

Consolidated Communications Holdings, Inc.

Form DEF 14A

April 02, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**SCHEDULE 14A
(Rule 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES
EXCHANGE ACT OF 1934**

Filed by the Registrant ☐

Filed by a Party other than the Registrant ☐

Check the appropriate box:

- ☐ Preliminary Proxy Statement
- ☐ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e))
- ☐ Definitive Proxy Statement
- ☐ Definitive Additional Materials
- ☐ Soliciting Material Pursuant to Rule 14a-12

Consolidated Communications Holdings, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- ☐ No fee required.
- ☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies:
 - (2) Aggregate number of securities to which transaction applies:
 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
 - (4) Proposed maximum aggregate value of transaction:
 - (5) Total fee paid:

- o Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD MAY 5, 2009**

To Our Stockholders:

The 2009 annual meeting of stockholders of Consolidated Communications Holdings, Inc. will be held at our corporate headquarters, 121 South 17th Street, Mattoon, Illinois 61938 on Tuesday, May 5, 2009, at 9:00 a.m., central time. The 2009 annual meeting of stockholders is being held for the following purposes:

1. To elect Richard A. Lumpkin as a Class I director to serve for a term of three years, in accordance with our amended and restated certificate of incorporation and amended and restated bylaws (Proposal No. 1);
2. To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2009 (Proposal No. 2);
3. To approve the Amended and Restated Consolidated Communications Holdings, Inc. 2005 Long-Term Incentive Plan (Proposal No. 3); and
4. To transact such other business as may properly come before the annual meeting and any adjournment or postponement thereof.

Only stockholders of record at the close of business on March 18, 2009 are entitled to vote at the meeting or at any postponement or adjournment thereof.

We hope that as many stockholders as possible will personally attend the meeting. Whether or not you plan to attend the meeting, please complete the enclosed proxy card and sign, date and return it promptly so that your shares will be represented. Sending in your proxy will not prevent you from voting in person at the meeting.

By Order of the Board of Directors,

Steven J. Shirar
Senior Vice President, President of
Enterprise Operations and Secretary

April 3, 2009

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on May 5, 2009 Our Proxy Statement and 2008 Annual Report to Stockholders are available at www.edocumentview.com/cnsl.

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Exhibit A

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**CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.
121 South 17th Street
Mattoon, Illinois 61938**

PROXY STATEMENT

This proxy statement contains information related to the 2009 annual meeting of stockholders of Consolidated Communications Holdings, Inc., a Delaware corporation (the Company, Consolidated, we or us), that will be held at our corporate headquarters, 121 South 17th Street, Mattoon, Illinois 61938 on Tuesday, May 5, 2009, at 9:00 a.m., central time, and at any postponements or adjournments thereof. The approximate first date of mailing for this proxy statement, proxy card, as well as a copy of our combined 2008 annual report to stockholders and annual report on Form 10-K for the year ended December 31, 2008, is April 3, 2009.

ABOUT THE MEETING

What is the purpose of this proxy statement?

The purpose of this proxy statement is to provide information regarding matters to be voted on at the 2009 annual meeting of our stockholders. Additionally, it contains certain information that the Securities and Exchange Commission (the SEC) requires us to provide annually to stockholders. The proxy statement is also the document used by our board to solicit proxies to be used at the 2009 annual meeting. Proxies are solicited by our board to give all stockholders of record an opportunity to vote on the matters to be presented at the annual meeting, even if the stockholders cannot attend the meeting. The board has designated Steven J. Shirar and David J. Doedtman as proxies, who will vote the shares represented by proxies at the annual meeting in the manner indicated by the proxies.

What proposals will be voted on at the annual meeting?

Stockholders will vote on the following proposals at the annual meeting:

the election of Richard A. Lumpkin as a Class I director to serve for a term of three years, in accordance with our amended and restated certificate of incorporation and amended and restated bylaws (Proposal No. 1);

the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm (the independent auditors), for the fiscal year ending December 31, 2009 (Proposal No. 2);

the approval of the Amended and Restated Consolidated Communications Holdings, Inc. 2005 Long-Term Incentive Plan (Proposal No. 3); and

any other business properly coming before the annual meeting and any adjournment or postponement thereof.

Who is entitled to vote?

