UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 000-51446

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	02-0636095

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
121 South 17th Street, Mattoon, Illinois	61938-3987
(Address of principal executive offices)	(Zip Code)

(217) 235-3311

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ____

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes X No ____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer X Accelerated filer

Non-accelerated filer___ Smaller reporting company ____ Emerging growth company ____

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ____

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No X

On July 30, 2018, the registrant had 71,252,576 shares of Common Stock outstanding.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited; Amounts in thousands except per share amounts)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net revenues	$ 350,221	$ 169,950	$ 706,260	$ 339,885
Operating expense:				
Cost of services and products (exclusive of depreciation and amortization)	151,358	71,136	304,274	142,168
Selling, general and administrative expenses	81,128	35,986	166,746	71,884
Acquisition and other transaction costs	899	1,793	1,630	3,524
Depreciation and amortization	111,741	40,483	219,640	82,678
Income from operations	5,095	20,552	13,970	39,631
Other income (expense):				
Interest expense, net of interest income	(32,839)	(33,918)	(65,555)	(63,589)
Investment income	12,535	8,196	20,324	13,474
Other, net	640	1,145	1,246	580
Loss before income taxes	(14,569)	(4,025)	(30,015)	(9,904)
Income tax benefit	(4,009)	(1,399)	(8,257)	(3,573)
Net loss	(10,560)	(2,626)	(21,758)	(6,331)
Less: net income attributable to noncontrolling interest	83	102	183	82
Net loss attributable to common shareholders	$ (10,643)	$ (2,728)	$ (21,941)	$ (6,413)
Net loss per basic and diluted common shares attributable to common shareholders	$ (0.15)	$ (0.06)	$ (0.32)	$ (0.13)
Dividends declared per common share	$ 0.38	$ 0.38	$ 0.77	$ 0.77

See accompanying notes.

Table of Contents

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited; Amounts in thousands)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net loss	$ (10,560)	$ (2,626)	$ (21,758)	$ (6,331)
Pension and post-retirement obligations:				
Change in net actuarial loss and prior service credit, net of tax	-	(814)	-	(814)
Amortization of actuarial losses and prior service credit to earnings, net of tax	954	871	1,876	1,733
Derivative instruments designated as cash flow hedges:				
Change in fair value of derivatives, net of tax	3,884	(2,488)	8,621	(2,544)
Reclassification of realized loss to earnings, net of tax	1,066	244	1,331	449
Comprehensive loss	(4,656)	(4,813)	(9,930)	(7,507)
Less: comprehensive income attributable to noncontrolling interest	83	102	183	82
Total comprehensive loss attributable to common shareholders	$ (4,739)	$ (4,915)	$ (10,113)	$ (7,589)

See accompanying notes.

Table of Contents

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited; Amounts in thousands except share and per share amounts)

	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,642	$ 15,657
Accounts receivable, net of allowance for doubtful accounts	122,167	121,528
Income tax receivable	12,391	21,846
Prepaid expenses and other current assets	43,727	33,318
Assets held for sale	20,719	21,310
Total current assets	209,646	213,659
Property, plant and equipment, net	1,986,318	2,037,606
Investments	110,105	108,858
Goodwill	1,035,274	1,038,032
Customer relationships, net	262,853	293,300
Other intangible assets	12,038	13,483
Other assets	30,578	14,188
Total assets	$ 3,646,812	$ 3,719,126
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 23,057	$ 24,143
Advance billings and customer deposits	46,322	42,526
Dividends payable	27,602	27,418
Accrued compensation	55,462	49,770
Accrued interest	9,376	9,343
Accrued expense	74,112	72,041
Current portion of long-term debt and capital lease obligations	32,570	29,696
Liabilities held for sale	381	1,003
Total current liabilities	268,882	255,940
Long-term debt and capital lease obligations	2,308,752	2,311,514
Deferred income taxes	211,740	209,720
Pension and other post-retirement obligations	318,306	334,193
Other long-term liabilities	24,816	33,817
Total liabilities	3,132,496	3,145,184

Commitments and contingencies (Note 11)

Shareholders’ equity:		
Common stock, par value $0.01 per share; 100,000,000 shares authorized, 71,252,576 and 70,777,354 shares outstanding as of June 30, 2018 and December 31, 2017, respectively	713	708
Additional paid-in capital	565,961	615,662
Accumulated deficit	(21,941)	—
Accumulated other comprehensive loss, net	(36,255)	(48,083)
Noncontrolling interest	5,838	5,655
Total shareholders’ equity	514,316	573,942
Total liabilities and shareholders’ equity	$ 3,646,812	$ 3,719,126

See accompanying notes.

Table of Contents

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; Amounts in thousands)

	Six Months Ended June 30, 2018	2017
Net cash provided by operating activities	$ 194,371	$ 93,533
Cash flows from investing activities:		
Purchases of property, plant and equipment, net	(124,840)	(58,061)
Proceeds from sale of assets	1,443	101
Proceeds from sale of investments	233	—
Net cash used in investing activities	(123,164)	(57,960)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	76,000	23,000
Payment of capital lease obligations	(6,027)	(2,993)
Payment on long-term debt	(91,176)	(27,500)
Share repurchases for minimum tax withholding	—	(41)
Dividends on common stock	(55,019)	(39,257)
Net cash used in financing activities	(76,222)	(46,791)
Change in cash and cash equivalents	(5,015)	(11,218)
Cash and cash equivalents at beginning of period	15,657	27,077
Cash and cash equivalents at end of period	$ 10,642	$ 15,859

See accompanying notes.

Table of Contents

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Basis of Accounting

Consolidated Communications Holdings, Inc. (the "Company", "we" or "our") is a holding company with operating subsidiaries (collectively "Consolidated") that provide communication solutions to consumer, commercial and carrier customers across a 24-state service area.

Leveraging our advanced fiber network spanning more than 36,000 fiber route miles, we offer a wide range of communications solutions including data, voice, video, managed services, cloud computing and wireless backhaul. As of June 30, 2018, we had approximately 941,000 voice connections, 787,000 data connections and 98,000 video connections.

In the opinion of management, the accompanying unaudited condensed consolidated balance sheets and related condensed consolidated statements of operations, comprehensive income (loss) and cash flows include all adjustments, consisting only of normal recurring items, necessary for their fair presentation in conformity with accounting principles generally accepted in the United States ("US GAAP" or "GAAP") for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with US GAAP have been condensed or omitted pursuant to such SEC rules and regulations and accounting principles applicable for interim periods. Events subsequent to the balance sheet date have been evaluated for inclusion in the accompanying condensed consolidated financial statements through the date of issuance. Management believes that the disclosures made are adequate to make the information presented not misleading. Interim results are not necessarily indicative of results for a full year. The information presented in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and the accompanying notes to the financial statements ("Notes") thereto included in our 2017 Annual Report on Form 10-K filed with the SEC.

