

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

FORM 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2020
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file number 000-51446



CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code (217) 235-3311

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock - \$0.01 par value	CNSL	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

Yes No

As of June 30, 2020, the aggregate market value of the shares held by non-affiliates of the registrant's common stock was \$485,618,951 based on the closing price as reported on the NASDAQ Global Select Market. The market value calculations exclude shares held on the stated date by registrant's directors and officers on the assumption such shares may be shares owned by affiliates. Exclusion from these public market value calculations does not necessarily conclude affiliate status for any other purpose.

On February 22, 2021, the registrant had 79,213,100 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2021 Annual Meeting of Shareholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2020.

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PART I

Note About Forward-Looking Statements

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 Annual Report on Form 10-K, including those relating 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 markets, are forward-looking statements and are made pursuant to the safe harbor provisions of the Private 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 the actual results of Consolidated Communications Holdings, Inc. and its subsidiaries (“Consolidated,” the “Company,” “we,” “our” or “us”) 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. 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 Part I – Item 1A – “Risk Factors”. Furthermore, undue reliance should not be placed on forward-looking statements, which are based on the information currently available to us and 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.

Item 1. Business.

Consolidated Communications Holdings, Inc. is a Delaware holding company with operating subsidiaries that provide a wide range of communication solutions to consumer, commercial and carrier channels across a 23-state service area. We were founded in 1894 as the Mattoon Telephone Company. After several acquisitions, the Mattoon Telephone Company was incorporated as the Illinois Consolidated Telephone Company in 1924. We were incorporated under the laws of Delaware in 2002, and through our predecessors, we have been providing communication services in many of the communities we serve for more than 125 years.

In addition to our focus on organic growth in our commercial and carrier channels, we have achieved business growth and diversification of revenue and cash flow streams that have created a strong platform for future growth through our acquisitions over the last 15 years. Through this strategic expansion, we have positioned our business to provide competitive services in rural, suburban and metropolitan markets spanning the country. Marking a pivotal moment for Consolidated, in 2020, we entered into a strategic investment with an affiliate of Searchlight Capital Partners L.P. (“Searchlight”). We also completed a global debt refinancing, as described below, which in combination provides us with greater flexibility to support our fiber expansion and growth plans. This strategic investment offered an immediate capital infusion. It will deliver significant benefits to the customers and communities we serve, and create a stronger and more resilient company that is well-positioned to further expand and grow broadband services to meet ever-evolving customer needs.

We are closely monitoring the impact on our business of the coronavirus (“COVID-19”) pandemic. For a discussion of the risks related to COVID-19, refer to Part I - Item 1A – “Risk Factors” and for a discussion of the impacts of COVID-19 on our business, refer to Part II - Item 7 – “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Note 1 to the consolidated financial statements included in this report in Part II – Item 8 – “Financial Statements and Supplementary Data”.

Recent Business Developments

On September 13, 2020, we entered into an investment agreement (the “Investment Agreement”) with Searchlight, a global private equity firm. In connection with the Investment Agreement, affiliates of Searchlight have committed to invest up to an aggregate of \$425.0 million, which will enable Consolidated to accelerate our growth plan, expand the Company’s fiber infrastructure and invest in high-growth and competitive areas of our business. The investment commitment is

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structured in two stages. In the first stage of the transaction, which was completed on October 2, 2020, Searchlight invested \$350.0 million in the Company in exchange for 8% of the Company's common stock. In addition, Searchlight has received a contingent payment right ("CPR") convertible, upon the receipt of certain regulatory and shareholder approvals, into an additional 16.9% of the Company's common stock, and the right to receive an unsecured subordinated note with a principal amount of approximately \$395.5 million. In the second stage, upon receipt of Federal Communications Commission ("FCC") and Hart Scott Rodino approvals and the satisfaction of certain other customary closing conditions, Searchlight will invest an additional \$75.0 million and will be issued the note, which will be convertible into shares of perpetual preferred stock of the Company with an aggregate liquidation preference equal to the principal amount of the note at that time. In addition, in the second stage and following shareholder approval, the CPR will be convertible into an additional 10.1% of the Company's common stock. We expect the closing of the second stage to be completed in mid-2021. Upon completion of both stages, the common stock and CPR issued to Searchlight will represent approximately 35% of the Company's common stock on an as-converted basis.

In addition, on October 2, 2020, the Company and certain of its wholly-owned subsidiaries completed a global refinancing of our long-term debt through the issuance of \$2,250.0 million in new secured debt and retired all of its then outstanding debt. The new credit agreement consists of a five-year \$250.0 million revolving credit facility and a seven-year term loan in the aggregate amount of \$1,250.0 million. The Company also raised \$750.0 million aggregate principal amount of 6.50% senior secured notes due 2028. On January 15, 2021, the Company issued an additional \$150.0 million aggregate principal amount of incremental term loans under the credit agreement.

See Notes 4 and 7 to the consolidated financial statements included in this report in Part II – Item 8 – “Financial Statements and Supplementary Data” for a more detailed discussion of these transactions and the debt refinancing.

Description of Our Business

Consolidated is a broadband and business communications provider offering a wide range of communication solutions to consumer, commercial and carrier customers across a 23-state service area by leveraging our advanced fiber network, which spans over 46,600 fiber route miles across many rural areas and metro communities. Our business product suite includes: data and Internet solutions, voice, data center services, security services, managed and IT services, and an expanded suite of cloud services. We provide wholesale solutions to wireless and wireline carriers and other service providers including data, voice, network connections and custom fiber builds and last mile connections. We offer residential high-speed Internet, video, phone and home security services as well as multi-service residential and small business bundles. Consolidated is dedicated to turning technology into solutions, connecting people and enriching how our customers work and live.

We generate the majority of our consolidated operating revenues primarily from subscriptions to our broadband, data and transport services (collectively “broadband services”) marketed to consumer, commercial and carrier customers. Commercial and carrier services represent the largest source of our operating revenues and are expected to be key growth areas in the future. We are focused on enhancing our broadband and commercial product suite and are continually enhancing our commercial product offerings to meet the needs of our business customers. We leverage our advanced fiber network and tailor our services for business customers by developing solutions to fit their specific needs. Additionally, we are continuously enhancing our suite of managed and cloud services, which increases efficiency and enables greater scalability and reliability for businesses. We anticipate future momentum in commercial and carrier services as these products gain traction as well as from the demand from customers for additional bandwidth and data-based services.

We market our residential services by leading with a competitive broadband service. As consumer demands for bandwidth continue to increase, our focus is on enhancing our broadband services, and progressively increasing speeds. We offer data speeds of up to 1 Gigabits per second (“Gbps”) in select markets, and up to 100 Mbps in markets where 1 Gbps is not yet available, depending on the geographical region. As we continue to increase broadband speeds, we are also able to simultaneously expand the array of services and content offerings that the network provides.

Our investment in more competitive broadband speeds is critical to our long-term success. With the investment from Searchlight and the concurrent debt refinancing, we can immediately accelerate the investment in our network, most notably to upgrade over the next five years approximately 1.6 million residential and small business premises to fiber-to-the-home/premise (“FTTP”) enabling multi-Gig symmetrical speeds. The network investments will be made across seven states including more than 1 million passings within our northern New England service areas. Our fiber build plan includes

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the upgrade of approximately 300,000 homes and small businesses in 2021. By leveraging our existing dense core fiber network and an accelerated build plan, we will be able to significantly increase data speeds, expand our multi-Gig coverage and strategically extend our network across our strong existing commercial and carrier footprint to attract more on-net and near-net opportunities. As we invest in network upgrades, we believe we will see stable-to-improved trends in revenue growth and increased broadband penetration. We believe these fiber investments will help us future-proof our network and facilitate the continued transformation of Consolidated into a leading super-regional fiber communications service provider.

Searchlight is a value-added partner in our execution of this investment and brings a differentiated perspective to our broadband-first strategy. They are an experienced broadband and fiber infrastructure investor and they bring significant experience investing in FTTP and broadband expansion. Through our partnership with Searchlight, we will enhance our ability to invest in our business and pursue future growth opportunities as we transform our company in order to create long-term value.

A discussion of factors potentially affecting our operations is set forth in Part I – Item 1A – “Risk Factors”, which is incorporated herein by reference.

Sources of Revenue

The following tables summarize our sources of revenue and key operating statistics for the last three fiscal years:

<i>(In millions, except for percentages)</i>	2020		2019		2018	
	\$	% of Revenues	\$	% of Revenues	\$	% of Revenues
Commercial and carrier:						
Data and transport services (includes VoIP)	\$ 362.1	27.8 %	\$ 355.3	26.6 %	\$ 349.4	25.0 %
Voice services	181.7	13.9	188.3	14.1	202.9	14.5
Other	45.1	3.5	52.9	4.0	56.4	4.0
	<u>588.9</u>	<u>45.2</u>	<u>596.5</u>	<u>44.6</u>	<u>608.7</u>	<u>43.5</u>
Consumer:						
Broadband (Data and VoIP)	263.1	20.1	257.1	19.2	253.1	18.1
Video services	74.3	5.7	81.4	6.1	88.4	6.3
Voice services	170.5	13.1	180.8	13.5	202.0	14.4
	<u>507.9</u>	<u>38.9</u>	<u>519.3</u>	<u>38.9</u>	<u>543.5</u>	<u>38.8</u>
Subsidies	72.0	5.5	72.4	5.4	83.4	6.0
Network access	125.3	9.6	138.1	10.3	152.6	10.9
Other products and services	9.9	0.8	10.2	0.8	10.9	0.8
Total operating revenues	<u>\$ 1,304.0</u>	<u>100.0 %</u>	<u>\$ 1,336.5</u>	<u>100.0 %</u>	<u>\$ 1,399.1</u>	<u>100.0 %</u>

Key Operating Statistics

	As of December 31,		
	2020	2019	2018
Consumer customers	554,763	582,818	628,649
Voice connections	779,590	835,997	902,414
Data connections	792,200	784,165	778,970
Video connections	76,041	84,171	93,065
Total connections	<u>1,647,831</u>	<u>1,704,333</u>	<u>1,774,449</u>

All telecommunications providers continue to face increased competition as a result of technology changes and legislative and regulatory developments in the industry. We continue to focus on commercial growth opportunities and are continually expanding our commercial product offerings for small, medium and large businesses to capitalize on industry technological advances. In addition, we expect our broadband services revenue to continue to grow as consumer and commercial demands for data-based services and higher speeds increase, which will offset, in part, the anticipated decline in traditional voice services impacted by the ongoing industry-wide reduction in residential access lines.

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Commercial and Carrier

Data and Transport Services

We provide a variety of business communication solutions to business customers of all sizes, including many services over our advanced fiber network. The services we offer include scalable high-speed broadband Internet access and Voice over Internet Protocol (“VoIP”) phone services, which range from basic service plans to virtual hosted systems. Our hosted VoIP package utilizes soft switching technology and enables our customers to have the flexibility of employing new telephone advances and features without investing in a new telephone system. The package bundles local service, calling features, Internet protocol (“IP”) business telephones and unified messaging, which integrates multiple messaging technologies into a single system and allows the customer to receive and listen to voice messages through email.

In addition to Internet and VoIP services, we also offer a variety of commercial data connectivity services in select markets including Ethernet services; software defined wide area network (“SD-WAN”), a software-based network technology that provides a simplified management and automation of wide area network (“WAN”) connections; multi-protocol label switching (“MPLS”); and private line services to provide high bandwidth connectivity across point-to-point and multiple site networks.

Our networking services are available at a variety of speeds up to 10 Gbps. We offer a suite of cloud-based services, which includes a hosted unified communications solution that replaces the customer’s on-site phone systems and data networks, managed network security services and data protection services.

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 with speeds up to 100 Gbps. The demand for backhaul services continue to grow as wireless carriers are faced with escalating consumer and commercial demands for wireless data.

Voice Services

Voice services include 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. We are also a full service 9-1-1 provider and have installed and maintained two turn-key, state of the art statewide next-generation emergency 9-1-1 systems. These systems, located in Maine and Vermont, have processed several million calls relying on the caller's location information for routing. As of October 29, 2020, we are no longer the 9-1-1 service provider in Vermont. Next-generation emergency 9-1-1 systems are an improvement over traditional 9-1-1 and are expected to provide the foundation to handle future communication modes such as texting and video.

Other

Other services include business equipment sales and related hardware and maintenance support, video services and other miscellaneous revenues.

Consumer

Broadband Services

Broadband services include revenues from residential customers for subscriptions to our VoIP and data 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 data service plans also include wireless internet access, email and internet security and protection. Our VoIP digital phone service is also available in certain markets as an alternative to the traditional telephone line. We offer multiple voice service plans with customizable calling features and voicemail including voicemail to email options.

Video Services

Depending on geographic market availability, our linear 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



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Pay-Per-View channels as well as video On-Demand service. Certain customers may also subscribe to high-definition television, digital video recorders (“DVR”) and/or a whole home DVR. Our Whole Home DVR allows customers the ability to watch recorded shows on any television in the home, record multiple shows simultaneously and utilize an intuitive on-screen guide and user interface. Our TV Everywhere service available in certain markets, allows our video subscribers to watch their favorite shows, movies and livestreams on any device. In addition, we offer in-demand streaming content, including: ATT TV, fuboTV, Philo and HBO NOW®.

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. The number of local access lines in service directly affects the recurring revenue we generate from end users and continues to be impacted by the industry-wide decline in access lines. We expect to continue to experience erosion in voice connections due to competition from alternative technologies, including our own competing VoIP product.

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 are funded by end user surcharges to which telecommunications providers, including local, long-distance and wireless carriers, contribute on a monthly basis. Subsidies are allocated and distributed to participating carriers monthly based upon their respective costs for providing local service. Similar to access charges, subsidies are regulated by the federal and state regulatory commissions. See Part I – Item 1 – “Regulatory Environment” below and Item 1A – “Risk Factors – Risks Related to the Regulation of Our Business” for further discussion regarding the subsidies we receive.

Network Access Services

Network access services include interstate and intrastate switched access, network special access 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. Certain of our network access revenues are based on rates set or approved by the federal and state regulatory commissions or as directed by law that are subject to change at any time.

Other Products and Services

Other products and services include revenues from telephone directory publishing, video advertising, billing and support services and other miscellaneous revenues.

No one customer accounted for more than 10% of our consolidated operating revenues during the years ended December 31, 2020, 2019 and 2018.

Wireless Partnerships

In addition to our core business, we also derive a portion of our cash flow and earnings from investments in five wireless partnerships. Wireless partnership investment income is included as a component of other income in the consolidated statements of operations. Our wireless partnership investment consists of five cellular partnerships: GTE Mobilnet of South Texas Limited Partnership (“Mobilnet South Partnership”), GTE Mobilnet of Texas RSA #17 Limited Partnership (“RSA #17”), Pittsburgh SMSA Limited Partnership (“Pittsburgh SMSA”), Pennsylvania RSA No. 6(I) Limited Partnership (“RSA 6(I)”) and Pennsylvania RSA No. 6(II) Limited Partnership (“RSA 6(II)”).

Cellco Partnership (“Cellco”) is the general partner for each of the five cellular partnerships. Cellco is an indirect, wholly-owned subsidiary of Verizon Communications Inc. As the general partner, Cellco is responsible for managing the operations of each partnership.

We own 2.34% of 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 account for this investment at



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our initial cost less any impairment because fair value is not readily available for this investment. Income is recognized only upon cash distributions of our proportionate earnings in the partnership.

We own 20.51% of RSA #17, which serves areas in and around Conroe, Texas. This investment is accounted for under the equity method. Income is recognized on our proportionate share of earnings and cash distributions are recorded as a reduction in our investment.

We own 3.60% of Pittsburgh SMSA, 16.67% of RSA 6(I) and 23.67% of RSA 6(II). These partnerships cover territories that almost entirely overlap the markets served by our Pennsylvania Incumbent Local Exchange Carrier (“ILEC”) and Competitive Local Exchange Carrier operations. Because of our limited influence over Pittsburgh SMSA, we account for this investment at our initial cost less any impairment because fair value is not readily available for this investment. RSA 6(I) and RSA 6(II) are accounted for under the equity method.

For the years ended December 31, 2020, 2019 and 2018, we recognized income of \$40.7 million, \$37.7 million and \$39.3 million, respectively, and received cash distributions of \$41.5 million, \$35.8 million and \$39.1 million, respectively, from these wireless partnerships.

Network Architecture and Technology

We have made significant investments in our technologically advanced telecommunications networks and continue to enhance and expand our network by deploying technologies to provide additional capacity to our customers. As a result, we are able to deliver high-quality, reliable data, video and voice services in the markets we serve. Our wide-ranging network and extensive use of fiber provide an easy reach into existing and new areas. By bringing the fiber network closer to the customer premise, we can increase our service offerings, quality and bandwidth services. Our existing network enables us to efficiently respond and adapt to changes in technology and is capable of supporting the rising customer demand for bandwidth in order to support the growing amount of wireless data devices in our customers’ homes and businesses.

Our networks are supported by advanced 100% digital switches, with a core fiber network connecting all remote exchanges. We continue to enhance our copper network to increase bandwidth in order to provide additional products and services to our marketable homes. In addition to our copper plant enhancements, we have deployed fiber-optic cable extensively throughout our network, resulting in a 100% fiber backbone network that supports all of the inter-office and host-remote links, as well as the majority of business parks within our service areas. In addition, this fiber infrastructure provides the connectivity required to provide broadband and long-distance services to our residential and commercial customers. Our fiber network utilizes FTTP and fiber-to-the-node (“FTTN”) networks to offer bundled residential and commercial services.

We operate advanced fiber networks which we own or have entered into long-term leases for fiber network access. At December 31, 2020, our fiber-optic network consisted of over 46,600 route-miles, which includes approximately 8,130 miles of FTTP deployments, approximately 19,900 route miles of fiber located in the northern New England area, approximately 3,880 miles of fiber network in Minnesota and surrounding areas, approximately 4,310 miles of fiber network in Texas including an expansion into the greater Dallas/Fort Worth market, approximately 1,730 route-miles of fiber-optic facilities in the Pittsburgh metropolitan area, approximately 2,240 miles of fiber network in Illinois, approximately 1,100 route-miles of fiber optic facilities in California that cover large parts of the greater Sacramento metropolitan area and approximately 1,110 route-miles of fiber optic facilities in Kansas City that service the greater Kansas City area, including both Kansas and Missouri. Our remaining network includes approximately 4,260 route-miles spanning across various states including portions of Alabama, Colorado, Florida, Georgia, Massachusetts, New York, Ohio, Pennsylvania and Washington.