Each outstanding share of our common stock entitles its holder to cast one vote on each matter to be voted upon at the annual meeting. Only stockholders of record at the close of business on the record date, March 18, 2009, are entitled to receive notice of the annual meeting and to vote the shares of common stock that they held on that date at the

meeting, or any postponement or adjournment of the meeting. If your shares are held by a beneficial holder in

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street name please refer to the information forwarded to you by your bank, broker or other holder of record to see what you must do to vote your shares. Please see the next question below on this page for a description of a beneficial owner in street name.

A complete list of stockholders entitled to vote at the annual meeting will be available for examination by any stockholder at our corporate headquarters, 121 South 17th Street, Mattoon, Illinois 61938, during normal business hours for a period of ten days before the annual meeting and at the time and place of the annual meeting.

What is the difference between a stockholder of record and a beneficial holder of shares?

If your shares are registered directly in your name with our transfer agent, Computershare Trust Company, N.A., you are considered a stockholder of record with respect to those shares. If this is the case, the stockholder proxy materials have been sent or provided directly to you by us.

If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial holder of the shares held for you in what is known as street name. If this is the case, the proxy materials have been forwarded to you by your brokerage firm, bank or other nominee, which is considered the stockholder of record with respect to these shares. As the beneficial holder, you have the right to direct your broker, bank or other nominee how to vote your shares. Please contact your broker, bank, or other nominee for instructions on how to vote any shares you beneficially own.

Who can attend the meeting?

All stockholders of record as of March 18, 2009, or their duly appointed proxies, may attend the meeting. Cameras, recording devices and other electronic devices will not be permitted at the meeting. If you hold your shares in street name, you will need to bring a copy of a brokerage statement reflecting your stock ownership as of the record date and check in at the registration desk at the meeting.

What constitutes a quorum?

A quorum of stockholders is necessary to hold the annual meeting. The presence at the meeting, in person or by proxy, of the holders of a majority of the shares of common stock outstanding on the record date will constitute a quorum. As of March 18, 2009, the record date, 29,607,749 shares of our common stock were outstanding. Proxies received but marked as withheld, abstentions or broker non-votes will be included in the calculation of the number of shares considered present at the meeting for purposes of establishing a quorum. In the event that a quorum is not present at the annual meeting, we expect that the annual meeting will be adjourned or postponed to solicit additional proxies.

How do I vote?

You may vote in person at the meeting or by proxy. We recommend that you vote by proxy even if you plan to attend the meeting so that we will know as soon as possible that enough votes will be present for us to hold the meeting. If you complete and properly sign the accompanying proxy card and return it to us, it will be voted as you direct on the proxy card. If you are a stockholder of record and attend the meeting, you may vote at the meeting or deliver your completed proxy card in person. You should follow the instructions set forth on the proxy card, being sure to complete it, to sign it and to mail it in the enclosed postage-paid envelope.

If your shares are held in street name, please refer to the information forwarded to you by your bank, broker or other holder of record to see what you must do in order to vote your shares. If you are a street name stockholder and you wish to vote in person at the meeting, you will need to obtain a proxy from the institution that holds your shares and

present it to the inspector of elections with your ballot when you vote at the annual meeting.

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Can I change my vote after I return my proxy card?

Yes. Even after you have submitted your proxy, you may change your vote at any time before the proxy is voted by:

delivering to our Secretary at the address on the first page of this proxy statement a written notice of revocation of your proxy;

delivering a duly executed proxy bearing a later date; or

voting in person at the annual meeting.

If your shares are held in street name, you may vote in person at the annual meeting if you obtain a proxy as described in the answer to the previous question. The powers of the proxy holders with regard to your shares will be suspended if you attend the meeting in person and so request, although attendance at the meeting will not, by itself, revoke a previously granted proxy.

Can I vote by telephone or electronically?

No. We have not instituted any mechanism for telephone or electronic voting. Street name stockholders, however, may be able to vote electronically through their bank, broker or other holder of record. If so, instructions regarding electronic voting will be provided by the bank, broker or other holder of record to you as part of the package that includes this proxy statement.

How many votes are required for the proposals to pass?

Directors are elected by a plurality vote. Accordingly, the one director nominee who receives the greatest number of votes cast will be elected. The proposal to ratify the selection of our independent auditors and the proposal to approve the Amended and Restated Consolidated Communications Holdings, Inc. 2005 Long-Term Incentive Plan each requires the approval of a majority of the votes present, in person or by proxy, and entitled to vote on the matter.

How are abstentions and broker non-votes treated?

If a stockholder abstains from voting on any proposal, it will have the same effect as a vote AGAINST that proposal, except with respect to Proposal No. 1, where it will have no effect. Broker non-votes and shares as to which proxy authority has been withheld with respect to any matter are not entitled to vote for purposes of determining whether stockholder approval for that matter has been obtained and, therefore, will have no effect on the outcome of the vote on any such matter. A broker non-vote occurs on a proposal when shares held of record by a broker are present or represented at the meeting but the broker is not permitted to vote on that proposal without instruction from the beneficial owner of the shares and no instruction has been given.

What if I do not specify a choice for a matter when returning a proxy?

Stockholders should specify their choice for each matter on the enclosed proxy. If no specific instructions are given, proxies that are signed and returned will be voted FOR the election of Richard A. Lumpkin for Class I director, FOR the proposal to ratify the appointment of our independent auditors, and FOR the proposal approving the Amended and Restated Consolidated Communications Holdings, Inc. 2005 Long-Term Incentive Plan.

Will anyone contact me regarding this vote?

No arrangements or contracts have been made or entered into with any solicitors as of the date of this proxy statement, although we reserve the right to engage solicitors if we deem them necessary. If done, such solicitations may be made by mail, telephone, facsimile, e-mail or personal interviews.

What are the board's recommendations?

Unless you give other instructions on your proxy card, the persons named as proxy holders on the enclosed proxy card will vote in accordance with the recommendations of the board of directors.

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The board's recommendations, together with the description of each proposal, are set forth in this proxy statement. In summary, the board recommends that you vote:

FOR the election of Richard A. Lumpkin as a Class I director (see page 6);

FOR the ratification of the appointment of Ernst & Young LLP as our independent auditors (see page 14); and

FOR the approval of the Amended and Restated Consolidated Communications Holdings, Inc. 2005 Long-Term Incentive Plan (see page 15).

What happens if additional matters are presented at the annual meeting?

Other than the three proposals described in this proxy statement, we are not aware of any other business to be acted upon at the annual meeting. If you grant a proxy, the persons named as proxy holders on the enclosed proxy card will vote your shares on any additional matters properly presented for a vote at the meeting as recommended by the board or, if no recommendation is given, in their own discretion.

Pursuant to the provisions of Rule 14a-4(c) under the Securities Exchange Act of 1934, as amended (the Exchange Act), with respect to any other matter that properly comes before the meeting, the proxy holders will vote as recommended by the board of directors or, if no recommendation is given, in their own discretion.

Who will tabulate and certify the vote?

Representatives of Computershare Trust Company, N.A., our transfer agent, will tabulate the votes and act as Inspector of Elections.

ANNUAL REPORT

Will I receive a copy of Consolidated's 2008 Annual Report to Stockholders?

We have enclosed our 2008 annual report to stockholders for the fiscal year ended December 31, 2008 with this proxy statement. The annual report includes our audited financial statements, along with other financial information about us, which we urge you to read carefully.

How can I receive a copy of Consolidated's Annual Report on Form 10-K?

Our annual report on Form 10-K for the fiscal year ended December 31, 2008, as filed with the SEC on March 16, 2009, is included in the 2008 annual report to stockholders, which accompanies this proxy statement

You can also obtain, free of charge, a copy of our annual report on Form 10-K, including all exhibits filed with it, by:

accessing the investor relations section of our website at <http://ir.consolidated.com> and clicking on the SEC Filings link;

writing to:

Consolidated Communications Holdings, Inc. Investor Relations
121 South 17th Street
Mattoon, Illinois 61938; or

telephoning us at: (217) 258-9522.

You can also obtain a copy of our annual report on Form 10-K and other periodic filings that we make with the SEC from the SEC's EDGAR database at <http://www.sec.gov>.

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The following table sets forth certain information that has been provided to us with respect to the beneficial ownership of shares of our common stock for (i) each stockholder who is known by us to own beneficially more than 5.0% of the outstanding shares of our common stock, (ii) each of our directors, (iii) each of our executive officers named in the Summary Compensation Table on page 32, and (iv) all of our directors and executive officers as a group. Unless otherwise indicated, each stockholder shown on the table has sole voting and investment power with respect to all shares shown as beneficially owned by that stockholder. Unless otherwise indicated this information is current as of March 12, 2009, and the address of all individuals listed in the table is as follows: Consolidated Communications Holdings, Inc., 121 South 17th Street, Mattoon, Illinois 61938-3987.

Name of Beneficial Owner	Aggregate Number of Shares Beneficially Owned	Percentage of Shares Outstanding
Central Illinois Telephone, LLC(a)	5,634,106	19.13%
Jennison Associates LLC(b)	2,668,200	9.06%
Prudential Financial, Inc.(b)	2,718,615	9.23%
OppenheimerFunds, Inc.(c)	1,735,450	5.89%
Richard A. Lumpkin(a)	5,634,106	19.13%
Robert J. Currey(d)	296,834	1.01%
Steven J. Shirar(e)	86,861	*
Steven L. Childers(f)	87,242	*
Joseph R. Dively(g)	86,737	*
C. Robert Udell, Jr.(h)	68,403	*
Maribeth S. Rahe(i)	15,433	*
Jack W. Blumenstein(j)	8,000	*
Roger H. Moore(k)	8,000	*
All directors and executive officers as a group (10 persons)	6,338,253	21.52%

* Less than 1.00% ownership.

- (a) The equity interests in Central Illinois Telephone, LLC (Central Illinois Telephone) are owned by SKL Investment Group, LLC, a Delaware limited liability company (SKL Investment Group). Richard A. Lumpkin and members of his family own all of the equity interests in SKL Investment Group. Mr. Lumpkin is the sole manager of the SKL Investment Group fund that owns Central Illinois Telephone and he has the sole power to direct the voting and disposition of its investments. Mr. Lumpkin is also the sole manager of Central Illinois Telephone and has the sole investment and voting power with respect to the shares of common stock held by Central Illinois Telephone. As a result of the above, Mr. Lumpkin may be deemed to have beneficial ownership of the shares owned by Central Illinois Telephone. He disclaims this beneficial ownership except to the extent of his pecuniary interest in those securities. The address of Central Illinois Telephone and Mr. Lumpkin is P.O. Box 1234, Mattoon, Illinois 61938. Includes 1,500 shares owned by Mr. Lumpkin's wife.

- (b) Beneficial and percentage ownership information is based on information contained in a Schedule 13G/A filed with the SEC on February 6, 2009 by Prudential Financial, Inc. and in a Schedule 13G/A filed with the SEC on February 17, 2009 by Jennison Associates LLC. The schedule contains the following information regarding beneficial ownership of the shares: Prudential Financial, Inc., as the parent holding company and the direct or indirect parent of Jennison Associates LLC, may be deemed the beneficial owner of securities beneficially owned by Jennison Associates LLC and may have direct or indirect voting and/or investment discretion over 2,668,200 shares that are held for its own benefit or for the benefit of its clients by its separate accounts, externally managed accounts, registered investment companies, subsidiaries and/or other affiliates. The address of Jennison Associates LLC is 466 Lexington Avenue, New York, New York 10017. The address of Prudential Financial, Inc. is 751 Broad Street, Newark, New Jersey 07102-3777.

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- (c) Beneficial and percentage ownership information is based on information contained in a Schedule 13G/A filed with the SEC on January 26, 2009 by Oppenheimer Funds, Inc. The address of Oppenheimer Funds, Inc. is Two World Financial Center, 225 Liberty Street, New York, New York 10281.
- (d) Consists 204,566 shares of common stock awarded under our restricted share plan, 64,796 shares of common stock awarded under our Long-Term Incentive Plan of 2005, and 27,472 shares owned personally by Mr. Currey.
- (e) Consists of 69,440 shares of common stock awarded under our restricted share plan and 17,421 shares of common stock awarded under our Long-Term Incentive Plan of 2005.
- (f) Includes 70,822 shares of common stock awarded under our restricted share plan and 16,420 shares of common stock awarded under our Long-Term Incentive Plan of 2005.
- (g) Includes 69,316 shares of common stock awarded under our restricted share plan and 17,421 shares of common stock awarded under our Long-Term Incentive Plan of 2005.
- (h) Includes 19,965 shares of common stock awarded under our restricted share plan, 40,711 shares of common stock awarded under our Long-Term Incentive Plan of 2005 and 7,727 shares of common stock owned by Mr. Udell.
- (i) Includes 8,000 shares of common stock awarded under our Long-Term Incentive Plan of 2005 and 7,433 shares of common stock owned by Ms. Rahe.
- (j) Consists of 8,000 shares of common stock awarded under our Long-Term Incentive Plan of 2005.
- (k) Consists of 8,000 shares of common stock awarded under our Long-Term Incentive Plan of 2005.

