of Control of

SUREWEST TELEPHONE (U 1015 C),
SUREWEST LONG DISTANCE (U 5817 C), and
SUREWEST TELEVIDEO (U 6324 C)

Application No. 12-02-011

(Filed February 10, 2012)

SETTLEMENT AGREEMENT

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April 30, 2012

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THE DIVISION OF RATEPAYER
ADVOCATES
April 30, 2012

This Settlement Agreement is entered into as of April 25, 2012, by and among the Division of Ratepayer Advocates (“DRA”) and The Utility Reform Network (“TURN”), Citizens Telecommunications Company of California, Inc. d/b/a Frontier Communications of California (“Frontier”; collectively with DRA and TURN, “Protesters”), Consolidated Communications Holdings, Inc., Consolidated Communications, Inc., WH Acquisition II Corp., (collectively, the “Consolidated Companies”), SureWest Communications, SureWest Telephone (U 1015 C), SureWest Long Distance (U 5817 C), and SureWest TeleVideo (U 6324 C) (collectively, the “SureWest Companies,” and collectively with the Consolidated Companies, “Joint Applicants”) in accordance with Article 12 of the California Public Utilities Commission’s (“Commission’s”) Rules of Practice and Procedure.

RECITALS

WHEREAS, on February 10, 2012, Joint Applicants filed their Joint Application for approval pursuant to Public Utilities Code Section 851-854 for certain of the Consolidated Companies’ acquisition of control of certain of the SureWest Companies, and for additional approvals as may be necessary to complete the proposed transaction in this proceeding (the “Transaction”), including authorization for SureWest Telephone to encumber its assets.

WHEREAS, At the conclusion of the proposed transaction: (1) the SureWest Companies will be subsidiaries of WH Acquisition II Corp, which may change its name to “SureWest Communications” or another name that incorporates the SureWest and/or Consolidated brand(s), (2) SureWest Communications will no longer exist as a separate corporate entity, and (3) SureWest Telephone will have encumbered its assets to secure existing financing arrangements of Consolidated.

WHEREAS, on March 19, 2012, DRA, TURN, and Frontier filed timely Protests to the Joint Application on various grounds.

WHEREAS, on March 29, 2012, Joint Applicants timely filed their Reply to the Protests.

WHEREAS, on April 9, 2012, Frontier filed a Response to Joint Applicants’ Reply.

WHEREAS, pursuant to Rule 12.1(b) of the Commission’s Rules of Practice and Procedure, a conference for the purpose of discussing settlement of this proceeding was duly noticed for and held on April 25, 2012.

WHEREAS, the Joint Applicants and the Protesters have been discussing a possible mutually satisfactory resolution of the issues that the Protesters raised in their Protests that would be in the public interest.

AGREEMENT

NOW, THEREFORE, based upon the mutual agreement reflected in this Settlement Agreement, Joint Applicants and the Protesters agree as follows:

1. Walk-in Centers: Joint Applicants will maintain retail centers in each of the Roseville, Sacramento and Elk Grove areas at their existing business hours and staffing levels for at least two years from the closing date of the Transaction.

2. Rate Freeze: Subject to possible extension pursuant to paragraph 4, below, the SureWest Telephone California incumbent local exchange carrier (“ILEC”) will freeze rates for regulated stand-alone residential service, single line business service, Caller ID, Call Waiting, Directory Assistance, Inside Wire and Non-Published service for two years from the closing date of the Transaction. Notwithstanding the limitations of this paragraph, Consolidated may change SureWest Telephone’s frozen rates to recover costs of exogenous events that materially impact operations, including but not limited to, orders of the Federal Communications Commission (“FCC”) and this Commission. Nothing herein shall prevent a party from opposing such a change. Nothing herein shall be construed to prevent any party from taking a position with respect to the appropriate service rates, if any, which should apply to the affected exchanges, after the dates specified in this paragraph.

3. Infrastructure: Joint Applicants will invest \$3 million per year in capital expenditures on projects that provide improvement and/or expansion of SureWest Companies’ California network for residential, business and wholesale services for two years from the closing date of the Transaction. Consolidated will provide to DRA and TURN an annual report indicating project(s) type, value and completion date.

4. Service Quality: SureWest Telephone and SureWest TeleVideo will submit quarterly service quality reports for regulated services as required by the CPUC. From the period beginning with the start of the third accounting quarter after the closing date of the Transaction, through the sixth accounting quarter after closing (the “Compliance Period”), SureWest Telephone and SureWest TeleVideo will meet or exceed the CPUC minimum standard reporting levels contained in General Order 133-C for 24hr out of service restoration interval, trouble reports per 100 lines and answer time trouble reports \leq 60 seconds. Should the CPUC implement changes to General Order 133-C SureWest Telephone and SureWest TeleVideo will abide by those standards. After any quarter when SureWest Telephone and SureWest TeleVideo does not meet these standards for the quarter as a whole, SureWest Telephone and SureWest TeleVideo will communicate with DRA and TURN and explain the reasons for the shortfall, and provide an action plan needed to meet service quality thresholds. If Consolidated does not meet the above-referenced standards for two quarters during the Compliance Period, the rate freeze in paragraph 2 above will be extended for an additional quarter. If Consolidated does not meet the above-referenced standards for more than two quarters during the Compliance Period, the rate freeze will be extended for two quarters.

5. SureWest Foundation: Joint Applicants will continue operating and maintaining related internal policies for at least one year from the closing date of the Transaction.