As of December 31, 2020, we passed more than 2.7 million homes and have direct fiber connections to 13,564 on-net commercial building locations. We intend to continue to make strategic enhancements to our network including improvements in overall network reliability and increases to our broadband speeds. We offer data speeds of up to 1 Gbps in select markets, and up to 100 Mbps in markets where 1 Gbps is not yet available, depending on the geographical region. The majority of the homes in our recently acquired northern New England service territories have availability to broadband speeds of 20 Mbps or less. As part of the strategic investment and equity partnership with Searchlight, we plan to accelerate our fiber build plan and extend fiber coverage enabling multi-Gig data speeds to over 70% of our passings by 2025. The upgrades will be made primarily across seven states including more than 1 million passings within the

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northern New England service areas to significantly enhance our broadband speeds. Further network investments will enable us to continue to meet consumer demand for faster broadband speeds, symmetrical broadband and more bandwidth consumption as well as more effectively serve our commercial customers.

Through our extensive fiber network, we are also able to support the increased demand on wireless carriers for data bandwidth. In all the markets we serve, we have launched initiatives to support fiber backhaul services to cell sites. As of December 31, 2020, we had 3,589 cell sites in service and an additional 260 future sites pending completion.

Sales and Marketing

The key components of our overall marketing strategy include:

- Organizing our sales and marketing activities around our three customer channels: consumer, commercial and carrier customers;
- Positioning ourselves as a single point of contact for our customers' communications needs;
- Providing customers with a broad array of data, voice and communication solutions;
- Identifying and broadening our commercial customer needs by developing solutions and providing integrated service offerings;
- Providing excellent customer service, including 24/7 centralized customer support to coordinate installation of new services, repair and maintenance functions and creating more self-service tools through our online customer portal;
- Developing and delivering new services to meet evolving customer needs and market demands; and
- Leveraging our local presence and strong reputation across our market areas.

We currently offer our services through customer service call centers, our website, commissioned sales representatives and third-party sales agents. Our customer service call centers and dedicated sales teams serve as the primary sales channels for consumer, commercial and carrier services. Our sales efforts are supported by digital media, direct mail, bill inserts, radio, television and internet advertising, public relations activities, community events and customer promotions.

In addition to our customer service call centers, customers can contact us through our website, online chat and social media. Our online customer portal enables customers to pay their bills, manage their accounts, order new services and utilize self-service help and support. Our priority is to continue enhancing our comprehensive customer care system in order to produce a high level of customer satisfaction and loyalty, which is important to our ability to reduce churn and generate recurring revenues.

Business Strategies

Transform our Company into a dominate fiber gigabit broadband provider

In 2020, in connection with the Searchlight investment, we announced plans to upgrade and expand our fiber network through a five-year build plan with construction beginning in early 2021. The build plan will include the upgrade of approximately 1.6 million passings to fiber enabling multi gigabit-capable services to over 70% of our passings by 2025. In 2021, we plan to upgrade more than 300,000 homes and small businesses with fiber services and faster broadband speeds. This marks the biggest fiber deployment project in our Company's history. Our strategy, supported by the Searchlight investment, is to meaningfully upgrade our residential and small business network in those service territories with a predominantly copper-based infrastructure to a FTTP network. Of the planned upgrades, more than 1 million passings will be upgraded within the northern New England service areas. The upgraded network will be capable of providing up to 10 Gbps of symmetrical broadband, which we believe will make us the only broadband provider in these markets capable of delivering 10 Gbps symmetrical broadband to consumers. In addition to best-in-class upload and download speeds, we believe the resulting network will offer better reliability, improved speed consistency, and a lower operating cost relative to competing broadband network technologies. Given these benefits, we believe that our fiber

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deployment strategy will allow us to realize meaningful improvements in ARPU, broadband subscriber penetration and customer retention.

Continue to grow and invest in commercial and carrier services

Our commercial and carrier strategy is built on leveraging our dense fiber network in key markets to offer IP-based products and services to our small and medium-sized business (“SMB”), enterprise and carrier customers. We will continue transitioning our customer base away from legacy TDM-based products to fiber and IP-based data and transport services, where we see significant opportunity to increase market share in our footprint. We will also make strategic network investments in both existing markets and edge-out locations to enhance our footprint and increase on-net and near-net opportunities. These builds will be focused on projects with high revenue visibility and attractive payback periods. Our carrier strategy entails leveraging our dense fiber network and long-term relationships in key markets to expand our carrier partnerships and grow small cell and fiber-to-the-tower connections. Investing not just in the network, but in these customer relationships, has been core to our success. Our growth strategy is also supported by the continuous evolution of our product offerings. We are regularly developing and enhancing our suite of managed and cloud services, increasing efficiency and enabling greater scalability and reliability for our business customers. We believe that by developing and investing in next-generation fiber-based products, we will be able to further support our customer needs for networking, communications, and collaboration services.

Improve the overall customer experience

We continue to evaluate our operations in order to improve and enhance the overall customer experience for all customers. In conjunction with the five-year fiber build plan, we will also make significant investments in our back-office infrastructure. We expect our full transformation to occur over a multi-year period, with significant consumer customer-facing enhancements to be revealed later in 2021. Our planned enhancements include an improved customer portal where customers can manage all aspects of their service. We will launch expanded e-commerce, omnichannel customer service and self-service capabilities for all customer groups. Our digital transformation projects will improve our order and install processes making the transition to our services more seamless than ever. Our sales process is also being redesigned in order to provide personalized sales channels and a dedicated care team for our fiber customers. We have a culture of delivering the highest quality customer service experience possible and will continue to make investments in our platforms in order to create a truly differentiated customer experience.

Competition

The telecommunications industry is subject to extensive competition, which has increased significantly in recent years. Technological advances have expanded the types and uses of services and products available. In addition, differences in the regulatory environment applicable to comparable alternative services have lowered costs for these competitors. As a result, we face heightened competition but also have new opportunities to grow our broadband business. Our competitors vary by market and may include other incumbent and competitive local telephone companies; cable operators offering video, data and VoIP products; wireless carriers; long distance providers; satellite companies; Internet service providers, fixed wireless Internet service providers (“WISPs”), online video providers and in some cases new forms of providers who are able to offer a broad range of competitive services. We expect competition to remain a significant factor affecting our operating results and that the nature and extent of that competition will continue to increase in the future. See Part I - Item 1A – “Risk Factors – Risks Relating to Our Business”.

Depending on the market area, we compete against Comcast, Charter, AT&T, Mediacom, Armstrong, Suddenlink, First Light, NewWave Communications and a number of other carriers, in both the commercial and consumer markets. Our competitors offer traditional telecommunications services as well as IP-based services and other emerging data-based services. Our competitors continue to add features and adopt aggressive pricing and packaging for services comparable to the services we offer.

We continue to face competition from cable, wireless and other fiber data providers as the demand for substitute communication services, such as wireless phones and data devices, continues to increase. Customers are increasingly foregoing traditional telephone services and land-based Internet service and relying exclusively on wireless service. Wireless companies are aggressively developing networks using next-generation data technologies in order to provide increasingly faster data speeds to their customers. In addition, the expanded availability for free or lower cost services, such as video over the Internet, complimentary Wi-Fi service and other streaming devices has increased competition among other providers. In order to offer competitive services, we continue to invest in our network and business operations

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in order to offer new and enhanced services including faster broadband speeds, cloud-enabled services and additional over-the-top video content.

In our rural markets, services are more costly to provide than services in urban areas as a lower customer density necessitates higher capital expenditures on a per-customer basis. As a result, it generally is not economically viable for new entrants to overlap existing networks in rural territories. Despite the barriers to entry, rural telephone companies still face significant competition from wireless and video providers and, to a lesser extent, competitive telephone companies.

Our other lines of business are subject to substantial competition from local, regional and national competitors. In particular, our wholesale and transport business serves other interexchange carriers and we compete with a variety of service providers including incumbent and competitive local telephone companies and other fiber data companies. For our business systems products, we compete with other equipment providers or value added resellers, network providers, incumbent and competitive local telephone companies, and with cloud and data hosting service providers.

We expect that competition across all of our customer channels will continue to intensify as new technologies develop and new competition emerges.

Human Capital Resources

As of December 31, 2020, we employed approximately 3,200 employees, including part-time employees. We also use temporary employees in the normal course of our business. Approximately 50% of our employees were covered by collective bargaining agreements as of December 31, 2020. For a more detailed discussion regarding how the collective bargaining agreements could affect our business, see Part I - Item 1A – Risk Factors – “Risks Relating to Our Business”.

Our employees are the cornerstone of our success. We are committed to providing meaningful, challenging work and opportunities for professional growth in a positive environment. To attract and retain qualified and experienced employees, we offer competitive compensation and benefit packages, which we believe are competitive within the industry and the local markets in which we operate. Our benefit packages, may include, among other items, incentive compensation based on the achievement of financial targets, healthcare and insurance benefits, health savings and flexible spending accounts, a 401(k) savings plan with an employer match, paid time off, and wellness and employee assistance programs. Additionally, for certain eligible directors and employees, we provide long-term incentive compensation, in the form of restricted stock awards. In addition, we are committed to providing employees continuing education and training programs in order for employees to achieve career goals and professional growth.

We seek high-quality employees of all backgrounds and experiences. Honoring our employees as individuals is key to our culture. We believe diversity of backgrounds contributes to different ideas, which in turn drives better results for customers. We respect differences and diversity as qualities that enhance our efforts as a team and believe in and support the principles incorporated in all anti-discrimination and equal employment laws.

We are committed to workplace health and safety. In 2020, in response to the COVID-19 pandemic, we implemented safety protocols and procedures to protect our employees, customers and business partners. These procedures included transitioning as many employees as possible to remote work-from-home arrangements, providing additional safety training and personal protective equipment for customer-facing employees, and complying with social distancing and other health and safety measures as required by federal, state and local governmental agencies.

Regulatory Environment

The following summary does not describe all existing and proposed legislation and regulations affecting the telecommunications industry. Regulation can change rapidly and ongoing proceedings and hearings could alter the manner in which the telecommunications industry operates. We cannot predict the outcome of any of these developments, nor their potential impact on us. See Part I – Item 1A – “Risk Factors—Risks Related to the Regulation of Our Business”.

Overview

Our revenues, which include revenues from such telecommunications services as local telephone service, network access service and toll service are subject to broad federal and/or state regulations. The telecommunications industry is subject to extensive federal, state and local regulation. Under the Telecommunications Act of 1996 (the “Telecommunications



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Act”), 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 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.

Federal Regulation

Our incumbent local exchange companies and competitive local exchange companies must comply with the Communications Act of 1934, which requires, among other things, that telecommunications carriers offer services at just and reasonable rates and on non-discriminatory terms and conditions. The 1996 amendments to the Communications Act (contained in the Telecommunications Act discussed below) dramatically changed, and likely will continue to change, the landscape of the industry.

Access Charges

On November 18, 2011, the FCC released its comprehensive order on intercarrier compensation (“ICC”) and universal service reform. Intrastate network access charges are regulated by state commissions. The FCC order on ICC and universal service reform required terminating state access charges to mirror terminating interstate access charges, and as of July 1, 2013, all terminating switched intrastate access charges mirror interstate access charges.

The FCC has structured these prices as a combination of flat monthly charges paid by customers and both usage-sensitive (per-minute) charges and flat monthly charges paid by long-distance or other carriers.

The FCC regulates interstate network access charges by imposing price caps on Regional Bell Operating Companies (“RBOCs”) and other large incumbent telephone companies. Some of our properties operate as RBOCs under price cap regulation while some operate under rate of return regulation for interstate purposes. These price caps can be adjusted based on various formulas, such as inflation and productivity, and otherwise through regulatory proceedings. Incumbent telephone companies, such as our incumbent local exchange companies, may elect to base network access charges on price caps, but are not required to do so.

We believe that price cap regulation gives us greater pricing flexibility for interstate services, especially in the increasingly competitive special access market. It also provides us with the potential to increase our net earnings by becoming more productive and introducing new services. As we have acquired new properties, we have converted them to federal price cap regulation.

In recent years, carriers have become more aggressive in disputing the FCC’s interstate access charge rates and the application of access charges to their telecommunications traffic. We believe these disputes have increased, in part, because advances in technology have made it more difficult to determine the identity and jurisdiction of traffic, giving carriers an increased opportunity to challenge access costs for their traffic. We cannot predict what other actions other long-distance carriers may take before the FCC or with their local exchange carriers, including our incumbent local exchange companies, to challenge the applicability of access charges. Due to the increasing deployment of VoIP services and other technological changes, we believe these types of disputes and claims are likely to continue to increase.

Unbundled Network Element Rules

In 2019, the FCC issued two orders on Unbundled Network Element (“UNE”) forbearance. The first order addressed wholesale discounts on resold services and Voice Grade analog UNE loops and the second order (“Transport Order”), addressed UNE transport between competitive wire centers. Both orders provide a three-year transition period.

The Transport Order addresses two separate but related topics. One is the relief from transport UNEs and the other is to respond to a remand on its Business Data Services (“BDS”) order. BDS was previously known as Special Access and like services. The FCC broadly deregulated BDS services in 2017. This decision was appealed and the Court upheld the order but vacated the BDS transport relief because the Court decided that the FCC had not provided sufficient notice intended to deregulate all BDS transport services. The Court was convinced not to act on the vacated rules since the ILECs could not easily restore the regulated services. The FCC addressed this issue in the same order used to provide forbearance relief on UNE transport.

In 2020, Consolidated renegotiated its Wholesale Performance Plans (“WPP”) in Maine, New Hampshire and Vermont to comply with the FCC’s UNE forbearance order issued in 2019.

Promotion of Universal Service

In general, telecommunications service in rural areas is costlier 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 federal and certain states’ USFs totaled \$72.0 million, \$72.4 million and \$83.4 million in 2020, 2019 and 2018, respectively.

FCC Access Charge and Universal Service Reform Order

In November 2011, the FCC released a comprehensive order on access charge and universal service reform (the “Order”). The access charge portion of the Order systematically reduces minute-of-use-based interstate access, intrastate access and reciprocal compensation rates over a six to nine-year period to an end state of bill-and-keep, in which each carrier recovers the costs of its network through charges to its own subscribers, rather than through ICC. The reductions apply to terminating access rates and usage, with originating access to be addressed by the FCC in a later proceeding. To help with the transition to bill-and-keep, the FCC created two mechanisms. The first is an Access Recovery Mechanism (“ARM”) which is funded from the Connect America Fund (“CAF”), and the second is an Access Recovery Charge (“ARC”) which is recovered from end users. The universal service portion of the Order redirects support from voice services to broadband services, and is now called the CAF.

The Order requires rate of return study areas associated with holding companies to be treated as price cap carriers for universal service funding. For ICC purposes, these rate of return carriers fall under the rate of return ICC transition plan. Price cap study areas fall under the price cap rules for both universal service reform and ICC reform.

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. Companies are required to commit to a statewide build out requirement of 10 Mbps downstream and 1 Mbps upstream in funded locations.

Our current annual support through the FCC’s CAF Phase II funding is \$48.1 million through 2021 as described below. The specific obligations associated with CAF Phase II funding include the obligation to serve approximately 124,500 locations by December 31, 2020 (with interim milestones of 40%, 60% and 80% completion by December 2017, 2018 and 2019, respectively); to provide broadband service to those locations with speeds of 10 Mbps downstream and 1 Mbps upstream; to achieve latency of less than 100 milliseconds; to provide data of at least 100 gigabytes per month; and to offer pricing reasonably comparable to pricing in urban areas. The Company met the milestones for 2017 through 2020 for all states where it operates.

We accepted CAF Phase II support in all of our operating states except Colorado and Kansas where the offered CAF Phase II support was declined. We continued to receive annual frozen CAF Phase I support of \$1.0 million in Colorado and Kansas until April 2019, when the FCC CAF Phase II auction assigned support to another provider.

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In April 2019, the FCC announced plans for the Rural Digital Opportunity Fund (“RDOF”), the next phase of the CAF program. The RDOF is a \$20.4 billion fund to bring speeds of 25 Mbps downstream and 3 Mbps upstream to unserved and underserved areas of America. The FCC issued a Notice of Proposed Rulemaking at their August 2019 Open Commission Meeting. The order prioritizes terrestrial broadband as a bridge to rural 5G networks by providing a significant weight advantage to traditional broadband providers. Funding will occur in two phases with the first phase auctioning \$16.0 billion and the second phase auctioning \$4.4 billion, each to be distributed over 10 years. The minimum speed required to receive funding is 25 Mbps downstream and 3 Mbps upstream. CAF Phase II funding has been extended through December 31, 2021 for price cap holding companies. The FCC has issued the final census block groups with locations and reserve price. We filed the RDOF short form application on July 14, 2020 and were listed as a qualified bidder by the FCC on October 13, 2020 and participated in the auction. The auction began on October 29, 2020 and ended on November 24, 2020. Consolidated won 246 census block groups serving in seven states. The bids we won are at the 1 Gbps downstream and 500 Mbps upstream speed tier to approximately 27,000 locations at a funding level of \$5.9 million annually over 10 years. Consolidated filed its long form application with supporting documents on January 29, 2021.

State Regulation

We are subject to regulation by state governments in various states in which we operate. State regulatory commissions generally exercise jurisdiction over intrastate matters and other requirements. In recent years, most states have reduced their regulation of ILECs, including our ILEC operations. Nonetheless, state regulatory commissions generally continue to (i) set the rates that telecommunication companies charge each other for exchanging traffic, (ii) administer support programs designed to subsidize the provision of services to high-cost rural areas, (iii) regulate the purchase and sale of ILECs, (iv) require ILECs to provide service under publicly-filed tariffs setting forth the terms, conditions and prices of regulated services, (v) limit ILECs' ability to borrow and pledge their assets, (vi) regulate transactions between ILECs and their affiliates and (vii) impose various other service standards. In most states, switched and BDS and interconnection services are subject to price regulation, although the extent of regulation varies by type of service and geographic region.

We operate in states where traditional cost recovery mechanisms, including state USF, are under evaluation or have been modified. As the states continue to assess their laws and implement various regulations changes, there can be no assurance that these mechanisms will continue to provide us with the same level of cost recovery we historically received.

Local Government Authorizations

In the various states we operate in, we operate under a structure in which each municipality or other regulatory agencies may impose various fees, such as for the privilege of originating and terminating messages and placing facilities within the municipality, for obtaining permits for street opening and construction, and/or for operating franchises to install and expand fiber optic facilities.

Regulation of Broadband and Internet Services

Video Services

Our cable television subsidiaries each require a state or local franchise or other authorization in order to provide cable service to customers. Each of these subsidiaries is subject to regulation under a framework that exists in Title VI of the Communications Act.

Under this framework, the responsibilities and obligations of franchising bodies and cable operators have been carefully defined. The law addresses such issues as the use of local streets and rights-of-way; the carriage of public, educational and governmental channels; the provision of channel space for leased commercial access; the amount and payment of franchise fees; consumer protection and similar issues. In addition, Federal laws place limits on the common ownership of cable systems and competing multichannel video distribution systems, and on the common ownership of cable systems and local telephone systems in the same geographic area. Many provisions of the federal law have been implemented through FCC regulations. The FCC has expanded its oversight and regulation of the cable television-related matters recently. In some cases, it has acted to assure that new competitors in the cable television business are able to gain access to potential customers and can also obtain licenses to carry certain types of video programming.