PROPOSAL NO. 1 ELECTION OF RICHARD A. LUMPKIN AS A DIRECTOR

Our amended and restated certificate of incorporation provides for the classification of our board of directors into three classes of directors, designated Class I, Class II and Class III, as nearly equal in size as is practicable, serving staggered three-year terms. One class of directors is elected each year to hold office for a three-year term or until successors of such directors are duly elected and qualified. The corporate governance committee has recommended, and the board also recommends, that the stockholders elect Mr. Lumpkin, the nominee designated below as the Class I director, at this year's annual meeting to serve for a term of three years expiring in 2012 or until his successor is duly elected and qualified. The nominee for election to the position of Class I director, and certain information with respect to his background and the backgrounds of non-nominee directors, are set forth below.

It is the intention of the persons named in the accompanying proxy card, unless otherwise instructed, to vote to elect the nominee named herein as the Class I director. The nominee named herein presently serves on our board of directors, and has consented to serve as a director if elected at this year's annual meeting. In the event the nominee named herein is unable to serve as a director, discretionary authority is reserved to the board to vote for a substitute. The board has no reason to believe that the nominee named herein will be unable to serve if elected.

Nominee standing for election to the board

Name	Age	Current Position With Consolidated
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Richard A. Lumpkin (Class I Director term expiring in 2012)	74	Chairman
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Name	Age	Current Position With Consolidated
Jack W. Blumenstein (Class II Director term expiring in 2010)	65	Director
Roger H. Moore (Class II Director term expiring in 2010)	67	Director
Robert J. Currey (Class III Director term expiring in 2011)	63	President, Chief Executive Officer and Director
Maribeth S. Rahe (Class III Director term expiring in 2011)	60	Director

Business experience of nominee to the board

Richard A. Lumpkin is the Chairman of our board of directors. Mr. Lumpkin has served in this position and as a director with us and our predecessor since 2002. From 1997 to 2002, Mr. Lumpkin served as Vice Chairman of McLeodUSA, which acquired our predecessor in 1997. From 1963 to 1997, Mr. Lumpkin served in various positions at our predecessor, including Chairman, Chief Executive Officer, President and Treasurer. Mr. Lumpkin is currently a director of Agracel, Inc., a real estate investment company, and serves on the advisory board of Eastern Illinois University and as a trustee of The Lumpkin Family Foundation. Mr. Lumpkin is also a former director, former President and former Treasurer of the USTelecom Association, a former president of the Illinois Telecommunications Association, a former director of First Mid-Illinois Bancshares, Inc. (First Mid-Illinois), a financial services holding company and a former director of Ameren Corp., a public utility holding company. Mr. Lumpkin has also served on the University Council Committee on Information Technology for Yale University.

Business experience of continuing directors

Robert J. Currey serves as the President, Chief Executive Officer and a director. Mr. Currey has served as one of our directors and as a director of our predecessors since 2002 and as our President and Chief Executive Officer since 2002. From 2000 to 2002, Mr. Currey served as Vice Chairman of RCN Corporation, a competitive telephone company providing telephony, cable and Internet services in high-density markets nationwide. From 1998 to 2000, Mr. Currey served as President and Chief Executive Officer of 21st Century Telecom Group. From 1997 to 1998, Mr. Currey served as Director and Group President of Telecommunications Services of McLeodUSA, which acquired our predecessor in 1997. Mr. Currey joined our predecessor in 1990 and served as President through its acquisition in 1997. Mr. Currey is also a director of The Management Network Group, Inc. (a professional services company), the USTelecom Association and the Illinois Business RoundTable.

Maribeth S. Rahe has served as a director since July 2005. Ms. Rahe has served as President and Chief Executive Officer of Fort Washington Investment Advisors, Inc. since November 2003. From January 2001 to October 2002, Ms. Rahe was President and a member of the board of directors of U.S. Trust Company of New York, and from June 1997 to January 2001, was its Vice Chairman and a member of the board of directors.