6. Broadband/Backhaul Commitment: The Consolidated Companies recognize that their acquisition of the SureWest Companies includes facilities and operations supporting the provision of broadband. The Consolidated Companies are committed to continuing the SureWest Companies' practice of providing reasonably priced, high quality broadband and backhaul services to its customers.

7. Employee Benefits: As set forth in the Merger Agreement (Exhibit A to the Joint Application), the Consolidated Companies will provide Continuing Employees¹ of the SureWest Companies with benefits that are no less favorable in the aggregate than the Continuing Employees' current benefit arrangements for at least one year from the closing date of the Transaction. Consolidated will honor/grandfather in accrued benefits for existing SureWest employees, including: (1) the \$10.00 per hour retirement health savings account for sick time accrued through one year from the closing date of the Transaction; (2) defined pension plan where current employees continue to earn 2 points per year toward a penalty free 85 points; (3) retirement service award benefit of \$100.00 for each year worked, if claimed up until one year from the closing date of the Transaction.

¹ The phrase "Continuing Employees" has the same meaning here as in Exhibit A to the Joint Application.

8. Early Termination Fees: Upon the closing date of the Transaction, the SureWest Companies will notify their business customers in writing that the SureWest Companies will waive any applicable early termination fees for business customers with any contract bundle containing regulated services, including DIDs, PRI and DS1 services, in the Frontier ILEC study area for a 60-day period after the business customer notification. Frontier agrees to not Consolidated's name in their marketing communications to the SureWest Companies' business customers before or during the 60 day waiver period.

9. This Settlement Agreement represents a compromise of the disputed positions of the Protesters and the Joint Applicants and is fundamentally fair, reasonable in the light of the whole record, consistent with the law, and in the public interest. Joint Applicants and TURN and DRA disagree with respect to whether the Transaction as originally proposed in the Joint Application is in the public interest under Public Utilities Code Section 854. Joint Applicants and TURN and DRA also disagree with respect to whether the criteria set forth in Sections 854(b) and (c) should be utilized in the public interest assessment under Public Utilities Code Section 854. Joint Applicants and the Protesters agree, however, that irrespective of the disputed legal issues, Joint Applicants have provided enough information and the Transaction, subject to the conditions specified in this Settlement Agreement, provides enough customer benefit to ensure it is in the public interest, consistent with Section 854, and is fair and reasonable in light of the whole record. Nothing in this Settlement Agreement shall be interpreted as an

admission or waiver of claims or positions with respect to whether Sections 854(b) and (c) should or should not be used in the public interest assessment.

10. The Joint Applicants and the Protesters will file a Joint Motion seeking Commission approval of the Settlement Agreement in its entirety and without change.

11. The Commission will have exclusive jurisdiction over any issues related to this Settlement Agreement and no other court, regulatory agency or other governing body will have jurisdiction over any issue related to the interpretation of this Settlement Agreement, or the rights of the parties to this Settlement Agreement, with the exception of any court that may now or in the future, by statute or otherwise, have jurisdiction to review Commission decisions.

12. This Settlement Agreement was jointly prepared by all of the parties to the Settlement Agreement and any uncertainty or ambiguity existing in the document will not be interpreted against any party on the basis that such party drafted or prepared the Settlement Agreement.

13. Each of the undersigned agrees to abide by the conditions set forth in this Settlement Agreement.

14. The Settlement Agreement may be executed in counterparts.

15. Each of the undersigned agrees that the Commission should adopt its decision in this proceeding that grants the relief sought in Section V. of the Joint Application subject to the conditions specified in this Settlement Agreement. A Commission decision adopting this Settlement Agreement shall also close this proceeding.

16. By signing below, each of the undersigned represents and warrants that he/she is authorized to sign this Settlement Agreement on behalf of the party for whom he/she signs and thereby binds such party to the terms of this Settlement Agreement.

17. This Settlement Agreement constitutes and represents the entire agreement between the parties and supersedes all prior and contemporaneous agreements, negotiations, representations, warranties and understandings of the parties with respect to the subject matter set forth herein.

18. This Settlement Agreement may be amended or changed only by a written agreement signed by all parties and approved by the Commission.

19. The Parties agree that if the Commission fails to adopt the provisions agreed to and contained in this Settlement Agreement or modifies them, any party may terminate this Settlement Agreement and pursue all rights which it may have as of the execution date of this Settlement Agreement.

20. This Agreement and all covenants set forth herein shall be binding upon and shall inure to the benefit of the respective Parties hereto, their successors, heirs, assigns, partners, representatives, executors, administrators, subsidiary companies, divisions, units, agents, attorneys, officers, and directors.

21. This Agreement shall be governed by and interpreted in accordance with

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DATED: April 30, 2012

Respectfully Submitted,

SUREWEST COMMUNICATIONS
SUREWEST TELEPHONE
SUREWEST LONG DISTANCE
SUREWEST TELEVIDEO

By _____ /s/ Mark Schreiber

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Counsel for the SureWest Companies

DATED: April 30, 2012

Respectfully Submitted,

THE UTILITY REFORM NETWORK

By _____ /s/ William R. Nusbaum

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Its Counsel

DATED: April 30, 2012

Respectfully Submitted,

THE DIVISION OF RATEPAYER ADVOCATES

By /s/ Joe Como

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DATED: April 30, 2012

Respectfully Submitted,

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Its Counsel

(END OF ATTACHMENT A)