

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.

FORM 10-Q (Quarterly Report)

Filed 08/04/17 for the Period Ending 06/30/17

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|-------------|--|
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| Telephone | (217) 235-3311 |
| CIK | 0001304421 |
| Symbol | CNSL |
| SIC Code | 4813 - Telephone Communications, Except Radiotelephone |
| Industry | Integrated Telecommunications Services |
| Sector | Telecommunication Services |
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 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)

| | |
|--|--|
| <u>Delaware</u> (State or other jurisdiction of incorporation or organization) | <u>02-0636095</u> (I.R.S. Employer Identification No.) |
| <u>121 South 17th Street, Mattoon, Illinois</u> (Address of principal executive offices) | <u>61938-3987</u> (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 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 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 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

On July 31, 2017, the registrant had 70,837,502 shares of Common Stock outstanding.

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| <u>PART I. FINANCIAL INFORMATION</u> | |
| Item 1. Financial Statements | 1 |
| Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations | 31 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk | 48 |
| Item 4. Controls and Procedures | 48 |
| <u>PART II. OTHER INFORMATION</u> | |
| Item 1. Legal Proceedings | 49 |
| Item 6. Exhibits | 50 |
| <u>SIGNATURES</u> | 51 |

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)*

| | <u>Quarter Ended June 30,</u> | | <u>Six Months Ended June 30,</u> | |
|---|-------------------------------|----------------|----------------------------------|-----------------|
| | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> |
| Net revenues | \$ 169,950 | \$ 186,871 | \$ 339,885 | \$ 375,717 |
| Operating expense: | | | | |
| Cost of services and products (exclusive of depreciation and amortization) | 70,376 | 80,763 | 141,767 | 160,483 |
| Selling, general and administrative expenses | 35,720 | 38,805 | 71,751 | 79,481 |
| Acquisition and other transaction costs | 1,793 | 248 | 3,524 | 248 |
| Loss on impairment | — | 610 | — | 610 |
| Depreciation and amortization | 40,483 | 43,491 | 82,678 | 87,631 |
| Income from operations | 21,578 | 22,954 | 40,165 | 47,264 |
| Other income (expense): | | | | |
| Interest expense, net of interest income | (33,918) | (19,106) | (63,589) | (37,752) |
| Investment income | 8,196 | 8,704 | 13,474 | 15,901 |
| Other, net | 119 | (72) | 46 | (58) |
| Income (loss) before income taxes | (4,025) | 12,480 | (9,904) | 25,355 |
| Income tax expense (benefit) | (1,399) | 12,323 | (3,573) | 17,296 |
| Net income (loss) | (2,626) | 157 | (6,331) | 8,059 |
| Less: net income attributable to noncontrolling interest | 102 | 81 | 82 | 134 |
| Net income (loss) attributable to common shareholders | <u>\$ (2,728)</u> | <u>\$ 76</u> | <u>\$ (6,413)</u> | <u>\$ 7,925</u> |
| Net income (loss) per basic and diluted common shares attributable to common shareholders | <u>\$ (0.06)</u> | <u>\$ —</u> | <u>\$ (0.13)</u> | <u>\$ 0.15</u> |
| Dividends declared per common share | <u>\$ 0.38</u> | <u>\$ 0.38</u> | <u>\$ 0.77</u> | <u>\$ 0.77</u> |

See accompanying notes.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited; Amounts in thousands)

| | <u>Quarter Ended June 30,</u> | | <u>Six Months Ended June 30,</u> | |
|---|-------------------------------|---------------|----------------------------------|-----------------|
| | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> |
| Net income (loss) | \$ (2,626) | \$ 157 | \$ (6,331) | \$ 8,059 |
| Pension and post-retirement obligations: | | | | |
| Change in prior service credit, net of tax | (814) | - | (814) | - |
| Amortization of actuarial losses and prior service credit to earnings, net of tax | 871 | 678 | 1,733 | 1,357 |
| Derivative instruments designated as cash flow hedges: | | | | |
| Change in fair value of derivatives, net of tax | (2,488) | (168) | (2,544) | (598) |
| Reclassification of realized loss to earnings, net of tax | 244 | 158 | 449 | 307 |
| Comprehensive income (loss) | (4,813) | 825 | (7,507) | 9,125 |
| Less: comprehensive income (loss) attributable to noncontrolling interest | 102 | 81 | 82 | 134 |
| Total comprehensive income (loss) attributable to common shareholders | <u>\$ (4,915)</u> | <u>\$ 744</u> | <u>\$ (7,589)</u> | <u>\$ 8,991</u> |

See accompanying notes.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

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

| | <u>June 30, 2017</u> | <u>December 31, 2016</u> |
|---|--------------------------|------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 15,859 | \$ 27,077 |
| Accounts receivable, net of allowance for doubtful accounts | 50,338 | 56,216 |
| Income tax receivable | 26,056 | 21,616 |
| Prepaid expenses and other current assets | 25,853 | 28,292 |
| Total current assets | <u>118,106</u> | <u>133,201</u> |
| Property, plant and equipment, net | 1,042,771 | 1,055,186 |
| Investments | 106,504 | 106,221 |
| Goodwill | 756,877 | 756,877 |
| Other intangible assets | 27,211 | 31,612 |
| Other assets | 9,600 | 9,661 |
| Total assets | <u>\$ 2,061,069</u> | <u>\$ 2,092,758</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 10,107 | \$ 6,766 |
| Advance billings and customer deposits | 25,040 | 26,438 |
| Dividends payable | 19,653 | 19,605 |
| Accrued compensation | 15,020 | 16,971 |
| Accrued interest | 26,415 | 11,260 |
| Accrued expense | 50,634 | 54,123 |
| Current portion of long-term debt and capital lease obligations | 17,830 | 14,922 |
| Total current liabilities | <u>164,699</u> | <u>150,085</u> |
| Long-term debt and capital lease obligations | 1,376,248 | 1,376,754 |
| Deferred income taxes | 241,363 | 244,298 |
| Pension and other post-retirement obligations | 126,283 | 130,793 |
| Other long-term liabilities | 19,297 | 14,573 |
| Total liabilities | <u>1,927,890</u> | <u>1,916,503</u> |
| Commitments and contingencies (Note 11) | | |
| Shareholders' equity: | | |
| Common stock, par value \$0.01 per share; 100,000,000 shares authorized, 50,733,313 and 50,612,362 shares outstanding as of June 30, 2017 and December 31, 2016, respectively | 507 | 506 |
| Additional paid-in capital | 182,155 | 217,725 |
| Accumulated deficit | (6,413) | — |
| Accumulated other comprehensive loss, net | (48,453) | (47,277) |
| Noncontrolling interest | 5,383 | 5,301 |
| Total shareholders' equity | <u>133,179</u> | <u>176,255</u> |
| Total liabilities and shareholders' equity | <u>\$ 2,061,069</u> | <u>\$ 2,092,758</u> |

See accompanying notes.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; Amounts in thousands)

| | <u>Six Months Ended June 30,</u> | |
|--|----------------------------------|------------------|
| | <u>2017</u> | <u>2016</u> |
| Net cash provided by operating activities | \$ 93,533 | \$ 115,505 |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment, net | (58,061) | (62,271) |
| Proceeds from sale of assets | 101 | 50 |
| Net cash used in investing activities | <u>(57,960)</u> | <u>(62,221)</u> |
| Cash flows from financing activities: | | |
| Proceeds from issuance of long-term debt | 23,000 | 7,000 |
| Payment of capital lease obligations | (2,993) | (812) |
| Payment on long-term debt | (27,500) | (11,550) |
| Share repurchases for minimum tax withholding | (41) | (71) |
| Dividends on common stock | (39,257) | (39,174) |
| Net cash used in financing activities | <u>(46,791)</u> | <u>(44,607)</u> |
| Increase (decrease) in cash and cash equivalents | (11,218) | 8,677 |
| Cash and cash equivalents at beginning of period | 27,077 | 15,878 |
| Cash and cash equivalents at end of period | <u>\$ 15,859</u> | <u>\$ 24,555</u> |

See accompanying notes.

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 integrated communications services in consumer, commercial and carrier channels, as of June 30, 2017, in California, Illinois, Iowa, Kansas, Minnesota, Missouri, North Dakota, Pennsylvania, South Dakota, Texas and Wisconsin.

We operate as both an Incumbent Local Exchange Carrier (“ILEC”) and a Competitive Local Exchange Carrier (“CLEC”), dependent upon the territory served. We provide a wide range of services and products that include local and long-distance service, high-speed broadband Internet access, video services, Voice over Internet Protocol (“VoIP”), private line services, carrier grade access services, network capacity services over our regional fiber optic networks, cloud data services, data center and managed services, directory publishing and equipment sales. As of June 30, 2017, we had approximately 449 thousand voice connections, 480 thousand data connections and 100 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 was completed and FairPoint became a wholly owned subsidiary of the Company. For a more complete discussion of the transaction, refer to Note 2.

Recent Accounting Pronouncements

Effective January 1, 2017, we adopted the Accounting Standards Update 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. The impact of this change was not material for the quarter and six months ended June 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. This requirement did not impact diluted loss per share for the quarter and six months ended June 30, 2017 as the diluted shares were excluded from the computation of loss per share. Due to our net loss for the quarter and six months ended June 30, 2017, the inclusion of these shares would have had an anti-dilutive impact.

[Table of Contents](#)

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 to increase opening retained earnings for the cumulative impact of excess tax benefits related to our net operating loss carryforwards. This amount was subsequently transferred into additional paid-in capital 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 May 2017, the Financial Accounting Standards Board (“FASB”) issued the Accounting Standards Update 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 adoption date.

In March 2017, the FASB issued the Accounting Standards Update 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 Accounting Standards Update 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 Accounting Standards Update 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 Accounting Standards Update 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.

[Table of Contents](#)

In October 2016, the FASB issued the Accounting Standards Update 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 Accounting Standards Update 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.

In June 2016, the FASB issued the Accounting Standards Update 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 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 Accounting Standards Update 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 and method 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 Accounting Standards Update No. 2014-09 (“ASU 2014-09”), *Revenue from Contracts with Customers (Topic 606)*, which will replace the current revenue recognition requirements in U.S. 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 Accounting Standards Update 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, at which point we plan to adopt the standard.

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’ve determined that adopting this update using the modified retrospective method is more appropriate.

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 is approximately \$431.1 million, exclusive of debt of approximately \$912.8 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.

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 will be accounted for in accordance with the acquisition method of accounting for business combinations. The tangible and intangible assets acquired and liabilities assumed will be recorded at their estimated fair values as of the date of the acquisition. The results of operations of FairPoint will be reported in our consolidated financial statements beginning as of the effective date of the acquisition.

The preliminary estimated fair value of the tangible and intangible assets acquired and liabilities assumed are as follows:

| | <i>(In thousands)</i> |
|---|-----------------------|
| Working capital | \$ 35,213 |
| Property, plant and equipment | 948,254 |
| Intangible assets | 296,500 |
| Other long-term assets | 2,920 |
| Total assets acquired | <u>1,282,887</u> |
| Pension and other post-retirement obligations | 216,011 |
| Deferred income taxes | 109,451 |
| Other long-term liabilities | 16,407 |
| Total liabilities assumed | <u>341,869</u> |
| Net fair value of assets acquired | 941,018 |
| Goodwill | 402,836 |
| Total consideration transferred | <u>\$ 1,343,854</u> |

Due to the limited time between the acquisition date and this filing, the accounting for the business combination and the fair values of the assets acquired and liabilities assumed are based on a preliminary valuation, which is subject to change. 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. 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.

[Table of Contents](#)

Upon closing of the FairPoint acquisition or shortly thereafter, various triggering events occurred which will result 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 \$9.4 million of which \$8.6 million is expected to be paid in 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 expected to be 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 price.

| <i>(Unaudited; in thousands, except per share amounts)</i> | Quarter Ended | | Six Months Ended | |
|--|---------------|------------|------------------|------------|
| | June 30, | | June 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Operating revenues | \$ 369,089 | \$ 393,428 | \$ 740,931 | \$ 789,090 |
| Income from operations | \$ 37,163 | \$ 93,685 | \$ 63,065 | \$ 176,094 |
| Net income | \$ 8,770 | \$ 40,692 | \$ 10,376 | \$ 79,908 |
| Less: net income attributable to noncontrolling interest | 102 | 81 | 82 | 134 |
| Net income attributable to common stockholders | \$ 8,668 | \$ 40,611 | \$ 10,294 | \$ 79,774 |
| Net income per common share-basic and diluted | \$ 0.12 | \$ 0.58 | \$ 0.15 | \$ 1.13 |

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

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

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

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. During the quarter and six months ended June 30, 2016, we recognized an impairment loss of \$0.6 million and deferred income tax expense of \$7.5 million in connection with the classification of CCIC as assets held for sale. See Note 10 for additional income tax related information regarding this transaction. 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.

3. EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share (“EPS”) are computed using the two-class method, which is an earnings allocation that determines EPS for each class of common stock and participating securities according to 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. 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 potentially dilutive impact of the Company’s restricted stock awards is determined using the treasury stock method. Under the treasury stock method, awards are treated as if they had been exercised with the proceeds of exercise used to repurchase common stock at the average market price for the period. Any incremental difference between the assumed number of shares issued and repurchased is included in the diluted share computation.

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

| <i>(In thousands, except per share amounts)</i> | Quarter Ended June 30, | | Six Months Ended June 30, | |
|---|---------------------------|---------|------------------------------|----------|
| | 2017 | 2016 | 2017 | 2016 |
| Net income (loss) | \$ (2,626) | \$ 157 | \$ (6,331) | \$ 8,059 |
| Less: net income attributable to noncontrolling interest | 102 | 81 | 82 | 134 |
| Income (loss) attributable to common shareholders before allocation of earnings to participating securities | (2,728) | 76 | (6,413) | 7,925 |
| Less: earnings allocated to participating securities | 115 | 131 | 164 | 262 |
| Net income (loss) attributable to common shareholders, after earnings allocated to participating securities | \$ (2,843) | \$ (55) | \$ (6,577) | \$ 7,663 |
| Weighted-average number of common shares outstanding | 50,412 | 50,294 | 50,411 | 50,291 |
| Net income (loss) per common share attributable to common shareholders - basic and diluted | \$ (0.06) | \$ — | \$ (0.13) | \$ 0.15 |

Diluted earnings (loss) per common share attributable to common shareholders for the quarters ended June 30, 2017 and 2016 excludes 0.3 million and 0.4 million potential common shares, respectively, that could be issued under our share-based compensation plan, because the inclusion of the potential common shares would have an antidilutive effect. For each of the six months ended June 30, 2017 and 2016, diluted earnings (loss) per common share attributable to common shareholders excludes 0.3 million potential common shares.

4. INVESTMENTS

Our investments are as follows:

| <i>(In thousands)</i> | June 30, 2017 | December 31, 2016 |
|---|-------------------|----------------------|
| Cash surrender value of life insurance policies | \$ 2,346 | \$ 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 | 8,295 | 8,138 |
| Other | 200 | 200 |
| Equity method investments: | | |
| GTE Mobilnet of Texas RSA #17 Limited Partnership (20.51% interest) | 16,199 | 17,160 |
| Pennsylvania RSA 6(I) Limited Partnership (16.67% interest) | 7,035 | 6,540 |
| Pennsylvania RSA 6(II) Limited Partnership (23.67% interest) | 28,029 | 27,627 |
| Totals | <u>\$ 106,504</u> | <u>\$ 106,221</u> |

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 (“Pittsburgh SMSA”), 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 six months ended June 30, 2017 or 2016. For the quarters ended June 30, 2017 and 2016, we received cash distributions from these partnerships totaling \$3.7 million and \$3.8 million, respectively. For the six months ended June 30, 2017 and 2016, we received cash distributions from these partnerships totaling \$5.3 million and \$6.5 million, respectively.

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

Equity Method

We own 20.51% of GTE Mobilnet of Texas RSA #17 Limited Partnership (“RSA #17”), 16.67% of Pennsylvania RSA 6(I) Limited Partnership (“RSA 6(I)”) and 23.67% of Pennsylvania RSA 6(II) Limited Partnership (“RSA 6(II)”). RSA #17 provides cellular service to a limited rural area in Texas. RSA 6(I) and RSA 6(II) provide cellular service in and around our Pennsylvania service territory. Because we have significant influence over the operating and financial policies of these three entities, we account for the investments using the equity method. For the quarters ended June 30, 2017 and 2016, we received cash distributions from these partnerships totaling \$4.1 million and \$4.0 million, respectively. For each of the six months ended June 30, 2017 and 2016, we received cash distributions from these partnerships totaling \$8.1 million.

[Table of Contents](#)

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

| <i>(In thousands)</i> | Quarter Ended June 30, | | Six Months Ended June 30, | |
|-------------------------|---------------------------|-----------|------------------------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| Total revenues | \$ 89,811 | \$ 81,885 | \$ 169,832 | \$ 164,542 |
| Income from operations | 24,518 | 26,797 | 45,806 | 52,393 |
| Net income before taxes | 24,145 | 26,396 | 45,042 | 51,585 |
| Net income | 24,145 | 26,396 | 45,042 | 51,585 |

| <i>(In thousands)</i> | June 30, 2017 | December 31, 2016 |
|-------------------------|------------------|----------------------|
| Current assets | \$ 68,446 | \$ 64,083 |
| Non-current assets | 95,267 | 89,651 |
| Current liabilities | 26,165 | 21,985 |
| Non-current liabilities | 51,497 | 51,836 |
| Partnership equity | 86,051 | 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 June 30, 2017 and December 31, 2016 were as follows:

| <i>(In thousands)</i> | Total | As of June 30, 2017 | | |
|--|------------|--|---|--|
| | | 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 | \$ 386 | \$ - | \$ 386 | \$ - |
| Current interest rate swap liabilities | (294) | - | (294) | - |
| Long-term interest rate swap liabilities | (5,601) | - | (5,601) | - |
| Total | \$ (5,509) | \$ - | \$ (5,509) | \$ - |

| <i>(In thousands)</i> | Total | As of December 31, 2016 | | |
|--|----------|--|---|--|
| | | 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

[Table of Contents](#)

their short maturities. The following table presents the other financial instruments that are not carried at fair value but which require fair value disclosure as of June 30, 2017 and December 31, 2016 .

| <i>(In thousands)</i> | As of June 30, 2017 | | As of December 31, 2016 | |
|--|---------------------|--------------|-------------------------|--------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Investments, equity basis | \$ 51,263 | n/a | \$ 51,327 | n/a |
| Investments, at cost | \$ 52,895 | n/a | \$ 52,738 | n/a |
| Long-term debt, excluding capital leases | \$ 1,384,913 | \$ 1,387,136 | \$ 1,388,786 | \$ 1,390,773 |

Cost & Equity Method Investments

Our investments as of June 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:

| <i>(In thousands)</i> | June 30, 2017 | December 31, 2016 |
|--|------------------|----------------------|
| Senior secured credit facility: | | |
| Term 5 loan, net of discount of \$4,346 and \$4,662 at June 30, 2017 and December 31, 2016, respectively | \$ 888,904 | \$ 893,088 |
| Revolving loan | — | — |
| 6.50% Senior notes due 2022, net of discount of \$3,991 and \$4,302 at June 30, 2017 and December 31, 2016, respectively | 496,009 | 495,698 |
| Capital leases | 21,962 | 16,857 |
| | 1,406,875 | 1,405,643 |
| Less: current portion of long-term debt and capital leases | (17,830) | (14,922) |
| Less: deferred debt issuance costs | (12,797) | (13,967) |
| Total long-term debt | \$ 1,376,248 | \$ 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 (the “Credit Agreement”). The Credit Agreement consists of a \$110.0 million revolving credit facility and initial term loans in the aggregate amount of \$900.0 million (“Term 5”). 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 senior secured credit facility 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.

The Term 5 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 Term 5 loan contains an original issuance discount of 0.25% or \$2.3 million, which is being amortized over the term of the loan. The Term 5 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.

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 June 30, 2017, the borrowing margin for the three month period ending September 30, 2017 will be at a weighted-average margin of 3.25% for a LIBOR-based loan or 2.25% for an alternate base rate loan. The applicable borrowing margin for the revolving credit facility is adjusted quarterly to reflect the leverage ratio from the prior quarter-end. As of June 30, 2017 and December 31, 2016, there were no outstanding borrowings under the revolving credit facility. A stand-by letter of credit of \$1.6 million, issued primarily in connection with the Company’s insurance coverage, was outstanding under our revolving credit facility as of June 30, 2017. The stand-by letter of credit is renewable annually and reduces the borrowing availability under the revolving credit facility. As of June 30, 2017, \$108.4 million was available for borrowing under the revolving credit facility.

The weighted-average interest rate on outstanding borrowings under our credit facility was 4.05% and 4.00% as of June 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 June 30, 2017, we were in compliance with the Credit Agreement covenants.

In general, our Credit Agreement restricts our ability to pay dividends to the amount of our available cash as defined in our Credit Agreement. As of June 30, 2017, and including the \$27.4 million dividend paid on August 1, 2017, we had \$262.4 million in dividend availability under the credit facility covenant.

Under our Credit Agreement, if our total net leverage ratio, as defined in the Credit Agreement, as of the end of any fiscal quarter is greater than 5.10:1.00, we will be required to suspend dividends on our common stock unless otherwise permitted by an exception for dividends that may be paid from the portion of proceeds of any sale of equity not used to fund acquisitions or make other investments. During any dividend suspension period, we will be required to repay debt in an amount equal to 50.0% of any increase in available cash, among other things. In addition, we will not be permitted to pay dividends if an event of default under the Credit Agreement has occurred and is continuing. Among other things, it will be an event of default if our total net leverage ratio or interest coverage ratio as of the end of any fiscal quarter is greater than 5.25:1.00 or less than 2.25:1.00, respectively. As of June 30, 2017, our total net leverage ratio under the Credit Agreement was 4.74:1.00, and our interest coverage ratio was 3.85:1.00.

Committed Financing

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 (the “Incremental Term Loan”), 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 Term 5 loan and are being amortized over the term of the debt as interest expense. The Incremental Term Loan included an original issue discount of 0.50% and has an interest rate of 3.00% plus LIBOR subject to a 1.00% LIBOR floor. Ticking fees began accruing on the Incremental Term Loan commitments on January 15, 2017 at the rate equal to the interest rate of the Incremental Term Loan. In connection with entering into the committed financing, commitment fees of \$14.0 million were capitalized in December 2016 and are being amortized to interest

expense over the term of the commitment period of one year or fully amortized on the date of debt issuance if less than one year.

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. 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 of \$14.8 million be deemed to be letters of credit under the Credit Agreement. 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.

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 June 30, 2017, this ratio was 4.72:1.00. 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 \$378.6 million have been paid since May 30, 2012, including the quarterly dividend declared in May 2017 and paid on August 1, 2017, there was \$482.2 million of the \$860.9 million of cumulative consolidated cash flow since May 30, 2012 available to pay dividends as of June 30, 2017. As of June 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 2021. As of June 30, 2017, the present value of the minimum remaining lease commitments was approximately \$21.9 million, of which \$8.8 million was due and payable within the next twelve months. The leases require total remaining rental payments of \$24.1 million as of June 30, 2017, of which \$3.2 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 June 30, 2017:

| <i>(In thousands)</i> | Notional Amount | 2017 Balance Sheet Location | Fair Value |
|---|------------------------|------------------------------------|-------------------|
| Cash Flow Hedges: | | | |
| Fixed to 1-month floating LIBOR (with floor) | \$ 150,000 | Other assets | \$ 386 |
| Fixed to 1-month floating LIBOR (with floor) | \$ 100,000 | Accrued expense | (294) |
| Series of forward starting fixed to 1-month floating LIBOR (with floor) | \$ 2,460,000 | Other long-term liabilities | (5,601) |
| Total Fair Values | | | \$ (5,509) |

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

| <i>(In thousands)</i> | 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

[Table of Contents](#)

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 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 June 30, 2017 and December 31, 2016, the total pre-tax deferred loss related to our interest rate swap agreements included in AOCI was \$3.6 million and \$0.2 million, respectively. The estimated amount of losses included in AOCI as of June 30, 2017 that will be recognized in earnings in the next twelve months is approximately \$2.8 million.

Information regarding our cash flow hedge transactions is as follows:

| <i>(In thousands)</i> | Quarter Ended June 30, | | Six Months Ended June 30, | |
|--|---------------------------|----------|------------------------------|----------|
| | 2017 | 2016 | 2017 | 2016 |
| Unrealized loss recognized in AOCI, pretax | \$ (4,039) | \$ (273) | \$ (4,130) | \$ (973) |
| Deferred losses reclassified from AOCI to interest expense | \$ (396) | \$ (256) | \$ (729) | \$ (499) |
| Loss recognized in interest expense from ineffectiveness | \$ (1,535) | \$ — | \$ (1,300) | \$ — |

8. EQUITY

Share-Based Compensation

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

| <i>(In thousands)</i> | Quarter Ended June 30, | | Six Months Ended June 30, | |
|-----------------------|---------------------------|--------|------------------------------|----------|
| | 2017 | 2016 | 2017 | 2016 |
| Restricted stock | \$ 589 | \$ 511 | \$ 964 | \$ 1,072 |
| Performance shares | 303 | 401 | 466 | 732 |
| Total | \$ 892 | \$ 912 | \$ 1,430 | \$ 1,804 |

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

As of June 30, 2017, total unrecognized compensation cost related to non-vested Restricted Stock Awards (“RSAs”) and Performance Share Awards (“PSAs”) was \$6.0 million and will be recognized over a weighted-average period of approximately 2.2 years.

The following table summarizes the RSA and PSA activity for the six-month period ended June 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 | 5,204 | \$ 24.00 |
| Shares vested | (4,708) | \$ 22.30 | — | \$ — |
| Shares forfeited, cancelled or retired | (3,011) | \$ 22.48 | (3,507) | \$ 20.68 |
| Non-vested shares outstanding - June 30, 2017 | 210,043 | \$ 22.80 | 110,857 | \$ 20.28 |

Accumulated Other Comprehensive Loss

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

| <i>(In thousands)</i> | Pension and Post-Retirement Obligations | Derivative Instruments | Total |
|--|---|------------------------|-------------|
| Balance at December 31, 2016 | \$ (47,150) | \$ (127) | \$ (47,277) |
| Other comprehensive income before reclassifications | (814) | (2,544) | (3,358) |
| Amounts reclassified from accumulated other comprehensive loss | 1,733 | 449 | 2,182 |
| Net current period other comprehensive income | 919 | (2,095) | (1,176) |
| Balance at June 30, 2017 | \$ (46,231) | \$ (2,222) | \$ (48,453) |

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

| <i>(In thousands)</i> | Quarter Ended June 30, | | Six Months Ended June 30, | | Affected Line Item in the Statement of Income |
|--|------------------------|----------|---------------------------|------------|---|
| | 2017 | 2016 | 2017 | 2016 | |
| Amortization of pension and post-retirement items: | | | | | |
| Prior service credit | \$ 209 | \$ 245 | \$ 453 | \$ 489 | (a) |
| Actuarial loss | (1,639) | (1,356) | (3,300) | (2,711) | (a) |
| | (1,430) | (1,111) | (2,847) | (2,222) | Total before tax |
| | 559 | 433 | 1,114 | 865 | Tax benefit |
| | \$ (871) | \$ (678) | \$ (1,733) | \$ (1,357) | Net of tax |
| Loss on cash flow hedges: | | | | | |
| Interest rate derivatives | \$ (396) | \$ (256) | \$ (729) | \$ (499) | Interest expense |
| | 152 | 98 | 280 | 192 | Tax benefit |
| | \$ (244) | \$ (158) | \$ (449) | \$ (307) | 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.

We also have two non-qualified supplemental retirement plans (the “Supplemental Plans” and, together with the Retirement 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.

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

| <i>(In thousands)</i> | Quarter Ended June 30, | | Six Months Ended June 30, | |
|---------------------------------------|---------------------------|---------------|------------------------------|---------------|
| | 2017 | 2016 | 2017 | 2016 |
| Service cost | \$ 74 | \$ 86 | \$ 161 | \$ 172 |
| Interest cost | 3,567 | 4,073 | 7,180 | 8,146 |
| Expected return on plan assets | (5,053) | (5,159) | (9,958) | (10,318) |
| Net amortization loss | 1,683 | 1,356 | 3,387 | 2,711 |
| Net prior service credit amortization | (79) | (115) | (193) | (229) |
| Curtailement gain | (1,337) | — | (1,337) | — |
| Net periodic pension cost | <u>\$ (1,145)</u> | <u>\$ 241</u> | <u>\$ (760)</u> | <u>\$ 482</u> |

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 quarter and six-month period ended June 30, 2017.

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 \$0.1 million for each of the quarters ended June 30, 2017 and 2016 and \$0.2 million for each of the six-month periods ended June 30, 2017 and 2016, respectively. The net present value of the remaining obligations was approximately \$1.9 million and \$2.0 million as of June 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 six-month period ended June 30, 2016. We did not recognize any life insurance proceeds during the quarter and six-month period ended June 30, 2017. The excess of the cash surrender value of the remaining life insurance policies over the notes payable balances related to these policies

totalled \$2.3 million and \$2.2 million as of June 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 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.

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

| <i>(In thousands)</i> | Quarter Ended June 30, | | Six Months Ended June 30, | |
|---|---------------------------|---------------|------------------------------|---------------|
| | 2017 | 2016 | 2017 | 2016 |
| Service cost | \$ 124 | \$ 150 | \$ 247 | \$ 300 |
| Interest cost | 396 | 505 | 791 | 1,010 |
| Expected return on plan assets | (29) | (37) | (57) | (74) |
| Net amortization gain | (44) | — | (87) | — |
| Net prior service credit amortization | (130) | (130) | (260) | (260) |
| Net periodic post-retirement benefit cost | <u>\$ 317</u> | <u>\$ 488</u> | <u>\$ 634</u> | <u>\$ 976</u> |

Contributions

We expect to contribute approximately \$6.4 million to our Pension Plans and \$3.9 million to our Post-retirement Plans in 2017. As of June 30, 2017, we have contributed \$1.0 million and \$1.8 million of the annual contribution to the Pension Plans and Post-retirement Plans, respectively.

10. INCOME TAXES

There have been no material changes to our unrecognized tax benefits as reported at December 31, 2016. As of June 30, 2017, we did not have any unrecognized tax benefits. As of December 31, 2016, the amount of unrecognized tax benefits was \$0.1 million. During the six months ended June 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 changes 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 June 30, 2017, we did not have a liability for interest or penalties and had no material interest or penalty expense.

The periods subject to examination for our federal return are years 2013 through 2015. The periods subject to examination for our state returns are years 2012 through 2015. We are not currently under examination by federal or state taxing authorities.

Our effective tax rate was 34.8 % and 98.7% for the quarters ended June 30, 2017 and 2016, respectively and 36.1% and 68.2% for the six-month periods ended June 30, 2017 and 2016, respectively. For the quarter and six-month periods ended June 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. For the quarter and six-month period ended June 30, 2016, we recognized approximately \$7.5 million of deferred taxes related to the assets held for sale of CCIC, which was the primary driver of the effective tax rate differing from the federal and statutory rates. Exclusive of these adjustments, our effective tax rate for the quarters ended June 30, 2017 and 2016 would have been approximately 34.7% and 38.5%, respectively and for the six-month periods ended June 30, 2017 and 2016 would have been approximately 35.6% and 38.6%, respectively.

11. COMMITMENTS AND CONTINGENCIES

Litigation, Regulatory Proceedings and Other Contingencies

FairPoint

On February 7, 2017, an alleged class action complaint was filed by a purported stockholder of FairPoint in the United States District Court for the Western District of North Carolina (Case No. 3:17-cv-51) against us, FairPoint and its directors. Among other things, the complaint alleges that the disclosures in our Form S-4 Registration Statement filed with the SEC on January 26, 2017, in connection with the Merger Agreement, are materially incomplete and misleading in violation of Sections 14(a) and 20(a) of the Securities Exchange Act of 1934, as amended. The plaintiff sought to enjoin us from consummating the merger with FairPoint on the agreed-upon terms or, alternatively, to rescind the merger in the event that we consummate the merger, in addition to damages and attorney fees and costs. On March 7, 2017, the plaintiff filed a motion for preliminary injunction to enjoin FairPoint's special meeting of stockholders to approve the proposed Merger. On March 17, 2017, the plaintiff voluntarily dismissed the action with prejudice as to his individual claims and without prejudice as to the claims of the putative class. No payment, promise of payment, or other consideration has been offered or made to the plaintiff or his attorneys.

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 (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.

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 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 \$2.4 million and cover periods dating back to 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, 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 our LEC entities seek from Level 3 in this proceeding is at least approximately \$0.3 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 an adverse material 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 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 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 a consolidated joint status report to be filed with the Commonwealth Court in September 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 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 DOR's Board of Appeals 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 2017, CCES 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 for 2015 is approximately \$0.7 million. We filed Petitions for Reassessment with the DOR's Board of Appeals in May 2017 contesting these audit assessments. We expect the Board to stay these matters pending final action of the Commonwealth Court in litigation involving the same issues related to CCES's 2008 through 2013 tax periods. Additionally, in July 2017, CCPA received audit schedules 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 CCPA for 2015 is approximately \$0.7 million. We expect to appeal the audit findings when the Audit Assessment Notices are issued.

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. In light of the Supreme Court of Pennsylvania's *Verizon Pennsylvania* decision, we have accrued \$1.4 million and \$1.2 million 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.

12. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

Consolidated Communications, Inc. is the primary obligor under the unsecured Senior Notes. We and substantially all of our subsidiaries, excluding Consolidated Communications of Illinois Company, 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 June 30, 2017 and December 31, 2016, condensed consolidating statements of operations for the quarters and six-month periods ended June 30, 2017 and 2016 and condensed consolidating statements of cash flows for the six-month periods ended June 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.

Condensed Consolidating Balance Sheets
(In thousands)

| | June 30, 2017 | | | | | |
|--|---------------------|----------------------|---------------------|-------------------|-----------------------|---------------------|
| | Parent | Subsidiary Issuer | Guarantors | Non-Guarantors | Eliminations | Consolidated |
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ — | \$ 15,846 | \$ 13 | \$ — | \$ — | \$ 15,859 |
| Accounts receivable, net | — | — | 43,490 | 7,145 | (297) | 50,338 |
| Income taxes receivable | 22,724 | 9,636 | — | — | (6,304) | 26,056 |
| Prepaid expenses and other current assets | — | 5,844 | 19,881 | 128 | — | 25,853 |
| Total current assets | 22,724 | 31,326 | 63,384 | 7,273 | (6,601) | 118,106 |
| Property, plant and equipment, net | — | — | 985,206 | 57,565 | — | 1,042,771 |
| Intangibles and other assets: | | | | | | |
| Investments | — | 8,495 | 98,009 | — | — | 106,504 |
| Investments in subsidiaries | 2,188,334 | 2,041,549 | 14,501 | — | (4,244,384) | — |
| Goodwill | — | — | 690,696 | 66,181 | — | 756,877 |
| Other intangible assets | — | — | 18,124 | 9,087 | — | 27,211 |
| Advances due to/from affiliates, net | — | 1,523,418 | 463,016 | 96,651 | (2,083,085) | — |
| Deferred income taxes | 19,175 | 322 | — | — | (19,497) | — |
| Other assets | 319 | 1,537 | 7,706 | 38 | — | 9,600 |
| Total assets | \$ 2,230,552 | \$ 3,606,647 | \$ 2,340,642 | \$ 236,795 | \$ (6,353,567) | \$ 2,061,069 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | \$ — | \$ — | \$ 10,107 | \$ — | \$ — | \$ 10,107 |
| Advance billings and customer deposits | — | — | 22,878 | 2,162 | — | 25,040 |
| Dividends payable | 19,653 | — | — | — | — | 19,653 |
| Accrued compensation | — | — | 14,050 | 970 | — | 15,020 |
| Accrued interest | — | 25,936 | 479 | — | — | 26,415 |
| Accrued expense | 18 | 14,660 | 35,389 | 864 | (297) | 50,634 |
| Income tax payable | — | — | 3,124 | 3,180 | (6,304) | — |
| Current portion of long term debt and capital lease obligations | — | 9,000 | 8,631 | 199 | — | 17,830 |
| Total current liabilities | 19,671 | 49,596 | 94,658 | 7,375 | (6,601) | 164,699 |
| Long-term debt and capital lease obligations | — | 1,363,116 | 12,633 | 499 | — | 1,376,248 |
| Advances due to/from affiliates, net | 2,083,085 | — | — | — | (2,083,085) | — |
| Deferred income taxes | — | — | 232,957 | 27,903 | (19,497) | 241,363 |
| Pension and postretirement benefit obligations | — | — | 106,206 | 20,077 | — | 126,283 |
| Other long-term liabilities | — | 5,601 | 13,236 | 460 | — | 19,297 |
| Total liabilities | 2,102,756 | 1,418,313 | 459,690 | 56,314 | (2,109,183) | 1,927,890 |
| Shareholders' equity: | | | | | | |
| Common Stock | 507 | — | 17,411 | 30,000 | (47,411) | 507 |
| Other shareholders' equity | 127,289 | 2,188,334 | 1,858,158 | 150,481 | (4,196,973) | 127,289 |
| Total Consolidated Communications Holdings, Inc. shareholders' equity | 127,796 | 2,188,334 | 1,875,569 | 180,481 | (4,244,384) | 127,796 |
| Noncontrolling interest | — | — | 5,383 | — | — | 5,383 |
| Total shareholders' equity | 127,796 | 2,188,334 | 1,880,952 | 180,481 | (4,244,384) | 133,179 |
| Total liabilities and shareholders' equity | \$ 2,230,552 | \$ 3,606,647 | \$ 2,340,642 | \$ 236,795 | \$ (6,353,567) | \$ 2,061,069 |

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 deposits | — | — | 24,981 | 1,457 | — | 26,438 |
| 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 |

Condensed Consolidating Statements of Operations
(In thousands)

| | Quarter Ended June 30, 2017 | | | | | |
|--|-----------------------------|----------------------|-----------------|--------------------|--------------------|-------------------|
| | Parent | Subsidiary Issuer | Guarantors | Non- Guarantors | Eliminations | Consolidated |
| Net revenues | \$ — | \$ — | \$ 159,072 | \$ 14,066 | \$ (3,188) | \$ 169,950 |
| Operating expenses: | | | | | | |
| Cost of services and products (exclusive of depreciation and amortization) | — | — | 70,952 | 2,501 | (3,077) | 70,376 |
| Selling, general and administrative expenses | 920 | — | 31,899 | 3,012 | (111) | 35,720 |
| Acquisition and other transaction costs | 1,793 | — | — | — | — | 1,793 |
| Depreciation and amortization | — | — | 38,039 | 2,444 | — | 40,483 |
| Operating income (loss) | (2,713) | — | 18,182 | 6,109 | — | 21,578 |
| Other income (expense): | | | | | | |
| Interest expense, net of interest income | — | (33,704) | (244) | 30 | — | (33,918) |
| Intercompany interest income (expense) | — | 14,727 | (14,707) | (20) | — | — |
| Investment income | — | — | 8,196 | — | — | 8,196 |
| Equity in earnings of subsidiaries, net | (740) | 13,168 | 277 | — | (12,705) | — |
| Other, net | — | 2 | 120 | (3) | — | 119 |
| Income (loss) before income taxes | (3,453) | (5,807) | 11,824 | 6,116 | (12,705) | (4,025) |
| Income tax expense (benefit) | (725) | (5,067) | 2,791 | 1,602 | — | (1,399) |
| Net income (loss) | (2,728) | (740) | 9,033 | 4,514 | (12,705) | (2,626) |
| Less: net income attributable to noncontrolling interest | — | — | 102 | — | — | 102 |
| Net income (loss) attributable to Consolidated Communications Holdings, Inc. | <u>\$ (2,728)</u> | <u>\$ (740)</u> | <u>\$ 8,931</u> | <u>\$ 4,514</u> | <u>\$ (12,705)</u> | <u>\$ (2,728)</u> |
| Total comprehensive income (loss) attributable to common shareholders | <u>\$ (4,915)</u> | <u>\$ (2,927)</u> | <u>\$ 8,974</u> | <u>\$ 4,528</u> | <u>\$ (10,575)</u> | <u>\$ (4,915)</u> |

[Table of Contents](#)

| | Quarter Ended June 30, 2016 | | | | | |
|--|-----------------------------|-------------------|------------|----------------|--------------|--------------|
| | Parent | Subsidiary Issuer | Guarantors | Non-Guarantors | Eliminations | Consolidated |
| Net revenues | \$ — | \$ 18 | \$ 175,245 | \$ 14,897 | \$ (3,289) | \$ 186,871 |
| Operating expenses: | | | | | | |
| Cost of services and products (exclusive of depreciation and amortization) | — | — | 80,739 | 3,204 | (3,180) | 80,763 |
| Selling, general and administrative expenses | 1,076 | 7 | 35,622 | 2,209 | (109) | 38,805 |
| Acquisition and other transaction costs | 248 | — | — | — | — | 248 |
| Loss on impairment | — | — | 610 | — | — | 610 |
| Depreciation and amortization | — | — | 41,216 | 2,275 | — | 43,491 |
| Operating income (loss) | (1,324) | 11 | 17,058 | 7,209 | — | 22,954 |
| Other income (expense): | | | | | | |
| Interest expense, net of interest income | 7 | (18,963) | (160) | 10 | — | (19,106) |
| Intercompany interest income (expense) | (31,886) | 33,824 | (2,706) | 768 | — | — |
| Investment income | — | — | 8,704 | — | — | 8,704 |
| Equity in earnings of subsidiaries, net | 21,443 | 19,393 | 219 | — | (41,055) | — |
| Other, net | — | — | (66) | (6) | — | (72) |
| Income (loss) before income taxes | (11,760) | 34,265 | 23,049 | 7,981 | (41,055) | 12,480 |
| Income tax expense (benefit) | (11,836) | 12,821 | 8,490 | 2,848 | — | 12,323 |
| Net income (loss) | 76 | 21,444 | 14,559 | 5,133 | (41,055) | 157 |
| Less: net income attributable to noncontrolling interest | — | — | 81 | — | — | 81 |
| Net income (loss) attributable to Consolidated Communications Holdings, Inc. | \$ 76 | \$ 21,444 | \$ 14,478 | \$ 5,133 | \$ (41,055) | \$ 76 |
| Total comprehensive income (loss) attributable to common shareholders | \$ 744 | \$ 22,112 | \$ 15,023 | \$ 5,266 | \$ (42,401) | \$ 744 |

[Table of Contents](#)

| | Six Months Ended June 30, 2017 | | | | | |
|--|--------------------------------|----------------------|------------------|--------------------|--------------------|-------------------|
| | Parent | Subsidiary Issuer | Guarantors | Non- Guarantors | Eliminations | Consolidated |
| Net revenues | \$ — | \$ — | \$ 317,904 | \$ 28,355 | \$ (6,374) | \$ 339,885 |
| Operating expenses: | | | | | | |
| Cost of services and products (exclusive of depreciation and amortization) | — | — | 142,873 | 5,050 | (6,156) | 141,767 |
| Selling, general and administrative expenses | 1,263 | 10 | 64,557 | 6,139 | (218) | 71,751 |
| Acquisition and other transaction costs | 3,524 | — | — | — | — | 3,524 |
| Depreciation and amortization | — | — | 77,559 | 5,119 | — | 82,678 |
| Operating income (loss) | (4,787) | (10) | 32,915 | 12,047 | — | 40,165 |
| Other income (expense): | | | | | | |
| Interest expense, net of interest income | 6 | (63,191) | (450) | 46 | — | (63,589) |
| Intercompany interest income (expense) | — | 29,454 | (29,415) | (39) | — | — |
| Investment income | — | 157 | 13,317 | — | — | 13,474 |
| Equity in earnings of subsidiaries, net | (3,045) | 20,906 | 222 | — | (18,083) | — |
| Other, net | — | 3 | 54 | (11) | — | 46 |
| Income (loss) before income taxes | (7,826) | (12,681) | 16,643 | 12,043 | (18,083) | (9,904) |
| Income tax expense (benefit) | (1,413) | (9,636) | 4,021 | 3,455 | — | (3,573) |
| Net income (loss) | (6,413) | (3,045) | 12,622 | 8,588 | (18,083) | (6,331) |
| Less: net income attributable to noncontrolling interest | — | — | 82 | — | — | 82 |
| Net income (loss) attributable to Consolidated Communications Holdings, Inc. | <u>\$ (6,413)</u> | <u>\$ (3,045)</u> | <u>\$ 12,540</u> | <u>\$ 8,588</u> | <u>\$ (18,083)</u> | <u>\$ (6,413)</u> |
| Total comprehensive income (loss) attributable to common shareholders | <u>\$ (7,589)</u> | <u>\$ (4,221)</u> | <u>\$ 13,285</u> | <u>\$ 8,762</u> | <u>\$ (17,826)</u> | <u>\$ (7,589)</u> |

| | Six Months Ended June 30, 2016 | | | | | |
|--|--------------------------------|----------------------|------------------|--------------------|--------------------|-----------------|
| | Parent | Subsidiary Issuer | Guarantors | Non- Guarantors | Eliminations | Consolidated |
| Net revenues | \$ — | \$ (5) | \$ 352,500 | \$ 29,784 | \$ (6,562) | \$ 375,717 |
| Operating expenses: | | | | | | |
| Cost of services and products (exclusive of depreciation and amortization) | — | — | 160,453 | 6,377 | (6,347) | 160,483 |
| Selling, general and administrative expenses | 1,972 | 7 | 72,222 | 5,495 | (215) | 79,481 |
| Acquisition and other transaction costs | 248 | — | — | — | — | 248 |
| Loss on impairment | — | — | 610 | — | — | 610 |
| Depreciation and amortization | — | — | 83,077 | 4,554 | — | 87,631 |
| Operating income (loss) | (2,220) | (12) | 36,138 | 13,358 | — | 47,264 |
| Other income (expense): | | | | | | |
| Interest expense, net of interest income | 46 | (37,398) | (408) | 8 | — | (37,752) |
| Intercompany interest income (expense) | (63,773) | 67,648 | (5,405) | 1,530 | — | — |
| Investment income | — | 166 | 15,735 | — | — | 15,901 |
| Equity in earnings of subsidiaries, net | 50,162 | 38,215 | 361 | — | (88,738) | — |
| Other, net | — | — | (40) | (18) | — | (58) |
| Income (loss) before income taxes | (15,785) | 68,619 | 46,381 | 14,878 | (88,738) | 25,355 |
| Income tax expense (benefit) | (23,710) | 18,456 | 17,201 | 5,349 | — | 17,296 |
| Net income (loss) | 7,925 | 50,163 | 29,180 | 9,529 | (88,738) | 8,059 |
| Less: net income attributable to noncontrolling interest | — | — | 134 | — | — | 134 |
| Net income (loss) attributable to Consolidated Communications Holdings, Inc. | <u>\$ 7,925</u> | <u>\$ 50,163</u> | <u>\$ 29,046</u> | <u>\$ 9,529</u> | <u>\$ (88,738)</u> | <u>\$ 7,925</u> |
| Total comprehensive income (loss) attributable to common shareholders | <u>\$ 8,991</u> | <u>\$ 51,229</u> | <u>\$ 30,137</u> | <u>\$ 9,795</u> | <u>\$ (91,161)</u> | <u>\$ 8,991</u> |

Condensed Consolidating Statements of Cash Flows
(In thousands)

| | Six Months Ended June 30, 2017 | | | | |
|---|---------------------------------------|-------------------|-------------------|-----------------------|---------------------|
| | Parent | Subsidiary | | Non-Guarantors | Consolidated |
| | | Issuer | Guarantors | | |
| Net cash (used in) provided by operating activities | \$ (4,096) | \$ (8,211) | \$ 89,701 | \$ 16,139 | \$ 93,533 |
| Cash flows from investing activities: | | | | | |
| Purchases of property, plant and equipment | — | — | (51,465) | (6,596) | (58,061) |
| Proceeds from sale of assets | — | — | 74 | 27 | 101 |
| Net cash provided by (used in) investing activities | — | — | (51,391) | (6,569) | (57,960) |
| Cash flows from financing activities: | | | | | |
| Proceeds from issuance of long-term debt | — | 23,000 | — | — | 23,000 |
| Payment of capital lease obligation | — | — | (2,902) | (91) | (2,993) |
| Payment on long-term debt | — | (27,500) | — | — | (27,500) |
| Share repurchases for minimum tax withholding | (41) | — | — | — | (41) |
| Dividends on common stock | (39,257) | — | — | — | (39,257) |
| Transactions with affiliates, net | 43,394 | 1,493 | (35,408) | (9,479) | — |
| Net cash provided by (used in) financing activities | 4,096 | (3,007) | (38,310) | (9,570) | (46,791) |
| Increase (decrease) in cash and cash equivalents | — | (11,218) | — | — | (11,218) |
| Cash and cash equivalents at beginning of period | — | 27,064 | 13 | — | 27,077 |
| Cash and cash equivalents at end of period | <u>\$ —</u> | <u>\$ 15,846</u> | <u>\$ 13</u> | <u>\$ —</u> | <u>\$ 15,859</u> |

| | Six Months Ended June 30, 2016 | | | | |
|---|---------------------------------------|-------------------|-------------------|-----------------------|---------------------|
| | Parent | Subsidiary | | Non-Guarantors | Consolidated |
| | | Issuer | Guarantors | | |
| Net cash (used in) provided by operating activities | \$ (63,494) | \$ 31,781 | \$ 129,467 | \$ 17,751 | \$ 115,505 |
| Cash flows from investing activities: | | | | | |
| Purchases of property, plant and equipment | — | — | (55,172) | (7,099) | (62,271) |
| Proceeds from sale of assets | — | — | 40 | 10 | 50 |
| Net cash used in investing activities | — | — | (55,132) | (7,089) | (62,221) |
| Cash flows from financing activities: | | | | | |
| Proceeds from issuance of long-term debt | — | 7,000 | — | — | 7,000 |
| Payment of capital lease obligation | — | — | (756) | (56) | (812) |
| Payment on long-term debt | — | (11,550) | — | — | (11,550) |
| Share repurchases for minimum tax withholding | (71) | — | — | — | (71) |
| Dividends on common stock | (39,174) | — | — | — | (39,174) |
| Transactions with affiliates, net | 102,739 | (8,615) | (81,147) | (12,977) | — |
| Net cash provided by (used in) financing activities | 63,494 | (13,165) | (81,903) | (13,033) | (44,607) |
| Increase (decrease) in cash and cash equivalents | — | 18,616 | (7,568) | (2,371) | 8,677 |
| Cash and cash equivalents at beginning of period | — | 5,877 | 7,629 | 2,372 | 15,878 |
| Cash and cash equivalents at end of period | <u>\$ —</u> | <u>\$ 24,493</u> | <u>\$ 61</u> | <u>\$ 1</u> | <u>\$ 24,555</u> |

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The Securities and Exchange Commission ("SEC") encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. Certain statements in this Quarterly Report on Form 10-Q, including those which relate to the impact on future revenue sources, pending and future regulatory orders, continued expansion of the telecommunications network and expected changes in the sources of our revenue and cost structure resulting from our entrance into new communications markets, are forward-looking statements and are made pursuant to the safe harbor provisions of the Securities Litigation Reform Act of 1995. These forward-looking statements reflect, among other things, our current expectations, plans, strategies and anticipated financial results. There are a number of risks, uncertainties and conditions that may cause our actual results to differ materially from those expressed or implied by these forward-looking statements. Many of these circumstances are beyond our ability to control or predict. Moreover, forward-looking statements necessarily involve assumptions on our part. These forward-looking statements generally are identified by the words "believe", "expect", "anticipate", "estimate", "project", "intend", "plan", "should", "may", "will", "would", "will be", "will continue" or similar expressions. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of Consolidated Communications Holdings, Inc. and its subsidiaries ("Consolidated", the "Company", "we" or "our") to be different from those expressed or implied in the forward-looking statements. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements that appear throughout this report. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in our 2016 Annual Report on Form 10-K filed with the SEC. Furthermore, forward-looking statements speak only as of the date they are made. Except as required under federal securities laws or the rules and regulations of the SEC, we disclaim any intention or obligation to update or revise publicly any forward-looking statements. Undue reliance should not be placed on forward-looking statements. Management's Discussion and Analysis ("MD&A") should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes to the financial statements ("Notes") as of and for the quarter and six months ended June 30, 2017 included in Item 1 of Part I of this Quarterly Report on Form 10-Q.

Throughout this MD&A, we refer to certain measures that are not measures of financial performance in accordance with accounting principles generally accepted in the United States ("US GAAP" or "GAAP"). We believe the use of these non-GAAP measures on a consolidated basis provides the reader with additional information that is useful in understanding our operating results and trends. These measures should be viewed in addition to, rather than as a substitute for, those measures prepared in accordance with GAAP. See the "Non-GAAP Measures" section below for a more detailed discussion on the use and calculation of these measures.

Overview

We are an integrated communications services company that operates as both an Incumbent Local Exchange Carrier ("ILEC") and a Competitive Local Exchange Carrier ("CLEC") dependent upon the territory served. We provide an array of services in consumer, commercial and carrier channels, as of June 30, 2017, in 11 states, including local and long-distance service, 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.

We generate the majority of our consolidated operating revenues primarily from subscriptions to our video, data and transport services (collectively "broadband services") to business and residential customers. Commercial and carrier services represent the largest source of our operating revenues and are expected to be the primary driver of our growth in the future. We continue to focus on commercial and broadband growth opportunities and are continually expanding our commercial product offerings for both small and large businesses in order to capitalize on technological advances in the industry. We can leverage our fiber optic networks and tailor our services for business customers by developing solutions to fit their specific needs. In addition, we recently launched a suite of cloud services and an enhanced hosted voice product, which increases efficiency and enables greater scalability and reliability for businesses. We anticipate future momentum

in commercial and carrier services as these new products gain traction as well as from the growing demand from customers for additional bandwidth and data-based services.

We market services to our residential customers either individually or as a bundled package. Our “triple play” bundle includes our data, video and voice services. As the market demands for bandwidth continue to increase as a result of consumer trends toward increased Internet usage, our continued focus is on enhancing product and service offerings, such as our progressively increasing consumer data speeds. We offer data speeds of up to 1 Gbps in select markets. Where 1 Gbps speeds are not yet offered, the maximum broadband speed is 100 Mbps, depending on the geographic market availability. As of June 30, 2017, approximately 27% of the homes in the areas we serve subscribe to our data service. Our exceptional consumer broadband speed allows us to continue to meet the needs of our customers and the demand for higher speeds resulting from the growing trend of over-the-top (“OTT”) content viewing. The availability of 1 Gbps data speed also complements our wireless home networking (“Wi-Fi”) that supports our TV Everywhere service and allows our subscribers to watch their favorite programs at home or away on a computer, smartphone or tablet.

The consumer’s growing acceptance of OTT video services either to augment their current viewing options or to entirely replace their video subscription may impact our future video subscriber base, which could result in a decline in video revenue as well as a reduction in video programing costs. Total video connections decreased 10% as of June 30, 2017 compared to the same period in 2016. We believe the trend in changing consumer viewing habits will continue to impact our business model and strategy of providing consumers the necessary broadband speed to facilitate OTT content viewing.

Operating revenues also continue to be impacted by the anticipated industry-wide trend of a decline in voice services, access lines and related network access revenue. Many customers are choosing to subscribe to alternative communications services and competition for these subscribers continues to increase. Total voice connections decreased 5% as of June 30, 2017 compared to the same period in 2016. Competition from wireless providers, competitive local exchange carriers and, in some cases, cable television providers has increased in recent years in the markets we serve. We have been able to mitigate some of the access line losses through marketing initiatives and product offerings, such as our VoIP service.

As discussed in the “Regulatory Matters” section below, our operating revenues are also impacted by legislative or regulatory changes at the federal and state levels, which could reduce or eliminate the current subsidies revenue we receive. A number of proceedings and recent orders relate to universal service reform, intercarrier compensation and network access charges. There are various ongoing legal challenges to the orders that have been issued. As a result, it is not yet possible to fully determine the impact of the regulatory changes on our operations.

Significant Recent Developments

Acquisitions

FairPoint Communications, Inc.

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. 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 is approximately \$431.1 million, exclusive of debt

of approximately \$912.8 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.

To finance the merger, in December 2016, we secured committed debt financing through a \$935.0 million incremental term loan facility, as described in the “Liquidity and Capital Resources” section below, that, in addition to cash on hand and other sources of liquidity, was used to repay and redeem certain existing indebtedness of FairPoint and pay the fees and expenses in connection with the merger.

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 (collectively “CTC”), 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.

Divestitures

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 Consolidated Communications of Iowa Company (“CCIC”), formerly Heartland Telecommunications Company of Iowa. CCIC operates as an incumbent local exchange carrier providing telecommunications and data services to residential and business customers in 11 rural communities in northwest Iowa and surrounding areas. During the quarter and six months ended June 30, 2016, we recognized an impairment loss of \$0.6 million and deferred income tax expense of \$7.5 million in connection with the classification of CCIC as assets held for sale. 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.

Results of Operations

The following tables reflect our financial results on a consolidated basis and key operating metrics as of and for the quarters and six months ended June 30, 2017 and 2016.

| <i>(In millions, except for percentages)</i> | Financial Data | | | | | | | |
|--|-------------------------------|---------------|----------------------|---------------------|----------------------------------|---------------|----------------------|---------------------|
| | Quarter Ended June 30, | | | | Six Months Ended June 30, | | | |
| | 2017 | 2016 | \$ Change | % Change | 2017 | 2016 | \$ Change | % Change |
| Operating Revenues | | | | | | | | |
| Commercial and carrier: | | | | | | | | |
| Data and transport services (includes VoIP) | \$ 50.1 | \$ 48.6 | \$ 1.5 | 3 % | \$ 99.5 | \$ 97.7 | \$ 1.8 | 2 % |
| Voice services | 23.6 | 25.3 | (1.7) | (7) | 47.1 | 50.3 | (3.2) | (6) |
| Other | 5.0 | 2.7 | 2.3 | 85 | 8.9 | 5.3 | 3.6 | 68 |
| | <u>78.7</u> | <u>76.6</u> | <u>2.1</u> | <u>3</u> | <u>155.5</u> | <u>153.3</u> | <u>2.2</u> | <u>1</u> |
| Consumer: | | | | | | | | |
| Broadband (VoIP, data and video) | 50.8 | 53.1 | (2.3) | (4) | 102.5 | 107.7 | (5.2) | (5) |
| Voice services | 12.6 | 14.0 | (1.4) | (10) | 25.5 | 28.5 | (3.0) | (11) |
| | <u>63.4</u> | <u>67.1</u> | <u>(3.7)</u> | <u>(6)</u> | <u>128.0</u> | <u>136.2</u> | <u>(8.2)</u> | <u>(6)</u> |
| Equipment sales and service | — | 10.5 | (10.5) | (100) | — | 20.1 | (20.1) | (100) |
| Subsidies | 10.4 | 13.0 | (2.6) | (20) | 21.0 | 26.1 | (5.1) | (20) |
| Network access | 14.2 | 16.3 | (2.1) | (13) | 28.7 | 33.1 | (4.4) | (13) |
| Other products and services | 3.3 | 3.4 | (0.1) | (3) | 6.7 | 6.9 | (0.2) | (3) |
| Total operating revenues | <u>170.0</u> | <u>186.9</u> | <u>(16.9)</u> | <u>(9)</u> | <u>339.9</u> | <u>375.7</u> | <u>(35.8)</u> | <u>(10)</u> |
| Operating Expenses | | | | | | | | |
| Cost of services and products (exclusive of depreciation and amortization) | 70.4 | 80.8 | (10.4) | (13) | 141.8 | 160.5 | (18.7) | (12) |
| Selling, general and administrative costs | 35.7 | 38.8 | (3.1) | (8) | 71.7 | 79.5 | (7.8) | (10) |
| Acquisition and other transaction costs | 1.8 | 0.2 | 1.6 | 800 | 3.5 | 0.2 | 3.3 | 1,650 |
| Loss on impairment | — | 0.6 | (0.6) | (100) | — | 0.6 | (0.6) | (100) |
| Depreciation and amortization | 40.5 | 43.5 | (3.0) | (7) | 82.7 | 87.6 | (4.9) | (6) |
| Total operating expenses | <u>148.4</u> | <u>163.9</u> | <u>(15.5)</u> | <u>(9)</u> | <u>299.7</u> | <u>328.4</u> | <u>(28.7)</u> | <u>(9)</u> |
| Income from operations | 21.6 | 23.0 | (1.4) | (6) | 40.2 | 47.3 | (7.1) | (15) |
| Interest expense, net | (33.9) | (19.1) | 14.8 | 77 | (63.6) | (37.7) | 25.9 | 69 |
| Other income | 8.3 | 8.6 | (0.3) | (3) | 13.5 | 15.8 | (2.3) | (15) |
| Income tax expense (benefit) | (1.4) | 12.3 | (13.7) | (111) | (3.6) | 17.3 | (20.9) | (121) |
| Net income (loss) | (2.6) | 0.2 | (2.8) | (1,400) | (6.3) | 8.1 | (14.4) | (178) |
| Net income attributable to noncontrolling interest | 0.1 | 0.1 | — | — | 0.1 | 0.2 | (0.1) | (50) |
| Net income (loss) attributable to common shareholders | <u>\$ (2.7)</u> | <u>\$ 0.1</u> | <u>\$ (2.8)</u> | <u>(2,800)</u> | <u>\$ (6.4)</u> | <u>\$ 7.9</u> | <u>\$ (14.3)</u> | <u>(181)</u> |
| Adjusted EBITDA ⁽¹⁾ | \$ 72.5 | \$ 78.0 | \$ (5.5) | (7)% | \$ 143.6 | \$ 156.6 | \$ (13.0) | (8)% |

⁽¹⁾ A non-GAAP measure. See the “Non-GAAP Measures” section below for additional information and reconciliation to the most directly comparable GAAP measure.

Key Operating Statistics

| | As of June 30, | | | |
|--------------------|----------------|-----------|----------|-------------|
| | 2017 | 2016 | Change | % Change |
| Consumer customers | 246,065 | 262,177 | (16,112) | (6)% |
| Voice connections | 449,312 | 471,458 | (22,146) | (5) |
| Data connections | 480,426 | 462,559 | 17,867 | 4 |
| Video connections | 100,370 | 111,617 | (11,247) | (10) |
| Total connections | 1,030,108 | 1,045,634 | (15,526) | (1)% |

Operating Revenues*Commercial and Carrier**Data and Transport Services*

We provide a variety of business communication services to small, medium and large business customers, including many services over our advanced fiber network. The services we offer include scalable high speed broadband Internet access and VoIP phone services, which range from basic service plans to virtual hosted systems. In addition to Internet and VoIP services, we also offer private line data services to businesses that include dedicated Internet access through our Metro Ethernet network. Wide Area Network (“WAN”) products include point-to-point and multi-point deployments from 2.5 Mbps to 10 Gbps to accommodate the growth patterns of our business customers. Data center and disaster recovery solutions provide a reliable and local colocation option for commercial customers. We also offer wholesale services to regional and national interexchange and wireless carriers, including cellular backhaul and other fiber transport solutions.

Data and transport services revenues increased \$1.5 million and \$1.8 million during the quarter and six months ended June 30, 2017, respectively, compared to the same periods in 2016 primarily due to the acquisition of CTC, an increase in data connections and a continued increase in Internet access and Metro Ethernet revenues. During the quarter and six months ended June 30, 2017, growth in data and transport services was hampered by increased competition and price compression as customers are migrating from legacy products to Ethernet based products, which have a lower average revenue per user. This decline is expected to be partially offset with the increasing need for bandwidth and other Ethernet services.

Voice Services

Voice services include basic local phone and long-distance service packages for business customers. The plans include options for voicemail, conference calling, linking multiple office locations and other custom calling features such as caller ID, call forwarding, speed dialing and call waiting. Services can be charged at a fixed monthly rate, a measured rate or can be bundled with selected services at a discounted rate.

Voice services revenues decreased \$1.7 million and \$3.2 million during the quarter and six months ended June 30, 2017, respectively, compared to the same periods in 2016 primarily due to a 7% decline in access lines as commercial customers are increasingly choosing alternative technologies, including our own VoIP product, and the broad range of features that Internet based voice services can offer.

Other

Other revenues include business equipment sales and related hardware and maintenance support, rental income of customer premise equipment, video services and other miscellaneous revenues. Other revenues increased \$2.3 million and \$3.6 million during the quarter and six months ended June 30, 2017, respectively, compared to the same periods in 2016 primarily due to an increase in business equipment sales contributed by the acquisition of CTC and additional revenue related to the new Co-Marketing Agreement entered into with ePlus in connection with the sale of EIS in 2016.

Consumer

Broadband Services

Broadband services include revenues from residential customers for subscriptions to our VoIP, data and video products. We offer high speed Internet access at speeds of up to 1 Gbps, depending on the nature of the network facilities that are available, the level of service selected and the location. Our VoIP digital phone service is also available in certain markets as an alternative to the traditional telephone line. Depending on geographic market availability, our video services range from limited basic service to advanced digital television, which includes several plans each with hundreds of local, national and music channels including premium and pay-per-view channels as well as video on-demand service. Certain customers may also subscribe to our advanced video services, which consist of high-definition television, digital video recorders (“DVR”) and/or a whole home DVR.

Broadband services revenues decreased \$2.3 million and \$5.2 million during the quarter and six months ended June 30, 2017, respectively, compared to the same periods in 2016 despite price increases for data and video services implemented during the first quarter of 2017. Total data and video connections decreased 5% and 11%, respectively, as of June 30, 2017 compared to the same period in 2016 as a result of increased competition as consumers are choosing to subscribe to alternative communications services particularly for video services. VoIP revenue also declined during the same period due to a 12% decline in connections as more consumers continue to rely exclusively on wireless service.

Voice Services

We offer several different basic local phone service packages and long-distance calling plans, including unlimited flat-rate calling plans. The plans include options for voicemail and other custom calling features such as caller ID, call forwarding and call waiting. Voice services revenues decreased \$1.4 million and \$3.0 million during the quarter and six months ended June 30, 2017, respectively, compared to the same periods in 2016 primarily due to a 10% decline in access lines. The number of local access lines in service directly affects the recurring revenues we generate from end users and continues to be impacted by the industry-wide decline in access lines. We expect to continue to experience modest erosion in voice connections due to competition from alternative technologies, including our own competing VoIP product.

Equipment Sales and Service

Until the sale of EIS in December 2016, we were an accredited Master Level Unified Communications and Gold Certified Cisco Partner providing equipment solutions and support for business customers. As an equipment integrator, we offered network design, implementation and support services, including maintenance contracts, in order to provide integrated communication solutions for our customers. When an equipment sale involved multiple deliverables, revenue was allocated to each respective element based on relative selling price. Equipment sales and service revenues decreased \$10.5 million and \$20.1 million during the quarter and six months ended June 30, 2017, respectively, compared to the same periods in 2016 due to the sale of EIS in December 2016.

Subsidies

Subsidies consist of both federal and state subsidies, which are designed to promote widely available, quality broadband services at affordable prices with higher data speeds in rural areas. Subsidies revenue decreased \$2.6 million and \$5.1 million during the quarter and six months ended June 30, 2017, respectively, compared to the same periods in 2016 primarily due to the scheduled reduction in the annual Connect America Fund (“CAF”) Phase II funding rate in August

2016, the sale of CCIC in September 2016 and a decrease in state funding support for our Texas ILEC. See the “Regulatory Matters” section below for further discussion of the subsidies we receive.

Network Access Services

Network access services include interstate and intrastate switched access revenues, network special access services and end user access. Switched access revenues include access services to other communications carriers to terminate or originate long-distance calls on our network. Special access circuits provide dedicated lines and trunks to business customers and interexchange carriers. Network access revenues decreased \$2.1 million and \$4.4 million during the quarter and six months ended June 30, 2017, respectively, compared to the same periods in 2016 primarily as a result of the continuing decline in minutes of use, voice connections and carrier circuits; however, a portion of the decrease can be attributed to carriers shifting to our fiber Metro Ethernet product, contributing to the growth in that area.

Other Products and Services

Other products and services include revenues from telephone directory publishing, video advertising and billing and support services. Other products and services revenues decreased \$0.1 million and \$0.2 million during the quarter and six months ended June 30, 2017, respectively, compared to the same periods in 2016 primarily due to a decline in telephone directory advertising revenues.

Operating Expenses

Cost of Services and Products

Cost of services and products decreased \$10.4 million and \$18.7 million during the quarter and six months ended June 30, 2017, respectively, compared to the same periods in 2016. Cost of goods sold related to equipment sales decreased \$7.3 million and \$13.7 million during the quarter and six months ended June 30, 2017, respectively, as a result of the sale of EIS in 2016, as discussed above. Employee costs decreased due to savings from a reduction in headcount. Video programming costs also decreased as a result of a 10% decline in video connections, which was largely offset by an increase in programming costs per channel as costs continue to rise as a result of annual rate increases.

Selling, General and Administrative Costs

Selling, general and administrative costs decreased \$3.1 million and \$7.8 million during the quarter and six months ended June 30, 2017, respectively, compared to the same periods in 2016 primarily due to a decline in employee costs from a reduction in headcount as part of cost saving initiatives as well as a decrease in incentive compensation. Professional fees also decreased from declines in legal, audit and tax services. Advertising expense also decreased due to a reduction in radio advertising and marketing promotions in 2017.

Acquisition and Other Transaction Costs

Acquisition and other transaction costs increased \$1.6 million and \$3.3 million during the quarter and six months ended June 30, 2017, respectively, compared to the same periods in 2016 as a result of the merger with FairPoint, which closed in July 2017. Transaction costs consist primarily of legal, finance and other professional fees incurred in connection with the merger.

Depreciation and Amortization

Depreciation and amortization expense decreased \$3.0 million and \$4.9 million during the quarter and six months ended June 30, 2017, respectively, compared to the same periods in 2016, primarily due to the sale of EIS and CCIC in 2016 and certain intangibles and software becoming fully amortized in 2016, which was offset in part by ongoing capital expenditures related to network enhancements and success-based capital projects for consumer and commercial services.

Regulatory Matters

Our revenues are subject to broad federal and/or state regulation, which include such telecommunications services as local telephone service, network access service and toll service and are derived from various sources, including:

- Business and residential subscribers of basic exchange services;
- Surcharges mandated by state commissions;
- Long distance carriers for network access service;
- Competitive access providers and commercial customers for network access service; and
- Support payments from federal or state programs.

The telecommunications industry is subject to extensive federal, state and local regulation. Under the Telecommunications Act of 1996, federal and state regulators share responsibility for implementing and enforcing statutes and regulations designed to encourage competition and to preserve and advance widely available, quality telephone service at affordable prices.

At the federal level, the Federal Communications Commission (“FCC”) generally exercises jurisdiction over facilities and services of local exchange carriers, such as our rural telephone companies, to the extent they are used to provide, originate or terminate interstate or international communications. The FCC has the authority to condition, modify, cancel, terminate or revoke our operating authority for failure to comply with applicable federal laws or FCC rules, regulations and policies. Fines or penalties also may be imposed for any of these violations.

State regulatory commissions generally exercise jurisdiction over carriers’ facilities and services to the extent they are used to provide, originate or terminate intrastate communications. In particular, state regulatory agencies have substantial oversight over interconnection and network access by competitors of our rural telephone companies. In addition, municipalities and other local government agencies regulate the public rights-of-way necessary to install and operate networks. State regulators can sanction our rural telephone companies or revoke our certifications if we violate relevant laws or regulations.

FCC Matters

In general, telecommunications service in rural areas is more costly to provide than service in urban areas. The lower customer density means that switching and other facilities serve fewer customers and loops are typically longer, requiring greater expenditures per customer to build and maintain. By supporting the high-cost of operations in rural markets, Universal Service Fund (“USF”) subsidies promote widely available, quality telephone service at affordable prices in rural areas. Revenues from the federal and certain states’ USFs decreased \$2.6 million and \$5.1 million during the quarter and six months ended June 30, 2017, respectively, compared to the same periods in 2016 primarily due to the scheduled reduction in the annual CAF Phase II rate in August 2016 and a decrease in state funding support for our Texas ILEC.

An order adopted by the FCC in 2011 (the “Order”) has significantly impacted the amount of support revenue we receive from the USF, CAF and intercarrier compensation (“ICC”). The Order reformed core parts of the USF, broadly recast the existing ICC scheme, established the CAF to replace support revenues provided by the current USF and redirected support from voice services to broadband services. In 2012, CAF Phase I was implemented, which froze USF support to price cap carriers until the FCC implemented a broadband cost model to shift support from voice services to broadband services. The Order also modified the methodology used for ICC traffic exchanged between carriers. The initial phase of ICC reform was effective on July 1, 2012, beginning the transition of our terminating switched access rates to bill-and-keep over a seven year period, and as a result, our network access revenue for 2017 will be reduced by as much as approximately \$2.0 million.

In December 2014, the FCC released a report and order that addressed, among other things, the transition to CAF Phase II funding for price cap carriers and the acceptance criteria for CAF Phase II funding. For companies that accept the CAF Phase II funding, there is a three year transition period in instances in which their current CAF Phase I funding exceeds the CAF Phase II funding. If CAF Phase II funding exceeds CAF Phase I funding, the transitional support is waived and CAF Phase II funding begins immediately. Companies are required to commit to a statewide build out requirement to 10 Mbps downstream and 1 Mbps upstream in funded locations. We accepted the CAF Phase II funding in August 2015. The annual funding under CAF Phase I of \$36.6 million was replaced by annual funding under CAF Phase II of \$13.9 million through 2020. With the sale of our Iowa ILEC in 2016, this amount was further reduced to \$11.5 million through 2020. The acceptance of funding at the lower level CAF Phase II will transition over a three year period based on the CAF Phase I funding levels at the rates of 75% in the first year, 50% in the second year and 25% in the third year.

State Matters

California

In an ongoing proceeding relating to the New Regulatory Framework, the California Public Utilities Commission (“CPUC”) adopted Decision 06-08-030 in 2006, which grants carriers broader pricing freedom in the provision of telecommunications services, bundling of services, promotions and customer contracts. This decision adopted a new regulatory framework, the Uniform Regulatory Framework (“URF”), which among other things (i) eliminates price regulation and allows full pricing flexibility for all new and retail services, (ii) allows new forms of bundles and promotional packages of telecommunication services, (iii) allocates all gains and losses from the sale of assets to shareholders, and (iv) eliminates almost all elements of rate of return regulation, including the calculation of shareable earnings. In December 2010, the CPUC issued a ruling to initiate a new proceeding to assess whether, or to what extent, the level of competition in the telecommunications industry is sufficient to control prices for the four largest ILECs in the state. Subsequently, the CPUC issued a ruling temporarily deferring the proceeding. When the CPUC may open this proceeding is unclear and on hold at this time. The CPUC’s actions in this and future proceedings could lead to new rules and an increase in government regulation. The Company will continue to monitor this matter.

Pennsylvania

In 2011, the Pennsylvania Public Utilities Commission (“PAPUC”) issued an intrastate access reform order reducing intrastate access rates to interstate levels in a three-step process, which began in March 2012. With the release of the FCC order in November 2011, the PAPUC temporarily issued a stay. A final stay was issued in 2012 to implement the FCC ordered intrastate access rate changes. The PAPUC had indicated that it would address state universal funding in 2013, but delayed conducting a proceeding pending any state legislative activity that may occur in the 2017 legislative session. The Company will continue to monitor this matter.

Texas

The Texas Public Utilities Regulatory Act (“PURA”) directs the Public Utilities Commission of Texas (“PUCT”) to adopt and enforce rules requiring local exchange carriers to contribute to a state universal service fund that helps telecommunications providers offer basic local telecommunications service at reasonable rates in high-cost rural areas. The Texas Universal Service Fund is also used to reimburse telecommunications providers for revenues lost by providing lifeline service. Our Texas rural telephone companies receive disbursements from this fund.

Our Texas ILECs have historically received support from two state funds, the small and rural incumbent local exchange company plan High Cost Fund (“HCF”) and the High Cost Assistance Fund (“HCAF”). The HCF is a line-based fund used to keep local rates low. The rate is applied on all residential lines and up to five single business lines. The amount we receive from the HCAF is a frozen monthly amount that was originally developed to offset high intrastate toll rates.

In September 2011, the Texas state legislature passed Senate Bill No. 980/House Bill No. 2603 which, among other things, mandated the PUCT to review the Universal Service Fund and issue recommendations by January 1, 2013 with the intent to effectively reduce the size of the Universal Service Fund. This would be accomplished by implementing an urban floor to offset state funding reductions with a phase-in period of four years. The PUCT recommended that (i) frozen line counts

be lifted effective September 1, 2013 and (ii) rural and urban local rate benchmarks be developed. The large company fund review was completed in September 2012 and the PUCT addressed the small fund participants in Docket 41097 *Rate Rebalancing* (“Docket 41097”), as discussed below.

In June 2013, the Texas state legislature passed Senate Bill No. 583 (“SB 583”). The provisions of SB 583 were effective September 1, 2013 and froze HCF and HCAF support for the remainder of 2013. As of January 1, 2014, our annual \$1.4 million HCAF support was eliminated and the frozen HCF support returned to funding on a per line basis. In July 2013, the Company entered into a settlement agreement with the PUCT on Docket 41097, which was approved by the PUCT in August 2013. In accordance with the provisions of the settlement agreement, the HCF draw is being reduced by approximately \$1.2 million annually over a four year period beginning June 1, 2014 through 2018. However, we have the ability to fully offset this reduction with increases to residential rates where market conditions allow.

In addition, the PUCT is required to develop a needs test for post-2017 funding and has held workshops on various proposals. The PUCT issued its recommendation to the Texas state commissioners in May 2014, which was approved in December 2014. The needs test allows for a one-time disaggregation of line rates from a per line flat rate, then a competitive test must be met to receive funding. The Company filed its submission for the needs test on December 28, 2016. The PUCT issued docket 46699 on January 4, 2017 to review the filing. In the second quarter of 2017, a decision was made to exclude two of our exchanges that failed the needs test, which will result in reduced funding beginning January 2018. The projected impact of this decision is approximately a \$0.4 million reduction in our Texas USF revenue for 2018.

Other Regulatory Matters

We are also subject to a number of regulatory proceedings occurring at the federal and state levels that may have a material impact on our operations. The FCC and state commissions have authority to issue rules and regulations related to our business. A number of proceedings are pending or anticipated that are related to such telecommunications issues as competition, interconnection, access charges, intercarrier compensation, broadband deployment, consumer protection and universal service reform. Some proceedings may authorize new services to compete with our existing services. Proceedings that relate to our cable television operations include rulemakings on set top boxes, carriage of programming, industry consolidation and ways to promote additional competition. There are various on-going legal challenges to the scope or validity of FCC orders that have been issued. As a result, it is not yet possible to fully determine the impact of the related FCC rules and regulations on our operations.

Non-Operating Items

Other Income and Expense, Net

Interest expense, net of interest income, increased \$14.8 million and \$25.9 million during the quarter and six months ended June 30, 2017, respectively, compared to the same periods in 2016 primarily due to ticking fees incurred in 2017 and the amortization of commitment fees related to the committed financing of the \$935.0 million incremental term loan secured for the acquisition of FairPoint, as described in the “Liquidity and Capital Resources” section below. Interest expense also increased as a result of ineffectiveness recognized on our interest rate swap agreements in 2017. However, interest expense was reduced in part by the refinancing of our Credit Agreement in October 2016, which included a 0.25% reduction in the interest rate for our outstanding term loan resulting in annual interest savings of approximately \$2.0 million.

Other income decreased \$0.3 million and \$2.3 million during the quarter and six months ended June 30, 2017, respectively, compared to the same periods in 2016 primarily due to a decline in investment income from our wireless partnership interests.

Income Taxes

Income taxes decreased \$13.7 million and \$20.9 million during the quarter and six months ended June 30, 2017, respectively, compared to the same periods in 2016. Our effective tax rate was 34.8 % and 98.7% for the quarters ended June 30, 2017 and 2016, respectively, and 36.1% and 68.2% for the six months ended June 30, 2017 and 2016, respectively. For the quarter and six months ended June 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. For the quarter and six months ended June 30, 2016, we recognized approximately \$7.5 million of deferred taxes related to the assets held for sale of CCIC, which was the primary driver of the effective tax rate differing from the federal and statutory rates. Exclusive of these adjustments, our effective tax rate for the quarters ended June 30, 2017 and 2016 would have been approximately 34.7% and 38.5%, respectively and for the six months ended June 30, 2017 and 2016 would have been approximately 35.6% and 38.6%, respectively.

Non-GAAP Measures

In addition to the results reported in accordance with US GAAP, we also use certain non-GAAP measures such as EBITDA and adjusted EBITDA to evaluate operating performance and to facilitate the comparison of our historical results and trends. These financial measures are not measures of financial performance under US GAAP and should not be considered in isolation or as a substitute for net income as a measure of performance and net cash provided by operating activities as a measure of liquidity. They are not, on their own, necessarily indicative of cash available to fund cash needs as determined in accordance with GAAP. The calculation of these non-GAAP measures may not be comparable to similarly titled measures used by other companies. Reconciliations of these non-GAAP measures to the most directly comparable financial measures presented in accordance with GAAP are provided below.

EBITDA is defined as net earnings before interest expense, income taxes and depreciation and amortization. Adjusted EBITDA is comprised of EBITDA, adjusted for certain items as permitted or required under our credit facility as described in the reconciliations below. These measures are a common measure of operating performance in the telecommunications industry and are useful, with other data, as a means to evaluate our ability to fund our estimated uses of cash.

The following table is a reconciliation of net income (loss) to adjusted EBITDA for the quarters and six months ended June 30, 2017 and 2016:

| <i>(In thousands, unaudited)</i> | Quarter Ended June 30, | | Six Months Ended June 30, | |
|---|---------------------------|-----------|------------------------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| Net income (loss) | \$ (2,626) | \$ 157 | \$ (6,331) | \$ 8,059 |
| Add (subtract): | | | | |
| Interest expense, net of interest income | 33,918 | 19,106 | 63,589 | 37,752 |
| Income tax expense (benefit) | (1,399) | 12,323 | (3,573) | 17,296 |
| Depreciation and amortization | 40,483 | 43,491 | 82,678 | 87,631 |
| EBITDA | 70,376 | 75,077 | 136,363 | 150,738 |
| Adjustments to EBITDA: | | | | |
| Other, net ⁽¹⁾ | (6,536) | (5,796) | (7,581) | (10,521) |
| Investment distributions ⁽²⁾ | 7,736 | 7,784 | 13,380 | 14,580 |
| Non-cash, stock-based compensation ⁽³⁾ | 892 | 912 | 1,430 | 1,804 |
| Adjusted EBITDA | \$ 72,468 | \$ 77,977 | \$ 143,592 | \$ 156,601 |

(1) Includes the equity earnings from our investments, dividend income, income attributable to noncontrolling interests in subsidiaries, acquisition and transaction related costs, including severance, and certain other miscellaneous items.

(2) Includes all cash dividends and other cash distributions received from our investments.

(3) Represents compensation expenses in connection with the issuance of stock awards, which, because of the non-cash nature of these expenses, are excluded from adjusted EBITDA.

Liquidity and Capital Resources

Outlook and Overview

Our operating requirements have historically been funded from cash flows generated from our business and borrowings under our credit facilities. We expect that our future operating requirements will continue to be funded from cash flows from operating activities, existing cash and cash equivalents and, if needed, borrowings under our revolving credit facility and our ability to obtain future external financing. We anticipate that we will continue to use a substantial portion of our cash flow to fund capital expenditures, meet scheduled payments of long-term debt, make dividend payments and invest in future business opportunities.

The following table summarizes our cash flows:

| <i>(In thousands)</i> | Six Months Ended June 30, | |
|--|----------------------------------|-------------|
| | 2017 | 2016 |
| Cash flows provided by (used in): | | |
| Operating activities | \$ 93,533 | \$ 115,505 |
| Investing activities | (57,960) | (62,221) |
| Financing activities | (46,791) | (44,607) |
| Increase (decrease) in cash and cash equivalents | \$ (11,218) | \$ 8,677 |

Cash Flows Provided by Operating Activities

Net cash provided by operating activities was \$93.5 million during the six-month period ended June 30, 2017, a decrease of \$22.0 million compared to the same period in 2016. Cash flows provided by operating activities decreased primarily as a result of a decline in net income from a reduction in revenue and additional transaction costs related to the acquisition of FairPoint. Cash distributions received from our wireless partnerships also decreased \$1.2 million during the six-month period ended June 30, 2017 compared to the same period in 2016.

Cash Flows Used In Investing Activities

Net cash used in investing activities was \$58.0 million during the six-month period ended June 30, 2017 and consisted primarily of cash used for capital expenditures.

Capital Expenditures

Capital expenditures continue to be our primary recurring investing activity and were \$58.1 million during the six-month period ended June 30, 2017, a decrease of \$4.2 million compared to the same period in 2016. Capital expenditures for the remainder of 2017, including the operations of FairPoint, are expected to be \$126.0 million to \$131.0 million, of which approximately 57% is planned for success-based capital projects for consumer and commercial initiatives. Capital expenditures for the remainder of 2017 and subsequent years will depend on various factors, including competition, changes in technology, regulatory changes and the timing in the deployment of new services. We expect to continue to invest in existing and new services and the expansion of our fiber network in order to retain and acquire more customers through a broader set of products and an expanded network footprint.

Cash Flows Provided by (Used In) Financing Activities

Net cash provided by (used in) financing activities consists primarily of our proceeds from and principal payments on long-term borrowings and the payment of dividends.

Long-term Debt

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 (the "Credit Agreement"). The Credit Agreement consists of a \$110.0 million revolving credit facility and initial term loans in the aggregate amount of \$900.0 million ("Term 5"). 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 senior secured credit facility 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.

The Term 5 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 Term 5 loan contains an original issuance discount of 0.25% or \$2.3 million, which is being amortized over the term of the loan. The Term 5 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.

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 June 30, 2017, the borrowing margin for the three month period ending September 30, 2017 will be at a weighted-average margin of 3.25% for a LIBOR-based loan or 2.25% for an alternate base rate loan. The applicable borrowing margin for the revolving credit facility is adjusted quarterly to reflect the leverage ratio from the prior quarter-end. As of June 30, 2017 and December 31, 2016, there were no outstanding borrowings under the revolving credit facility. A stand-by letter of credit of \$1.6 million, issued primarily in connection with the Company's insurance coverage, was outstanding under our revolving credit facility as of June 30, 2017. The stand-by letter of credit is renewable annually and reduces the borrowing availability under the revolving credit facility. As of June 30, 2017, \$108.4 million was available for borrowing under the revolving credit facility.

The weighted-average interest rate on outstanding borrowings under our credit facility was 4.05% and 4.00% as of June 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 June 30, 2017, we were in compliance with the Credit Agreement covenants.

In general, our Credit Agreement restricts our ability to pay dividends to the amount of our available cash as defined in our Credit Agreement. As of June 30, 2017, and including the \$27.4 million dividend paid on August 1, 2017, we had \$262.4 million in dividend availability under the credit facility covenant.

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

than 5.25:1.00 or less than 2.25:1.00, respectively. As of June 30, 2017, our total net leverage ratio under the Credit Agreement was 4.74:1.00, and our interest coverage ratio was 3.85:1.00.

Committed Financing

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 (the “Incremental Term Loan”), 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 Term 5 loan and are being amortized over the term of the debt as interest expense. The Incremental Term Loan included an original issue discount of 0.50% and has an interest rate of 3.00% plus LIBOR subject to a 1.00% LIBOR floor. Ticking fees began accruing on the Incremental Term Loan commitments on January 15, 2017 at the rate equal to the interest rate of the Incremental Term Loan. In connection with entering into the committed financing, commitment fees of \$14.0 million were capitalized in December 2016 and are being amortized to interest expense over the term of the commitment period of one year or fully amortized on the date of debt issuance if less than one year.

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. 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 of \$14.8 million be deemed to be letters of credit under the Credit Agreement. 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.

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.

Senior Notes Covenant Compliance

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

transactions with its affiliates; or enter into any sale and leaseback transactions. The indenture also contains customary events of default.

Among other matters, the Senior Notes indenture provides that CCI may not pay dividends or make other restricted payments, as defined in the indenture, if its total net leverage ratio is 4.75:1.00 or greater. This ratio is calculated differently than the comparable ratio under the Credit Agreement; among other differences, it takes into account, on a pro forma basis, synergies expected to be achieved as a result of certain acquisitions not yet reflected in historical results. As of June 30, 2017, this ratio was 4.72:1.00. 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 \$378.6 million have been paid since May 30, 2012, including the quarterly dividend declared in May 2017 and paid on August 1, 2017, there was \$482.2 million of the \$860.9 million of cumulative consolidated cash flow since May 30, 2012 available to pay dividends as of June 30, 2017. As of June 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 2021. As of June 30, 2017, the present value of the minimum remaining lease commitments was approximately \$21.9 million, of which \$8.8 million was due and payable within the next twelve months. The leases require total remaining rental payments of \$24.1 million as of June 30, 2017, of which \$3.2 million will be paid to LATEL LLC, a related party entity.

Dividends

We paid \$39.3 million and \$39.2 million in dividend payments to stockholders during the six-month periods ended June 30, 2017 and 2016, respectively. In May 2017, our board of directors declared a quarterly dividend of \$0.38738 per common share, which was paid on August 1, 2017 to stockholders of record at the close of business on July 15, 2017. Our current annual dividend rate is approximately \$1.55 per share.

The cash required to fund dividend payments is in addition to our other expected cash needs, which we expect to fund with cash flows from our operations. In addition, we expect we will have sufficient availability under our revolving credit facility to fund dividend payments in addition to any expected fluctuations in working capital and other cash needs, although we do not intend to borrow under this facility to pay dividends.

We believe that our dividend policy will limit, but not preclude, our ability to grow. If we continue paying dividends at the level currently anticipated under our dividend policy, we may not retain a sufficient amount of cash, and may need to seek refinancing to fund a material expansion of our business, including any significant acquisitions or to pursue growth opportunities requiring capital expenditures significantly beyond our current expectations. In addition, because we expect a significant portion of cash available will be distributed to holders of common stock under our dividend policy, our ability to pursue any material expansion of our business will depend more than it otherwise would on our ability to obtain third-party financing.

Sufficiency of Cash Resources

The following table sets forth selected information regarding our financial condition.

| <i>(In thousands, except for ratio)</i> | June 30, 2017 | December 31, 2016 |
|---|------------------|----------------------|
| Cash and cash equivalents | \$ 15,859 | \$ 27,077 |
| Working capital (deficit) | (46,593) | (16,884) |
| Current ratio | 0.72 | 0.89 |

Our net working capital position declined \$29.7 million as of June 30, 2017 compared to December 31, 2016 primarily as a result of an increase in accrued interest related to the timing in the semi-annual interest payments for our Senior Notes

and the addition in 2017 of accrued ticking fees on the committed financing secured in December 2016 for the acquisition of FairPoint. The ticking fees accrued until the completion of the merger and became due and payable on the closing date of July 3, 2017.

Our most significant uses of funds in the remainder of 2017, including the acquisition of FairPoint, are expected to be for: (i) dividend payments of approximately \$55.0 million; (ii) interest payments on our indebtedness of approximately \$75.0 million and principal payments on debt of \$9.2 million; and (iii) capital expenditures of between \$126.0 million and \$131.0 million. In the future our ability to use cash may be limited by our other expected uses of cash, including our dividend policy, and our ability to incur additional debt will be limited by our existing and future debt agreements. In addition, we expect to use significant funds in connection with the acquisition of FairPoint, which closed on July 3, 2017. As discussed above, we have secured committed financing for the acquisition through a \$935.0 million Incremental Term Loan, which was used with cash on hand, and other sources of liquidity to repay and redeem certain existing indebtedness of FairPoint and to pay certain fees and expenses in connection with the merger. Upon closing of the FairPoint acquisition or shortly thereafter, various triggering events occurred which will result 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 \$9.4 million of which \$8.6 million is expected to be paid in 2017 with the remainder due in 2018 and 2019.

We believe that cash flows from operating activities, together with our existing cash and borrowings available under our revolving credit facility, will be sufficient for at least the next twelve months to fund our current anticipated uses of cash. After that, our ability to fund these expected uses of cash and to comply with the financial covenants under our debt agreements will depend on the results of future operations, performance and cash flow. Our ability to fund these expected uses from the results of future operations will be subject to prevailing economic conditions and to financial, business, regulatory, legislative and other factors, many of which are beyond our control.

We may be unable to access the cash flows of our subsidiaries since certain of our subsidiaries are parties to credit or other borrowing agreements, or are subject to statutory or regulatory restrictions, that restrict the payment of dividends or making intercompany loans and investments, and those subsidiaries are likely to continue to be subject to such restrictions and prohibitions for the foreseeable future. In addition, future agreements that our subsidiaries may enter into governing the terms of indebtedness may restrict our subsidiaries' ability to pay dividends or advance cash in any other manner to us.

To the extent that our business plans or projections change or prove to be inaccurate, we may require additional financing or require financing sooner than we currently anticipate. Sources of additional financing may include commercial bank borrowings, other strategic debt financing, sales of nonstrategic assets, vendor financing or the private or public sales of equity and debt securities. There can be no assurance that we will be able to generate sufficient cash flows from operations in the future, that anticipated revenue growth will be realized or that future borrowings or equity issuances will be available in amounts sufficient to provide adequate sources of cash to fund our expected uses of cash. Failure to obtain adequate financing, if necessary, could require us to significantly reduce our operations or level of capital expenditures which could have a material adverse effect on our financial condition and the results of operations.

Surety Bonds

In the ordinary course of business, we enter into surety, performance and similar bonds as required by certain jurisdictions in which we provide services. As of June 30, 2017, we had approximately \$3.4 million of these bonds outstanding.

Defined Benefit Pension Plans

As required, we contribute to a qualified defined pension plan (the "Retirement Plan") and non-qualified supplemental retirement plans (collectively with the Retirement Plan, the "Pension Plans") and other post-retirement benefit plans, which provide retirement benefits to certain eligible employees. Contributions are intended to provide for benefits attributed to service to date. Our funding policy is to contribute annually an actuarially determined amount consistent with applicable federal income tax regulations.

The costs to maintain our Pension Plans and future funding requirements are affected by several factors including the expected return on investment of the assets held by the Pension Plans, changes in the discount rate used to calculate pension

expense and the amortization of unrecognized gains and losses. Returns generated on Pension Plans assets have historically funded a significant portion of the benefits paid under the Pension Plans. We estimate the long-term rate of return of Pension Plans assets will be 7.75%. The Pension Plans invest in marketable equity securities which are exposed to changes in the financial markets. If the financial markets experience a downturn and returns fall below our estimate, we could be required to make a material contribution to the Pension Plans, which could adversely affect our cash flows from operations.

In 2017, we expect to make contributions totaling approximately \$6.4 million to our Pension Plans and \$3.9 million to our other post-retirement benefit plans, which represents an increase of \$6.4 million from the total contributions made in 2016. As of June 30, 2017, we have contributed \$1.0 million and \$1.8 million to our Pension Plans and our other post-retirement benefit plans, respectively. Our contribution amounts meet the minimum funding requirements as set forth in employee benefit and tax laws. See Note 9 to the Condensed Consolidated Financial Statements, included in this report in Part I – Item I “Financial Information” for a more detailed discussion regarding our pension and other post-retirement plans.

Income Taxes

The timing of cash payments for income taxes, which is governed by the Internal Revenue Service and other taxing jurisdictions, will differ from the timing of recording tax expense and deferred income taxes, which are reported in accordance with GAAP. For example, tax laws in effect regarding accelerated or “bonus” depreciation for tax reporting resulted in less cash payments than the GAAP tax expense. Acceleration of tax deductions could eventually result in situations where cash payments will exceed GAAP tax expense.

Regulatory Matters

As discussed in the “Regulatory Matters” section above, in December 2014, the FCC released a report and order that significantly impacts the amount of support revenue we receive from the USF, CAF and ICC by redirecting support from voice services to broadband services. The annual funding under CAF Phase I of \$36.6 million was replaced by annual funding under CAF Phase II of \$13.9 million through 2020. With the sale of our Iowa ILEC in 2016, this amount was further reduced to \$11.5 million through 2020. The acceptance of funding at the lower level CAF Phase II will transition over a three year period, beginning in August 2015, at the rates of 75% of the CAF Phase I funding level in the first year, 50% in the second year and 25% in the third year.

The Order also modifies the methodology used for ICC traffic exchanged between carriers. As a result of implementing the provisions of the Order, our network access revenue decreased approximately \$0.5 million and \$1.0 million during the quarter and six months ended June 30, 2017, respectively, compared to the same periods in 2016. We anticipate that network access revenue will continue to decline as a result of the Order through 2018 by as much as \$2.0 million and \$1.9 million in 2017 and 2018, respectively.

In accordance with the provisions of SB 583, as discussed in the “Regulatory Matters” section above, our annual \$1.4 million Texas HCAF support was eliminated effective January 1, 2014. In addition, in accordance with the provisions of the settlement agreement reached with the PUCT, the HCF draw is being reduced by approximately \$1.2 million annually over a four year period beginning June 1, 2014 through 2018. However, we have the ability to fully offset this reduction with increases to residential rates where market conditions allow.

Critical Accounting Estimates

Our condensed consolidated financial statements and accompanying notes are prepared in accordance with US GAAP. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by management’s application of accounting policies. Our judgments are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making estimates about the carrying values of assets and liabilities that are not readily apparent from other sources. For a full discussion of our accounting estimates and assumptions that we have identified as critical in the preparation of our condensed consolidated financial statements, refer to our 2016 Annual Report on Form 10-K filed with the SEC.

Recent Accounting Pronouncements

For information regarding the impact of certain recent accounting pronouncements, see Note 1 “Summary of Significant Accounting Policies” to the Condensed Consolidated Financial Statements, included in this report in Part I - Item 1 “Financial Information”.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk is primarily related to the impact of interest rate fluctuations on our debt obligations. Market risk is the potential loss arising from adverse changes in market interest rates on our variable rate obligations. In order to manage the volatility relating to changes in interest rates, we utilize derivative financial instruments such as interest rate swaps to maintain a mix of fixed and variable rate debt. We do not use derivatives for trading or speculative purposes. 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. We calculate the potential change in interest expense caused by changes in market interest rates by determining the effect of the hypothetical rate increase on the portion of our variable rate debt that is not subject to a variable rate floor or hedged through the interest rate swap agreements.

As of June 30, 2017, the majority of our variable rate debt was subject to a 1.00% London Interbank Offered Rate (“LIBOR”) floor thereby reducing the impact of fluctuations in interest rates. Based on our variable rate debt outstanding as of June 30, 2017, a 1.00% change in market interest rates would increase or decrease annual interest expense by approximately \$15.8 million and \$3.0 million, respectively.

As of June 30, 2017, the fair value of our interest rate swap agreements amounted to a net liability of \$5.5 million. Total pre-tax deferred loss related to our interest rate swap agreements included in accumulated other comprehensive loss was \$3.6 million as of June 30, 2017.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (“Exchange Act”) that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. In connection with the filing of this Form 10-Q, management evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design to provide reasonable assurance of achieving their objectives and operation of our disclosure controls and procedures as of June 30, 2017. Based upon that evaluation and subject to the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of June 30, 2017.

Change in Internal Control Over Financial Reporting

Based upon the evaluation performed by our management, which was conducted with the participation of our Chief Executive Officer and Chief Financial Officer, there has been no change in our internal control over financial reporting during the quarter ended June 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

We are responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control systems are designed to provide reasonable assurance to the Company’s management, Board of Directors and Audit Committee regarding the reliability of financial reporting and the preparation of published financial statements in accordance with generally accepted accounting principles.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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. See Note 11 to the Condensed Consolidated Financial Statements, included in this report in Part I - Item I “Financial Information” for a discussion of recent developments related to these legal proceedings.

ITEM 6. EXHIBIT S

- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following financial information from Consolidated Communications Holdings, Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, formatted in XBRL (eXtensible Business Reporting Language):
 - (i) Condensed Consolidated Statements of Operations, (ii) Condensed Consolidated Statements of Comprehensive Income (Loss), (iii) Condensed Consolidated Balance Sheets, (iv) Condensed Consolidated Statements of Cash Flows, and (v) Notes to Unaudited Condensed Consolidated Financial Statements.

SIGNATURE S

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.

(Registrant)

August 4, 2017

By: /s/ C. Robert Udell Jr.
C. Robert Udell Jr.,
Chief Executive Officer
(Principal Executive Officer)

August 4, 2017

By: /s/ Steven L. Childers
Steven L. Childers,
Chief Financial Officer
(Principal Financial Officer and Chief Accounting Officer)

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, C. Robert Udell Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Consolidated Communications Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 4, 2017

/s/ C. Robert Udell Jr.

C. Robert Udell Jr.
President and Chief Executive Officer
(Principal Executive Officer)

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Steven L. Childers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Consolidated Communications Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 4, 2017

/s/ Steven L. Childers

Steven L. Childers

Chief Financial Officer

(Principal Financial Officer and Chief Accounting Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (“Section 906”), C. Robert Udell Jr. and Steven L. Childers, President and Chief Executive Officer and Chief Financial Officer, respectively, of Consolidated Communications Holdings, Inc., each certify that to his knowledge (i) the Quarterly Report on Form 10-Q for the period ended June 30, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of Consolidated Communications Holdings, Inc.

/s/ C. Robert Udell Jr.

C. Robert Udell Jr.
President and Chief Executive Officer
(Principal Executive Officer)
August 4, 2017

/s/ Steven L. Childers

Steven L. Childers
Chief Financial Officer
(Principal Financial Officer and Chief Accounting Officer)
August 4, 2017