Recent Business Developments

On July 3, 2017, we completed our acquisition of FairPoint Communications, Inc. (“FairPoint”), pursuant to the terms of a definitive agreement and plan of merger (as amended, the “Merger Agreement”) and acquired all of the issued and outstanding shares of FairPoint in exchange for shares of our common stock (the “Merger”). As a result of the Merger, FairPoint became a wholly owned subsidiary of the Company. The financial results for FairPoint have been included in our condensed consolidated financial statements as of the acquisition date. For a more complete discussion of the transaction, refer to Note 2.

Revenue Recognition

Effective January 1, 2018, we adopted ASU No. 2014-09 (“ASU 2014-09”, “ASC 606”, or the “new standard”), Revenue from Contracts with Customers, using the modified retrospective method for open contracts. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting practices under ASC 605 (“legacy GAAP”).

The adoption of the new standard did not result in a material impact to our systems, processes or internal controls. The largest impact of the adoption of the new standard is related to the treatment of contract acquisition costs, which were previously expensed as incurred; however, under the new standard, these costs are now deferred and amortized over the expected customer life. The adoption also resulted in additional disclosures around the nature and timing of the Company’s performance obligations, deferred revenue contract liabilities and deferred contract cost assets, as well as practical expedients used by the Company in applying the new five-step revenue model. During the six months ended June 30, 2018, we recorded a pre-tax cumulative effect adjustment of $4.1 million related to the adoption, which increased retained earnings. Of this amount, $1.8 million was related to the increase in the value of our partnership interests as a result of

Table of Contents

the adoption of ASC 606 by our equity method partnerships. For a more complete discussion of our investments, refer to Note 4.

Nature of Contracts with Customers

Our revenue contracts with customers may include a promise or promises to deliver services such as broadband, video or voice services. Promised services are considered distinct as the customer can benefit from the services either on their own or together with other resources that are readily available to the customer and the Company's promise to transfer service to the customer is separately identifiable from other promises in the contract. The Company accounts for services as separate performance obligations. Each service is considered a single performance obligation as it is providing a series of distinct services that are substantially the same and have the same pattern of transfer.

The transaction price is determined at contract inception and reflects the amount of consideration to which we expect to be entitled in exchange for transferring service to the customer. This amount is generally equal to the market price of the services promised in the contract and may include promotional discounts. The transaction price excludes amounts collected on behalf of third parties such as sales taxes and regulatory fees. Conversely, nonrefundable up-front fees, such as service activation and set-up fees, are included in the transaction price. In determining the transaction price, we consider our enforceable rights and obligations within the contract. We do not consider the possibility of a contract being cancelled, renewed or modified.

The transaction price is allocated to each performance obligation based on the standalone selling price of the service, net of the related discount, as applicable.

Revenue is recognized when or as performance obligations are satisfied by transferring service to the customer as described below.

Disaggregation of Revenue

The following table summarizes revenue from contracts with customers for the quarters and six months ended June 30, 2018 and 2017:

	Quarter Ended	Six Months Ended

(In thousands)	June 30, 2018	2017	June 30, 2018	2017
Operating Revenues				
Commercial and carrier:				
Data and transport services (includes VoIP)	$ 87,603	$ 51,528	$ 173,628	$ 102,432
Voice services	51,322	22,199	103,483	44,225
Other	14,237	4,931	26,100	8,833
	153,162	78,658	303,211	155,490
Consumer:				
Broadband (VoIP and Data)	62,545	28,296	125,656	56,689
Video services	22,065	22,314	44,899	45,418
Voice services	51,616	12,860	103,678	25,902
	136,226	63,470	274,233	128,009
Subsidies	20,979	10,392	46,234	20,964
Network access	37,338	14,138	77,053	28,691
Other products and services	2,516	3,292	5,529	6,731
Total operating revenues	$ 350,221	$ 169,950	$ 706,260	$ 339,885

Service revenue is recognized over time, consistent with the transfer of service, as the customer simultaneously receives and consumes the benefits provided by the Company’s performance as the Company performs.

Table of Contents

Contract Assets and Liabilities

The following table provides information about receivables, contract assets and contract liabilities from our revenue contracts with customers:

(In thousands)	Quarter Ended June 30, 2018	At Adoption
Accounts receivable, net	$ 122,411	$ 121,745
Contract assets	7,408	1,804
Contract liabilities	49,039	46,368

Contract assets include costs that are incremental to the acquisition of a contract. Incremental costs are those that result directly from obtaining a contract or costs that would not have been incurred if the contract had not been obtained, which primarily relate to sales commissions. These costs are deferred and amortized over the expected customer life. We determined that the expected customer life is the expected period of benefit as the commission on the renewal contract is not commensurate with the commission on the initial contract. During the quarter and six months ended June 30, 2018, the Company recognized expense of $0.6 million and $1.0 million, respectively, related to deferred contract acquisition costs.

Contract liabilities include deferred revenues related to advanced payments for services and nonrefundable, upfront service activation and set-up fees, which under the new standard are generally deferred and amortized over the expected customer life as the option to renew without paying an upfront fee provides the customer with a material right. During the quarter and six months ended June 30, 2018, the Company recognized revenue of $83.8 million and $171.1 million, respectively, related to deferred revenues.

A receivable is recognized in the period the Company provides goods or services when the Company’s right to consideration is unconditional. Payment terms on invoiced amounts are generally 30 to 60 days.

Performance Obligations

ASC 606 requires that the Company disclose the aggregate amount of the transaction price that is allocated to remaining performance obligations that are unsatisfied as of June 30, 2018. The guidance provides certain practical expedients that limit this requirement. The service revenue contracts of the Company meet the following practical expedients provided by ASC 606:

1. The performance obligation is part of a contract that has an original expected duration of one year or less.
2. Revenue is recognized from the satisfaction of the performance obligations in the amount billable to the customer in accordance with ASC 606-10-55-18.

Financial Statement Impact of Adopting ASC 606

As described above, the change in accounting for contract acquisition costs was the largest impact to the Company upon adoption of ASC 606. On an ongoing basis, a significant amount of commission costs, which were historically expensed as incurred, will now be deferred and amortized over the expected customer life under the new standard. The accretive benefit to operating income anticipated in 2018 is expected to moderate in future years as the basis of the amortization builds. For the quarter and six months ended June 30, 2018, we recognized commission expense of $0.6 million and $1.0 million, respectively, under the new standard as compared to $3.6 million and $6.6 million, respectively, for the same periods under legacy GAAP.

Recent Accounting Pronouncements

Effective January 1, 2018, we adopted ASU 2014-09 (also known as ASC 606). The core principle of ASU 2014-09 is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In addition, ASU 2014-09 requires disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. For additional information on the new standard and the impact to our results of operations, refer to the Revenue Recognition section above.

Effective January 1, 2018, we adopted ASU No. 2017-09 ("ASU 2017-09"), Scope of Modification Accounting. ASU 2017-09 clarifies the modification accounting guidance for stock compensation included in Topic 718, Compensation – Stock Compensation. ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award must be accounted for as a modification under Topic 718. The adoption of this guidance did not have a material impact on our condensed consolidated financial statements and related disclosures.

Effective January 1, 2018, we adopted ASU No. 2017-07 ("ASU 2017-07"), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. ASU 2017-07 requires presentation of the service cost component of net periodic benefit cost within the same income statement line item as other compensation costs arising from services rendered by relevant employees during the period, and presentation of the other cost components of net periodic benefit cost separately and outside of the income from operations subtotal. In addition, only the service cost component is eligible for capitalization. We adopted ASU 2017-07 prospectively for the capitalization of the service cost component of the net periodic benefit cost. ASU 2017-07 was applied retrospectively using the practical expedient for the presentation of the other components of net periodic benefit cost in the statement of operations and as a result, we reclassified $(0.8) million and $(0.4) million of benefit from cost of services and products and $(0.2) million and $(0.1) million of benefit from selling, general and administrative expenses into other, net within non-operating income (expense) for the quarter and six months ended June 30, 2017, respectively. See Note 9 for the amount of each component of net periodic pension and post-retirement benefit costs.

Effective January 1, 2018, we adopted ASU No. 2017-05 ("ASU 2017-05"), Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. ASU 2017-05 provides additional guidance to (i) clarify the scope for recognizing gains and losses from the transfer of nonfinancial assets and in substance nonfinancial assets in contracts with non-customers, and (ii) clarify the accounting for partial sales of nonfinancial assets. The adoption of this guidance did not have a material impact on our condensed consolidated financial statements and related disclosures.

Effective January 1, 2018, we adopted ASU No. 2017-04 ("ASU 2017-04"), Simplifying the Accounting for Goodwill Impairment. ASU 2017-04 eliminates Step 2 from the goodwill impairment test. Under the updated guidance, the goodwill impairment test will be performed by comparing the fair value of a reporting unit with its carrying amount and an impairment charge will be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. The adoption of this guidance did not have a material impact on our condensed consolidated financial statements and related disclosures and is not expected to have a material impact on our testing of goodwill.

Effective January 1, 2018, we adopted ASU No. 2017-01 ("ASU 2017-01"), Clarifying the Definition of a Business. ASU 2017-01 clarifies the definition of a business and establishes a screening process to determine whether an integrated set of assets and activities acquired is deemed the acquisition of a business or the acquisition of assets. The adoption of this guidance did not have a material impact on our condensed consolidated financial statements and related disclosures.

Effective January 1, 2018, we adopted ASU No. 2016-16 (“ASU 2016-16”), Intra-Entity Transfers of Assets Other Than Inventory. ASU 2016-16 eliminates the existing exception prohibiting the recognition of the income tax consequences for intra-entity asset transfers until the asset has been sold to an outside party. Under ASU 2016-16, entities will be required to recognize the income tax consequences of intra-entity asset transfers other than inventory when the transfer occurs. The adoption of this guidance did not have a material impact on our condensed consolidated financial statements and related disclosures.

Effective January 1, 2018, we adopted ASU No. 2016-15 (“ASU 2016-15”), Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 provides guidance concerning the classification of certain cash receipts and cash payments in the statement of cash flows. The adoption of this guidance did not have a material impact on our condensed consolidated financial statements and related disclosures.

In June 2018, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2018-07 (“ASU 2018-07”), Improvements to Nonemployee Share-Based Payment Accounting. ASU 2018-07 expands the scope of Topic 718,

Table of Contents

Compensation – Stock Compensation, to include share-based payment transactions for acquiring goods and services from nonemployees to align the accounting guidance for both employee and nonemployee share-based transactions. The new guidance is effective for annual and interim periods beginning after December 15, 2018 with early adoption permitted. We are currently evaluating the impact this update will have on our condensed consolidated financial statements and related disclosures.

In February 2018, the FASB issued ASU No. 2018-02 (“ASU 2018-02”), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. ASU 2018-02 provides an option to allow reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. The new guidance is effective for annual and interim periods beginning after December 15, 2018 with early adoption permitted. We are currently evaluating the impact this update will have on our condensed consolidated financial statements and related disclosures and do not expect to make the optional election for reclassification of stranded tax effects from accumulated other comprehensive income (loss) to retained earnings.

In August 2017, the FASB issued ASU Update No. 2017-12 (“ASU 2017-12”), Targeted Improvements to Accounting for Hedging Activities. ASU 2017-12 amends current guidance on accounting for hedges mainly to align more closely an entity’s risk management activities and financial reporting relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. In addition, amendments in ASU 2017-12 simplify the application of hedge accounting by allowing more time to prepare hedge documentation and allowing effectiveness assessments to be performed on a qualitative basis after hedge inception. The new guidance is effective for annual and interim periods beginning after December 15, 2018 with early adoption permitted. We plan to adopt ASU 2017-12 as of January 1, 2019 and are currently evaluating the impact this update will have on our condensed consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13 (“ASU 2016-13”), Measurement of Credit Losses on Financial Instruments. ASU 2016-13 establishes the new “current expected credit loss” model for measuring and recognizing credit losses on financial assets based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts. The new guidance is effective on a modified retrospective basis for annual and interim periods beginning after December 15, 2019, with early adoption permitted for annual and interim periods beginning after December 15, 2018. We have not yet made a decision on the timing of adoption and are currently evaluating the impact this update will have on our condensed consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02 (“ASU 2016-02”), Leases. ASU 2016-02 establishes a new lease accounting model for leases. Lessees will be required to recognize most leases on their balance sheets but lease expense will be recognized on the income statement in a manner similar to existing requirements. ASU 2016-02 is effective on a modified retrospective basis for annual and interim periods beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the population of our leases and anticipate that most of our operating lease commitments will be recognized on our consolidated balance sheets. We plan to adopt this update effective January 1, 2019 and are continuing to assess the potential impact of this update on our condensed consolidated financial statements and related disclosures.

Reclassifications

Certain amounts in our 2017 condensed consolidated financial statements have been reclassified to conform to the current year presentation. In accordance with the adoption of ASU 2017-07, as described above, certain components of net periodic benefit cost were reclassified from operating expense to non-operating income (expense) in our condensed consolidated statement of operations.

Table of Contents

2. ACQUISITIONS AND DIVESTITURES

Acquisitions

FairPoint Communications, Inc.

On July 3, 2017, we completed the Merger with FairPoint and acquired all of the issued and outstanding shares of FairPoint in exchange for shares of our common stock. As a result, FairPoint became a wholly-owned subsidiary of the Company. FairPoint is an advanced communications provider to business, wholesale and residential customers within its service territory, which spans across 17 states. FairPoint owns and operates a robust fiber-based network with more than 22,000 route miles of fiber, including 17,000 route miles of fiber in northern New England. The acquisition reflects our strategy to diversify revenue and cash flows amongst multiple products and to expand our network to new markets.

At the effective time of the Merger, each share of common stock of FairPoint issued and outstanding immediately prior to the effective time of the Merger converted into and became the right to receive 0.7300 shares of common stock of Consolidated and cash in lieu of fractional shares, pursuant to the terms of the Merger Agreement. Based on the closing price of our common stock on the last complete trading day prior to the effective date of the Merger, the total value of the consideration to be exchanged was $431.0 million, exclusive of debt of approximately $919.3 million. On the date of the Merger, we issued an approximate aggregate total of 20.1 million shares of our common stock to the former FairPoint stockholders and we assumed approximately 2,615,153 outstanding warrants, each eligible to purchase one share of the Company’s common stock at an exercise price of $66.86 per share, subject to adjustment in accordance with the warrant agreement. On January 24, 2018, all of the warrants expired in accordance with their terms without being exercised.

In connection with the Merger, we secured committed debt financing in December 2016 through a $935.0 million incremental term loan facility, as described in Note 6, that, in addition to cash on hand and other sources of liquidity, was used to repay certain existing indebtedness of FairPoint and to pay the fees and expenses in connection with the Merger.

The acquisition was accounted for in accordance with the acquisition method of accounting for business combinations. The tangible and intangible assets acquired and liabilities assumed were recorded at their estimated fair values as of the date of the acquisition.

As of June 30, 2018, the estimated fair value of the tangible and intangible assets acquired and liabilities assumed are as follows:

(In thousands)	
Cash and cash equivalents	$ 56,980
Accounts receivable	72,206
Other current assets	22,012
Assets held for sale	20,843
Property, plant and equipment	1,047,000
Intangible assets	303,180
Other long-term assets	2,685
Total assets acquired	1,524,906
Current liabilities	123,109
Liabilities held for sale	443
Pension and other post-retirement obligations	219,298
Deferred income taxes	96,632
Other long-term liabilities	13,502
Total liabilities assumed	452,984
Net fair value of assets acquired	1,071,922
Goodwill	278,396
Total consideration transferred	$ 1,350,318

Table of Contents

We are in the process of finalizing the valuation of the net assets acquired, most notably, the valuation of deferred income taxes. Any changes within the measurement period to the initial estimates of the fair value of the assets acquired and liabilities assumed will be recorded to those assets and liabilities and residual amounts will be allocated to goodwill.

Goodwill recognized from the acquisition primarily relates to the expected contributions of the entity to the overall corporate strategy and the synergies expected to be realized from the acquisition. Amortization of goodwill is not deductible for income tax purposes.

Based on the valuation analysis, the identifiable intangible assets acquired consisted of customer relationships of $300.3 million, tradenames of $1.1 million and non-compete agreements of $1.8 million. The intangible assets were valued using an income based approach (level 3 inputs) that utilized the multi-period earnings method for customer relationships, the relief from royalty method for tradenames and the with and without method for the non-compete agreements. The customer relationships are being amortized using an accelerated amortization method over their estimated useful lives of seven to eleven years depending on the nature of the customer. The tradenames and non-compete agreements are amortized using the straight-line method over their estimated useful lives of six months and one year, respectively.

During the quarter ended June 30, 2018, we made certain adjustments to the fair value of the identifiable assets acquired and liabilities assumed which resulted in an increase in working capital of $0.9 million and decreases in property, plant and equipment of $6.6 million, long-term liabilities of $2.4 million and deferred income taxes of $0.9 million. The net impact of the adjustments reduced net assets acquired and increased goodwill by $2.4 million.

As discussed in the “Divestures” section below, we have committed to a formal plan to sell certain assets of FairPoint and these assets have been classified as held for sale at the acquisition date. In connection with the classification as assets held for sale at the acquisition date, the carrying value of these assets was recorded at their estimated fair value of approximately $20.4 million, which was determined based on the estimated selling price less costs to sell.

Unaudited Pro Forma Results

The following unaudited pro forma information presents our results of operations as if the acquisition of FairPoint occurred on January 1, 2016. The adjustments to arrive at the pro forma information below included adjustments for depreciation and amortization on the acquired tangible and intangible assets acquired, interest expense on the debt incurred to finance the acquisition and to repay certain existing indebtedness of FairPoint, and the exclusion of certain acquisition related costs. Shares used to calculate the basic and diluted earnings per share were adjusted to reflect the additional shares of common stock issued to fund the acquisition.

(Unaudited; in thousands, except per share amounts)	Quarter Ended June 30, 2017	Six Months Ended June 30, 2017

Operating revenues	$ 369,089	$ 740,932
Income from operations	$ 20,735	$ 31,867
Net loss	$ (1,400)	$ (9,948)
Less: net loss attributable to noncontrolling interest	102	82
Net loss attributable to common stockholders	$ (1,502)	$ (10,030)
Net loss per common share-basic and diluted	$ (0.02)	$ (0.14)

Transaction costs related to the acquisition of FairPoint were $1.7 million and $3.2 million during the quarter and six months ended June 30, 2017, respectively, which are included in acquisition and other transaction costs in the condensed consolidated statements of operations. These costs are considered to be non-recurring in nature and therefore pro forma adjustments have been made to exclude these costs from the pro forma results of operations.

The pro forma information does not purport to present the actual results that would have resulted if the acquisition had in fact occurred at the beginning of the fiscal periods presented, nor does the information project results for any future period. The pro forma information does not include the impact of any future cost savings or synergies that may be achieved as a result of the acquisition.

Table of Contents

Divestitures

In August 2017, we entered into a letter of intent to sell our subsidiaries Peoples Mutual Telephone Company and Peoples Mutual Long Distance Company, (collectively, “Peoples”), which were acquired as part of the acquisition of FairPoint. Peoples operates as a local exchange carrier in Virginia and provides telecommunications services to residential and business customers. In November 2017, the Company entered into an agreement to sell all of the issued and outstanding stock of Peoples in exchange for cash of approximately $21.0 million, subject to certain contractual adjustments. The parties received all required regulatory approvals in July 2018 and the transaction closed on July 31, 2018.

As of the FairPoint acquisition date, the net assets to be sold have been classified as held for sale in the consolidated balance sheet. The expected sale of these assets has not been reported as discontinued operations in the condensed consolidated statements of operations as the annual revenues of these operations is less than 1% of the consolidated operating revenues. The estimated fair value of the net assets held for sale was determined based on the estimated selling price less costs to sell and was classified as Level 2 within the fair value hierarchy at June 30, 2018 and December 31, 2017.

The classes of assets and liabilities to be sold and classified as held for sale consisted of the following:

(In thousands)	June 30, 2018	December 31, 2017
Current assets	$ 252	$ 227
Property, plant and equipment	4,369	4,254
Goodwill	16,098	16,829
Total assets	$ 20,719	$ 21,310
Current liabilities	$ 233	$ 701
Deferred taxes	148	302
Total liabilities	$ 381	$ 1,003

3. EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per common share ("EPS") are computed using the two-class method, which is an earnings allocation method that determines EPS for each class of common stock and participating securities considering dividends declared and participation rights in undistributed earnings. The Company's restricted stock awards are considered participating securities because holders are entitled to receive non-forfeitable dividends during the vesting term.

The potentially dilutive impact of the Company's restricted stock awards is determined using the treasury stock method. Under the treasury stock method, if the average market price during the period exceeds the exercise price, these instruments are treated as if they had been exercised with the proceeds of exercise used to repurchase common stock at the average market price during the period. Any incremental difference between the assumed number of shares issued and repurchased is included in the diluted share computation.

Diluted EPS includes securities that could potentially dilute basic EPS during a reporting period. Dilutive securities are not included in the computation of loss per share when a company reports a net loss from continuing operations as the impact would be anti-dilutive.

Table of Contents

The computation of basic and diluted EPS attributable to common shareholders computed using the two class method is as follows:

	Quarter Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share amounts)	2018	2017	2018	2017
Net loss	$ (10,560)	$ (2,626)	$ (21,758)	$ (6,331)
Less: net income (loss) attributable to noncontrolling interest	83	102	183	82
Loss attributable to common shareholders before allocation of earnings to participating securities	(10,643)	(2,728)	(21,941)	(6,413)
Less: earnings allocated to participating securities	221	115	442	164
Net loss attributable to common shareholders, after earnings allocated to participating securities	$ (10,864)	$ (2,843)	$ (22,383)	$ (6,577)
Weighted-average number of common shares outstanding	70,598	50,412	70,598	50,411
Net loss per common share attributable to common shareholders - basic and diluted	$ (0.15)	$ (0.06)	$ (0.32)	$ (0.13)

Diluted EPS attributable to common shareholders for each of the quarters ended June 30, 2018 and 2017 excludes 0.7 million and 0.3 million potential common shares, respectively, that could be issued under our share-based compensation plan, because the inclusion of the potential common shares would have an antidilutive effect. For each of the six months ended June 30, 2018 and 2017, diluted earnings (loss) per common share attributable to common shareholders excludes 0.5 million and 0.3 million potential common shares, respectively.

4. INVESTMENTS

Our investments are as follows:

(In thousands)	June 30, 2018	December 31, 2017
Cash surrender value of life insurance policies	$ 2,315	$ 2,272
Investments at cost:		
GTE Mobilnet of South Texas Limited Partnership (2.34% interest)	21,450	21,450
Pittsburgh SMSA Limited Partnership (3.60% interest)	22,950	22,950

CoBank, ACB Stock	9,050	9,105
Other	298	343
Equity method investments:		
GTE Mobilnet of Texas RSA #17 Limited Partnership (20.51% interest)	17,344	17,375
Pennsylvania RSA 6(I) Limited Partnership (16.67% interest)	7,546	7,300
Pennsylvania RSA 6(II) Limited Partnership (23.67% interest)	29,152	28,063
Totals	$ 110,105	$ 108,858

Investments at Cost

We own 2.34% of GTE Mobilnet of South Texas Limited Partnership (the "Mobilnet South Partnership"). The principal activity of the Mobilnet South Partnership is providing cellular service in the Houston, Galveston and Beaumont, Texas metropolitan areas. We also own 3.60% of Pittsburgh SMSA Limited Partnership, which provides cellular service in and around the Pittsburgh metropolitan area. Because of our limited influence over these partnerships, we account for these investments at our initial cost less any impairment because fair value is not readily available for these investments. No factors of impairment existed for any of the investments during the quarters or six months ended June 30, 2018 or 2017. For these investments, we adjust the carrying value for any purchases or sales of our ownership interests. We record distributions received from these investments as investment income in non-operating income (expense). For the quarters

Table of Contents

ended June 30, 2018 and 2017, we received cash distributions from these partnerships totaling $6.1 million and $3.7 million, respectively. For the six months ended June 30, 2018 and 2017, we received cash distributions from these partnerships totaling $9.1 million and $5.3 million, respectively.

CoBank, ACB (“CoBank”) is a cooperative bank owned by its customers. On an annual basis, CoBank distributes patronage in the form of cash and stock in the cooperative based on the Company’s outstanding loan balance with CoBank, which has traditionally been a significant lender in the Company’s credit facility. The investment in CoBank represents the accumulation of the equity patronage paid by CoBank to the Company.

Equity Method

We own 20.51% of GTE Mobilnet of Texas RSA #17 Limited Partnership (“RSA #17”), 16.67% of Pennsylvania RSA 6(I) Limited Partnership (“RSA 6(I)”) and 23.67% of Pennsylvania RSA 6(II) Limited Partnership (“RSA 6(II)”). RSA #17 provides cellular service to a limited rural area in Texas. RSA 6(I) and RSA 6(II) provide cellular service in and around our Pennsylvania service territory. Because we have significant influence over the operating and financial policies of these three entities, we account for the investments using the equity method. In connection with the adoption of ASC 606 by our equity method partnerships, the value of our combined partnership interests increased $1.8 million, which is reflected in the cumulative effect adjustment to retained earnings during the quarter and six months ended June 30, 2018. For the quarters ended June 30, 2018 and 2017, we received cash distributions from these partnerships totaling $5.1 million and $4.1 million, respectively. For each of the six months ended June 30, 2018 and 2017, we received cash distributions from these partnerships totaling $11.6 million and $8.1 million, respectively.

The combined unaudited results of operations and financial position of our three equity investments in the cellular limited partnerships are summarized below:

	Quarter Ended June 30,		Six Months Ended June 30,	
(In thousands)	2018	2017	2018	2017
Total revenues	$ 85,767	$ 89,811	$ 167,710	$ 169,832
Income from operations	25,149	24,518	49,647	45,806
Net income before taxes	24,837	24,145	49,041	45,042
Net income	24,837	24,145	49,041	45,042

	June 30,	December 31,

(In thousands)	2018	2017
Current assets	$ 76,641	$ 78,782
Non-current assets	97,485	95,959
Current liabilities	21,455	22,472
Non-current liabilities	51,107	51,463
Partnership equity	101,564	100,806

5. FAIR VALUE MEASUREMENTS

Our derivative instruments related to interest rate swap agreements are required to be measured at fair value on a recurring basis. The fair values of the interest rate swaps are determined using valuation models and are categorized within Level 2 of the fair value hierarchy as the valuation inputs are based on quoted prices and observable market data of similar instruments. See Note 7 for further discussion regarding our interest rate swap agreements.

Table of Contents

Our interest rate swap agreements measured at fair value on a recurring basis as of June 30, 2018 and December 31, 2017 were as follows:

		As of June 30, 2018		
(In thousands)	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Current interest rate swap assets	$ 211	$ —	$ 211	$ —
Long-term interest rate swap assets	10,087	—	10,087	—
Total	$ 10,298	$ —	$ 10,298	$ —

		As of December 31, 2017		
(In thousands)	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Long-term interest rate swap assets	$ 1,256	$ —	$ 1,256	$ —
Current interest rate swap liabilities	(27)	—	(27)	—
Long-term interest rate swap liabilities	(1,761)	—	(1,761)	—
Total	$ (532)	$ —	$ (532)	$ —

We have not elected the fair value option for any of our financial assets or liabilities. The carrying value of other financial instruments, including cash, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short maturities. The following table presents the other financial instruments that are not carried at fair value but which require fair value disclosure as of June 30, 2018 and December 31, 2017.

	As of June 30, 2018	As of December 31, 2017

(In thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Investments, equity basis	$ 54,042	n/a	$ 52,738	n/a
Investments, at cost	$ 53,748	n/a	$ 53,848	n/a
Long-term debt, excluding capital leases	$ 2,317,227	$ 2,256,634	$ 2,331,400	$ 2,253,545

Cost & Equity Method Investments

Our investments as of June 30, 2018 and December 31, 2017 accounted for at cost and under the equity method consisted primarily of minority positions in various cellular telephone limited partnerships and our investment in CoBank. It is impracticable to determine the fair value of these investments.

Long-term Debt

The fair value of our senior notes was based on quoted market prices, and the fair value of borrowings under our credit facility was determined using current market rates for similar types of borrowing arrangements. We have categorized the long-term debt as Level 2 within the fair value hierarchy.

6. LONG-TERM DEBT

Long-term debt, presented net of unamortized discounts, consisted of the following:

(In thousands)	June 30, 2018	December 31, 2017
Senior secured credit facility:		
Term loans, net of discounts of $7,674 and $8,344 at June 30, 2018 and December 31, 2017, respectively	$ 1,804,563	$ 1,813,069
Revolving loan	16,000	22,000
6.50% Senior notes due 2022, net of discount of $3,336 and $3,669 at June 30, 2018 and December 31, 2017, respectively	496,664	496,331
Capital leases	36,843	23,890
	2,354,070	2,355,290
Less: current portion of long-term debt and capital leases	(32,570)	(29,696)
Less: deferred debt issuance costs	(12,748)	(14,080)
Total long-term debt	$ 2,308,752	$ 2,311,514

Credit Agreement

In October 2016, the Company, through certain of its wholly owned subsidiaries, entered into a Third Amended and Restated Credit Agreement with various financial institutions (as amended, the “Credit Agreement”). The Credit Agreement consists of a $110.0 million revolving credit facility, an initial term loan in the aggregate amount of $900.0 million (the “Initial Term Loan”) and an incremental term loan in the aggregate amount of $935.0 million (the “Incremental Term Loan”), collectively (the “Term Loans”). The Incremental Term Loan was issued on July 3, 2017 upon completion of the FairPoint Merger, as described below. The Credit Agreement also includes an incremental loan facility which provides the ability to borrow, subject to certain terms and conditions, incremental loans in an aggregate amount of up to the greater of (a) $300.0 million and (b) an amount which would cause its senior secured leverage ratio not to exceed 3.00:1.00 (the “Incremental Facility”). Borrowings under the Credit Agreement are secured by substantially all of the assets of the Company and its subsidiaries, including certain of the FairPoint subsidiaries acquired in the Merger, with the exception of Consolidated Communications of Illinois Company and our majority-owned subsidiary, East Texas Fiber Line Incorporated.

The Initial Term Loan was issued in an original aggregate principal amount of $900.0 million with a maturity date of October 5, 2023, but is subject to earlier maturity on March 31, 2022 if the Company’s unsecured Senior Notes due in October 2022 are not repaid in full or redeemed in full on or prior to March 31, 2022. The Initial Term Loan contains an original issuance discount of 0.25% or $2.3 million, which is being amortized over the term of the loan. The Initial Term Loan requires quarterly principal payments of $2.25 million and has an interest rate of 3.00% plus the London

Interbank Offered Rate (“LIBOR”) subject to a 1.00% LIBOR floor.

In connection with the execution of the Merger Agreement, in December 2016, the Company entered into two amendments to its Credit Agreement to secure committed financing related to the acquisition of FairPoint. On December 14, 2016, we entered into Amendment No. 1 to the Credit Agreement and on December 21, 2016, the Company entered into Amendment No. 2 to the Credit Agreement, pursuant to which a syndicate of lenders agreed to provide an incremental term loan in an aggregate principal amount of up to $935.0 million under the Credit Agreement, subject to the satisfaction of certain conditions. The Incremental Term Loan was made pursuant to the Incremental Facility set forth in the Credit Agreement. Fees of $2.5 million paid to the lenders in connection with Amendment No. 1 are reflected as an additional discount on the Initial Term Loan and are being amortized over the term of the debt as interest expense. Ticking fees accrued on the incremental term loan commitments from January 15, 2017 through the July 3, 2017 Merger closing date at a rate of 3.00% plus LIBOR subject to a 1.00% LIBOR floor and became due and payable on the closing date. In connection with entering into the committed financing, commitment fees of $14.0 million were capitalized in December 2016 and were amortized to interest expense over the term of the commitment period through July 2017.

Table of Contents

On July 3, 2017, the Merger with FairPoint was completed and the net proceeds from the incurrence of the Incremental Term Loan were used, in part, to repay and redeem certain existing indebtedness of FairPoint and to pay certain fees and expenses in connection with the Merger and the related financing. The Incremental Term Loan included an original issue discount of 0.50% and has the same maturity date and interest rate as the Initial Term Loan. The Incremental Term Loan requires quarterly principal payments of $2.34 million which began in December 2017.

In addition, effective contemporaneously with the Merger, the Company entered into Amendment No. 3 to the Credit Agreement to increase the permitted amount of outstanding letters of credit from $15.0 million to $20.0 million and to provide that certain existing letters of credit of FairPoint be deemed to be letters of credit under the Credit Agreement.

Our revolving credit facility has a maturity date of October 5, 2021 and an applicable margin (at our election) of between 2.50% and 3.25% for LIBOR-based borrowings or between 1.50% and 2.25% for alternate base rate borrowings, in each case depending on our total net leverage ratio. Based on our leverage ratio as of June 30, 2018, the borrowing margin for the three month period ending September 30, 2018 will be at a weighted-average margin of 3.00% for a LIBOR-based loan or 2.00% for an alternate base rate loan. The applicable borrowing margin for the revolving credit facility is adjusted quarterly to reflect the leverage ratio from the prior quarter-end. As of June 30, 2018, alternate base rate borrowings of $16.0 million were outstanding under the revolving credit facility. At December 31, 2017, there were borrowings of $22.0 million outstanding under the revolving credit facility, which consisted of LIBOR-based borrowings of $17.0 million and alternate base rate borrowings of $5.0 million. Stand-by letters of credit of $18.2 million were outstanding under our revolving credit facility as of June 30, 2018. The stand-by letters of credit are renewable annually and reduce the borrowing availability under the revolving credit facility. As of June 30, 2018, $75.8 million was available for borrowing under the revolving credit facility.

The weighted-average interest rate on outstanding borrowings under our credit facility was 5.11% and 4.58% as of June 30, 2018 and December 31, 2017, respectively. Interest is payable at least quarterly.

Credit Agreement Covenant Compliance

The Credit Agreement contains various provisions and covenants, including, among other items, restrictions on the ability to pay dividends, incur additional indebtedness and issue certain capital stock. We have agreed to maintain certain financial ratios, including interest coverage and total net leverage ratios, all as defined in the Credit Agreement. As of June 30, 2018, we were in compliance with the Credit Agreement covenants.

In general, our Credit Agreement restricts our ability to pay dividends to the amount of our available cash as defined in our Credit Agreement. As of June 30, 2018, and including the $27.6 million dividend paid on August 1, 2018, we had $311.0 million in dividend availability under the credit facility covenant.

Under our Credit Agreement, if our total net leverage ratio, as defined in the Credit Agreement, as of the end of any fiscal quarter is greater than 5.10:1.00, we will be required to suspend dividends on our common stock unless otherwise permitted by an exception for dividends that may be paid from the portion of proceeds of any sale of equity not used to fund acquisitions or make other investments. During any dividend suspension period, we will be required to repay debt in an amount equal to 50.0% of any increase in available cash, among other things. In addition, we will not be permitted to pay dividends if an event of default under the Credit Agreement has occurred and is continuing. Among other things, it will be an event of default if our total net leverage ratio or interest coverage ratio as of the end of any fiscal quarter is greater than 5.25:1.00 or less than 2.25:1.00, respectively. As of June 30, 2018, our total net leverage ratio under the Credit Agreement was 4.24:1.00, and our interest coverage ratio was 4.33:1.00.

Senior Notes

6.50% Senior Notes due 2022

In September 2014, we completed an offering of $200.0 million aggregate principal amount of 6.50% Senior Notes due in October 2022 (the “Existing Notes”). The Existing Notes were priced at par, which resulted in total gross proceeds of $200.0 million. On June 8, 2015, we completed an additional offering of $300.0 million in aggregate principal amount of

Table of Contents

6.50% Senior Notes due 2022 (the "New Notes" and together with the Existing Notes, the "Senior Notes"). The New Notes were issued as additional notes under the same indenture pursuant to which the Existing Notes were previously issued on in September 2014. The New Notes were priced at 98.26% of par with a yield to maturity of 6.80% and resulted in total gross proceeds of approximately $294.8 million, excluding accrued interest. The discount is being amortized using the effective interest method over the term of the notes.

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

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

Senior Notes Covenant Compliance

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

Among other matters, the Senior Notes indenture provides that CCI may not pay dividends or make other restricted payments, as defined in the indenture, if its total net leverage ratio is 4.75:1.00 or greater. This ratio is calculated differently than the comparable ratio under the Credit Agreement; among other differences, it takes into account, on a pro forma basis, synergies expected to be achieved as a result of certain acquisitions not yet reflected in historical results. As of June 30, 2018, this ratio was 4.30:1.00. If this ratio is met, dividends and other restricted payments may be made from cumulative consolidated cash flow since April 1, 2012, less 1.75 times fixed charges, less dividends and other restricted payments made since May 30, 2012. Dividends may be paid and other restricted payments may also be made from a "basket" of $50.0 million, none of which has been used to date, and pursuant to other exceptions identified in the indenture. Since dividends of $488.5 million have been paid since May 30, 2012, including the quarterly dividend declared in May 2018 and paid on August 1, 2018, there was $1,003.5 million of the $1,492.1 million of cumulative consolidated cash flow since May 30, 2012 available to pay dividends as of June 30, 2018. As of June 30, 2018, the Company was in compliance with all terms, conditions and covenants under the indenture governing the Senior Notes.

Capital Leases

We lease certain facilities and equipment under various capital leases which expire between 2018 and 2027. As of June 30, 2018, the present value of the minimum remaining lease commitments was approximately $36.8 million, of which $14.2 million was due and payable within the next twelve months. The leases require total remaining rental payments of $43.5 million as of June 30, 2018, of which $2.4 million will be paid to LATEL LLC, a related party entity.

7. DERIVATIVE FINANCIAL INSTRUMENTS

We use derivative financial instruments to manage our exposure to the risks associated with fluctuations in interest rates. Our interest rate swap agreements effectively convert a portion of our floating-rate debt to a fixed rate basis, thereby reducing the impact of interest rate changes on future cash interest payments. Derivative financial instruments are recorded at fair value in our condensed consolidated balance sheets. We may designate certain of our interest rate swaps as cash flow hedges of our expected future interest payments. For derivative instruments designated as a cash flow hedge, the

Table of Contents

effective portion of the change in the fair value is recognized as a component of accumulated other comprehensive income (loss) ("AOCI") and is recognized as an adjustment to earnings over the period in which the hedged item impacts earnings. When an interest rate swap agreement terminates, any resulting gain or loss is recognized over the shorter of the remaining original term of the hedging instrument or the remaining life of the underlying debt obligation. If a derivative instrument is de-designated, the remaining gain or loss in AOCI on the date of de-designation is amortized to earnings over the remaining term of the hedging instrument. For derivative financial instruments that are not designated as a hedge, including those that have been de-designated, changes in fair value are recognized on a current basis in earnings. The ineffective portion of the change in fair value of any hedging derivative is recognized immediately in earnings. Cash flows from hedging activities are classified under the same category as the cash flows from the hedged items in our condensed consolidated statements of cash flows.

The following interest rate swaps were outstanding as of June 30, 2018:

(In thousands)	Notional Amount	2018 Balance Sheet Location	Fair Value
Cash Flow Hedges:			
Fixed to 1-month floating LIBOR (with floor)	$ 450,000	Prepaid expenses and other current assets	$ 211
Fixed to 1-month floating LIBOR (with floor)	$ 550,000	Other assets	1,434
Series of forward starting fixed to 1-month floating LIBOR (with floor)	$ 2,010,000	Other assets	8,653
Total Fair Values			$ 10,298

The following interest rate swaps were outstanding as of December 31, 2017:

(In thousands)	Notional Amount	2017 Balance Sheet Location	Fair Value
Cash Flow Hedges:			
Fixed to 1-month floating LIBOR (with floor)	$ 600,000	Other assets	$ 873
Fixed to 1-month floating LIBOR (with floor)	$ 150,000	Accrued expense	(27)
Forward starting fixed to 1-month floating LIBOR (with floor)	$ 600,000	Other assets	383
Series of forward starting fixed to 1-month floating LIBOR (with floor)	$ 1,410,000	Other long-term liabilities	(1,761)
Total Fair Values			$ (532)

The counterparties to our various swaps are highly rated financial institutions. None of the swap agreements provide for either us or the counterparties to post collateral nor do the agreements include any covenants related to the financial condition of Consolidated or the counterparties. The swaps of any counterparty that is a lender, as defined in our credit facility, are secured along with the other creditors under the credit facility. Each of the swap agreements provides that, in the event of a bankruptcy filing by either Consolidated or the counterparty, any amounts owed between the two parties would be offset in order to determine the net amount due between parties.

In connection with the acquisition of FairPoint, during the quarter ended June 30, 2017, we entered into a series of four deal contingent forward-starting interest rate swap agreements each with a term of one year which began at various dates between July 2017 and July 2020 and mature between July 2018 and July 2021. The forward starting interest rate swap agreements have a notional value ranging from $450.0 million to $705.0 million. These interest rate swap agreements have been designated as cash flow hedges.

During the quarter ended March 31, 2018, we entered into an interest rate swap agreement with a notional value of $500.0 million and a term of five years. The interest rate swap agreement was designated as a cash flow hedge. On March 12, 2018, we completed a syndication of a portion of the $500.0 million interest rate swap agreement with five new counterparties. On the date of the syndication, the interest rate swap agreements were de-designated due to changes in critical terms as a result of the syndication. Prior to de-designation, the effective portion of the change in fair value of the interest rate swap was recognized in AOCI. The balance of the unrealized loss included in AOCI as of the date the swaps

Table of Contents

were de-designated is being amortized to earnings over the remaining term of the interest rate swap agreements. Changes in fair value of the de-designated swaps were immediately recognized in earnings as interest expense prior to the de-designation date. During the quarter and six months ended June 30, 2018, a gain of $0.4 million and a loss of $2.5 million, respectively, was recognized in interest expense for the change in fair value of the de-designated swaps. During the quarter ended June 30, 2018, the interest rate swap agreements were re-designated as a cash flow hedge.

As of June 30, 2018 and December 31, 2017, the total pre-tax unrealized gains related to our interest rate swap agreements included in AOCI was $14.1 million and $0.6 million, respectively. From the balance in AOCI as of June 30, 2018, we expect to recognize a loss of approximately $3.5 million in earnings in the next twelve months.

Information regarding our cash flow hedge transactions is as follows:

	Quarter Ended June 30,		Six Months Ended June 30,	
(In thousands)	2018	2017	2018	2017
Unrealized gain (loss) recognized in AOCI, pretax	$ 5,256	$ (4,039)	$ 11,679	$ (4,130)
Deferred losses reclassified from AOCI to interest expense	$ (1,446)	$ (396)	$ (1,802)	$ (729)
Gain (loss) recognized in interest expense from ineffectiveness	$ 319	$ (1,535)	$ 1,349	$ (1,300)

8. EQUITY

Share-Based Compensation

Our Board of Directors may grant share-based awards from our shareholder approved Amended and Restated Consolidated Communications Holdings, Inc. 2005 Long-Term Incentive Plan (the "Plan"). The Plan permits the issuance of awards in the form of stock options, stock appreciation rights, stock grants, stock unit grants and other equity-based awards to eligible directors and employees at the discretion of the Compensation Committee of the Board of Directors. On April 30, 2018, the shareholders approved an amendment to the Plan to increase by 2,000,000 the number of shares of our common stock authorized for issuance under the Plan and extend the term of the Plan through April 30, 2028. With the amendment, approximately 4,650,000 shares of our common stock are authorized for issuance under the Plan, provided that no more than 300,000 shares may be granted in the form of stock options or stock appreciation rights to any eligible employee or director in any calendar year. Unless terminated sooner, the Plan will continue in effect until April 30, 2028.

The following table summarizes total compensation costs recognized for share-based payments during the quarters and six-month periods ended June 30, 2018 and 2017:

	Quarter Ended June 30,		Six Months Ended June 30,	
(In thousands)	2018	2017	2018	2017
Restricted stock	$ 979	$ 589	$ 1,414	$ 964
Performance shares	559	303	802	466
Total	$ 1,538	$ 892	$ 2,216	$ 1,430

Share-based compensation expense is included in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations.

As of June 30, 2018, total unrecognized compensation cost related to non-vested Restricted Stock Awards (“RSAs”) and Performance Share Awards (“PSAs”) was $12.2 million and will be recognized over a weighted-average period of approximately 2.0 years.

Table of Contents

The following table summarizes the RSA and PSA activity for the six-month period ended June 30, 2018:

RSAs		PSAs	
	Weighted Average Grant		Weighted Average Grant