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Internet Services

The provision of Internet access services is not significantly regulated by either the FCC or the state commissions. The Federal Trade Commission (“FTC”) has authority to regulate Internet Service Providers with respect to privacy and competitive practices.

In 2017, the FCC adopted an order eliminating its previous classification of Internet service as a telecommunications service regulated under Title II of the Telecommunications Act of 1996. This effectively limits the FCC’s authority over Internet Service Providers. The FCC retained rules requiring Internet Service Providers to disclose practices associated with blocking, throttling and paid prioritization of Internet traffic. The FCC order has been challenged in court and the outcome of the challenge cannot be determined at this time.

The outcome of pending matters before the FCC and the FTC and any potential congressional action cannot be determined at this time but could lead to increased costs for the Company in connection with our provision of Internet services, and could affect our ability to compete in the markets we serve.

FairPoint Merger Requirements

As part of our acquisition of FairPoint Communications, Inc. (“FairPoint”) in 2017, we have regulatory commitments that vary by state, some of which required capital investments in our network over several years through 2020. The requirements included improved data speeds and other service quality improvements in select locations primarily in our northern New England, New York and Illinois markets. In New Hampshire and Vermont, we were required to invest 13% and 14%, respectively, of total state revenues in capital improvements per year for 2018, 2019 and 2020. For our service territory in Maine, we were required to make capital expenditures of \$16.4 million per year from 2018 through 2020. In addition, we were required to invest an incremental \$1.0 million per year in each of these three states for service quality improvements. In New York, we were required to invest \$4.0 million over three years to expand the broadband network to over 300 locations. In Illinois, we were required to invest an additional \$1.0 million by the end of 2018 to increase broadband availability and speeds in areas served by the FairPoint Illinois ILECs. We met all of the regulatory commitments for 2017 through 2020 for Maine, New Hampshire and Vermont. We completed merger requirements for Illinois in December 2018 and New York in June 2020, both within the required time commitment.

CARES Act Funding

States are reviewing opportunities to use federal Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) funding to assist in the deployment of broadband to unserved and underserved areas within their respective states. All broadband build outs were required to be completed by December 31, 2020 in order to receive funding. New Hampshire allocated \$50.0 million of CARES Act funding to fund broadband expansion to unserved and underserved locations throughout the state. Consolidated was granted up to \$3.5 million to build high-speed Internet networks for homes and businesses in New Hampshire towns of Danbury, Springfield and Mason. The state funded 10% upfront with the remainder received upon completion of projects by December 31, 2020.

COVID-19

On March 13, 2020, the FCC issued a pledge to Keep America Connected through May 13, 2020, which was later extended to June 30, 2020. The pledge asked all communications providers to not terminate service to any residential or small business customers because of their inability to pay their bills due to the disruptions caused by the coronavirus pandemic; to waive any late fees that any residential or small business customers incur because of their economic circumstances related to the coronavirus pandemic; and to open their Wi-Fi hotspots to any American who needs them.

Consolidated signed on to the pledge through June 30, 2020. Several states took the FCC pledge a step further by not allowing any carrier to disconnect service within their state during the Governors’ declared state of emergency, which Consolidated also supported.

Available Information

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on our website at www.consolidated.com, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our website also contains copies of our Corporate Governance Principles,



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Code of Business Conduct and Ethics and charter of each committee of our Board of Directors. The information found on our website is not part of this report or any other report we file with or furnish to the SEC. The public may read and copy reports, proxy and information statements and other information we file with the SEC at the SEC's website at www.sec.gov.

Item 1A. Risk Factors.

Our operations and financial results are subject to various risks and uncertainties, including but not limited to those described below, that could adversely affect our business, financial condition, results of operations, cash flows and the trading price of our common stock.

Risks Relating to Our Business

We expect to continue to face significant competition in all parts of our business and the level of competition could intensify among our customer channels. The telecommunications industry is highly competitive. We face actual and potential competition from many existing and emerging companies, including other incumbent and competitive local telephone companies, long-distance carriers and resellers, wireless companies, Internet service providers, satellite companies and cable television companies, and, in some cases, new forms of providers who are able to offer competitive services through software applications requiring a comparatively small initial investment. Due to consolidations and strategic alliances within the industry, we cannot predict the number of competitors we will face at any given time.

The wireless business has expanded significantly and has caused many subscribers with traditional telephone and land-based Internet access services to give up those services and rely exclusively on wireless service. In addition, consumers' options for viewing television shows have expanded as content becomes increasingly available through alternative sources. Some providers, including television and cable television content owners, have initiated Over-The-Top ("OTT") services that deliver video content to televisions, computers and other devices over the Internet. OTT services can include episodes of highly-rated television series in their current broadcast seasons. They can also include content that is related to broadcast or sports content that we carry, but that is distinct and may be available only through the alternative source. Consumers can pursue each of these options without foregoing any of the other options. We may not be able to successfully anticipate and respond to many of the various competitive factors affecting the industry, including regulatory changes that may affect our competitors and us differently, new technologies, services and applications that may be introduced, changes in consumer preferences, demographic trends, and discount or bundled pricing strategies by competitors.

The incumbent telephone carriers in the markets we serve enjoy certain business advantages, including size, financial resources, favorable regulatory position, a more diverse product mix, brand recognition and connection to virtually all of our customers and potential customers. The largest cable operators also enjoy certain business advantages, including size, financial resources, ownership of or superior access to desirable programming and other content, a more diverse product mix, brand recognition and first-in-field advantages with a customer base that generates positive cash flow for its operations. Our competitors continue to add features, increase data speeds and adopt aggressive pricing and packaging for services comparable to the services we offer. Their success in selling services that are competitive with ours among our various customer channels could lead to revenue erosion in our business. We face intense competition in our markets for long-distance, Internet access, video service and other ancillary services that are important to our business and to our growth strategy. If we do not compete effectively we could lose customers, revenue and market share.

We must adapt to rapid technological changes. If we are unable to take advantage of technological developments, or if we adopt and implement them at a slower rate than our competitors, we may experience a decline in the demand for our services.

Our industry operates in a technologically complex environment. New technologies are continually developed and existing products and services undergo constant improvement. Emerging technologies offer consumers a variety of choices for their communication and broadband needs. To remain competitive, we will need to adapt to future changes in technology to enhance our existing offerings and to introduce new or improved offerings that anticipate and respond to the varied and continually changing demands of our various customer channels. Our business and results of operations could be adversely affected if we are unable to match the benefits offered by competing technologies on a timely basis and at an acceptable cost, or if we fail to employ technologies desired by our customers before our competitors do so.

New technologies, particularly alternative methods for the distribution, access and viewing of content, have been, and will likely continue to be, developed that will further increase the number of competitors that we face and drive changes in consumer behavior. Consumers seek more control over when, where and how they consume content and are increasingly



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interested in communication services outside of the home and in newer services in wireless Internet technology and devices such as tablets, smartphones and mobile wireless routers that connect to such devices. These new technologies, distribution platforms and consumer behaviors may have a negative impact on our business.

In addition, evolving technologies can reduce the costs of entry for others, resulting in greater competition and significant new advantages for competitors. Technological developments could require us to make significant new capital investments in order to remain competitive with other service providers. If we do not replace or upgrade our network and its technology on a timely basis, we may not be able to compete effectively and could lose customers. We may also be placed at a cost disadvantage in offering our services. Technology changes are also allowing individuals to bypass telephone companies and cable operators entirely to make and receive calls, and to provide for the distribution and viewing of video programming without the need to subscribe to traditional voice and video products and services. Increasingly, this can be done over wireless facilities and other emerging mobile technologies in addition to traditional wired networks. Wireless companies are aggressively developing networks using next-generation data technologies, which are capable of delivering high-speed Internet service via wireless technology to a large geographic footprint. As these technologies continue to expand in availability and reliability, they could become an effective alternative to our high-speed Internet services. Although we use fiber optics in parts of our networks, including in some residential areas, we continue to rely on coaxial cable and copper transport media to serve customers in many areas. The facilities we use to offer our video services, including the interfaces with customers, are undergoing a rapid evolution, and depend in part on the products, expertise and capabilities of third-parties. If we cannot develop new services and products to keep pace with technological advances, or if such services and products are not widely embraced by our customers, our results of operations could be adversely impacted.

Shifts in our product mix may result in a decline in operating profitability. Margins vary among our products and services. Our profitability may be impacted by technological changes, customer demands, regulatory changes, the competitive nature of our business and changes in the product mix of our sales. These shifts may also result in our long-lived assets becoming impaired or our inventory becoming obsolete. We review long-lived assets for potential impairment if certain events or changes in circumstances indicate that impairment may be present. We currently manage potential inventory obsolescence through reserves, but future technology changes may cause inventory obsolescence to exceed current reserves.

We receive cash distributions from our wireless partnership interests. The amount and continued receipt of such future distributions is not guaranteed. We own five wireless partnership interests consisting of 2.34% of GTE Mobilnet of South Texas Limited Partnership, which provides cellular service in the Houston, Galveston and Beaumont, Texas metropolitan areas; 3.60% of Pittsburgh SMSA Limited Partnership, which provides cellular service in and around the Pittsburgh metropolitan area; 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.

In 2020, 2019 and 2018, we received cash distributions from these partnerships of \$41.5 million, \$35.8 million and \$39.1 million, respectively. The cash distributions we receive from these partnerships are based on our percentage of ownership, the partnerships’ operating results, cash availability and financing needs as determined by the General Partner at the date of the distribution. We cannot control the timing, amount or certainty of any future cash distributions from these partnerships. If cash distributions from these partnerships are reduced or eliminated, our results of operations could be adversely affected, and as a result, our ability to fulfill our long-term obligations may be restricted.

A disruption in our networks and infrastructure could cause service delays or interruptions, which could cause us to lose customers and incur additional expenses. Our customers depend on reliable service over our network. The primary risks to our network infrastructure include physical damage to lines, security breaches, capacity limitations, power surges or outages, software defects and disruptions beyond our control, such as natural disasters and acts of terrorism. From time to time in the ordinary course of business, we experience short disruptions in our service due to factors such as physical damage, inclement weather and service failures of our third-party service providers. We could experience more significant disruptions in the future. Disruptions may cause service interruptions or reduced capacity for customers, either of which could cause us to lose customers and incur unexpected expenses.

A cyber-attack may lead to unauthorized access to confidential customer, personnel and business information that could adversely affect our business. Attempts by others to gain unauthorized access to organizations’ information

technology systems are becoming more frequent and sophisticated, and are sometimes successful. These attempts may include covertly introducing malware to companies' computers and networks, impersonating authorized users or "hacking" into systems.

We seek to prevent, detect and investigate all security incidents that do occur, however we may be unable to prevent or detect a significant attack in the future. Significant information technology security failures could result in the theft, loss, damage, unauthorized use or publication of our confidential business information, which could harm our competitive position, subject us to additional regulatory scrutiny, expose us to litigation or otherwise adversely affect our business. If a security breach results in misuse of our customers' confidential information, we may incur liability as a result.

Our operations require substantial capital expenditures and our business, financial condition, results of operations and liquidity may be impacted if funds for capital expenditures are not available when needed. We require significant capital expenditures to maintain, upgrade and enhance our network facilities and operations. While we have historically been able to fund capital expenditures from cash generated from operations and borrowings under our revolving credit facility, the other risk factors described in this section could materially reduce cash available from operations or significantly increase our capital expenditure requirements, which may result in our inability to fund the necessary level of capital expenditures to maintain, upgrade or enhance our network. This could adversely affect our business, financial condition, results of operations and liquidity.

If we cannot obtain and maintain necessary rights-of-way for our network, our operations may be interrupted and we could be faced with increased costs. We are dependent on easements, franchises and licenses from various private parties, such as established telephone companies and other utilities, railroads, long-distance companies, state highway authorities, local governments and transit authorities for access to aerial pole space, underground conduits and other rights-of-way in order to construct and operate our networks. Some agreements relating to rights-of-way may be short-term or revocable at will, and we cannot be certain that we will continue to have access to existing rights-of-way after the governing agreements terminate or expire. If any of our right-of-way agreements were terminated or could not be renewed, we may be forced to remove, relocate or abandon our network facilities in the affected areas, which could interrupt our operations, force us to find alternative rights-of-way and incur unexpected capital expenditures.

We may be unable to obtain necessary hardware, software and operational support from third-party vendors. We depend on third-party vendors to supply us with a significant amount of hardware, software and operational support necessary to provide certain of our services, to maintain, upgrade and enhance our network facilities and operations, and to support our information and billing systems. Some of our third-party vendors are our primary source of supply for certain products and services for which there are few substitutes. If any of these vendors should experience financial difficulties, have demand that exceeds their capacity or can no longer meet our specifications, our ability to provide some services may be hindered, in which case our business, financial condition and results of operations may be adversely affected.

Video content costs are substantial and continue to increase. We expect video content costs to continue to be one of our largest operating costs associated with providing video service. Video programming content includes network programming designed to be shown in linear channels, as well as the programming of local over-the-air television stations that we retransmit. The cable industry has experienced continued increases in the cost of programming, especially the cost of sports programming and local broadcast station retransmission content. Programming costs are generally assessed on a per-subscriber basis, and therefore, are directly related to the number of subscribers to which the programming is provided. Our relatively small subscriber base limits our ability to negotiate lower per-subscriber programming costs. Larger providers can often qualify for discounts based on the number of their subscribers. This cost difference can cause us to experience reduced operating margins, while our competitors with a larger subscriber base may not experience similar margin compression. In addition, escalators in existing content agreements can result in cost increases that exceed general inflation. While we expect video content costs to continue to increase, we may not be able to pass such cost increases on to our customers, especially as an increasing amount of programming content becomes available via the Internet at little or no cost. Also, some competitors or their affiliates own programming in their own right and we may not be able to secure license rights to that programming. As our programming contracts with content providers expire, there is no assurance that they will be renewed on acceptable terms or that they will be renewed at all, in which case we may not be able to provide such programming as part of our video services packages and our business and results of operations may be adversely affected.

We have employees who are covered by collective bargaining agreements. If we are unable to enter into new agreements or renew existing agreements timely, we could experience work stoppages or other labor actions that could materially disrupt our business of providing services to our customers. As of December 31, 2020, approximately 50% of our

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employees were covered by collective bargaining agreements. These employees are hourly workers throughout our service territories and are represented by various unions and locals. Our existing collective bargaining agreements expire between 2021 through 2023, of which contracts covering 77% of our employees will expire in 2021.

We cannot predict the outcome of the negotiations related to the collective bargaining agreements covering our employees. If we are unable to reach new agreements or renew existing agreements, employees subject to collective bargaining agreements may engage in strikes, work stoppages or slowdowns, or other labor actions, which could materially disrupt our ability to provide services to our customers. New labor agreements, or the renewal of existing agreements, may impose significant new costs on us, which could adversely affect our financial condition and result of operations. While we believe our relations with the unions representing these employees are good, any protracted labor disputes or labor disruptions by our employees could negatively impact our business.

Our ability to attract and/or retain certain key management and other personnel in the future could have an adverse effect on our business. We rely on the talents and efforts of key management personnel, many of whom have been with our company or in our industry for decades. While we maintain long-term and emergency transition plans for key management personnel and believe we could either identify internal candidates or attract outside candidates to fill any vacancy created by the loss of any key management personnel, the loss of one or more of our key management personnel could have a negative impact on our business.

Acquisitions present many risks and we may be unable to realize the anticipated benefits of acquisitions. From time to time, we make acquisitions and investments or enter into other strategic transactions. In connection with these types of transactions, we may incur unanticipated expenses; fail to realize anticipated benefits; have difficulty integrating the acquired businesses; disrupt relationships with current and new employees, customers and vendors; incur significant indebtedness or have to delay or not proceed with announced transactions. The occurrence of any of the foregoing events could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We may face significant challenges in combining the operations of an acquired business with ours in a timely and efficient manner. The failure to successfully integrate an acquired business and to successfully manage the challenges presented by the integration process may result in our inability to achieve anticipated benefits of the acquisition, including operational and financial synergies. Even if we are successful in integrating acquired businesses, we cannot guarantee that the integration will result in the complete realization of anticipated financial synergies or that they will be realized within the expected time frames.

Public health threats, such as the recent outbreak of COVID-19, could have a material adverse effect on our business, results of operations, cash flows and stock price. We may face risks associated with public health threats or outbreaks of epidemic, pandemic or communicable diseases, such as the outbreak of the coronavirus (“COVID-19”) and its variants. The COVID-19 pandemic has negatively impacted the global economy, financial markets and supply chains and has resulted in increased unemployment levels. The outbreak has resulted in federal, state and local governments implementing mitigation measures, including shelter-in-place orders, travel restrictions, limitations on business, school closures and other measures. Governments have enacted fiscal and monetary stimulus measures to counteract the impacts of COVID-19.

As a critical infrastructure provider, we have continued to operate our business and provide services to our customers. Although we are considered an essential business, the outbreak of COVID-19 and any preventive or protective actions implemented by governmental authorities may have a material adverse effect on our operations, customers and suppliers and could do so for an indefinite period of time. Adverse economic and market conditions as a result of COVID-19 could also adversely affect the demand for our products and services and may also impact the ability of our customers to satisfy their obligations to us. In addition, concerns regarding the economic impact of COVID-19 have caused volatility in financial and other capital markets which has and may continue to adversely affect the market price of our common stock and our ability to access capital markets. In response to the COVID-19 pandemic, we have transitioned a substantial number of our employees to telecommuting and remote work arrangements, which may increase the risk of a security breach or cybersecurity attack on our information technology systems that could impact our business.

We cannot reasonably estimate at this time the resulting future financial impact of COVID-19 on our business, but it could have a material adverse effect to our results of operations, financial condition and liquidity. The extent to which the COVID-19 pandemic may adversely impact our business, results of operations, financial condition and liquidity will depend on future developments, which are highly uncertain and unpredictable, including the severity and duration of the

outbreak, the effectiveness of actions taken to contain or mitigate its effects and any resulting economic downturn, recession or depression in the markets we serve.

Risks Relating to Current Economic Conditions

Unfavorable changes in financial markets could adversely affect pension plan investments resulting in material funding requirements to meet our pension obligations. We expect that we will continue to make future cash contributions to our pension plans, the amount and timing of which will depend on various factors including funding regulations, future investment performance, changes in future discount rates and mortality tables and changes in participant demographics. Unfavorable fluctuations or adverse changes in any of these factors, most of which are outside our control, could impact the funded status of the plans and increase future funding requirements. Returns generated on plan assets have historically funded a large portion of the benefits paid under these plans. If the financial markets experience a downturn and returns fall below the estimated long-term rate of return, our future funding requirements could increase significantly, which could adversely affect our cash flows from operations.

Weak economic conditions may have a negative impact on our business, results of operations and financial condition. Downturns in the economic conditions in the markets and industries we serve could adversely affect demand for our products and services and have a negative impact on our results of operations. Economic weakness or uncertainty may make it difficult for us to obtain new customers and may cause our existing customers to reduce or discontinue their services to which they subscribe. This risk may be worsened by the expanded availability of free or lower cost services, such as video over the Internet or substitute services, such as wireless phones and data devices. Weak economic conditions may also impact the ability of third parties to satisfy their obligations to us.

Risks Relating to Our Common Stock

The price of our common stock may be volatile and may fluctuate substantially, which could negatively affect holders of our common stock. The market price of our common stock may fluctuate widely as a result of various factors including, but not limited to, period-to-period fluctuations in our operating results, the volume of sales of our common stock, the limited number of holders of our common stock and the resulting limited liquidity in our common stock, dilution, developments in the communications industry, the failure of securities analysts to cover our common stock, changes in financial estimates by securities analysts, short interests in our common stock, competitive factors, regulatory developments, labor disruptions, general market conditions and market conditions affecting the stock of communications companies. Communications companies have, in the past, experienced extreme volatility in the trading prices and volumes of their securities, which has often been unrelated to operating performance. High levels of market volatility may have a significant adverse effect on the market price of our common stock. In addition, in the past, securities class action litigation has often been instituted against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert management's attention and resources, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our common stock.

Our organizational documents could limit or delay another party's ability to acquire us and, therefore, could deprive our investors of a possible takeover premium for their shares. A number of provisions in our amended and restated certificate of incorporation and bylaws could make it difficult for another company to acquire us. Among other things, these provisions:

- Divide our Board of Directors into three classes, which results in roughly one-third of our directors being elected each year;
- Provide that directors may only be removed for cause and then only upon the affirmative vote of holders of two-thirds or more of the voting power of our outstanding common stock;
- Require the affirmative vote of holders of two-thirds or more of the voting power of our outstanding common stock to amend, alter, change or repeal specified provisions of our amended and restated certificate of incorporation and bylaws;

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- Require stockholders to provide us with advance notice if they wish to nominate any candidates for election to our Board of Directors or if they intend to propose any matters for consideration at an annual stockholders meeting; and
- Authorize the issuance of so-called “blank check” preferred stock without stockholder approval upon such terms as the Board of Directors may determine.

We also are subject to laws that may have a similar effect. For example, federal and certain state telecommunications laws and regulations generally prohibit a direct or indirect transfer of control over our business without prior regulatory approval. Similarly, Section 203 of the Delaware General Corporation Law restricts our ability to engage in a business combination with an “interested stockholder”. These laws and regulations make it difficult for another company to acquire us, and therefore, could limit the price that investors might be willing to pay in the future for shares of our common stock. In addition, the rights of our common stockholders are subject to, and may be adversely affected by, the rights of holders of any class or series of preferred stock that we may issue in the future.

Risks Relating to Our Indebtedness and Our Capital Structure

We have a substantial amount of debt outstanding, which could adversely affect our business and restrict our ability to fund working capital and planned capital expenditures. As of December 31, 2020, we had \$2.0 billion of debt outstanding. Our substantial level of indebtedness could adversely impact our business, including:

- We may be required to use a substantial portion of our cash flow from operations to make principal and interest payments on our debt, which will reduce funds available for operations, capital expenditures, future business opportunities and strategic initiatives;
- We may have limited flexibility to react to changes in our business and our industry;
- It may be more difficult for us to satisfy our other obligations;
- We may have a limited ability to borrow additional funds or to sell assets to raise funds if needed for working capital, capital expenditures, acquisitions or other purposes;
- We may become more vulnerable to general adverse economic and industry conditions, including changes in interest rates; and
- We may be at a disadvantage compared to our competitors that have less debt.

We cannot guarantee that we will generate sufficient revenues to service our debt and have adequate funds left over to achieve or sustain profitability in our operations, meet our working capital and capital expenditure needs or compete successfully in our markets.

Our credit agreement and the indentures governing our Senior Notes contain covenants that limit management’s discretion in operating our business and could prevent us from capitalizing on opportunities and taking other corporate actions. Among other things, our credit agreement limits or restricts our ability (and the ability of certain of our subsidiaries), and the separate indenture governing the Senior Notes limits the ability of our subsidiary, Consolidated Communications, Inc., and its restricted subsidiaries to: incur or guarantee additional indebtedness or issue preferred stock; make restricted payments, including paying dividends on, redeeming, repurchasing or retiring our capital stock; make investments and prepay or redeem debt; enter into agreements restricting our subsidiaries’ ability to pay dividends, make loans or transfer assets to us; create liens; sell or otherwise dispose of assets, including capital stock of, or other ownership interests in subsidiaries; engage in transactions with affiliates; engage in sale and leaseback transactions; make capital expenditures; engage in a business other than telecommunications; and consolidate, merge or transfer all or substantially all of the assets of the Company.

In addition, our credit agreement requires us to comply with specified financial ratios, including a financial covenant based on first lien leverage. Our ability to comply with these ratios may be affected by events beyond our control. These restrictions limit our ability to plan for or react to market conditions, meet capital needs or otherwise constrain our activities

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or business plans. They also may adversely affect our ability to finance our operations, enter into acquisitions or engage in other business activities that would be in our interest.

A breach of any of the covenants contained in our credit agreement, in any future credit agreement, or in the separate indentures governing the Senior Notes, or our inability to comply with the financial ratios could result in an event of default, which would allow the lenders to declare all borrowings outstanding to be due and payable. If the amounts outstanding under our credit facilities were to be accelerated, we cannot assure that our assets would be sufficient to repay in full the money owed. In such a situation, the lenders could foreclose on the assets and capital stock pledged to them.

We may not be able to refinance our existing debt if necessary, or we may only be able to do so at a higher interest rate. We may be unable to refinance or renew our credit facilities and our failure to repay all amounts due on the maturity dates would cause a default under the credit agreement. Alternatively, any renewal or refinancing may occur on less favorable terms. If we refinance our credit facilities on terms that are less favorable to us than the terms of our existing debt, our interest expense may increase significantly, which could impact our results of operations and impair our ability to use our funds for other purposes.

Our variable-rate debt subjects us to interest rate risk, which could impact our cost of borrowing and operating results.

Certain of our debt obligations are at variable rates of interest and expose us to interest rate risk. Increases in interest rates could negatively impact our results of operations and operating cash flows. We utilize interest rate swap agreements to convert a portion of our variable-rate debt to a fixed-rate basis. However, we do not maintain interest rate hedging agreements for all of our variable-rate debt and our existing hedging agreements may not fully mitigate our interest rate risk, may prove disadvantageous or may create additional risks. Changes in fair value of cash flow hedges that have been de-designated or determined to be ineffective are recognized in earnings. Significant increases or decreases in the fair value of these cash flow hedges could cause favorable or adverse fluctuations in our results of operations.

In addition, a substantial portion of our variable-rate debt bears interest based on the London Interbank Offering Rate (“LIBOR”). In 2017, the Financial Conduct Authority (“FCA”), which regulates LIBOR, announced that it intends to stop requiring banks to submit rates for the calculation of LIBOR after 2021. In November 2020, ICE Benchmark Administration (“IBA”), the administrator of LIBOR, announced plans to consult on ceasing publication of LIBOR on December 31, 2021 for only the one-week and two-month LIBOR tenors and extended the LIBOR transition deadline to June 30, 2023 for all other LIBOR tenors. These reforms and any future reforms may cause LIBOR to cease to exist and it is currently unclear whether LIBOR will be replaced with a new benchmark or if new methods of calculating LIBOR will be established. If LIBOR ceases to exist or if the methods for calculating LIBOR change, interest rates on our current and future debt obligations as well as our interest rate swap agreements may be adversely affected. In addition, any transition process from LIBOR to an alternative rate could cause, among other things, LIBOR to perform differently than in the past, a disruption in the financial markets, or increases in benchmark rates, any of which could adversely affect our results of operations, cash flows and liquidity.

Risks Relating to the Searchlight Investment

Obtaining required approvals and satisfying closing conditions may delay or prevent completion of the Investment. In addition, the parties have the right to terminate the Investment Agreement under specified circumstances, in which case the Investment would not be completed. On September 13, 2020, we entered into an investment agreement (the “Investment Agreement”) with Searchlight Capital Partners L.P. (“Searchlight”). The investment commitment is structured in two stages with the first stage of the transaction completed on October 2, 2020. The second stage of the investment is currently expected to be completed in mid-2021 (the “Second Closing”), assuming that all the closing conditions are satisfied or waived. Certain events may delay the completion of the investment or result in a termination of the Investment Agreement. Some of these events are outside of our control. Completion of the Second Closing is conditioned upon the receipt of certain governmental consents and regulatory approvals including approval by the Federal Communications Commission (“FCC”) and the expiry of any applicable waiting periods under the Hart Scott Rodino Act and other applicable antitrust laws. The Second Closing is also subject to the satisfaction of certain other customary closing conditions. If the FCC denies approval, the Note will still be issued to Searchlight but will not be convertible into shares of Series A preferred stock, and Searchlight shall have no obligation to deliver the additional consideration of \$75.0 million to Consolidated.

No assurance can be given that the required conditions for the Second Closing of the transaction will be fulfilled and, accordingly, the Investment may not be completed on the terms currently contemplated or at all. While we intend to pursue

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vigorously all required conditions and approvals and do not know of any reason why we would not be able to obtain them in a timely manner, the requirement to obtain these approvals prior to completion of the Investment could jeopardize or delay the completion of the transaction. In addition, if the Second Closing is not consummated by October 2, 2021 (subject to extensions up to such date that is 36 months after October 2, 2020 in certain circumstances), Searchlight or Consolidated may choose not to proceed with the Second Closing. Moreover, the parties can mutually decide to terminate the Investment Agreement at any time prior to the consummation of the Second Closing. In addition, Searchlight and Consolidated may elect to terminate the Investment Agreement in certain other circumstances. If the Investment Agreement is terminated, Consolidated will not realize the anticipated benefits of the Investment.

The pendency of the Investment could cause disruptions in our business, which could have an adverse effect on our business, operations, and financial results.

The pendency of the Investment could cause disruptions in and create uncertainty surrounding our business, which could have an adverse effect on our business, operations and financial results, regardless of whether the Investment is completed. These risks to our business include the following, all of which could be exacerbated by a delay in completion of the Investment: litigation relating to the Investment and costs related thereto; conditions that may be imposed on Consolidated by federal or state regulators in connection with their approval of the Investment; the restrictions on the ability of Consolidated to take certain actions outside the ordinary course of business prior to the consummation of the Second Closing, which may delay or prevent Consolidated from undertaking certain actions or business opportunities that may arise prior to the consummation of the Second Closing; and the attention of management of Consolidated may be diverted from the operation of the businesses toward the completion of the Investment.

In addition, if the Investment is not completed, Consolidated may experience negative reactions from the financial markets and from its customers and employees. Consolidated also could be subject to litigation related to a failure to complete the Investment or to enforce its obligations under the Investment Agreement. If the Investment is not consummated, there can be no assurance that the risks described above will not materially affect the business, financial results and stock price of Consolidated.

Risks Related to the Regulation of Our Business

We are subject to a complex and uncertain regulatory environment, and we face compliance costs and restrictions greater than those of many of our competitors. Our businesses are subject to regulation by the FCC and other federal, state and local entities. Rapid changes in technology and market conditions have resulted in changes in how the government addresses telecommunications, video programming and Internet services. Many businesses that compete with our Incumbent Local Exchange Carrier (“ILEC”) and non-ILEC subsidiaries are comparatively less regulated. Some of our competitors are either not subject to utilities regulation or are subject to significantly fewer regulations. In contrast to our subsidiaries regulated as cable operators and satellite video providers, competing on-demand and OTT providers and motion picture and DVD firms have almost no regulation of their video activities. Recently, federal and state authorities have become more active in seeking to address critical issues in each of our product and service markets. The adoption of new laws or regulations, or changes to the existing regulatory framework at the federal, state or local level, could require significant and costly adjustments that could adversely affect our business plans. New regulations could impose additional costs or capital requirements, require new reporting, impair revenue opportunities, potentially impede our ability to provide services in a manner that would be attractive to our customers and potentially create barriers to enter new markets or to acquire new lines of business. We face continued regulatory uncertainty in the immediate future. Not only are these governmental entities continuing to move forward on these matters, their actions remain subject to reconsideration, appeal and legislative modification over an extended period of time, and it is unclear how their actions will ultimately impact our business. We cannot predict future developments or changes to the regulatory environment or the impact such developments or changes may have on us.

We receive support from various funds established under federal and state laws, and the continued receipt of that support is not assured. A significant portion of our revenues come from network access and subsidies. An order adopted by the FCC in 2011 (the “Order”) significantly impacts the amount of support revenue we receive from the Universal Service Fund (“USF”), Connect America Fund (“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 USF and redirected support from voice services to broadband services. In 2012, CAF funding 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. In 2020, the FCC adopted an order establishing the Rural Digital Opportunity Fund, the

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next phase of the CAF program, which will result in a reduction to the level of funding we currently receive from the FCC as of 2022. See Part I – Item 1 – “Regulatory Environment” above for statistics of current CAF funding levels.

We receive subsidy payments from various federal and state universal service support programs, including high-cost support, Lifeline and E-Rate programs for schools and libraries. The total cost of the various federal universal service programs has increased significantly in recent years, putting pressure on regulators to reform the programs and to limit both eligibility and support. We cannot predict future changes that may impact the subsidies we receive. However, a reduction in subsidies support may directly affect our profitability and cash flows.

Increased regulation of the Internet could increase our cost of doing business. Current laws and regulations governing access to, or commerce on, the Internet are limited. As the significance of the Internet continues to expand, federal, state and local governments may adopt new rules and regulations applicable to, or apply existing laws and regulations to, the Internet. During 2017, the FCC adopted an order eliminating its previous classification of Internet service as a telecommunications service regulated under Title II of the Telecommunications Act of 1996. This effectively limits the FCC’s authority over Internet Service Providers. The FCC retained rules requiring Internet Service Providers to disclose practices associated with blocking, throttling and paid prioritization of Internet traffic. The FCC order has been challenged in court and the outcome of the challenge cannot be determined at this time.

The outcome of pending matters before the FCC and the Federal Trade Commission (“FTC”) and any potential congressional action cannot be determined at this time but could lead to increased costs for the Company in connection with our provision of Internet services, and could affect our ability to compete in the markets we serve.

We are subject to extensive laws and regulations relating to the protection of the environment, natural resources and worker health and safety. Our operations and properties are subject to federal, state and local laws and regulations relating to the protection of the environment, natural resources and worker health and safety, including laws and regulations governing and creating liability in connection with the management, storage and disposal of hazardous materials, asbestos and petroleum products. We are also subject to laws and regulations governing air emissions from our fleet vehicles. As a result, we face several risks, including:

- Hazardous materials may have been released at properties that we currently own or formerly owned (perhaps through our predecessors). Under certain environmental laws, we could be held liable, without regard to fault, for the costs of investigating and remediating any actual or threatened contamination at these properties and for contamination associated with disposal by us, or by our predecessors, of hazardous materials at third-party disposal sites;
- We could incur substantial costs in the future if we acquire businesses or properties subject to environmental requirements or affected by environmental contamination. In particular, environmental laws regulating wetlands, endangered species and other land use and natural resources may increase the costs associated with future business or expansion or delay, alter or interfere with such plans;
- The presence of contamination can adversely affect the value of our properties and make it difficult to sell any affected property or to use it as collateral; and
- We could be held responsible for third-party property damage claims, personal injury claims or natural resource damage claims relating to contamination found at any of our current or past properties.

The cost of complying with environmental requirements could be significant. Similarly, the adoption of new environmental laws or regulations, or changes in existing laws or regulations or their interpretations, could result in significant compliance costs or unanticipated environmental liabilities.

Our business may be impacted by new or changing tax laws or regulations and actions by federal, state, and/or local agencies, or by how judicial authorities apply tax laws. Our operations are subject to various federal, state and local tax laws and regulations. In connection with the products and services we sell, we calculate, collect, and remit various federal, state, and local taxes, surcharges and regulatory fees (“tax” or “taxes”) to numerous federal, state and local governmental authorities. In many cases, the application of tax laws is uncertain and subject to differing interpretations, especially when evaluated against new technologies and telecommunications services, such as broadband Internet access and cloud related services. Tax laws are dynamic and subject to change as new laws are passed and new interpretations of the law are issued



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or applied. Changes in tax laws, or changes in interpretations of existing laws, could materially affect our financial position, results of operations and cash flows. For example, the Tax Cuts and Jobs Act of 2017, a major federal tax reform, that had a significant impact on our tax obligations and effective income tax rate.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our corporate headquarters are currently located at 121 S. 17th Street, Mattoon, Illinois, a leased facility. We also own and lease office facilities and related equipment for administrative personnel, central office buildings and operations in many of the states in which we operate.

In addition to land and structures, our property consists of equipment necessary for the provision of communication services, including central office equipment, customer premises equipment and connections, pole lines, video head-end, remote terminals, aerial and underground cable and wire facilities, vehicles, furniture and fixtures, computers and other equipment. We also own certain other communications equipment held as inventory for sale or lease.

In addition to plant and equipment that we wholly-own, we utilize poles, towers and cable and conduit systems jointly-owned with other entities and lease space on facilities to other entities. These arrangements are in accordance with written agreements customary in the industry. We also have appropriate easements, rights-of-way and other arrangements for the accommodation of our pole lines, underground conduits, aerial and underground cables and wires.

Item 3. 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 13 to the consolidated financial statements included in this report in Part II – Item 8 – “Financial Statements and Supplementary Data” for a discussion of recent developments related to these legal proceedings.

Item 4. Mine Safety Disclosures.

Not Applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is traded on the NASDAQ Global Select Market (“NASDAQ”) under the symbol “CNSL”. As of February 22, 2021, there were approximately 4,184 stockholders of record of the Company’s common stock.

Share Repurchases

During the quarter ended December 31, 2020, we repurchased 147,236 common shares surrendered by employees in the administration of employee share-based compensation plans. The following table summarizes the share repurchase activity:

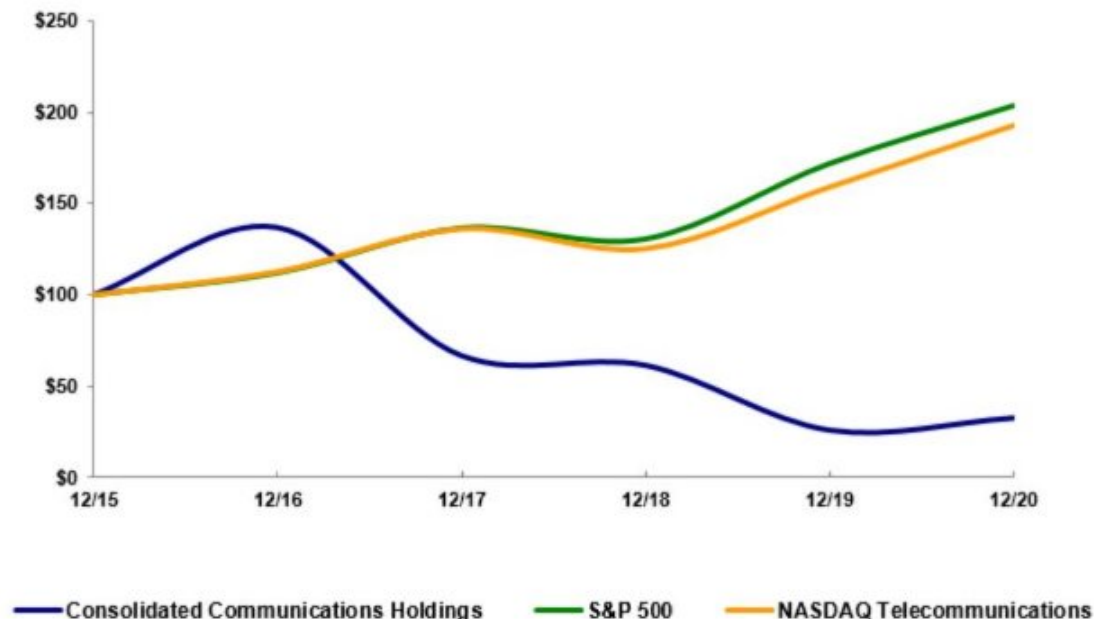
<u>Purchase period</u>	<u>Total number of shares purchased</u>	<u>Average price paid per share</u>	<u>Total number of shares purchased as part of publicly announced plans or programs</u>	<u>Maximum number of shares that may yet be purchased under the plans or programs</u>
October 1-October 31, 2020	—	n/a	n/a	n/a
November 1-November 30, 2020	—	n/a	n/a	n/a
December 1-December 31, 2020	147,236	\$ 5.61	n/a	n/a

Performance Graph

The following graph shows a five-year comparison of cumulative total shareholder return of our common stock (assuming reinvestment of dividends) with the S&P 500 Index and the NASDAQ Telecommunications Index. The comparison of total return on investment (change in year-end stock price plus reinvested dividends) for each of the periods assumes that \$100 was invested on December 31, 2015 in each index. The stock performance shown on the graph below is not necessarily indicative of future price performance.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Consolidated Communications Holdings, the S&P 500 Index and the NASDAQ Telecommunications Index



*\$100 invested on 12/31/15 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

(In dollars)	As of December 31,					
	2015	2016	2017	2018	2019	2020
Consolidated Communications Holdings	\$ 100.00	\$ 136.88	\$ 66.66	\$ 61.35	\$ 25.82	\$ 32.54
S&P 500	\$ 100.00	\$ 111.96	\$ 136.40	\$ 130.42	\$ 171.49	\$ 203.04
NASDAQ Telecommunications	\$ 100.00	\$ 112.56	\$ 135.96	\$ 125.10	\$ 158.73	\$ 192.30

Sale of Unregistered Securities

During the year ended December 31, 2020, we did not sell any equity securities of the Company which were not registered under the Securities Act of 1933, as amended.

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Item 6. Selected Financial Data.

The selected financial data set forth below should be read in conjunction with Part II - Item 7 – “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, our consolidated financial statements and the related notes, and other financial data included elsewhere in this annual report. Historical results are not necessarily indicative of the results to be expected in future periods.

<i>(In millions, except per share amounts)</i>	Year Ended December 31,				
	2020 (1)	2019	2018 (2)	2017 (3)	2016
Operating revenues	\$ 1,304.0	\$ 1,336.5	\$ 1,399.1	\$ 1,059.6	\$ 743.2
Cost of products and services (exclusive of depreciation and amortization)	560.6	574.9	611.9	446.0	321.4
Selling, general and administrative expense	275.4	299.1	333.6	249.1	156.5
Acquisition and other transaction costs ⁽⁴⁾	7.6	—	2.0	33.7	1.2
Loss on impairment	—	—	—	—	0.6
Depreciation and amortization	324.9	381.2	432.6	291.8	174.0
Income from operations	135.5	81.3	19.0	39.0	89.5
Interest expense, net	(143.6)	(136.7)	(134.5)	(129.8)	(76.8)
Gain (loss) on extinguishment of debt	(18.3)	4.5	—	—	(6.6)
Change in fair value of contingent payment rights	23.8	—	—	—	—
Other income, net	50.8	27.2	40.9	31.2	32.1
Income (loss) before income taxes	48.2	(23.7)	(74.6)	(59.6)	38.2
Income tax expense (benefit)	10.9	(3.7)	(24.1)	(124.9)	23.0
Net income (loss)	37.3	(20.0)	(50.5)	65.3	15.2
Net income of noncontrolling interest	0.3	0.4	0.3	0.4	0.3
Net income (loss) attributable to common shareholders	\$ 37.0	\$ (20.4)	\$ (50.8)	\$ 64.9	\$ 14.9
Net income (loss) per common share - basic and diluted	\$ 0.47	\$ (0.29)	\$ (0.73)	\$ 1.07	\$ 0.29
Weighted-average number of shares - basic and diluted	72,752	70,837	70,613	60,373	50,301
Cash dividends per common share	\$ —	\$ 0.39	\$ 1.55	\$ 1.55	\$ 1.55
Consolidated cash flow data from continuing operations:					
Cash flows from operating activities	\$ 365.0	\$ 339.1	\$ 357.3	\$ 210.0	\$ 218.2
Cash flows used for investing activities	(210.1)	(217.8)	(221.5)	(1,042.7)	(108.3)
Cash flows (used for) provided by financing activities	(11.7)	(118.5)	(141.9)	821.3	(98.7)
Capital expenditures	217.6	232.2	244.8	181.2	125.2
Consolidated Balance Sheet:					
Cash and cash equivalents	\$ 155.6	\$ 12.4	\$ 9.6	\$ 15.7	\$ 27.1
Total current assets	340.7	176.9	198.1	213.7	133.2
Net property, plant and equipment	1,760.2	1,835.9	1,927.1	2,037.6	1,055.2
Total assets	3,507.3	3,390.3	3,535.3	3,719.1	2,092.8
Total debt (including current portion)	1,950.2	2,278.0	2,334.1	2,341.2	1,391.7
Stockholders' equity	389.2	347.3	415.7	573.9	176.3
Other financial data (unaudited):					
Adjusted EBITDA ⁽⁵⁾	\$ 529.2	\$ 523.5	\$ 537.3	\$ 414.1	\$ 305.8

- (1) On October 2, 2020, we closed on the first stage of the strategic investment with Searchlight and received \$350.0 million and completed a global refinancing of our long-term debt through the issuance of \$2,250.0 million in new secured debt and retired all of our then existing outstanding debt obligations.
- (2) Effective January 1, 2018, we adopted Accounting Standards Update 2014-09 (“ASC 606”), *Revenue from Contracts with Customers*, using the modified retrospective method for open contracts. Results for 2018 are presented under ASC 606, while prior period amounts have not been revised.
- (3) On July 3, 2017, we acquired 100% of the issued and outstanding shares of FairPoint in exchange for shares of our common stock. The financial results for FairPoint have been included in our consolidated financial statements as of the acquisition date.

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- (4) Acquisition and other transaction costs consists primarily of legal, finance and other professional fees incurred in connection with acquisitions and other strategic transactions, including costs incurred related to change-in-control payments to former employees of the acquired company.
- (5) In addition to the results reported in accordance with accounting principles generally accepted in the United States (“US GAAP” or “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 a measure of financial performance under US GAAP and should not be considered in isolation or as a substitute for net income (loss) 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 tables are a reconciliation of net income (loss) to Adjusted EBITDA:

<i>(In millions, unaudited)</i>	Year Ended December 31,				
	2020	2019	2018	2017	2016
Net income (loss)	\$ 37.3	\$ (20.0)	\$ (50.5)	\$ 65.3	\$ 15.2
Add (subtract):					
Interest expense, net of interest income	143.6	136.7	134.5	129.8	76.8
Income tax expense (benefit)	10.9	(3.7)	(24.1)	(124.9)	23.0
Depreciation and amortization	324.9	381.2	432.6	291.8	174.0
EBITDA	516.7	494.2	492.5	362.0	289.0
Adjustments to EBITDA:					
Other, net ^(a)	(31.0)	(8.8)	0.6	19.3	(25.5)
Investment distributions ^(b)	41.5	35.8	39.1	30.0	32.1
(Gain) loss on extinguishment of debt ^(c)	18.3	(4.5)	—	—	6.6
Change in fair value of contingent payment rights ^(d)	(23.8)	—	—	—	—
Loss on impairment ^(e)	—	—	—	—	0.6
Non-cash, stock-based compensation ^(f)	7.5	6.8	5.1	2.8	3.0
Adjusted EBITDA	\$ 529.2	\$ 523.5	\$ 537.3	\$ 414.1	\$ 305.8

^(a) Other, net includes the equity earnings from our investments, dividend income, income attributable to noncontrolling interests in subsidiaries, acquisition and transaction related costs including severance, non-cash pension and post-retirement benefits and certain other miscellaneous items.

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

^(c) Represents the redemption premium (discount) and write-off of unamortized debt issuance costs in connection with the redemption or retirement of our debt obligations.

^(d) Represents the non-cash change in fair value of contingent payment obligations related to the Searchlight investment.

^(e) Represents intangible asset impairment charges recognized during the period.

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

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Reference is made to Part I – Item 1 – “Note About Forward-Looking Statements” and Part I – Item 1A – “Risk Factors” which describes important factors that could cause actual results to differ from expectations and non-historical information contained herein. In addition, the following Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is intended to help the reader understand the results of operations and financial condition of Consolidated Communications Holdings, Inc. (“Consolidated,” the “Company,” “we,” “our” or “us”). MD&A should be read in conjunction with our audited consolidated financial statements and accompanying notes to the consolidated financial statements (“Notes”) as of and for each of the three years in the period ended December 31, 2020 included elsewhere in this Annual Report on Form 10-K.

Throughout MD&A, we refer to certain measures that are not a measure 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

Consolidated is a broadband and business communications provider offering a wide range of communication solutions to consumer, commercial and carrier customers across a 23-state service area. We operate an advanced fiber network spanning over 46,600 fiber route miles across many rural areas and metro communities. Our business product suite includes: data and Internet solutions, voice, data center services, security services, managed and IT services, and an expanded suite of cloud services. We provide wholesale solutions to wireless and wireline carriers and other service providers including data, voice, network connections and custom fiber builds and last mile connections. We offer residential high-speed Internet, video, phone and home security services as well as multi-service residential and small business bundles.

We generate the majority of our consolidated operating revenues primarily from monthly subscriptions to our broadband, data and transport services (collectively “broadband services”) marketed to business and residential customers. Commercial and carrier services represent the largest source of our operating revenues and are expected to be key growth areas in the future. We are focused on expanding our broadband and commercial product suite and are continually enhancing our commercial product offerings to meet the needs of our business customers. We leverage our advanced fiber network and tailor our services by developing solutions to fit their specific needs and leveraging a value-based sales approach. We continue to enhance our suite of managed and cloud services, which increases efficiency and enables greater scalability and reliability for our business customers. In April 2020, we launched ProConnect Unified Communications to businesses in our northern New England markets. This cloud-based collaboration solution enables users to easily make and receive calls, host video conferences and share files, message and manage features from anywhere and any device. In October 2020, we expanded the availability of our Microsoft Productivity Suite, another cloud-based collaboration solution, across our entire service area. This solution includes the Microsoft Teams collaboration platform that combines video meetings, chat, file storage and application integration. We anticipate future momentum in commercial and carrier services as these products gain traction as well as from the demand from customers for additional bandwidth and data-based services.

We market our residential services by leading with broadband services. As consumer demands for bandwidth continue to increase, our focus is on enhancing our broadband services and progressively increasing broadband speeds. We offer data speeds of up to 1 Gbps in select markets, and up to 100 Mbps in markets where 1 Gbps is not yet available, depending on the geographical region. As of December 31, 2020, approximately 58% of the homes we serve on our legacy Consolidated network had availability to broadband speeds of up to 100 Mbps or greater. The majority of the homes in our northern New England service areas have availability to broadband speeds of 20 Mbps or less. We continue to focus on bringing higher broadband speeds and improving customer experience by expanding the availability of multi-Gig broadband services. As part of our fiber build plan, we plan to upgrade approximately 1.6 million passings across select service areas over the next five years to enable multi gigabit-capable services to these homes and small businesses of which 300,000 passings will be upgraded in 2021. This will provide our residential customers with a highly competitive broadband service. Businesses also get a boost by being able to take full advantage of higher bandwidth option and cloud-based applications.

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Our competitive broadband speeds enable us to meet the need for higher bandwidth from the growing consumer demand for streaming live programming or in-demand content on any device. The consumers demand for streaming services, either to augment their current video subscription plan or to entirely replace their video subscription may impact our future video subscriber base and, accordingly, reduce our video revenue as well as our video programing costs. Total video connections decreased 10% as of December 31, 2020 compared to 2019. We believe the trend in changing consumer viewing habits will continue to impact our business results and complement our strategy of providing consumers with higher broadband speeds to facilitate streaming content. In 2019, we launched in our northern New England markets, CCiTV, which is a customizable, cloud-enabled video service that supports a wide variety of viewing habits. Content can be delivered in high-definition quality to a big-screen TV, as well as to tablets and mobile devices. CCiTV helps align our product offering with consumer habits using an app-based approach to video as well as reduce our operating costs. We expanded CCiTV to customers in our Texas markets in June 2020 and in our California and Illinois markets in October 2020.

Operating revenues also continue to be impacted by the anticipated industry-wide trend of declines in voice services, access lines and related network access revenue. Many customers are choosing to subscribe to alternative communication services and competition for these subscribers continues to increase. Total voice connections decreased 7% as of December 31, 2020 compared to 2019. Competition from wireless providers, Competitive Local Exchange Carriers and 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 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 (“ICC”) 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

Searchlight Investment

On September 13, 2020, we entered into an investment agreement (the “Investment Agreement”) with an affiliate of Searchlight Capital Partners, L.P. (“Searchlight”). In connection with the Investment Agreement, affiliates of Searchlight have committed to invest up to an aggregate of \$425.0 million in the Company. The investment commitment is structured in two stages. In the first stage of the transaction, which was completed on October 2, 2020, Searchlight invested \$350.0 million in the Company in exchange for 6,352,842 shares, or approximately 8%, of the Company’s common stock and a contingent payment right (“CPR”) that is convertible, upon the receipt of certain regulatory and shareholder approvals, into an additional 17,870,012 shares, or 16.9% of the Company’s common stock. In addition, Searchlight will receive the right to an unsecured subordinated note with an aggregate principal amount of approximately \$395.5 million (the “Note”).

In the second stage of the transaction, Searchlight will invest an additional \$75.0 million and will be issued the Note, which will be convertible into shares of a new series of perpetual preferred stock of the Company with an aggregate liquidation preference equal to the principal amount of the Note plus accrued interest as of the date of conversion. The Note may be issued to Searchlight prior to the closing of the second stage of the transaction upon the occurrence of certain events. The Note bears interest at 9.0% per annum from the date of the closing of the first stage of the transaction and is payable semi-annually in arrears. Upon conversion of the Note, dividends on the preferred stock will accrue daily on the liquidation preference at a rate of 9.0% per annum, payable semi-annually in arrears. In addition, following shareholder approval, if received, the CPR will be convertible into an additional 15,115,899 shares, or an additional 10.1%, of the Company’s common stock. Upon completion of both stages, the common stock and CPR issued to Searchlight will represent approximately 35% of the Company’s common stock on an as-converted basis. The closing of the second stage of the transaction is subject to the receipt of Federal Communications Commission (“FCC”) and Hart Scott Rodino approvals and the satisfaction of certain other customary closing conditions. We expect the closing of the second stage to be completed in mid-2021.

The proceeds from the strategic investment with Searchlight provides us additional capital to accelerate our growth plans and provide significant benefits to our consumer, commercial and carrier customers. With the strategic investment, we intend to enhance our fiber infrastructure and accelerate our investments in high-growth and competitive areas. We will

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continue to invest in the expansion of commercial and carrier services, particularly through building fiber laterals and expanding our network in existing markets. In addition, we will continue to focus on significantly increasing broadband speeds, expanding the availability of our multi-Gig broadband services and providing a faster and more efficient network in targeted regions.

Through the five-year expansion plan of our fiber network, we intend to upgrade approximately 1.6 million residential and small business premises to fiber-to-the-home/premise (“FTTP”). Our investment in more competitive broadband speeds is critical to our long-term success. The strategic investment with Searchlight provides us a valued partner with significant experience deploying broadband infrastructure as we continue to execute our fiber-focused strategy and grow broadband services.

Refinancing of Long-term Debt

On October 2, 2020, the Company and certain of its wholly-owned subsidiaries completed a refinancing of our long-term debt through the issuance of \$2,250.0 million in new secured debt and retired all of our then existing outstanding debt obligations. As described in the “Liquidity and Capital Resources” section, we entered into a new credit agreement which consists of term loans in the aggregate amount of \$1,250.0 million and a \$250.0 million revolving credit facility. On October 2, 2020, we also issued \$750.0 million aggregate principal amount of 6.50% senior secured notes due 2028. On January 15, 2021, the Company issued an additional \$150.0 million aggregate principal amount of incremental term loans under the credit agreement. The refinancing extended the maturities of our debt obligations and improved our liquidity, which, combined with the strategic investment with Searchlight, provides us the immediate flexibility to support our planned expansion of our fiber network and revenue growth plan.

COVID-19 Pandemic

We are closely monitoring the impact on our business of the outbreak of the coronavirus (“COVID-19”) pandemic. We are taking precautions to ensure the safety of our employees, customers and business partners, while assuring business continuity and reliable service and support to our customers. Health and safety measures implemented include transitioning to remote work-from-home policies, providing our field technicians with personal protective equipment and additional safety training, practicing social distancing and adding call aheads for work that must be performed inside customer premises. We are proactively monitoring and augmenting our network capacity, to meet the higher demands for data usage during the pandemic as a result of increased usage from work from home and remote learning applications. As a result of the pandemic, the demand for bandwidth upgrades has increased for our consumer, commercial and carrier customers. Our existing network enables us to efficiently respond and adapt to the increase in internet traffic during this time.

While we have not seen a significant adverse impact to our financial results from COVID-19 to date, the extent of the future impact of the COVID-19 pandemic on our business is highly uncertain and difficult to predict. Capital markets and the US economy have also been significantly impacted by the pandemic and an economic recession. Adverse economic and market conditions as a result of COVID-19 could also adversely affect the demand for our products and services and may also impact the ability of our customers to satisfy their obligations to us. If the pandemic continues to cause significant negative impacts to economic conditions, our results of operations, financial condition and liquidity could be materially and adversely impacted. See Part I, Item 1A – “Risk Factors”.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was enacted by the U.S. government as an emergency economic stimulus package that includes spending and tax breaks to strengthen the US economy and fund a nationwide effort to curtail the economic effects of COVID-19. The CARES Act includes, among other things, deferral of certain employer payroll tax payments, the delay in payment of minimum required pension contributions due in 2020 until January 1, 2021 and certain income tax law changes including modifications to the net interest deduction limitations. In 2020, we deferred the payment of approximately \$12.0 million for the employer portion of Social Security taxes otherwise due in 2020 of which 50% will be due by December 31, 2021 and the remaining 50% by December 31, 2022. We elected not to delay the payment of our minimum required pension contributions due in 2020 and have made all scheduled quarterly pension contributions during 2020. The CARES Act is not expected to have a material impact on our consolidated financial statements.

Results of Operations

The following tables reflect our financial results on a consolidated basis and key operating statistics as of and for the years ended December 31, 2020, 2019 and 2018.

<i>(In millions, except for percentages)</i>	Financial Data			% Change	
	2020	2019	2018	2020 vs. 2019	2019 vs. 2018
Operating Revenues					
Commercial and carrier:					
Data and transport services (includes VoIP)	\$ 362.1	\$ 355.3	\$ 349.4	2 %	2 %
Voice services	181.7	188.3	202.9	(4)	(7)
Other	45.1	52.9	56.4	(15)	(6)
	<u>588.9</u>	<u>596.5</u>	<u>608.7</u>	(1)	(2)
Consumer:					
Broadband (Data and VoIP)	263.1	257.1	253.1	2	2
Video services	74.3	81.4	88.4	(9)	(8)
Voice services	170.5	180.8	202.0	(6)	(10)
	<u>507.9</u>	<u>519.3</u>	<u>543.5</u>	(2)	(4)
Subsidies	72.0	72.4	83.4	(1)	(13)
Network access	125.3	138.1	152.6	(9)	(10)
Other products and services	9.9	10.2	10.9	(3)	(6)
Total operating revenues	<u>1,304.0</u>	<u>1,336.5</u>	<u>1,399.1</u>	(2)	(4)
Operating Expenses					
Cost of services and products (exclusive of depreciation and amortization)	560.6	574.9	611.9	(2)	(6)
Selling, general and administrative costs	275.4	299.1	333.6	(8)	(10)
Acquisition and other transaction costs	7.6	—	2.0	100	(100)
Depreciation and amortization	324.9	381.2	432.6	(15)	(12)
Total operating expenses	<u>1,168.5</u>	<u>1,255.2</u>	<u>1,380.1</u>	(7)	(9)
Income from operations	135.5	81.3	19.0	67	328
Interest expense, net	(143.6)	(136.7)	(134.5)	5	2
Gain (loss) on extinguishment of debt	(18.3)	4.5	—	(507)	100
Change in fair value of contingent payment rights	23.8	—	—	100	—
Other income, net	50.8	27.2	40.9	87	(33)
Income tax expense (benefit)	10.9	(3.7)	(24.1)	395	(85)
Net income (loss)	<u>37.3</u>	<u>(20.0)</u>	<u>(50.5)</u>	287	60
Net income attributable to noncontrolling interest	0.3	0.4	0.3	(25)	33
Net income (loss) attributable to common shareholders	<u>\$ 37.0</u>	<u>\$ (20.4)</u>	<u>\$ (50.8)</u>	281	60
Adjusted EBITDA ⁽¹⁾	\$ 529.2	\$ 523.5	\$ 537.3	1 %	(3)%

(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

	2020	2019	2018	% Change	
				2020 vs. 2019	2019 vs. 2018
Consumer customers	554,763	582,818	628,649	(5)%	(7)%
Voice connections	779,590	835,997	902,414	(7)	(7)
Data connections	792,200	784,165	778,970	1	1
Video connections	76,041	84,171	93,065	(10)	(10)
Total connections	<u>1,647,831</u>	<u>1,704,333</u>	<u>1,774,449</u>	(3)%	(4)%

Revenue from Contracts with Customers

We account for revenue in accordance with Accounting Standards Codification 606 (“ASC 606”), *Revenue from Contracts with Customers*, which we adopted on January 1, 2018. Promised goods and services in our revenue contracts with customers are considered distinct and are accounted for as separate performance obligations. Revenue is recognized when or as performance obligations are satisfied. The impact on revenue as a result of the adoption of ASC 606 was not material.

In accordance with ASC 606, contract acquisition costs are deferred and amortized over the expected customer life. Historically, these costs were expensed as incurred. The change in accounting for contract acquisition costs was the largest impact to the Company upon adoption of ASC 606.

For a more complete discussion of the adoption impacts, see Note 2 to the Consolidated Financial Statements, included in this report in Part II – Item 8 “Financial Statements and Supplementary Data”.

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

We provide a variety of business communication services to business customers of all sizes, 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 a variety of commercial data connectivity services in select markets including Ethernet services; private line data services; software defined wide area network (“SD-WAN”) and multi-protocol label switching (“MPLS”). Our networking services include point-to-point and multi-point deployments from 2.5 Mbps to 10 Gbps to accommodate the growth patterns of our business customers. We offer a suite of cloud-based services, which includes a hosted unified communications solution that replaces the customer’s on-site phone systems and data networks, managed network security services and data protection services. 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 \$6.8 million during 2020 compared to 2019 due to continued growth in Metro Ethernet and VoIP services. Data and transport services revenues increased \$5.9 million during 2019 compared to 2018 primarily due to revenue related to sales-type leases recognized during 2019 (see Note 9 to the consolidated financial statements included in this report in Part II – Item 8 – “Financial Statements and Supplementary Data” for a more detailed discussion of our leasing arrangements) as well as continued growth in Metro Ethernet and VoIP services. In recent years, the growth in data and transport services revenues has been impacted by increased competition and price compression as customers are migrating from legacy data connection products to Ethernet based products, which have a lower average revenue per user. Future declines are expected to be partially offset with the increasing demand 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. We are also a full service 9-1-1 provider and have installed and maintained two turn-key, state of the art statewide next-generation emergency 9-1-1 systems. These systems, located in Maine and Vermont, have processed several million calls relying on the caller's location information for routing. As of October 29, 2020, we were no longer the 9-1-1 service provider in Vermont. Next-generation emergency 9-1-1 systems are an improvement over traditional 9-1-1 and are expected to provide the foundation to handle future communication modes such as texting and video.

Voice services revenues decreased \$6.6 million during 2020 compared to 2019 primarily due to a 7% decline in access lines in 2020 compared to 2019. Voice services revenues decreased \$14.6 million during 2019 compared to 2018 primarily due to an 8% decline in access lines in 2019 compared to 2018. 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 services include business equipment sales and related hardware and maintenance support, video services and other miscellaneous revenues. Other services revenues decreased \$7.8 million during 2020 compared to 2019 primarily due to a decrease in business system sales in 2020. Other services revenues decreased \$3.5 million during 2019 compared to 2018 primarily due to the expiration of a co-marketing agreement in November 2018 as well as a decrease in business system sales in 2019.

Consumer

Broadband Services

Broadband services include revenues from residential customers for subscriptions to our VoIP and data 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.

Broadband services revenues increased \$6.0 million during 2020 compared to 2019 and \$4.0 million during 2019 compared to 2018 despite a 4% decrease in data connections in both 2020 and 2019 primarily due to an increase in Internet services as a result of price increases. However, the increase in data revenue was partially offset by a decline in VoIP revenue due to a 15% and 14% decline in connections in 2020 and 2019, respectively, as more customers continue to rely exclusively on wireless service.

Video Services

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. Our TV Everywhere service allows our video subscribers to watch their favorite shows, movies and livestreams on any device. In addition, we offer in-demand streaming content, including: ATT TV, fuboTV, Philo and HBO NOW®.

Video services revenues decreased \$7.1 million during 2020 compared to 2019 primarily due to a decrease in connections of 10% in 2020 compared to 2019. Video services revenues decreased \$7.0 million during 2019 compared to 2018 primarily due to a decrease in connections of 10% in 2019 compared to 2018. Consumers are choosing to subscribe to alternative video services such as over-the-top streaming services.

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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 \$10.3 million during 2020 compared to 2019 primarily due to an 8% decline in access lines during 2020 compared to 2019. Voice services revenues decreased \$21.2 million during 2019 compared to 2018 primarily due to a 9% decline in access lines during 2019 compared to 2018. The number of local access lines in service directly affects the recurring revenue we generate from end users and continues to be impacted by the industry-wide decline in access lines. We expect to continue to experience erosion in voice connections due to competition from alternative technologies, including our own competing VoIP product.

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 revenues decreased \$0.4 million during 2020 compared to 2019 primarily due to a reduction in state subsidies support in 2020.

Subsidies revenues decreased \$11.0 million during 2019 compared to 2018 primarily due to a settlement for frozen local switching support of \$7.2 million recognized during 2018 as well as the scheduled reductions in the annual Connect America Fund (“CAF”) Phase II funding rate in August 2018. 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, network special access 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 services revenues decreased \$12.8 million during 2020 compared to 2019 and \$14.5 million in 2019 compared to 2018 primarily as a result of the continuing decline in interstate rates, 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, billing and support services and other miscellaneous revenues. Other products and services revenues decreased \$0.3 million during 2020 compared to 2019 and \$0.7 million during 2019 compared to 2018. The decline in other products and services revenues was primarily due to a decline in telephone directory advertising revenues.

Operating Expenses

Cost of Services and Products

Cost of services and products decreased \$14.3 million during 2020 compared to 2019 primarily due to a reduction in video programming costs as a result of a 10% decline in video connections, which was offset in part by an increase in programming costs per channel as costs continue to rise as a result of annual rate increases. Video programming costs are impacted by license fees charged by cable networks, the amount and quality of the content we provide and the number of video subscribers we serve. Cost of goods sold related to equipment sales also decreased from a decline in business system sales in the current year. Employee salaries and benefits declined in 2020 as a result of a reduction in staff through continued cost savings initiatives. Cost of services and products was also reduced by insurance recoveries received in 2020 for hurricane damage incurred in prior years. However, access expense increased due to new fiber and co-location costs as a result of an increase in commercial and carrier services.

In 2019, cost of services and products decreased \$37.0 million compared to 2018 primarily due to a decline in employee salaries and benefits in 2019 as a result of a reduction in headcount through cost savings initiatives. Pension costs also



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decreased as a result of the freezing of certain benefit plans in connection with new collective bargaining agreements ratified in 2018. Access expense decreased primarily due to a decline in usage and rates. Video programming costs also decreased due to 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 \$23.7 million during 2020 compared to 2019 primarily due to a decline in integration and severance costs in connection with cost savings initiatives. Employee salaries and benefits also declined in 2020 as a result of a reduction in headcount. In addition, contract labor costs decreased as a result of operating efficiency improvements. However, customer acquisition costs increased related to the amortization of sales commissions following the adoption of ASC 606. Real estate taxes also increased due to property tax abatements received in 2019.

Selling, general and administrative costs decreased \$34.5 million during 2019 compared to 2018 primarily due to operating synergies achieved in connection with the integration of FairPoint Communications, Inc. (“FairPoint”) during 2018 which resulted in a reduction in operating costs and decline in integration costs in 2019. The decline in selling, general and administrative costs was also due to a decline in employee salaries and benefits in 2019 as a result of a reduction in headcount. In addition, real estate taxes decreased primarily due to property tax abatements received in 2019.

Acquisition and Other Transaction Costs

Acquisition and other transaction costs of \$7.6 million includes costs incurred in 2020 in connection with the investment agreement entered into with Searchlight in October 2020. Transaction costs consist primarily of legal, finance and other professional fees incurred in connection with the CPRs issued as part of the transaction.

Depreciation and Amortization

Depreciation and amortization expense decreased \$56.3 million during 2020 compared to 2019 and decreased \$51.4 million during 2019 compared to 2018 primarily due to acquired assets becoming fully depreciated or amortized. Depreciation expense also declined due to the sale of utility poles located in the state of Vermont in 2019. These declines in depreciation and amortization expense were offset in part by ongoing capital expenditures related to CAF Phase II funding requirements and success-based capital projects for consumer, commercial and carrier services as well as network enhancements and customer service improvements.

Regulatory Matters

Our revenues are subject to broad federal and/or state regulations, which include such telecommunications services as local telephone service, network access service and toll service. 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 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.

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FCC Matters

In general, telecommunications service in rural areas is costlier 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.

Our current annual support through the FCC’s CAF Phase II funding is \$48.1 million through 2021, as described below. The specific obligations associated with CAF Phase II funding include the obligation to serve approximately 124,500 locations by December 31, 2020 (with interim milestones of 40%, 60% and 80% completion by December 2017, 2018 and 2019, respectively); to provide broadband service to those locations with speeds of 10 Mbps downstream and 1 Mbps upstream; to achieve latency of less than 100 milliseconds; to provide data of at least 100 gigabytes per month; and to offer pricing reasonably comparable to pricing in urban areas. The Company met the milestones for 2017 through 2020 for all states where it operates.

We accepted CAF Phase II support in all of our operating states except Colorado and Kansas where the offered CAF Phase II support was declined. We continued to receive annual frozen CAF Phase I support of \$1.0 million in Colorado and Kansas until April 2019, when the FCC CAF Phase II auction assigned support to another provider.

The annual FCC price cap filing was made on June 15, 2020 and became effective on July 1, 2020. This filing reflects the final phase down of end office switching rates for our rate of return companies. The net impact is a decrease of approximately \$2.0 million in network access and CAF ICC support funding for the July 2020 through June 2021 tariff period.

In April 2019, the FCC announced plans for the Rural Digital Opportunity Fund (“RDOF”), the next phase of the CAF program. The RDOF is a \$20.4 billion fund to bring speeds of 25 Mbps downstream and 3 Mbps upstream to unserved and underserved areas of America. The FCC issued a Notice of Proposed Rulemaking at their August 2019 Open Commission Meeting. The order prioritizes terrestrial broadband as a bridge to rural 5G networks by providing a significant weight advantage to traditional broadband providers. Funding will occur in two phases with the first phase auctioning \$16.0 billion and the second phase auctioning \$4.4 billion, each to be distributed over 10 years. The minimum speed required to receive funding is 25 Mbps downstream and 3 Mbps upstream. CAF Phase II funding has been extended through December 31, 2021 for price cap holding companies. The FCC has issued the final census block groups with locations and reserve price. We filed the RDOF short form application on July 14, 2020 and were listed as a qualified bidder by the FCC on October 13, 2020 and participated in the auction.

The auction began on October 29, 2020 and ended on November 24, 2020. Consolidated won 246 census block groups serving in seven states. The bids we won are at the 1 Gbps downstream and 500 Mbps upstream speed tier to approximately 27,000 locations at a funding level of \$5.9 million annually over 10 years. Consolidated filed its long form application with supporting documents on January 29, 2021.

State Matters

Texas

The Texas Universal Service Fund (“TUSF”) is administered by the National Exchange Carrier Association (“NECA”). The Texas Public Utilities Regulatory Act 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 TUSF 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 Incumbent Local Exchange Carriers (“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”). In December 2020, the PUCT announced a TUSF funding shortfall and would be reducing all funded carriers support by 64% beginning January 15, 2021. The Texas Telephone Association, which Consolidated is a member, filed a lawsuit seeking to overturn the PUCT decision as well as a temporary injunction on the funding reduction. The potential impact is a reduction in support of approximately \$4.0 million annually.

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FairPoint Merger Requirements

As part of our acquisition of FairPoint in 2017, we have regulatory commitments that vary by state, some of which required capital investments in our network over several years through 2020. The requirements included improved data speeds and other service quality improvements in select locations primarily in our northern New England, New York and Illinois markets. In New Hampshire and Vermont, we were required to invest 13% and 14%, respectively, of total state revenues in capital improvements per year for 2018, 2019 and 2020. For our service territory in Maine, we were required to make capital expenditures of \$16.4 million per year from 2018 through 2020. In addition, we were required to invest an incremental \$1.0 million per year in each of these three states for service quality improvements. In New York, we were required to invest \$4.0 million over three years to expand the broadband network to over 300 locations. In Illinois, we were required to invest an additional \$1.0 million by the end of 2018 to increase broadband availability and speeds in areas served by the FairPoint Illinois ILECs. We met all of the regulatory commitments for 2017 through 2020 for Maine, New Hampshire and Vermont. We completed merger requirements for Illinois in December 2018 and New York in June 2020, both within the required time commitment.

CARES Act Funding

States are reviewing opportunities to use federal CARES Act funding to assist in the deployment of broadband to unserved and underserved areas within their respective states. All broadband build outs were required to be completed by December 31, 2020 in order to receive funding. New Hampshire allocated \$50.0 million of CARES Act funding to fund broadband expansion to unserved and underserved locations throughout the state. Consolidated was granted up to \$3.5 million to build high-speed Internet networks for homes and businesses in New Hampshire towns of Danbury, Springfield and Mason. The state funded 10% upfront with the remainder received upon completion of projects by December 31, 2020.

COVID-19

On March 13, 2020, the FCC issued a pledge to Keep America Connected through May 13, 2020, which was later extended to June 30, 2020. The pledge asked all communications providers to not terminate service to any residential or small business customers because of their inability to pay their bills due to the disruptions caused by the coronavirus pandemic; to waive any late fees that any residential or small business customers incur because of their economic circumstances related to the coronavirus pandemic; and to open their Wi-Fi hotspots to any American who needs them.

Consolidated signed on to the pledge through June 30, 2020. Several states took the FCC pledge a step further by not allowing any carrier to disconnect service within their state during the Governors' declared state of emergency, which Consolidated also supported.

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, ICC, 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

Interest Expense, Net

Interest expense, net of interest income, increased \$6.9 million during 2020 compared to 2019 primarily due to additional interest of \$7.9 million recognized on the Note issued to Searchlight as part of the investment agreement entered into in October 2020.

Interest on our outstanding senior notes also increased in 2020 due to the issuance of \$750.0 million in 6.50% Senior Notes due 2028, which were used in part, to redeem the then-remaining amount of our outstanding 6.50% Senior Notes due 2022 as part of the refinancing of our long-term debt in October 2020 as described in the "Liquidity and

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Capital Resources” section below. However, interest expense was reduced in part by a reduction in outstanding debt under our revolving credit facility and a decline in variable interest rates in the current year.

Interest expense, net of interest income, increased \$2.2 million during 2019 compared to 2018 primarily due to an increase in variable interest rates in 2019. The increase in interest expense was offset in part by noncash charges recognized in 2018 related to our re-designated interest rate swap agreements.

Gain on Extinguishment of Debt

As described in the “Liquidity and Capital Resources” section below, we incurred a loss on the extinguishment of debt of \$18.3 million in connection with the refinancing of our credit agreement and the redemption of our 6.50% Senior Notes due 2022 during the year ended December 31, 2020.

In 2019, we repurchased \$55.0 million of the aggregate principal amount of our 6.50% Senior Notes due 2022. In connection with the partial repurchase of the Senior Notes, we recognized a gain on extinguishment of debt of \$4.5 million during the year ended December 31, 2019.

Change in Fair Value of Contingent Payment Obligations

We are required to measure our contingent payment obligations at fair value until they are converted into shares of the Company’s common stock. During the year ended December 31, 2020, we recognized a gain of \$23.8 million on the decline in the fair value of the contingent payment rights issued to Searchlight.

Other Income

Other income increased \$23.6 million during 2020 compared to 2019 primarily due to a decrease in pension and post-retirement benefit expense of \$15.5 million. During the year ended December 31, 2019, we recognized a pension settlement charge of \$6.7 million as a result of the transfer of the pension liability for a select group of retirees to an annuity provider. See Note 11 to the consolidated financial statements for a more detailed discussion regarding our pension and other post-retirement plans. Investment income increased \$3.0 million during 2020 from our wireless partnership interests. In addition, during 2020, we recognized a gain of \$3.7 million on the sale of our 39 GHz wireless spectrum licenses as part of the FCC’s efforts to reclaim broadcast TV spectrum for wireless use.

Other income decreased \$13.7 million during 2019 compared to 2018. Investment income decreased \$1.5 million during 2019 primarily as a result of lower earnings from our wireless partnership interests. Pension and post-retirement benefit expense increased \$11.2 million as compared to 2018 primarily from a pension settlement charge of \$6.7 million recognized in 2019 as a result of the transfer of the pension liability for a select group of retirees to an annuity provider.

Income Taxes

Income taxes increased \$14.6 million in 2020 compared to 2019. The increase was primarily related to the change in pretax income. Our effective tax rate was 22.7% for 2020 compared to 15.7% for 2019. In 2020 and 2019, we placed additional valuation allowances on deferred tax assets related to state NOL and state tax credit carryforwards of \$1.3 million and \$1.1 million, respectively. The investment transaction with Searchlight on October 2, 2020 resulted in a net decrease to our tax provision of \$1.6 million due to various permanent income taxes differences. In addition, for 2020 and 2019, the effective tax rate differed from the federal and state statutory rates due to various permanent income tax differences and differences in allocable income for the Company’s state tax filings. Exclusive of discrete adjustments, our effective tax rate for 2020 would have been approximately 24.8% compared to 27.1% for 2019.

Income taxes increased \$20.4 million in 2019 compared to 2018. The increase was primarily related to the change in pretax income. Our effective tax rate was 15.7% for 2019 compared to 32.3% for 2018. We recorded a net increase of \$0.7 million in 2019 and a net decrease of \$2.8 million in 2018 to our state tax expense due to changes in unitary filings and state deferred income tax rates. In 2019 and 2018, we placed additional valuation allowances on deferred tax assets related to state NOL and state tax credit carryforwards of \$1.1 million and \$1.7 million, respectively. During 2018, adjustments were made to the provisional estimates that were disclosed as of December 31, 2017 under Staff Accounting Bulletin No. 118 for the Tax Cuts and Jobs Act of 2017 (the “Tax Act”) that resulted in a \$5.2 million decrease to our tax provision. During 2019 and 2018, we recorded various other adjustments related to a state examination, acquisition purchase accounting and disposition of a subsidiary. In addition, for 2019 and 2018, the effective tax rate differed from the federal and state statutory rates due to various permanent income tax differences and differences in allocable income



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for the Company's state tax filings. Exclusive of discrete adjustments, our effective tax rate for 2019 would have been approximately 27.1% compared to 25.3% for 2018.

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 a measure 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 tables are a reconciliation of net income (loss) to Adjusted EBITDA for the years ended December 31, 2020, 2019 and 2018:

<i>(In thousands, unaudited)</i>	Year Ended December 31,		
	2020	2019	2018
Net income (loss)	\$ 37,302	\$ (19,931)	\$ (50,571)
Add (subtract):			
Interest expense, net of interest income	143,591	136,660	134,578
Income tax expense (benefit)	10,936	(3,714)	(24,127)
Depreciation and amortization	324,864	381,237	432,668
EBITDA	516,693	494,252	492,548
Adjustments to EBITDA:			
Other, net ⁽¹⁾	(30,993)	(8,847)	549
Investment distributions ⁽²⁾	41,529	35,809	39,078
(Gain) loss on extinguishment of debt	18,264	(4,510)	—
Change in fair value of contingent payment rights	(23,802)	—	—
Non-cash, stock-based compensation	7,533	6,836	5,119
Adjusted EBITDA	\$ 529,224	\$ 523,540	\$ 537,294

(1) Other, net includes the equity earnings from our investments, dividend income, income attributable to noncontrolling interests in subsidiaries, acquisition and transaction related costs including integration and severance, non-cash pension and post-retirement benefits and certain other miscellaneous items.

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

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, from 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, and to invest in future business opportunities.

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The following table summarizes our cash flows:

<i>(In thousands)</i>	Years Ended December 31,		
	2020	2019	2018
Cash flows provided by (used in):			
Operating activities	\$ 364,980	\$ 339,096	\$ 357,321
Investing activities	(210,066)	(217,819)	(221,459)
Financing activities	(11,748)	(118,481)	(141,920)
Increase (decrease) in cash and cash equivalents	\$ 143,166	\$ 2,796	\$ (6,058)

Cash Flows Provided by Operating Activities

Net cash provided by operating activities was \$365.0 million in 2020, an increase of \$25.9 million compared to the same period in 2019. Cash flows provided by operating activities increased as a result of an increase in earnings primarily from a reduction in operating expenses through cost management initiatives and improved operating efficiencies. Cash distributions received from our wireless partnerships also increased \$5.7 million in 2020 compared to 2019. Interest payments decreased approximately \$8.6 million from prior year due a decrease in variable interest rates in 2020. In response to the potential impacts of the COVID-19 pandemic, we elected the deferral of certain employer payroll tax payments under the CARES Act of approximately \$12.0 million during 2020. In addition, cash contributions to our defined benefit pension plans decreased \$3.5 million in 2020 compared to 2019. However, income tax refunds decreased approximately \$7.8 million from 2019.

In 2019, net cash provided by operating activities was \$339.1 million, a decrease of \$18.2 million compared to the same period in 2018 primarily as a result of changes in working capital and the timing of payments for accrued compensation. In addition, interest payments increased approximately \$7.1 million from prior year due to an increase in variable interest rates in 2019. Cash distributions received from our wireless partnerships also decreased \$3.3 million in 2019 compared to 2018.

Cash Flows Used In Investing Activities

Net cash used in investing activities consists primarily of cash used for capital expenditures and cash received from business dispositions and the sale of assets.

Capital Expenditures

Capital expenditures continue to be our primary recurring investing activity and were \$217.6 million, \$232.2 million and \$244.8 million in 2020, 2019 and 2018, respectively. Capital expenditures for 2021 are expected to be \$400.0 million to \$420.0 million, which will be used to support success-based capital projects for commercial, carrier and consumer initiatives and for our planned fiber projects and broadband network expansion, which will include the upgrade in 2021 of more than 300,000 passings with multi-Gig data speeds. We expect to continue to invest in the enhancement and expansion of our fiber network in order to retain and acquire more customers through a broader set of products and an expanded network footprint.

Divestitures

Cash proceeds from the sale of assets decreased \$7.6 million in 2020 compared to 2019. In 2020, we received cash proceeds of \$3.7 million on the sale of our 39 GHz wireless spectrum licenses as part of the FCC's spectrum recovery efforts. In 2019, we received cash proceeds of approximately \$12.4 million for the sale of utility poles located in the state of Vermont. In 2018, we received cash proceeds of \$21.0 million for the sale of our subsidiaries Peoples Mutual Telephone Company and Peoples Mutual Long Distance Company, our local exchange carrier in Virginia.

Cash Flows Provided by (Used In) Financing Activities

Net cash used in financing activities consists primarily of our proceeds from and principal payments on long-term borrowings and repurchases of debt.

Long-term Debt

The following table summarizes our indebtedness as of December 31, 2020:

<i>(In thousands)</i>	<u>Balance</u>	<u>Maturity Date</u>	<u>Rate(1)</u>
6.50% Senior Notes	\$ 750,000	October 1, 2028	6.50 %
Term loans, net of discount	1,228,694	October 2, 2027	LIBOR plus 4.75 %
Finance leases	17,467		6.99 % (2)
	<u>\$ 1,996,161</u>		

(1) At December 31, 2020, the 1-month LIBOR applicable to our borrowings was 0.15%. The term loans are subject to a 1.00% LIBOR floor.

(2) Weighted-average rate.

Credit Agreement

On October 2, 2020, the Company, through certain of its wholly-owned subsidiaries, entered into a Credit Agreement with various financial institutions (the "Credit Agreement") to replace the Company's previous credit agreement in its entirety. The Credit Agreement consists of term loans in the aggregate amount of \$1,250.0 million (the "Term Loans") and a revolving loan facility of \$250.0 million, which replaced the previous \$110.0 million revolving loan facility scheduled to mature on October 5, 2021. 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 plus (b) an amount which would not cause its senior secured leverage ratio not to exceed 3.70:1.00 (the "Incremental Facility"). Borrowings under the Credit Agreement are secured by substantially all of the assets of the Company and its subsidiaries, subject to certain exceptions.

The Term Loans were issued in an original aggregate principal amount of \$1,250.0 million with a maturity date of October 2, 2027 and contain an original issuance discount of 1.5% or \$18.8 million, which is being amortized over the term of the loan. The Term Loans require quarterly principal payments of \$3.1 million, which commenced December 31, 2020, and bear interest at a rate 4.75% plus the London Interbank Offered Rate ("LIBOR") subject to a 1.00% LIBOR floor.

The revolving credit facility has a maturity date of October 2, 2025 and an applicable margin (at our election) of 4.00% for LIBOR-based borrowings or 3.00% for alternate base rate borrowings, with a 0.25% reduction in each case if the consolidated first lien leverage ratio, as defined in the Credit Agreement, does not exceed 3.20 to 1.00. As of December 31, 2020, there were no borrowings outstanding under the revolving credit facility. At December 31, 2019, borrowings of \$40.0 million were outstanding under the previous revolving credit facility, which consisted of LIBOR-based borrowings of \$30.0 million and alternate base rate borrowings of \$10.0 million. Stand-by letters of credit of \$18.1 million were outstanding under our revolving credit facility as of December 31, 2020. The stand-by letters of credit are renewable annually and reduce the borrowing availability under the revolving credit facility. As of December 31, 2020, \$231.9 million was available for borrowing under the revolving credit facility.

The weighted-average interest rate on outstanding borrowings under our credit facilities was 5.75% and 4.80% at December 31, 2020 and 2019, respectively. Interest is payable at least quarterly.

Financing Costs

In connection with entering into the Credit Agreement in October 2020, fees of \$29.1 million were capitalized as deferred debt issuance costs. These capitalized costs are amortized over the term of the debt and are included as a component of interest expense in the consolidated statements of operations. We also incurred a loss on the extinguishment of debt of \$12.3 million during the year ended December 31, 2020 related to the repayment of the outstanding term loan under the previous credit agreement.

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

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financial ratios, including a maximum consolidated first lien leverage ratio, as defined in the Credit Agreement. Among other things, it will be an event of default, with respect to the revolving credit facility only, if our consolidated first lien leverage ratio as of the end of any fiscal quarter is greater than 5.85:1.00. As of December 31, 2020, our consolidated first lien leverage ratio under the Credit Agreement was 3.56:1.00. As of December 31, 2020, we were in compliance with the Credit Agreement covenants.

Credit Agreement Amendment

On January 15, 2021, the Company entered into Amendment No. 1 to the Credit Agreement in which we borrowed an additional \$150.0 million aggregate principal amount of incremental term loans (the “Incremental Term Loans”). The Incremental Term Loans have terms and conditions identical to the Term Loans including the same maturity date and interest rate. The Term Loans and Incremental Term Loans will collectively comprise a single class of term loans under the Credit Agreement, as amended. The Term Loans will require quarterly principal payments of \$3.5 million beginning on March 31, 2021.

Senior Notes

6.50% Senior Notes due 2028

On October 2, 2020, we completed an offering of \$750.0 million aggregate principal amount of 6.50% unsubordinated secured notes due 2028 (the “Senior Notes”). The Senior Notes were priced at par and bear interest at a rate of 6.50%, payable semi-annually on April 1 and October 1 of each year, beginning on April 1, 2021. The Senior Notes will mature on October 1, 2028. Deferred debt issuance costs of \$17.0 million incurred in connection with the issuance of the Senior Notes are being amortized using the effective interest method over the term of the Senior Notes.

The Senior Notes are unsubordinated secured obligations of the Company, secured by a first priority lien on the collateral that secures the Company’s obligations under the Credit Agreement. The Senior Notes are fully and unconditionally guaranteed on a first priority secured basis by the Company and the majority of our wholly-owned subsidiaries. The offering of the Senior Notes has not been registered under the Securities Act of 1933, as amended or any state securities laws.

Senior Notes Covenant Compliance

Subject to certain exceptions and qualifications, the indenture governing the Senior Notes contains customary covenants that, among other things, limits the Company 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. At December 31, 2020, the Company was in compliance with all terms, conditions and covenants under the indenture governing the Senior Notes.

Redemption of 6.50% Senior Notes due 2022

On October 2, 2020, a notice of redemption was issued to holders of our then outstanding \$440.5 million aggregate principal amount of 6.50% Senior Notes due in October 2022 (the “2022 Notes”) to redeem all outstanding 2022 Notes at a price equal to 100% of the aggregate principal amount plus accrued and unpaid interest through the redemption date. A portion of the proceeds from the issuance of the Senior Notes was deposited with the trustee to pay and discharge the entire indebtedness under the 2022 Notes. The 2022 Notes were redeemed on November 2, 2020, in accordance with the notice of redemption.

In connection with the redemption of the 2022 Notes, we recognized a loss on extinguishment of debt of \$5.9 million during the year ended December 31, 2020. During the year ended December 31, 2019, we repurchased \$55.0 million of the aggregate principal amount of the 2022 Notes for \$49.8 million and recognized a gain on extinguishment of debt of \$4.5 million.

Finance Leases

We lease certain facilities and equipment under various finance leases which expire between 2021 and 2040. As of December 31, 2020, the present value of the minimum remaining lease commitments was approximately \$17.5 million, of which \$5.1 million was due and payable within the next twelve months. The leases require total remaining rental payments of \$20.6 million as of December 31, 2020.

Searchlight Investment

On October 2, 2020, we closed on the first stage of the strategic investment of \$350.0 million with Searchlight. Searchlight will invest up to a total of \$425.0 million in Consolidated and, assuming satisfaction of certain conditions set forth in the Investment Agreement will hold a combination of perpetual Series A preferred stock and up to 35% of the Company's outstanding common stock. The Searchlight investment will enable us to accelerate investment in our network over a multi-year period. The Investment is structured to maximize the proceeds to the Company in the near term so that we can invest in our network immediately, and then the Investment converts into an equity-like structure upon receipt of certain required regulatory approvals. We expect the closing of the second stage of the investment to be completed in mid-2021 at which time, we will receive the additional investment of \$75.0 million from Searchlight.

Dividends

We paid \$55.4 million in dividend payments to shareholders during 2019. On April 25, 2019, we announced the elimination of the payment of quarterly dividends on our stock beginning in the second quarter of 2019 in order to focus on deleveraging, fiber network investments and create long-term value for our stockholders. Future dividend payments, if any, are at the discretion of our Board of Directors. Changes in our dividend program will depend on our earnings, capital requirements, financial condition, debt covenant compliance, expected cash needs and other factors considered relevant by our Board of Directors.

Sufficiency of Cash Resources

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

<i>(In thousands, except for ratio)</i>	December 31,	
	2020	2019
Cash and cash equivalents	\$ 155,561	\$ 12,395
Working capital (deficit)	70,191	(67,429)
Current ratio	1.26	0.72

Our net working capital position improved \$137.6 million as of December 31, 2020 compared to December 31, 2019 primarily as a result of an increase in cash and cash equivalents of \$143.2 million driven by our capital allocation plan implemented in 2019, which prioritized improving our leverage ratio and maximizing our cash and liquidity position. In addition, on October 2, 2020, we closed on the first stage of the strategic investment with Searchlight and completed a global refinancing of our long-term debt. Working capital also improved from a decline in the current portion of long-term debt and finance lease obligations of \$9.7 million as a result of the refinancing which reduced our outstanding term loans and the expiration of several finance leases in 2020. However, working capital was reduced by an increase in accrued interest of \$13.3 million at December 31, 2020 related to an increase in interest for our Senior Notes and the addition of accrued interest on the Searchlight Note of \$7.9 million.

Our most significant use of funds in 2021 is expected to be for: (i) interest payments on our indebtedness of between \$145.0 million and \$150.0 million and principal payments on debt of \$12.5 million; and (ii) capital expenditures of between \$400.0 million and \$420.0 million. The refinancing of our capital structure in 2020 combined with the Searchlight investment provides us the capital and financial flexibility to fund our accelerated fiber network expansion and growth plans. In addition, on January 15, 2021, we borrowed an additional \$150.0 million aggregate principal amount of incremental term loans under our Credit Agreement. In the future, our ability to use cash may be limited by our other expected uses of cash and our ability to incur additional debt will be limited by our existing and future debt agreements.

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

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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. Due to the uncertainty and unpredictability related to the potential impacts of the COVID-19 pandemic on our business, we will continue to closely manage our cash and liquidity.

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 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 December 31, 2020, we had approximately \$6.1 million of these bonds outstanding.

Contractual Obligations

As of December 31, 2020, our contractual obligations were as follows:

<i>(In thousands)</i>	Less than 1 Year	1 - 3 Years	3 - 5 Years	Thereafter	Total
Long-term debt	\$ 12,500	\$ 25,000	\$ 25,000	\$ 1,934,375	\$ 1,996,875
Interest on long-term debt obligations ⁽¹⁾	146,933	275,188	257,436	280,388	959,945
Finance leases	5,968	6,314	3,582	4,721	20,585
Operating leases	7,319	11,350	5,189	9,491	33,349
Unconditional purchase obligations:					
Unrecorded ⁽²⁾	37,882	40,397	7,476	2,237	87,992
Recorded ⁽³⁾	140,431	—	—	—	140,431
Pension funding ⁽⁴⁾	29,525	52,479	48,824	—	130,828

- (1) Interest on long-term debt includes amounts due on fixed and variable rate debt. As the rates on our variable debt are subject to change, the rates in effect at December 31, 2020 were used in determining our future interest obligations. Amounts do not include interest on the Note issued to Searchlight as part of the investment agreement which includes a paid-in-kind ("PIK") option for a five-year period beginning as of October 2, 2020. The Company intends to exercise the PIK interest option on the Note through at least 2022.
- (2) Unrecorded purchase obligations include binding commitments for future capital expenditures and service and maintenance agreements to support various computer hardware and software applications and certain equipment. If we terminate any of the contracts prior to their expiration date, we would be liable for minimum commitment payments as defined by the contractual terms of the contracts.
- (3) Recorded obligations include amounts in accounts payable and accrued expenses for external goods and services received as of December 31, 2020 and expected to be settled in cash.
- (4) Expected contributions to our pension and post-retirement benefit plans for the next 5 years. Actual contributions could differ from these estimates and are expected to extend beyond 5 years.

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Defined Benefit Pension Plans

As required, we contribute to qualified defined pension plans and non-qualified supplemental retirement plans (collectively 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 cost 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 the Pension Plans assets have historically funded a significant portion of the benefits paid under the Pension Plans. We used a weighted-average expected long-term rate of return of 6.25% and 6.97% in 2020 and 2019, respectively. As of January 1, 2021, we estimate the long-term rate of return of Plan assets will be 6.00%. 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 material contributions to the Pension Plans, which could adversely affect our cash flows from operations.

Net pension and post-retirement (benefit)/costs were \$(4.1) million, \$11.5 million and \$5.6 million for the years ended December 31, 2020, 2019 and 2018, respectively. We contributed \$24.0 million, \$27.5 million and \$26.2 million in 2020, 2019 and 2018, respectively to our Pension Plans. For our other post-retirement plans, we contributed \$9.2 million, \$8.5 million and \$9.7 million in 2020, 2019 and 2018, respectively. In 2021, we expect to make contributions totaling approximately \$20.7 million to our Pension Plans and \$8.8 million to our other post-retirement benefit plans. Our contribution amounts meet the minimum funding requirements as set forth in employee benefit and tax laws. See Note 11 to the consolidated financial statements 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.

Related Party Transactions

A trust, the beneficiary of which was Mr. Richard A. Lumpkin, who was a member of the Company’s Board of Directors until April 4, 2019, owned \$5.0 million of the 2022 Senior Notes. We recognized approximately \$0.1 million through April 4, 2019 and \$0.3 million in 2018 in interest expense for the 2022 Senior Notes owned by the related party.

We have lease agreements with LATEL LLC (“LATEL”) for the occupancy of three buildings on a triple net lease basis. One of the lease agreements was terminated on October 31, 2019 while the remaining two lease agreements have a maturity date of May 31, 2021, and have been accounted for as finance leases. Each of the remaining lease agreements have two five-year options to extend the term of the lease after the expiration date. Mr. Lumpkin and his immediate family had a beneficial ownership interest of 68.5% of LATEL, directly or through Agracel, Inc. (“Agracel”) as of April 4, 2019, and December 31, 2018. Agracel is a real estate investment company of which Mr. Lumpkin, together with his family, had a beneficial interest of 37.0% at April 4, 2019 and December 31, 2018. Agracel was the sole managing member and 50% owner of LATEL. In addition, Mr. Lumpkin was a former director of Agracel. The three leases required total rental payments to LATEL of approximately \$7.9 million over the initial terms of the leases. We recognized \$0.1 million through April 4, 2019 and \$0.3 million in 2018 in interest expense. We also recognized \$0.1 million through April 4, 2019 and \$0.4 million in 2018 in amortization expense related to the finance leases.

Mr. Lumpkin also had a minority ownership interest in First Mid Bank & Trust (“First Mid”). We provided telecommunications products and services to First Mid and in return received approximately \$0.2 million through April 4, 2019 and \$0.9 million in 2018 for these services.

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Regulatory Matters

We receive ongoing ICC Eligible Recovery support for our rate of return ILECs that participate in the NECA pooling process. The support for 2020 is approximately \$3.2 million and is expected to decline by 5% per year through 2021. During the years ended December 31, 2020, 2019 and 2018, we recognized subsidies revenue of \$3.2 million, \$3.4 million and \$3.6 million, respectively, related to our ongoing ICC Eligible Recovery support.

Critical Accounting Estimates

Our significant accounting policies and estimates are discussed in the Notes to our consolidated financial statements. We prepare our consolidated financial statements in accordance with generally accepted accounting principles in the United States. The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses. These estimates and assumptions are affected by management's application of our accounting policies. Our judgments are based on historical experience and 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. However, because future events and the related effects cannot be determined with certainty, actual results may differ from our estimates and assumptions and such differences could be material. Management believes that the following accounting estimates are the most critical to understanding and evaluating our reported financial results.

Indefinite-Lived Intangible Assets

Our indefinite-lived intangible assets are not subject to amortization and are tested for impairment annually or more frequently when events or changes in circumstances indicate that the asset might be impaired. We evaluate the carrying value of our indefinite-lived assets as of November 30 of each year.

Goodwill

As discussed more fully in Note 1 to the consolidated financial statements, goodwill is not amortized but instead evaluated for impairment annually, or more frequently if an event occurs or circumstances change that would indicate potential impairment. At December 31, 2020 and 2019, the carrying value of our goodwill was \$1,035.3 million. The evaluation of goodwill may first include a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. Events and circumstances integrated into the qualitative assessment process include a combination of macroeconomic conditions affecting equity and credit markets, significant changes to the cost structure, overall financial performance and other relevant events affecting the reporting unit.

Functional management within the organization evaluates the operations of our single reporting unit on a consolidated basis rather than at a geographic level or on any other component basis. In general, product managers and cost managers are responsible for managing costs and services across territories rather than treating the territories as separate business units. All of the properties are managed at a functional level. As a result, we evaluate the operations for all our service territories as a single reporting unit.

As a result of industry conditions and a decrease in our market capitalization, we evaluated the fair value of the goodwill compared to the carrying value using the quantitative approach for the 2020 assessment. When we use the quantitative approach to assess the goodwill carrying value and the fair value of our single reporting unit, the fair value of our reporting unit is compared to its carrying amount, including goodwill. The estimated fair value of the reporting unit is determined using a combination of market-based approaches and a discounted cash flow ("DCF") model and reconciled to our market capitalization plus an estimated control premium. The assumptions used in the estimate of fair value are based upon a combination of historical results and trends, new industry developments and future cash flow projections, as well as relevant comparable company earnings multiples for the market-based approaches. Such assumptions are subject to change as a result of changing economic and competitive conditions. We use a weighting of the results derived from the valuation approaches to estimate the fair value of the reporting unit.

Based on our assessment at November 30, 2020, using the quantitative approach, we concluded that the fair value of the reporting unit exceeded the carrying value at November 30, 2020 by approximately 120% and that there was no impairment of goodwill.



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Trade Name

As discussed more fully in Note 1 to the consolidated financial statements, trade names are generally not amortized, but instead evaluated annually, or more frequently if an event occurs or circumstances change that would indicate potential impairment using a preliminary qualitative assessment and a quantitative process, if deemed necessary. The carrying value of our trade name, excluding any finite lived trade names, was \$10.6 million at December 31, 2020 and 2019.

For the 2020 assessment, we used the quantitative approach to evaluate the fair value compared to the carrying value of the trade name. Based on our assessment, we concluded that the fair value of the trade name continued to exceed the carrying value.

When we use the quantitative approach to estimate the fair value of our trade name, we use DCFs based on a relief from royalty method. If the fair value of our trade name was less than the carrying amount, we would recognize an impairment charge for the difference between the estimated fair value and the carrying value of the asset. We perform our impairment testing of our trade name as a single unit of accounting based on its use in our single reporting unit.

Income Taxes

Our current and deferred income taxes and associated valuation allowances are impacted by events and transactions arising in the normal course of business as well as in connection with the adoption of new accounting standards, acquisitions of businesses and non-recurring items. Assessment of the appropriate amount and classification of income taxes is dependent on several factors, including estimates of the timing and realization of deferred income tax assets and the timing of income tax payments. Actual amounts may materially differ from these estimates as a result of changes in tax laws as well as unanticipated future transactions impacting related income tax balances. We account for tax benefits taken or expected to be taken in our tax returns in accordance with the accounting guidance applicable for uncertainty in income taxes, which requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return.

Pension and Post-Retirement Benefits

The amounts recognized in our financial statements for pension and post-retirement benefits are determined on an actuarial basis utilizing several critical assumptions. We make significant assumptions in regards to our pension and post-retirement plans, including the expected long-term rate of return on plan assets, the discount rate used to value the periodic pension expense and liabilities, future salary increases and actuarial assumptions relating to mortality rates and healthcare trend rates. Changes in these estimates and other factors could significantly impact our benefit cost and obligations to maintain pension and post-retirement plans.

Our pension investment strategy is to maximize long-term returns on invested plan assets while minimizing the risk of volatility.

Accordingly, we target our allocation percentage at approximately 70 - 90% in return seeking assets consisting primarily of equity and fixed income funds with the remainder in hedge funds. Our assumed rate considers this investment mix as well as past trends. We used a weighted-average expected long-term rate of return of 6.25% and 6.97% in 2020 and 2019, respectively. As of January 1, 2021, we estimate that the expected long-term rate of return of pension plan assets will be 6.00%.

In determining the appropriate discount rate, we consider the current yields on high-quality corporate fixed-income investments with maturities that correspond to the expected duration of our pension and post-retirement benefit plan obligations. For our 2020 and 2019 projected benefit obligations, we used a weighted-average discount rate of 2.81% and 3.51%, respectively, for our pension plans and 2.56% and 3.34%, respectively, for our other post-retirement plans.

Our Pension Plans are sensitive to changes in the discount rate and the expected long-term rate of return on plan assets. A one percentage-point increase or decrease in the discount rate and expected long-term rate of return would have the following effects on net periodic pension cost of the Pension Plans:

<u>(In thousands)</u>	<u>1-Percentage- Point Increase</u>	<u>1-Percentage- Point Decrease</u>
Discount rate	\$ 2,081	\$ (463)
Expected long-term rate of return on plan assets	\$ (5,527)	\$ 5,527

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Our post-retirement benefit plans are sensitive to the healthcare cost trend rate assumption. For purposes of determining the cost and obligation for post-retirement medical benefits, a 6.50% healthcare cost trend rate was assumed for 2020, declining to the ultimate trend rate of 5.00% in 2027. A 1.00% increase in the assumed healthcare cost trend rate would result in increases of approximately \$4.6 million and \$0.3 million in the post-retirement benefit obligation and total service and interest cost, respectively. A 1.00% decrease in the assumed healthcare cost trend would result in decreases of approximately \$4.8 million and \$0.2 million in the post-retirement benefit obligation and in the total service and interest cost, respectively.

Recent Accounting Pronouncements

For information regarding the impact of certain recent accounting pronouncements, see Note 1 “Business Description & Summary of Significant Accounting Policies” to the consolidated financial statements included in this report in Part II -Item 8 “Financial Statements and Supplementary Data”.

Item 7A. 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.

At December 31, 2020, the majority of our variable rate debt was subject to a 1.00% London Interbank Offered Rate (“LIBOR”) floor. Based on our variable rate debt outstanding as of December 31, 2020, a 1.00% increase in market interest rates would increase annual interest expense by approximately \$0.5 million. A 1.00% decrease in current interest rates would not impact annual interest expense on our variable rate debt due to the 1.00% LIBOR floor.

As of December 31, 2020, the fair value of our interest rate swap agreements amounted to a liability of \$29.3 million. Pre-tax deferred losses related to our interest rate swap agreements included in accumulated other comprehensive loss was \$25.2 million at December 31, 2020.

Item 8. Financial Statements and Supplementary Data

For information pertaining to our Financial Statements and Supplementary Data, refer to pages F-1 to F-43 of this report, which are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Evaluation of Disclosure 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-K, 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



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of achieving their objectives and operation of our disclosure controls and procedures as of December 31, 2020. 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 December 31, 2020.

Inherent Limitation of the Effectiveness of Internal Control

A control system, no matter how well conceived and operated, can only provide reasonable, not absolute, assurance that the objectives of the internal control system are met. Because of the inherent limitations of any internal control system, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Exchange Act Rule 13a-15(f). Management, with the participation of our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2020. In making this assessment, management used the framework set forth in *Internal Control-Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this assessment, our management concluded that, as of December 31, 2020, our internal control over financial reporting was effective to provide reasonable assurance that the desired control objectives were achieved.

The effectiveness of internal control over financial reporting has been audited by Ernst & Young LLP, independent registered public accounting firm, as stated in their report which is included elsewhere in this Annual Report on Form 10-K.

Changes 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 December 31, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Consolidated Communications Holdings, Inc.

Opinion on Internal Control over Financial Reporting

We have audited Consolidated Communications Holdings, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Consolidated Communications Holdings, Inc. and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and our report dated February 26, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

St. Louis, Missouri
February 26, 2021

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Our Board of Directors adopted a Code of Business Conduct and Ethics (“the code”) that applies to all of our employees, officers and directors, including our principal executive officer, principal financial officer and principal accounting officer. A copy of the code is posted on our investor relations website at www.consolidated.com. Information contained on the website is not incorporated by reference in, or considered to be a part of, this document.

Additional information required by this Item is incorporated herein by reference to our proxy statement for the annual meeting of our shareholders to be filed pursuant to Regulation 14A within 120 days after our fiscal year-end of December 31, 2020.

Item 11. Executive Compensation

Incorporated herein by reference to our proxy statement for the annual meeting of our shareholders to be filed pursuant to Regulation 14A within 120 days after our fiscal year-end of December 31, 2020.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Incorporated herein by reference to our proxy statement for the annual meeting of our shareholders to be filed pursuant to Regulation 14A within 120 days after our fiscal year-end of December 31, 2020.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Incorporated herein by reference to our proxy statement for the annual meeting of our shareholders to be filed pursuant to Regulation 14A within 120 days after our fiscal year-end of December 31, 2020.

Item 14. Principal Accountant Fees and Services

Incorporated herein by reference to our proxy statement for the annual meeting of our shareholders to be filed pursuant to Regulation 14A within 120 days after our fiscal year-end of December 31, 2020.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(1) All Financial Statements

Location

The following consolidating financial statements and independent auditors' reports are filed as part of this report on Form 10-K in Item 8—"Financial Statements and Supplementary Data":

Reports of Independent Registered Public Accounting Firm	F-1
Consolidated Statements of Operations for each of the three years in the period ended December 31, 2020	F-4
Consolidated Statements of Comprehensive Income (Loss) for each of the three years in the period ended December 31, 2020	F-5
Consolidated Balance Sheets as of December 31, 2020 and 2019	F-6
Consolidated Statements of Shareholders' Equity for each of the three years in the period ended December 31, 2020	F-7
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2020	F-8
Notes to Consolidated Financial Statements	F-9

(2) Financial Statement Schedules

No financial statement schedules have been included because they are not required, not applicable, or the information is otherwise included in the notes to the financial statements.

(3) Exhibits

The exhibits listed below on the accompanying Index to Exhibits are filed or furnished as part of this report.

Exhibit No.	Description
3.1	Form of Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Amendment No. 7 to Form S-1 dated July 19, 2005)
3.2	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of Consolidated Communications Holdings, Inc., as filed with the Secretary of State of the State of Delaware on May 3, 2011 (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K dated May 4, 2011)
3.3	Amended and Restated Bylaws of Consolidated Communications Holdings Inc., as amended as of June 29, 2014 (incorporated by reference to Exhibit 3.2 to our Current Report on Form 8-K dated June 29, 2014)
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to Amendment No. 7 to Form S-1 dated July 19, 2005)
4.2	Indenture, dated as of October 2, 2020, by and among Consolidated Communications, Inc., Consolidated Communications Holdings, Inc., the other Guarantors party thereto and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K dated October 2, 2020)
4.3	Form of 6.500% Senior Secured Note due 2028 (incorporated by reference to Exhibit A to Exhibit 4.1 to our Current Report on Form 8-K dated October 2, 2020)

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4.4	Joinder Agreement to Guaranty Agreement, dated as of February 1, 2021, by and among Consolidated Communications, Inc., the subsidiaries of Consolidated Communications Holdings, Inc. party thereto and Wells Fargo Bank, National Association, as Administrative Agent (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K dated February 1, 2021)
4.5*	Supplement No. 1 to Security Agreement, dated as of February 1, 2021, among the subsidiaries of Consolidated Communications Holdings, Inc. party thereto and Wells Fargo Bank, National Association, as Collateral Agent (incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K dated February 1, 2021)
4.6*	Supplement No. 1 to Pledge Agreement, dated as of February 1, 2021, among Consolidated Communications, Inc., the subsidiaries of Consolidated Communications Holdings, Inc. party thereto and Wells Fargo Bank, National Association, as Collateral Agent (incorporated by reference to Exhibit 4.3 to our Current Report on Form 8-K dated February 1, 2021)
4.7	First Supplemental Indenture, dated as of February 1, 2021, among Consolidated Communications, Inc., the subsidiaries of Consolidated Communications Holdings, Inc. party thereto and Wells Fargo Bank, National Association, as Trustee and Notes Collateral Agent (incorporated by reference to Exhibit 4.4 to our Current Report on Form 8-K dated February 1, 2021)
4.8	Description of the Company's securities registered pursuant to Section 12(b) of the Securities Exchange Act Form of Employment Security Agreement with the Company's and its subsidiaries vice president and director level employees (incorporated by reference to Exhibit 4.14 to our Annual Report on Form 10-K for the period ended December 31, 2019)
10.1*	Investment Agreement, dated as of September 13, 2020, by and between Consolidated Communications Holdings, Inc. and Searchlight III CVL, L.P. (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K dated September 13, 2020)
10.2	Governance Agreement, dated as of September 13, 2020, by and between Consolidated Communications Holdings, Inc. and Searchlight III CVL, L.P. (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K dated September 13, 2020)
10.3*	Contingent Payment Right Agreement, dated as of October 2, 2020, by and between Consolidated Communications Holdings, Inc. and Searchlight III CVL, L.P. (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K dated October 2, 2020)
10.4	Registration Rights Agreement, dated as of October 2, 2020, by and between Consolidated Communications Holdings, Inc. and Searchlight III CVL, L.P. (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K dated October 2, 2020)
10.5*	Credit Agreement, dated as of October 2, 2020, among Consolidated Communications Holdings, Inc., Consolidated Communications, Inc., the Lenders and other parties referred to therein, