Consolidated Communications Holdings, Inc.
Form 10-Q
November 06, 2017
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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 September 30, 2017

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes 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. (Check one):

Large accelerated filer X Accelerated filer

Non-accelerated filer___ (Do not check if a smaller reporting company) 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 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 October 30, 2017, the registrant had 70,836,042 shares of Common Stock outstanding.

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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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net revenues	$ 363,329	$ 191,541	$ 703,214	$ 567,258
Operating expense:				
Cost of services and products (exclusive of depreciation and amortization)	145,323	85,646	287,090	246,129
Selling, general and administrative expenses	94,459	39,917	166,210	119,398
Acquisition and other transaction costs	27,139	18	30,663	266
Loss on impairment	—	—	—	610
Depreciation and amortization	104,406	43,224	187,084	130,855
Income (loss) from operations	(7,998)	22,736	32,167	70,000
Other income (expense):				
Interest expense, net of interest income	(36,307)	(19,075)	(99,896)	(56,827)
Investment income	9,594	8,735	23,068	24,636
Other, net	28	(316)	74	(374)
Income (loss) before income taxes	(34,683)	12,080	(44,587)	37,435
Income tax expense (benefit)	(6,289)	4,991	(9,862)	22,287
Net income (loss)	(28,394)	7,089	(34,725)	15,148
Less: net income attributable to noncontrolling interest	54	77	136	211
Net income (loss) attributable to common shareholders	$ (28,448)	$ 7,012	$ (34,861)	$ 14,937
	$ (0.41)	$ 0.14	$ (0.62)	$ 0.29

Net income (loss) per basic and diluted common shares attributable to common shareholders				
Dividends declared per common share	$ 0.39	$ 0.39	$ 1.16	$ 1.16

See accompanying notes.

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CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited; Amounts in thousands)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income (loss)	$ (28,394)	$ 7,089	$ (34,725)	$ 15,148
Pension and post-retirement obligations:				
Change in prior service credit, net of tax	-	-	(814)	-
Amortization of actuarial losses and prior service credit to earnings, net of tax	667	679	2,400	2,036
Derivative instruments designated as cash flow hedges:				
Change in fair value of derivatives, net of tax	(285)	3	(2,829)	(595)
Reclassification of realized loss to earnings, net of tax	218	159	667	466
Comprehensive income (loss)	(27,794)	7,930	(35,301)	17,055
Less: comprehensive income attributable to noncontrolling interest	54	77	136	211
Total comprehensive income (loss) attributable to common shareholders	$ (27,848)	$ 7,853	$ (35,437)	$ 16,844

See accompanying notes.

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CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	September 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 23,314	$ 27,077
Accounts receivable, net of allowance for doubtful accounts	120,844	56,216
Income tax receivable	23,494	21,616
Prepaid expenses and other current assets	33,852	28,292
Assets held for sale	21,406	—
Total current assets	222,910	133,201
Property, plant and equipment, net	2,058,418	1,055,186
Investments	108,268	106,221
Goodwill	1,042,285	756,877
Other intangible assets	318,487	31,612
Other assets	10,857	9,661
Total assets	$ 3,761,225	$ 2,092,758
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 14,154	$ 6,766
Advance billings and customer deposits	45,086	26,438
Dividends payable	27,440	19,605
Accrued compensation	43,477	16,971
Accrued interest	17,183	11,260
Accrued expense	75,672	54,123
Current portion of long-term debt and capital lease obligations	28,824	14,922
Liabilities held for sale	1,075	—
Total current liabilities	252,911	150,085
Long-term debt and capital lease obligations	2,311,247	1,376,754
Deferred income taxes	321,355	244,298
Pension and other post-retirement obligations	340,067	130,793
Other long-term liabilities	33,996	14,573
Total liabilities	3,259,576	1,916,503
Commitments and contingencies (Note 11)		
Shareholders' equity:		

Common stock, par value $0.01 per share; 100,000,000 shares authorized, 70,836,042 and 50,612,362 shares outstanding as of September 30, 2017 and December 31, 2016, respectively	708	506
Additional paid-in capital	578,218	217,725
Accumulated deficit	(34,861)	—
Accumulated other comprehensive loss, net	(47,853)	(47,277)
Noncontrolling interest	5,437	5,301
Total shareholders' equity	501,649	176,255
Total liabilities and shareholders' equity	$ 3,761,225	$ 2,092,758

See accompanying notes.

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CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; Amounts in thousands)

	Nine Months Ended September 30,	
	2017	2016
Net cash provided by operating activities	$ 125,224	$ 173,591
Cash flows from investing activities:		
Business acquisition, net of cash acquired	(862,385)	(13,422)
Purchases of property, plant and equipment, net	(119,289)	(94,158)
Proceeds from sale of assets	296	71
Proceeds from business dispositions	—	20,892
Net cash used in investing activities	(981,378)	(86,617)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	1,031,325	31,000
Payment of capital lease obligations	(5,363)	(1,757)
Payment on long-term debt	(89,750)	(39,825)
Payment of financing costs	(16,732)	—
Share repurchases for minimum tax withholding	(41)	(71)
Dividends on common stock	(66,698)	(58,796)
Other	(350)	—
Net cash provided by (used in) financing activities	852,391	(69,449)
Increase (decrease) in cash and cash equivalents	(3,763)	17,525
Cash and cash equivalents at beginning of period	27,077	15,878
Cash and cash equivalents at end of period	$ 23,314	$ 33,403

See accompanying notes.

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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.

We operate as both an Incumbent Local Exchange Carrier ("ILEC") and a Competitive Local Exchange Carrier ("CLEC"), dependent upon the territory served. Leveraging our advanced fiber network spanning more than 36,000 fiber route miles, we offer local, long-distance and 9-1-1 services, high-speed broadband Internet access, video services, Voice over Internet Protocol ("VoIP"), custom calling features, private line services, carrier grade access services, network capacity services over our regional fiber optic networks, data center and managed services, directory publishing, equipment sales and cloud services. As of September 30, 2017, we had approximately 990 thousand voice connections, 784 thousand data connections and 105 thousand 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 2016 Annual Report on Form 10-K filed with the SEC.

Recent Business Developments

On December 3, 2016, we entered into a definitive agreement and plan of merger (the "Merger Agreement") with FairPoint Communications, Inc. ("FairPoint") to acquire all the issued and outstanding shares of FairPoint in exchange for shares of our common stock. On July 3, 2017, the merger (the "Merger") was completed and 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.

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Property, Plant and Equipment

Property, plant and equipment consisted of the following:

(In thousands)	September 30, 2017	December 31, 2016	Estimated Useful Lives
Land and buildings	$ 249,912	$ 105,923	18 - 40 years
Central office switching and transmission	1,070,214	861,608	3 - 25 years
Outside plant cable, wire and fiber facilities	1,808,299	1,201,042	3 - 50 years
Furniture, fixtures and equipment	253,718	167,125	3 - 15 years
Assets under capital lease	41,965	28,355	3 - 11 years
Total plant in service	3,424,108	2,364,053	
Less: accumulated depreciation and amortization	(1,510,094)	(1,345,551)	
Plant in service	1,914,014	1,018,502	
Construction in progress	104,429	21,956	
Construction inventory	39,975	14,728	
Totals	$ 2,058,418	$ 1,055,186	

Recent Accounting Pronouncements

Effective January 1, 2017, we adopted the Accounting Standards Update (“ASU”) No. 2016-09 (“ASU 2016-09”), Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 amends several aspects of the accounting for share-based payment transactions including the income tax consequences, classification of awards as either equity or liabilities, calculation of compensation expense and classification on the statement of cash flows. ASU 2016-09 requires excess tax benefits and deficiencies resulting from stock-based compensation awards vesting to be recognized as income tax expense or benefit in the income statement on a prospective basis. Previously, these amounts were recognized in additional paid-in capital (“APIC”). The impact of this change was not material for the quarter and nine months ended September 30, 2017. In addition, ASU 2016-09 requires excess tax benefits and deficiencies to be excluded from the assumed proceeds in the calculation of diluted shares when using the treasury stock method. This requirement did not impact diluted loss per share for the quarter and nine months ended September 30, 2017 as the diluted shares were excluded from the computation of loss per share. Due to our net loss for the quarter and nine months ended September 30, 2017, the inclusion of these shares would have had an anti-dilutive impact.

ASU 2016-09 removed the requirement to delay recognition of excess tax benefits until it reduces current income taxes payable. This update is required to be applied on a modified retrospective basis, which resulted in a cumulative effect adjustment of $2.2 million as of January 1, 2017 to increase opening retained earnings for the cumulative impact of excess tax benefits related to our net operating loss (“NOL”) carryforwards. This amount was subsequently transferred into APIC at March 31, 2017.

ASU 2016-09 permits the election of an accounting policy for forfeitures of share-based payment awards, either to recognize forfeitures as they occur or estimate forfeitures over the vesting period of the award. We have elected to recognize forfeitures as they occur and the cumulative impact of this change was not material to our condensed consolidated financial statements and related disclosures.

In August 2017, the Financial Accounting Standards Board ("FASB") issued the 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 are currently evaluating the impact this update will have on our condensed consolidated financial statements and related disclosures.

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In May 2017, the FASB issued the 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 new guidance is effective prospectively for annual and interim periods beginning after December 15, 2017, with early adoption permitted. We plan to adopt this update effective January 1, 2018 and will apply this guidance to applicable transactions after the adoption date.

In March 2017, the FASB issued the 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. The new guidance is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted as of the beginning of the annual period and should be applied retrospectively for the presentation of the service cost and prospectively for the capitalization of the service cost component in assets. We plan to adopt this update effective January 1, 2018 and do not expect a material impact on our condensed consolidated financial statements and related disclosures.

In February 2017, the FASB issued the 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. ASU 2017-05 is effective for annual and interim periods beginning after December 15, 2017 and can be applied using the retrospective or modified retrospective approach. We plan to adopt ASU 2017-05 as of January 1, 2018 and are currently evaluating the impact this update will have on our condensed consolidated financial statements and related disclosures.

In January 2017, FASB issued the 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 new guidance is effective for annual and interim goodwill tests in fiscal years beginning after December 15, 2019 and should be applied prospectively. Early adoption is permitted for annual and interim goodwill impairment testing performed after January 1, 2017. We plan to early adopt this update in the fourth quarter of 2017.

In January 2017, the FASB issued the 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. ASU 2017-01 is effective for annual and interim periods beginning after December 15, 2017 and should be applied prospectively, with early adoption permitted. We plan to adopt this update as of January 1, 2018 and do not expect a

material impact on our condensed consolidated financial statements and related disclosures.

In October 2016, the FASB issued the 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. ASU 2016-16 is effective on a modified retrospective basis for annual and interim periods beginning after December 15, 2017, with early adoption permitted. We currently anticipate adopting this update effective January 1, 2018 and do not expect a material impact on our condensed consolidated financial statements and related disclosures.

In August 2016, the FASB issued the 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 new guidance is effective for annual and interim periods beginning after December 15, 2017 and should be applied retrospectively, with early adoption permitted. We are currently evaluating the impact this update will have on our condensed consolidated financial statements and related disclosures.

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In June 2016, the FASB issued the 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 the 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 have not yet made a decision on the timing of adoption and are continuing to assess the potential impact of this update on our condensed consolidated financial statements and related disclosures.

In May 2014, the FASB issued the ASU No. 2014-09 (“ASU 2014-09”), Revenue from Contracts with Customers (Topic 606), which will replace the current revenue recognition requirements in US GAAP. 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. Two transition methods are permitted under ASU 2014-09, the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. In August 2015, the FASB issued the ASU No. 2015-14 (“ASU 2015-14”), Deferral of the Effective Date, which deferred the effective date of ASU 2014-09 for all entities by one year. Accordingly, ASU 2014-09 is effective for annual and interim periods beginning after December 15, 2017. We plan to adopt this update as of January 1, 2018.

In 2016, we established a cross-functional implementation team to assess the impact of ASU 2014-09 on our revenue contracts by reviewing our current accounting policies and practices to identify potential differences that would result from applying the requirements of this update. While we continue to assess all potential impacts of this update, we currently believe that the most significant impact relates to the deferral of contract acquisition costs, which is currently expensed as incurred, however under ASU 2014-09 will generally be capitalized and amortized over the contract performance period. Initially, we anticipated adopting this update using the full retrospective method to restate each prior reporting period presented, however, after further assessment of the impacts to our current systems, processes and internal controls as well as the transition methods allowed, we have determined that adopting this update using the modified retrospective method is more appropriate.

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2. ACQUISITIONS AND DIVESTITURES

Acquisitions

FairPoint Communications, Inc.

On December 3, 2016, we entered into a Merger Agreement with FairPoint to acquire all the issued and outstanding shares of FairPoint in exchange for shares of our common stock. 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 21,000 route miles of fiber, including 17,000 route miles of fiber in northern New England. On July 3, 2017, the acquisition of FairPoint was completed, and as a result, FairPoint became a wholly-owned subsidiary of the Company. 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, par value of $0.01 per share, 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, par value $0.01 per share, of Consolidated and cash in lieu of fractional shares, as set forth in 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, and exercisable any time on or prior to January 24, 2018.

In connection with the Merger, we secured committed debt financing 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.

The preliminary 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	62,805
Other current assets	22,171
Assets held for sale	21,417
Property, plant and equipment	1,045,471
Intangible assets	303,080
Other long-term assets	2,685
Total assets acquired	1,514,609
Current liabilities	123,194
Liabilities held for sale	1,016
Pension and other post-retirement obligations	222,162
Deferred income taxes	89,137
Other long-term liabilities	14,190
Total liabilities assumed	449,699
Net fair value of assets acquired	1,064,910
Goodwill	285,408
Total consideration transferred	$ 1,350,318

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The fair values of the assets acquired and liabilities assumed are based on a preliminary valuation, which is subject to change within the measurement period. Upon completion of the final fair value assessment, the fair values of the net assets acquired may differ from the preliminary assessment and such changes could be material. We are in the process of finalizing the valuation of the net assets acquired, most notably, the valuation of property, plant and equipment, intangible assets, pension and other post-retirement obligations and deferred income taxes. Any changes 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 preliminary valuation analysis, the identifiable intangible assets acquired consisted of customer relationships of $300.2 million, tradenames of $1.1 million and non-compete agreements of $1.8 million. The identifiable intangible assets are amortized using the straight-line method over their preliminary estimated useful lives, which is seven to eleven years for customer relationships depending on the nature of the customer, six months for tradenames and one year for non-compete agreements.

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.

The results of operations of FairPoint have been reported in our condensed consolidated financial statements as of the effective date of the acquisition. For the quarter ended September 30, 2017, FairPoint contributed operating revenues of $198.0 million and a net loss of $2.9 million, which included $10.2 million in acquisition related costs. Upon closing of the FairPoint acquisition or shortly thereafter, various triggering events occurred which resulted in the payment of various change in control payments and other contingent payments to certain FairPoint employees. The estimated cash payments under these agreements will be approximately $9.8 million of which $8.7 million was recognized during the quarter ended September 30, 2017 and $0.5 million is expected to be paid during the quarter ended December 31, 2017 with the remainder due in 2018 and 2019.

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.

	Quarter Ended September 30,		Nine Months Ended September 30,	
(Unaudited; in thousands, except per share amounts)	2017	2016	2017	2016

Operating revenues	$ 363,329	$ 398,682	$ 1,104,260	$ 1,187,772
Income from operations	$ 18,975	$ 91,946	$ 48,688	$ 232,698
Net income (loss)	$ (628)	$ 42,455	$ (10,576)	$ 94,279
Less: net income attributable to noncontrolling interest	54	77	136	211
Net income (loss) attributable to common stockholders	$ (682)	$ 42,378	$ (10,712)	$ 94,068
Net income (loss) per common share-basic and diluted	$ (0.01)	$ 0.60	$ (0.15)	$ 1.34

Transaction costs related to the acquisition of FairPoint were $27.0 million and $30.2 million during the quarter and nine months ended September 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.

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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.

Champaign Telephone Company, Inc.

On July 1, 2016, we acquired substantially all of the assets of Champaign Telephone Company, Inc. and its sister company, Big Broadband Services, LLC, a private business communications provider in the Champaign-Urbana, IL area. The aggregate purchase price, including customary working capital adjustments, consisted of cash consideration of $13.4 million, which was paid from our existing cash resources. The fair value of the acquired assets and liabilities assumed consisted primarily of property, plant and equipment of $6.9 million, intangible assets of $1.0 million, working capital of $0.8 million and goodwill of $4.7 million. Goodwill and other intangible assets are expected to be amortizable and deductible for income tax purposes.

Divestitures

In August 2017, we committed to a formal plan to sell certain assets of FairPoint. Accordingly, the net assets have been classified as held for sale in the condensed 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 September 30, 2017.

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

(In thousands)	
Current assets	$ 235
Property, plant and equipment	4,342
Goodwill	16,829
Total assets	$ 21,406
Current liabilities	$ 773
Deferred taxes	302
Total liabilities	$ 1,075

On December 6, 2016, we completed the sale of substantially all of the assets of the Company's Enterprise Services equipment and IT Services business ("EIS") to ePlus Technology inc. ("ePlus") for cash proceeds of $9.2 million net of a customary working capital adjustment. As part of the transaction, we entered into a Co-Marketing Agreement with ePlus, a nationwide systems integrator of technology solutions, to cross-sell both broadband network services and IT services. The strategic partnership will provide our business customers access to a broader suite of IT solutions, and will also provide ePlus customers access to Consolidated's business network services.

On May 3, 2016, we entered into a definitive agreement to sell all of the issued and outstanding stock of our non-core, rural ILEC business located in northwest Iowa, Consolidated Communications of Iowa Company ("CCIC"), formerly Heartland Telecommunications Company of Iowa. CCIC provides telecommunications and data services to residential and business customers in 11 rural communities in northwest Iowa and surrounding areas. The sale was completed on September 1, 2016 for total cash proceeds of approximately $21.0 million, net of certain contractual and customary working capital adjustments. In connection with the sale, during the quarter and nine months ended September 30, 2016, we recognized a loss of $0.3 million and $0.9 million, respectively, which is included in other, net in the condensed consolidated statement of operations. We recognized a taxable gain on the transaction resulting in current income tax expense of $7.2 million during the nine months ended September 30, 2016 to reflect the tax impact of the divestiture. See Note 10 for additional income tax related information regarding this transaction.

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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. With the acquisition of FairPoint in 2017, we assumed approximately 2,615,153 warrants outstanding, each eligible to purchase one share of the Company's common stock at an exercise price of $66.86 per share.

The potentially dilutive impact of the Company's restricted stock awards and warrants 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.

Potentially dilutive shares exclude warrants in accordance with the treasury stock method primarily due to the exercise price exceeding the average market price during the period. 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.

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share amounts)	2017	2016	2017	2016
Net income (loss)	$ (28,394)	$ 7,089	$ (34,725)	$ 15,148
Less: net income attributable to noncontrolling interest	54	77	136	211
Income (loss) attributable to common shareholders before allocation of earnings to participating securities	(28,448)	7,012	(34,861)	14,937
Less: earnings allocated to participating securities	127	131	291	393
Net income (loss) attributable to common shareholders, after earnings allocated to participating securities	$ (28,575)	$ 6,881	$ (35,152)	$ 14,544
Weighted-average number of common shares outstanding	69,830	50,294	56,955	50,292

Net income (loss) per common share attributable to common shareholders - basic and diluted	$ (0.41)	$ 0.14	$ (0.62)	$ 0.29

Diluted EPS attributable to common shareholders for each of the quarters ended September 30, 2017 and 2016 excludes 0.4 million potential common shares 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 nine months ended September 30, 2017 and 2016, diluted EPS attributable to common shareholders exclude 0.3 million potential common shares that could be issued under our share-based compensation plan.

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4. INVESTMENTS

Our investments are as follows:

(In thousands)	September 30, 2017	December 31, 2016
Cash surrender value of life insurance policies	$ 2,229	$ 2,156
Cost method investments:		
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	9,105	8,138
Other	318	200
Equity method investments:		
GTE Mobilnet of Texas RSA #17 Limited Partnership (20.51% interest)	17,439	17,160
Pennsylvania RSA 6(I) Limited Partnership (16.67% interest)	7,172	6,540
Pennsylvania RSA 6(II) Limited Partnership (23.67% interest)	27,605	27,627
Totals	$ 108,268	$ 106,221

Cost Method

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 use the cost method to account for both of these investments. It is not practicable to estimate the fair value of these investments. No factors of impairment existed for any of the investments during the quarters or nine months ended September 30, 2017 or 2016. For the quarters ended September 30, 2017 and 2016, we received cash distributions from these partnerships totaling $4.3 million and $3.1 million, respectively. For each of the nine months ended September 30, 2017 and 2016, we received cash distributions from these partnerships totaling $9.6 million.

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. For the quarters ended September 30, 2017 and 2016, we received cash distributions from these partnerships totaling $4.3 million and $5.5 million, respectively. For the nine months ended September 30, 2017 and 2016, we received cash distributions from these partnerships totaling $12.4 million and $13.6 million, respectively.

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2017	2016	2017	2016
Total revenues	$ 78,783	$ 83,149	$ 248,615	$ 247,691
Income from operations	23,436	24,690	69,243	77,083
Net income before taxes	23,069	24,295	68,111	75,880
Net income	23,069	24,295	68,111	75,880

(In thousands)	September 30, 2017	December 31, 2016
Current assets	$ 69,991	$ 64,083
Non-current assets	94,387	89,651
Current liabilities	25,186	21,985
Non-current liabilities	50,972	51,836
Partnership equity	88,220	79,913

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.

Our interest rate swap agreements measured at fair value on a recurring basis as of September 30, 2017 and December 31, 2016 were as follows:

As of September 30, 2017		
Quoted Prices	Significant Other	Significant

(In thousands)	Total	In Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Long-term interest rate swap assets	$ 390	$ -	$ 390	$ -
Current interest rate swap liabilities	(668)	-	(668)	-
Long-term interest rate swap liabilities	(5,371)	-	(5,371)	-
Total	$ (5,649)	$ -	$ (5,649)	$ -

		As of December 31, 2016		
(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	$ 398	$ -	$ 398	$ -
Current interest rate swap liabilities	(453)	-	(453)	-
Long-term interest rate swap liabilities	(216)	-	(216)	-
Total	$ (271)	$ -	$ (271)	$ -

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

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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 September 30, 2017 and December 31, 2016.

	As of September 30, 2017		As of December 31, 2016	
(In thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Investments, equity basis	$ 52,216	n/a	$ 51,327	n/a
Investments, at cost	$ 53,823	n/a	$ 52,738	n/a
Long-term debt, excluding capital leases	$ 2,331,493	$ 2,264,771	$ 1,388,786	$ 1,390,773

Cost & Equity Method Investments

Our investments as of September 30, 2017 and December 31, 2016 accounted for under both the equity and cost methods 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)	September 30, 2017	December 31, 2016
Senior secured credit facility:		
Term loans, net of discounts of $8,676 and $4,662 at September 30, 2017 and December 31, 2016, respectively	$ 1,817,324	$ 893,088
Revolving loan	18,000	—

6.50% Senior notes due 2022, net of discount of $3,831 and $4,302 at September 30, 2017 and December 31, 2016, respectively	496,169	495,698
Capital leases	23,313	16,857
	2,354,806	1,405,643
Less: current portion of long-term debt and capital leases	(28,824)	(14,922)
Less: deferred debt issuance costs	(14,735)	(13,967)
Total long-term debt	$ 2,311,247	$ 1,376,754

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, with the exception of Consolidated Communications of Illinois Company and our majority-owned subsidiary, East Texas Fiber Line Incorporated. As a result of the Merger, certain of the FairPoint subsidiaries acquired in the Merger (the “FairPoint Guarantors”) were required to guarantee certain obligations under the Credit Agreement and to pledge as collateral all assets and property.

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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.

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 beginning 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 has an interest rate, at the election of the Company, of (i) a margin between 2.50% and 3.25% plus LIBOR or (ii) a margin between 1.50% and 2.25% plus the alternate base rate, in each case depending on our total net leverage ratio. Based on our leverage ratio as of September 30, 2017, the borrowing margin for the three month period ending December 31, 2017 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 September 30, 2017, borrowings of $18.0 million were outstanding under the revolving credit facility. There were no outstanding borrowings under the revolving credit facility at December 31, 2016. Stand-by letters of credit

of $19.1 million were outstanding under our revolving credit facility as of September 30, 2017. The stand-by letters of credit are renewable annually and reduce the borrowing availability under the revolving credit facility. As of September 30, 2017, $72.9 million was available for borrowing under the revolving credit facility.

The weighted-average interest rate on outstanding borrowings under our credit facility was 4.24% and 4.00% as of September 30, 2017 and December 31, 2016, 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 September 30, 2017, we were in compliance with the Credit Agreement covenants.

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In general, our Credit Agreement restricts our ability to pay dividends to the amount of our available cash as defined in our Credit Agreement. As of September 30, 2017, and including the $27.4 million dividend paid on November 1, 2017, we had $257.0 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 September 30, 2017, our total net leverage ratio under the Credit Agreement was 3.98:1.00, and our interest coverage ratio was 6.67:1.00.

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 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 have fully and unconditionally guaranteed the Senior Notes. The Senior Notes are senior unsecured obligations of the Company. In July 2017, as a result of the FairPoint Guarantors becoming guarantors under the Credit Agreement, substantially all of the FairPoint Guarantors were also required to guarantee the Senior Notes.

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 September 30, 2017, this ratio was 3.82:1.00. 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 $406.1 million have been paid since May 30, 2012, including the quarterly dividend declared in August 2017 and paid on November 1, 2017, there was $799.5 million of the $1,205.6 million of cumulative consolidated cash flow since May 30, 2012 available to pay dividends as of September 30, 2017. As of September 30, 2017, 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 2017 and 2022. As of September 30, 2017, the present value of the minimum remaining lease commitments was approximately $23.3 million, of which $10.5 million was due and payable within the next twelve months. The leases require total remaining rental payments of $25.2 million as of September 30, 2017, of which $3.0 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 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 September 30, 2017:

(In thousands)	Notional Amount	2017 Balance Sheet Location	Fair Value
Cash Flow Hedges:			
Fixed to 1-month floating LIBOR (with floor)	$ 100,000	Other assets	$ 390
Fixed to 1-month floating LIBOR (with floor)	$ 600,000	Accrued expense	(668)
Series of forward starting fixed to 1-month floating LIBOR (with floor)	$ 2,010,000	Other long-term liabilities	(5,371)
Total Fair Values			$ (5,649)

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The following interest rate swaps were outstanding as of December 31, 2016:

(In thousands)	Notional Amount	2016 Balance Sheet Location	Fair Value
Cash Flow Hedges:			
Fixed to 1-month floating LIBOR (with floor)	$ 100,000	Other assets	$ 398
Fixed to 1-month floating LIBOR (with floor)	$ 100,000	Accrued expense	(453)
Fixed to 1-month floating LIBOR (with floor)	$ 50,000	Other long-term liabilities	(216)
Total Fair Values			$ (271)

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 begin 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.

In conjunction with the refinancing of our Credit Agreement in October 2016 as discussed in Note 6, the interest rate swaps outstanding at that time were simultaneously de-designated and re-designated as cash flow hedges of future anticipated interest payments associated with our variable rate debt. The balance of the unrealized loss included in AOCI as of the date the swaps were de-designated is being amortized to earnings over the remaining terms of the respective interest rate swap agreements. The interest rate swap agreements mature on various dates through September 2019.

As of September 30, 2017 and December 31, 2016, the total pre-tax deferred loss related to our interest rate swap agreements included in AOCI was $3.8 million and $0.2 million, respectively. The estimated amount of losses included in AOCI as of September 30, 2017 that will be recognized in earnings in the next twelve months is approximately $2.4 million.

Information regarding our cash flow hedge transactions is as follows:

(In thousands)	Quarter Ended September 30, 2017	Quarter Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Unrealized loss recognized in AOCI, pretax	$ (528)	$ 5	$ (4,658)	$ (968)
Deferred losses reclassified from AOCI to interest expense	$ (369)	$ (259)	$ (1,098)	$ (758)
Gain (loss) recognized in interest expense from ineffectiveness	$ 269	$ —	$ (1,031)	$ —

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8. EQUITY

Share-Based Compensation

The following table summarizes total compensation costs recognized for share-based payments during the quarters and nine-month periods ended September 30, 2017 and 2016:

	Quarter Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2017	2016	2017	2016
Restricted stock	$ 585	$ 516	$ 1,549	$ 1,588
Performance shares	304	346	770	1,078
Total	$ 889	$ 862	$ 2,319	$ 2,666

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

As of September 30, 2017, total unrecognized compensation cost related to non-vested Restricted Stock Awards (“RSAs”) and Performance Share Awards (“PSAs”) was $5.1 million and will be recognized over a weighted-average period of approximately 1.8 years.

The following table summarizes the RSA and PSA activity for the nine-month period ended September 30, 2017:

	RSAs		PSAs	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Non-vested shares outstanding - January 1, 2017	93,662	$ 22.34	109,160	$ 20.12
Shares granted	124,100	$ 23.12	36,982	$ 23.27
Shares vested	(4,708)	$ 22.30	—	$ —

Shares forfeited, cancelled or retired	(4,384)	$ 22.47	(3,507)	$ 20.68
Non-vested shares outstanding - September 30, 2017	208,670	$ 22.80	142,635	$ 20.92

Accumulated Other Comprehensive Loss

The following table summarizes the changes in accumulated other comprehensive loss, net of tax, by component for the nine-month period ended September 30, 2017:

(In thousands)	Pension and Post-Retirement Obligations	Derivative Instruments	Total
Balance at December 31, 2016	$ (47,150)	$ (127)	$ (47,277)
Other comprehensive income before reclassifications	(814)	(2,829)	(3,643)
Amounts reclassified from accumulated other comprehensive loss	2,400	667	3,067
Net current period other comprehensive income	1,586	(2,162)	(576)
Balance at September 30, 2017	$ (45,564)	$ (2,289)	$ (47,853)

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The following table summarizes reclassifications from accumulated other comprehensive loss for the quarters and nine-month periods ended September 30, 2017 and 2016:

	Quarter Ended September 30,		Nine Months Ended September 30,		Affected Line Item in the Statement of Income
(In thousands)	2017	2016	2017	2016	
Amortization of pension and post-retirement items:					
Prior service credit	$ 192	$ 245	$ 645	$ 734	(a)
Actuarial loss	(1,325)	(1,356)	(4,625)	(4,067)	(a)
	(1,133)	(1,111)	(3,980)	(3,333)	Total before tax
	466	432	1,580	1,297	Tax benefit
	$ (667)	$ (679)	$ (2,400)	$ (2,036)	Net of tax
Loss on cash flow hedges:					
Interest rate derivatives	$ (369)	$ (259)	$ (1,098)	$ (758)	Interest expense
	151	100	431	292	Tax benefit
	$ (218)	$ (159)	$ (667)	$ (466)	Net of tax

(a) These items are included in the components of net periodic benefit cost for our pension and other post-retirement benefit plans. See Note 9 for further discussion regarding our pension and other post-retirement benefit plans.

9. PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS

Defined Benefit Plans

We sponsor a qualified defined benefit pension plan (“Retirement Plan”) that is non-contributory covering certain of our hourly employees under collective bargaining agreements who fulfill minimum age and service requirements. Certain salaried employees are also covered by the Retirement Plan, although these benefits have previously been frozen. The Retirement Plan is closed to all new entrants. Benefits for eligible participants under collective bargaining agreements are accrued based on a cash balance benefit plan.

As part of our acquisition of FairPoint, we assumed sponsorship of its two non-contributory qualified defined benefit pension plans (together, the “Qualified Pension Plan”). The Qualified Pension Plan for certain non-management employees under collective bargaining agreements is closed to new participants and benefits have previously been frozen. For existing participants, benefit accruals are capped at 30 years of total credited service. The Qualified Pension Plan for certain management employees has previously been frozen and all future benefit accruals for existing

participants have ceased.

We also have two non-qualified supplemental retirement plans (the “Supplemental Plans” and, together with the Retirement Plan and the Qualified Pension Plan, the “Pension Plans”). The Supplemental Plans provide supplemental retirement benefits to certain former employees by providing for incremental pension payments to partially offset the reduction of the amount that would have been payable under the qualified defined benefit pension plans if it were not for limitations imposed by federal income tax regulations. The Supplemental Plans have previously been frozen so that no person is eligible to become a new participant. These plans are unfunded and have no assets. The benefits paid under the Supplemental Plans are paid from the general operating funds of the Company.

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The following table summarizes the components of net periodic pension cost for our Pension Plans for the quarters and nine-month periods ended September 30, 2017 and 2016:

	Quarter Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2017	2016	2017	2016
Service cost	$ 1,447	$ 86	$ 1,608	$ 258
Interest cost	7,332	4,072	14,512	12,218
Expected return on plan assets	(9,251)	(5,159)	(19,209)	(15,477)
Net amortization loss	1,368	1,356	4,755	4,067
Net prior service credit amortization	(61)	(114)	(254)	(343)
Curtailment gain	—	—	(1,337)	—
Net periodic pension (benefit) cost	$ 835	$ 241	$ 75	$ 723

In May 2017, the Retirement Plan was amended to freeze benefit accruals under the cash balance benefit plan for certain participants under collective bargaining agreements effective as of June 30, 2017. As a result of this amendment, we recognized a pre-tax curtailment gain of $1.3 million as a component of net periodic pension cost during the nine-month period ended September 30, 2017.

The weighted-average assumptions used to determine net periodic pension benefit cost for the Pension Plans were as follows:

Discount rate	4.01%
Expected long-term rate of return on plan assets	7.23%

Other Non-qualified Deferred Compensation Agreements

We are also liable for deferred compensation agreements with former members of the board of directors and certain other former employees of acquired companies. Depending on the plan, benefits are payable in monthly or annual installments for a period of time based on the terms of the agreement, which range from five years up to the life of the participant or to the beneficiary upon the death of the participant, and may begin as early as age 55. Participants accrue no new benefits as these plans had previously been frozen. Payments related to the deferred compensation agreements totaled approximately $0.2 million for each of the nine-month periods ended September 30, 2017 and 2016, respectively. No payments were made during the quarters ended September 30, 2017 and 2016. The net present value of the remaining obligations was approximately $1.8 million and $2.0 million as of September 30, 2017 and December 31, 2016, respectively, and is included in pension and other post-retirement benefit obligations in the accompanying condensed consolidated balance sheets.

We also maintain 25 life insurance policies on certain of the participating former directors and employees. We recognized $0.2 million in life insurance proceeds as other non-operating income in the nine-month period ended September 30, 2016. We did not recognize any life insurance proceeds during the quarter and nine-month period ended September 30, 2017. The excess of the cash surrender value of the remaining life insurance policies over the notes payable balances related to these policies totaled $2.2 million as of each of September 30, 2017 and December 31, 2016. These amounts are included in investments in the accompanying condensed consolidated balance sheets. Cash principal payments for the policies and any proceeds from the policies are classified as operating activities in the condensed consolidated statements of cash flows.

Post-retirement Benefit Obligations

We sponsor various healthcare and life insurance plans ("Post-retirement Plans") that provide post-retirement medical and life insurance benefits to certain groups of retired employees. Certain plans have previously been frozen so that no person is eligible to become a new participant. Retirees share in the cost of healthcare benefits, making contributions that are adjusted periodically—either based upon collective bargaining agreements or because total costs of the program have changed. Covered expenses for retiree health benefits are paid as they are incurred. Post-retirement life insurance benefits

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are fully insured. A majority of the healthcare plans are unfunded and have no assets, and benefits are paid from the general operating funds of the Company. However, a plan acquired in the purchase of another company is funded by assets that are separately designated within the Retirement Plan for the sole purpose of providing payments of retiree medical benefits for this specific plan.

In connection with the acquisition of FairPoint, we have acquired its post-retirement benefit plan as of the date of acquisition. The post-retirement benefit plan provides medical, dental and life insurance benefits to certain eligible employees and in some instances, to their spouses and families. The post-retirement benefit plan is unfunded and the Company funds the benefits that are paid.

The following table summarizes the components of the net periodic cost for our Post-retirement Plans for the quarters and nine-month periods ended September 30, 2017 and 2016:

	Quarter Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2017	2016	2017	2016
Service cost	$ 126	$ 151	$ 373	$ 451
Interest cost	1,121	505	1,912	1,515
Expected return on plan assets	(28)	(37)	(85)	(111)
Net amortization gain	(43)	—	(130)	—
Net prior service credit amortization	(131)	(131)	(391)	(391)
Net periodic post-retirement benefit cost	$ 1,045	$ 488	$ 1,679	$ 1,464

A weighted-average discount rate of 3.94% was used to determine the net periodic cost for the post-retirement plans.

Contributions

We expect to contribute approximately $13.2 million to our Pension Plans and $6.6 million to our Post-retirement Plans in 2017. As of September 30, 2017, we have contributed $7.6 million and $4.2 million of the annual contribution to the Pension Plans and Post-retirement Plans, respectively.

10. INCOME TAXES

Due to the acquisition of FairPoint on July 3, 2017, we recognized an increase in unrecognized tax benefits of $4.0 million, which were recorded as a reduction of the Company’s federal and state NOL carryforwards. As of September 30, 2017 and December 31, 2016, our total unrecognized tax benefits were $4.0 million and $0.1 million, respectively. The net amount of unrecognized tax benefits that, if recognized, would result in an impact to the effective tax rate is $3.8 million as of September 30, 2017 and less than $0.1 million as of December 31, 2016. In addition, during the nine months ended September 30, 2017, we recorded a decrease of $0.1 million to our unrecognized tax benefits, which reduced our tax expense by less than $0.1 million due to reductions for tax positions in prior years. We do not expect any material change in our unrecognized tax benefits during the remainder of 2017.

Our practice is to recognize interest and penalties related to income tax matters in interest expense and selling, general and administrative expenses, respectively. As of September 30, 2017, we did not have a material liability for interest or penalties and had no material interest or penalty expense.

The periods subject to examination for our federal return are years 2014 through 2016. The periods subject to examination for our state returns are years 2012 through 2016. In addition, prior tax years may be subject to examination by federal or state taxing authorities if the Company's NOL carryovers from those prior years are utilized in the future. We are currently under examination by a state taxing authority. We do not expect any settlement or payment that may result from the examination to have a material effect on our results or cash flows.

Our effective tax rate was 18.1% and 41.3% for the quarters ended September 30, 2017 and 2016, respectively and 22.1% and 59.5% for the nine-month periods ended September 30, 2017 and 2016, respectively. The acquisition of FairPoint on

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July 3, 2017 resulted in changes to our unitary state filings and correspondingly the Company's state deferred income taxes. These changes resulted in a net increase of $5.2 million to our net state deferred tax liabilities and a corresponding increase to our state tax provision. The Company also incurred non-deductible expenses in relation to the acquisition that resulted in an increase to our tax provision of $2.3 million. We recognized these in the quarter ended September 30, 2017. In addition, the Company recorded a number of purchase accounting entries related to the FairPoint deferred tax balances as of the acquisition date. These included release of a portion of the valuation allowances, state deferred tax rate changes and nondeductible transaction expenses. On September 1, 2016, we completed the sale of all the issued and outstanding stock of CCIC in a taxable transaction. As a result, we recorded an increase to our current tax expense of $7.2 million to reflect the tax impact of the transaction during the nine months ended September 30, 2016. In addition, for the quarter and nine-month periods ended September 30, 2017 and 2016, the effective tax rate differed from the federal and state statutory rates due to various permanent income tax differences and differences in allocable income for the Company's state tax filings. Exclusive of these adjustments, our effective tax rate would have been approximately 42.2% and 39.2% for the quarters ended September 30, 2017 and 2016, respectively and 39.4% and 38.8% for the nine-month periods ended September 30, 2017 and 2016, respectively.

11. COMMITMENTS AND CONTINGENCIES

Litigation, Regulatory Proceedings and Other Contingencies

FairPoint

On March 3, 2017, an alleged class action complaint was filed by a purported stockholder of the Company in the Court of Chancery of the State of Delaware (the "Court") captioned Vento v. Currey, et al. (Case No. 2017-0157) against the members of the Company's board of directors (the "Delaware Action"). The lawsuit is related to our Merger Agreement with FairPoint. Among other things, the lawsuit alleged that the members of the Company's board of directors breached their fiduciary duties in connection with soliciting approval of the Company's stockholders of the issuance of the Company's common stock to stockholders of FairPoint in the Merger contemplated by the Merger Agreement (the "Stockholder Vote") because Amendment No. 1 to the Registration Statement on Form S-4 filed by the Company on February 24, 2017 failed to disclose allegedly material information relating to the retention, compensation and financial incentives of a financial advisor to the Company in connection with the proposed Merger. The plaintiff sought, among other relief, to enjoin the Stockholder Vote. On March 14, 2017, the plaintiff filed a motion for preliminary injunction to enjoin the Stockholder Vote until such time as certain information concerning the financial interests of the Company's financial advisor in the proposed Merger were fully disclosed. On March 22, 2017, the Court issued a letter decision stating that it would preliminarily enjoin the Stockholder Vote (the "Injunction") until five days after such time as the Company had supplemented its disclosures to include a clear and direct explanation of the amount of financing-related fees that the Company's financial advisor, Morgan Stanley & Co. LLC, or any of its affiliates stands to receive in connection with the Merger if the Merger is consummated. In response to the Injunction, in order to provide a clear and direct explanation of the amount of financing-related fees that Morgan Stanley & Co. LLC or any of its affiliates stands to receive in connection with the Merger, and to provide additional information to its stockholders, the Company supplemented the Joint Proxy Statement/Prospectus filed in

connection with the Merger Agreement as described in the Company's Current Report on Form 8-K filed on March 22, 2017 at a time and in a manner that would not cause any delay of the special meeting of the Company's stockholders, which was scheduled to be held on March 28, 2017, or the Merger. Subsequently on March 22, 2017, the Court entered an order that, among other things, vacated the Injunction, dismissed the Delaware Action as moot, and allowed the special meeting of the Company's stockholders, which was held on March 28, 2017, to proceed as scheduled. The Court retained jurisdiction solely for the purpose of determining the plaintiff's counsel's application for an award of attorneys' fees and reimbursement of expenses. At a special meeting of the Company's stockholders, the issuance of the Company's common stock to stockholders of FairPoint in the Merger received the affirmative vote of approximately 98% of the shares voted. The Merger closed on July 3, 2017. Following the Stockholder Vote and through the closing of the Merger, the parties, through their respective counsel, engaged in arm's length negotiations to resolve plaintiff's counsel's claim for an award of attorneys' fees and expenses for a payment of $0.345 million to plaintiff's counsel by the Company, which payment has not been approved or ruled upon by the Court. The Delaware Action is now closed.

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Access Charges

In 2014, Sprint Communications Company L.P. ("Sprint") along with MCI Communications Services, Inc. and Verizon Select Services Inc. (collectively, "Verizon") filed lawsuits against certain entities of the Company including FairPoint, and many other Local Exchange Carriers (collectively, "LECs") throughout the country challenging the switched access charges LECs assessed Sprint and Verizon, as interexchange carriers ("IXCs"), for certain calls originating from or terminating to mobile devices that are routed to or from these LECs through these IXCs. The plaintiffs' position is based on their interpretation of federal law, among other things, and they are seeking refunds of past access charges paid for such calls. The disputed amounts total $4.8 million and cover periods dating back as far as 2006. CenturyLink, Inc. and its LEC subsidiaries (collectively "CenturyLink"), requested that the U.S. Judicial Panel on Multidistrict Litigation (the "Panel"), which has the authority to transfer the pretrial proceedings to a single court for multiple civil cases involving common questions of fact, transfer and consolidate these cases in one court. The Panel granted CenturyLink's request and ordered that these cases be transferred to and centralized in the U.S. District Court for the Northern District of Texas (the "U.S. District Court"). On November 17, 2015, the U.S. District Court dismissed these complaints based on its interpretation of federal law and held that LECs could assess switched access charges for the calls at issue (the "November 2015 Order"). The November 2015 Order also allowed the plaintiffs to amend their complaints to assert claims that arise under state laws independent of the dismissed claims asserted under federal law. While Verizon did not make such a filing, on May 16, 2016, Sprint filed amended complaints and on June 30, 2016, the LEC defendants named in such complaints filed, among other things, a Joint Motion to Dismiss them, which the U.S. District Court granted on May 3, 2017.

Relatedly, in 2016, numerous LECs across the country, including a number of our LEC entities and FairPoint, filed complaints in various U.S. district courts against Level 3 Communications, LLC and certain of its affiliates (collectively, "Level 3") for its failure to pay access charges for certain calls that the November 2015 Order held could be assessed by LECs. The total amount of the Company's LEC entities including FairPoint, seek from Level 3 in this proceeding is at least approximately $1.6 million, excluding late payment charges/penalties and attorneys' fees. These complaint cases were transferred to and included in the above-referenced consolidated proceeding before the U.S. District Court. Level 3 filed a Motion to Dismiss these complaints that, in part, repeated arguments the November 2015 Order rejected. On March 22, 2017, the U.S. District Court denied Level 3's Motion to Dismiss ("March 2017 Order").

On June 1, 2017, the U.S. District Court adopted a scheduling order in the consolidated cases that established deadlines on how the claims at issue ("intraMTA claims") would be addressed in upcoming aspects of the proceeding. Once the proceeding before the U.S. District Court on the intraMTA claims becomes final, including resolution of any related counterclaims, Sprint, Verizon, and Level 3 are expected to appeal the U.S. District Court's November 2015 and March 2017 Orders. Absent a decision by an appellate court that overturns these Orders, it could be difficult for Sprint or Verizon to succeed on its claims against us or for Level 3 to avoid paying the access charges it disputes in this litigation. Therefore, we do not expect any potential settlement or judgment to have a material adverse impact on our financial results or cash flows.

Gross Receipts Tax

Two of our subsidiaries, Consolidated Communications of Pennsylvania Company LLC (“CCPA”) and Consolidated Communications Enterprise Services Inc. (“CCES”), have, at various times, received assessment notices from the Commonwealth of Pennsylvania Department of Revenue (“DOR”) increasing the amounts owed for Pennsylvania Gross Receipts Tax, and/or have had audits performed for the tax years of 2008 through 2015. In addition, a re-audit was performed on CCPA for the 2010 calendar year.

Pennsylvania generally imposes tax on the gross receipts received from telephone messages transmitted wholly within the state and telephone messages transmitted in interstate commerce where such messages originate or terminate in Pennsylvania, and the charges for such messages are billed to a service address in the state. In a 2013 decision involving Verizon Pennsylvania, Inc. (“Verizon Pennsylvania”), the Commonwealth Court of Pennsylvania held that the gross receipts tax applies to Verizon Pennsylvania’s installation of private phone lines because the sole purpose of private lines is to transmit messages. Similarly, the court held that directory assistance is subject to the gross receipts tax because it makes the transmission of messages more effective and satisfactory. However, the court did not find Verizon Pennsylvania’s nonrecurring charges for the installation of telephone lines, moves of and changes to telephone lines and

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services and repairs of telephone lines to be subject to the gross receipts tax as no telephone messages are transmitted when Verizon Pennsylvania performs these nonrecurring services.

In November 2015, on appeal, the Supreme Court of Pennsylvania held in Verizon Pennsylvania, Inc. v. Commonwealth of Pennsylvania, 127 A.3d 745 (Pa. 2015), that charges for the installation of private phone lines, charges for directory assistance and certain nonrecurring charges were all subject to the state's gross receipt tax. The Supreme Court of Pennsylvania found that all of the services, including those related to nonrecurring charges, in some way made transmission more effective or communication more satisfactory even though such services did not involve actual transmission. This is a partial reversal of the 2013 Commonwealth Court of Pennsylvania decision described above, which had ruled that while the charges for the installation of private phone lines and directory assistance were subject to the state's gross receipts tax, the nonrecurring charges in question were not. As neither reargument nor reconsideration was sought, the Verizon Pennsylvania case is now final.

For our CCES and CCPA subsidiaries, the total additional tax liability calculated by the DOR auditors for the calendar years 2008 through 2013, including interest, is approximately $4.2 million and $5.0 million, respectively. In May 2016, the Commonwealth of Pennsylvania Board of Finance and Revenue reviewed our appeals of the cases for the audits in calendar years 2008 through 2013 and held that the charges in question were subject to the state's gross receipts tax. In June 2016, we filed appeals with the Pennsylvania Commonwealth Court for the audits in calendar years 2008 through 2013, captioned as Consolidated Communications Enterprise Services, Inc. v. Commonwealth of Pennsylvania, Nos. 400 through 411 FR 2016 and Consolidated Communications of Pennsylvania Company, LLC v. Commonwealth of Pennsylvania, Nos. 422 through 432 FR 2016. These appeals are presently in the fact development stage, with further joint status reports to be filed with the Commonwealth Court in December 2017.

In October and December 2016, CCPA and CCES received Audit Assessment Notices from the DOR increasing the amounts owed for Pennsylvania Gross Receipts Tax for the 2014 tax year. The total additional tax liability calculated by the DOR auditors for CCPA and CCES for 2014, including interest, is approximately $0.7 million and $0.9 million, respectively. We filed Petitions for Reassessment with the DOR's Board of Appeals in January 2017 for CCPA and in March 2017 for CCES, contesting these audit assessments. By Interlocutory Orders issued in April 2017, the Board stayed the matters pending final action of the Commonwealth Court in litigation involving the same issues related to CCPA's and CCES's 2008 through 2013 tax periods.

In May and September 2017, CCES and CCPA received Audit Assessment Notices from the DOR increasing the amounts owed for Pennsylvania Gross Receipts Tax for the 2015 tax year. The total additional tax liability calculated by the DOR auditors for CCES and CCPA for 2015, including interest, is approximately $0.7 million for each subsidiary. We filed Petitions for Reassessment with the DOR's Board of Appeals in May 2017 for CCES, contesting these audit assessments. By Interlocutory Orders issued in August 2017, the Board stayed the CCES matters pending final action of the Commonwealth Court in litigation involving the same issues related to CCES's 2008 through 2013 tax periods. We expect to appeal the audit assessments for CCPA in November 2017 and to request that the appeals be stayed pending final action of the Commonwealth Court in litigation involving the same issues related to CCPA's 2008 through 2013 tax periods.

In May 2017, we entered into an agreement to guarantee any potential liability to the DOR up to $5.0 million. However, we believe that certain of the DOR's findings regarding the Company's additional tax liability for the calendar years 2008 through 2015, for which we have filed appeals, continue to lack merit. Nevertheless, in light of the Supreme Court of Pennsylvania's Verizon Pennsylvania decision, we have accrued $1.6 million and $1.4 million, including interest, for our CCES and CCPA subsidiaries, respectively. These accruals also include the Company's best estimate of the potential 2016 and 2017 additional tax liabilities. We do not believe that the outcome of these claims will have a material adverse impact on our financial results or cash flows.

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

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12. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

Consolidated Communications, Inc. is the primary obligor under the unsecured Senior Notes. We and substantially all of our subsidiaries have jointly and severally guaranteed the Senior Notes. All of the subsidiary guarantors are 100% direct or indirect wholly owned subsidiaries of the parent, and all guarantees are full, unconditional and joint and several with respect to principal, interest and liquidated damages, if any. As such, we present condensed consolidating balance sheets as of September 30, 2017 and December 31, 2016 condensed consolidating statements of operations for the quarters and nine-month periods ended September 30, 2017 and 2016 and condensed consolidating statements of cash flows for the nine-month periods ended September 30, 2017 and 2016 for each of the Company (Parent), Consolidated Communications, Inc. (Subsidiary Issuer), guarantor subsidiaries and other non-guarantor subsidiaries with any consolidating adjustments. See Note 6 for more information regarding our Senior Notes.

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Condensed Consolidating Balance Sheets

(In thousands)

	September 30, 2017					
	Parent	Subsidiary Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$ —	$ 17,797	$ 5,516	$ 1	$ —	$ 23,314
Accounts receivable, net	—	—	113,503	7,429	(88)	120,844
Income taxes receivable	15,540	19,584	—	—	(11,630)	23,494
Prepaid expenses and other current assets	—	—	33,703	149	—	33,852
Assets held for sale	—	—	—	21,406	—	21,406
Total current assets	15,540	37,381	152,722	28,985	(11,718)	222,910
Property, plant and equipment, net	—	—	1,999,252	59,166	—	2,058,418
Intangibles and other assets:						
Investments	—	8,495	99,773	—	—	108,268
Investments in subsidiaries	3,532,114	2,039,240	35,134	—	(5,606,488)	—
Goodwill	—	—	976,104	66,181	—	1,042,285
Other intangible assets	—	—	309,400	9,087	—	318,487
Advances due to/from affiliates, net	—	2,428,154	532,377	98,964	(3,059,495)	—
Deferred income taxes	35,770	392	—	—	(36,162)	—
Other assets	—	440	10,379	38	—	10,857
Total assets	$ 3,583,424	$ 4,514,102	$ 4,115,141	$ 262,421	$ (8,713,863)	$ 3,761,225
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities:						
Accounts payable	$ —	$ —	$ 14,154	$ —	$ —	$ 14,154
	—	—	43,602	1,484	—	45,086

Advance billings and customer deposits						
Dividends payable	27,440	—	—	—	—	27,440
Accrued compensation	—	—	42,296	1,181	—	43,477
Accrued interest	—	16,684	499	—	—	17,183
Accrued expense	277	756	74,017	710	(88)	75,672
Income tax payable	—	—	5,937	5,693	(11,630)	—
Current portion of long term debt and capital lease obligations	—	18,351	10,269	204	—	28,824
Liabilities held for sale	—	—	—	1,075	—	1,075
Total current liabilities	27,717	35,791	190,774	10,347	(11,718)	252,911
Long-term debt and capital lease obligations	—	2,298,409	12,392	446	—	2,311,247
Advances due to/from affiliates, net	3,059,495	—	—	—	(3,059,495)	—
Deferred income taxes	—	—	328,621	28,896	(36,162)	321,355
Pension and postretirement benefit obligations	—	—	321,133	18,934	—	340,067
Other long-term liabilities	—	5,371	27,564	1,061	—	33,996
Total liabilities	3,087,212	2,339,571	880,484	59,684	(3,107,375)	3,259,576
Shareholders' equity:						
Common Stock	708	—	17,411	30,000	(47,411)	708
Other shareholders' equity	495,504	2,174,531	3,211,809	172,737	(5,559,077)	495,504
Total Consolidated Communications Holdings, Inc. shareholders' equity	496,212	2,174,531	3,229,220	202,737	(5,606,488)	496,212
Noncontrolling interest	—	—	5,437	—	—	5,437
Total shareholders' equity	496,212	2,174,531	3,234,657	202,737	(5,606,488)	501,649
Total liabilities and shareholders' equity	$ 3,583,424	$ 4,514,102	$ 4,115,141	$ 262,421	$ (8,713,863)	$ 3,761,225

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Condensed Consolidating Balance Sheet

(In thousands)

	December 31, 2016					
	Parent	Subsidiary Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$ —	$ 27,064	$ 13	$ —	$ —	$ 27,077
Accounts receivable, net	—	—	48,911	7,347	(42)	56,216
Income taxes receivable	20,756	—	885	(25)	—	21,616
Prepaid expenses and other current assets	—	12,856	15,310	126	—	28,292
Total current assets	20,756	39,920	65,119	7,448	(42)	133,201
Property, plant and equipment, net	—	—	999,416	55,770	—	1,055,186
Intangibles and other assets:						
Investments	—	8,338	97,883	—	—	106,221
Investments in subsidiaries	2,192,556	2,019,692	14,279	—	(4,226,527)	—
Goodwill	—	—	690,696	66,181	—	756,877
Other intangible assets	—	—	22,525	9,087	—	31,612
Advances due to/from affiliates, net	—	1,524,906	427,720	87,171	(2,039,797)	—
Deferred income taxes	17,150	—	—	—	(17,150)	—
Other assets	—	1,562	8,058	41	—	9,661
Total assets	$ 2,230,462	$ 3,594,418	$ 2,325,696	$ 225,698	$ (6,283,516)	$ 2,092,758
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities:						
Accounts payable	$ —	$ —	$ 6,766	$ —	$ —	$ 6,766
Advance billings and customer	—	—	24,981	1,457	—	26,438

deposits						
Dividends payable	19,605	—	—	—	—	19,605
Accrued compensation	—	—	16,002	969	—	16,971
Accrued interest	—	10,824	436	—	—	11,260
Accrued expense	36	15,057	38,192	880	(42)	54,123
Current portion of long term debt and capital lease obligations	—	9,000	5,735	187	—	14,922
Total current liabilities	19,641	34,881	92,112	3,493	(42)	150,085
Long-term debt and capital lease obligations	—	1,365,820	10,332	602	—	1,376,754
Advances due to/from affiliates, net	2,039,797	—	—	—	(2,039,797)	—
Deferred income taxes	—	984	232,668	27,796	(17,150)	244,298
Pension and postretirement benefit obligations	—	—	109,185	21,608	—	130,793
Other long-term liabilities	70	216	13,807	480	—	14,573
Total liabilities	2,059,508	1,401,901	458,104	53,979	(2,056,989)	1,916,503
Shareholders' equity:						
Common Stock	506	—	17,411	30,000	(47,411)	506
Other shareholders' equity	170,448	2,192,517	1,844,880	141,719	(4,179,116)	170,448
Total Consolidated Communications Holdings, Inc. shareholders' equity	170,954	2,192,517	1,862,291	171,719	(4,226,527)	170,954
Noncontrolling interest	—	—	5,301	—	—	5,301
Total shareholders' equity	170,954	2,192,517	1,867,592	171,719	(4,226,527)	176,255
Total liabilities and shareholders' equity	$ 2,230,462	$ 3,594,418	$ 2,325,696	$ 225,698	$ (6,283,516)	$ 2,092,758

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Condensed Consolidating Statements of Operations

(In thousands)

	Quarter Ended September 30, 2017					
	Parent	Subsidiary Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net revenues	$ —	$ —	$ 351,693	$ 14,806	$ (3,170)	$ 363,329
Operating expenses:						
Cost of services and products (exclusive of depreciation and amortization)	—	—	145,337	3,047	(3,061)	145,323
Selling, general and administrative expenses	552	20	90,435	3,561	(109)	94,459
Acquisition and other transaction costs	27,139	—	—	—	—	27,139
Depreciation and amortization	—	—	101,779	2,627	—	104,406
Operating income (loss)	(27,691)	(20)	14,142	5,571	—	(7,998)
Other income (expense):						
Interest expense, net of interest income	—	(36,041)	(317)	51	—	(36,307)
Intercompany interest income (expense)	—	14,728	(14,706)	(22)	—	—
Investment income	—	—	9,594	—	—	9,594
Equity in earnings of subsidiaries, net	(7,137)	(2,975)	727	—	9,385	—
Other, net	—	—	28	—	—	28
Income (loss) before income taxes	(34,828)	(24,308)	9,468	5,600	9,385	(34,683)
Income tax expense (benefit)	(6,380)	(9,905)	6,622	3,374	—	(6,289)
Net income (loss)	(28,448)	(14,403)	2,846	2,226	9,385	(28,394)
Less: net income attributable to noncontrolling interest	—	—	54	—	—	54
Net income (loss) attributable to Consolidated Communications Holdings, Inc.	$ (28,448)	$ (14,403)	$ 2,792	$ 2,226	$ 9,385	$ (28,448)

Total comprehensive income (loss) attributable to common shareholders	$ (27,848)	$ (13,803)	$ 3,335	$ 2,350	$ 8,118	$ (27,848)

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	Quarter Ended September 30, 2016					
	Parent	Subsidiary Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net revenues	$ —	$ (9)	$ 180,284	$ 14,560	$ (3,294)	$ 191,541
Operating expenses:						
Cost of services and products (exclusive of depreciation and amortization)	—	—	86,403	2,429	(3,186)	85,646
Selling, general and administrative expenses	995	—	35,810	3,220	(108)	39,917
Acquisition and other transaction costs	18	—	—	—	—	18
Depreciation and amortization	—	—	40,837	2,387	—	43,224
Operating income (loss)	(1,013)	(9)	17,234	6,524	—	22,736
Other income (expense):						
Interest expense, net of interest income	—	(19,048)	(68)	41	—	(19,075)
Intercompany interest income (expense)	—	14,727	(14,711)	(16)	—	—
Investment income	—	—	8,735	—	—	8,735
Equity in earnings of subsidiaries, net	9,678	11,858	204	—	(21,740)	—
Other, net	—	(257)	(60)	1	—	(316)
Income (loss) before income taxes	8,665	7,271	11,334	6,550	(21,740)	12,080
Income tax expense (benefit)	1,653	(2,407)	3,625	2,120	—	4,991
Net income (loss)	7,012	9,678	7,709	4,430		