Jack W. Blumenstein has served as a director since July 2005. Mr. Blumenstein is President and Chief Executive Officer of AirCell LLC, a provider of airborne cellular and satellite telecommunications systems and services. He has been the co-President of Blumenstein/Thorne Information Partners, LLC since October 1996 and is a co-founder of

that private equity investment firm. Blumenstein/Thorne focuses on capital transactions in the telecommunications and information industry. From October 1992 to September 1996, Mr. Blumenstein held various positions with The Chicago Corporation, serving most recently as Executive Vice President, Debt Capital Markets Group and a member of the Board of Directors.. Mr. Blumenstein was President and Chief Executive Officer of Ardis, a joint venture of Motorola and IBM, and has held various senior management positions in product

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development and sales and marketing for Rolm Corporation and IBM. Mr. Blumenstein also presently serves on the boards of AirCell LLC and ShopperTrak, Inc.

Roger H. Moore has served as a director since July 2005. Mr. Moore was President and Chief Executive Officer of Illuminet Holdings, Inc., a provider of network, database and billing services to the communications industry, from October 1998 to December 2001, a member of its board of directors from July 1998 to December 2001, and its President and Chief Executive Officer from January 1996 to August 1998. In December of 2001, Illuminet was acquired by VeriSign, Inc. and Mr. Moore retired at that time. From September 1998 to October 1998, he served as President, Chief Executive Officer and a member of the board of directors of VINA Technologies, Inc., a telecommunications equipment company. From June 2007 to November 2007 Mr. Moore served as interim President and CEO of Arbinet. Since December 2007 Mr. Moore has served as a consultant to VeriSign Corporation. Mr. Moore also presently serves as a director of VeriSign, Inc. and Western Digital Corporation.

Board recommendation and stockholder vote required

The board of directors recommends a vote **FOR** the election of the nominee named above (Proposal No. 1 on the accompanying proxy card).

The affirmative vote of a plurality of the votes cast at the meeting at which a quorum is present is required for the election of the nominee named above.

CORPORATE GOVERNANCE AND BOARD COMMITTEES

Are a majority of the directors independent?

Yes. The corporate governance committee undertook its annual review of director independence and reviewed its findings with the board of directors. During this review, the board of directors considered relationships and transactions between each director or any member of his or her immediate family and Consolidated and its subsidiaries and affiliates, including those reported under **Certain Relationships and Related Transactions** below. The board of directors also examined relationships and transactions between directors or their affiliates and members of our senior management. The purpose of this review was to determine whether any such transactions or relationships compromised a director's independence.

As a result of this review, our board of directors affirmatively determined that Messrs. Blumenstein and Moore and Ms. Rahe are independent for purposes of both Rule 4200(a)(15) of The NASDAQ Stock Market, Inc.'s (NASDAQ) Marketplace Rules and Rule 10A-3(b)(1) of the Exchange Act.

The board considered the relationship between the Company and VeriSign, Inc., a company from which the Company purchases network signaling and user authentication services in the ordinary course of business, because Mr. Moore is a director of VeriSign, Inc. VeriSign, Inc. received approximately \$1.0 million in payments from the Company in 2008, and such purchases were made on customary terms. The board concluded that, under these facts and circumstances, the relationship during 2008 was not a material one for purposes of the NASDAQ listing standards after determining that Mr. Moore's interest in these transactions is not material and would not influence his actions or decisions as a director of the Company.

How are directors compensated?

The Company put in place an independent director compensation plan in 2005 at the time of its IPO. In 2008, in order to properly establish compensation for the non-employee independent directors, the Company engaged an outside

consultant to complete a benchmark study. The outside consultant developed a peer group of 16 companies, which are of similar in size and scope to the Company, and with whom we compete for investors.

Based on that study, the company made certain modifications to the Board of Directors compensation plan effective October 24, 2008, as follows: (1) the annual cash retainers were increased from \$12,500 to \$25,000; (2) the board meeting fees were increased from \$1,000 to \$1,250 for board meetings attended in person and from \$500 to \$750 for committee meetings attended in person.(meeting fees are halved for each board or board committee

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meeting attended by means of telephone conference call); and (3) the chairperson of the audit committee receives annual cash retainer of \$15,000 (which is unchanged from 2005), and the chairperson of the compensation committee and the corporate governance committee each receive an additional annual retainer of \$10,000 (which is an increase from the previous level of \$5,000). We reimburse all non-employee directors for reasonable expenses incurred to attend board or board committee meetings.

In addition, the annual restricted share award under the Long-Term Incentive Plan of 2005 was changed from 2,000 shares to a number of shares determined by dividing \$40,000 by the 20-day average closing price of the stock as of two trading days before the award date. In March 2008, each non-employee director of the Compa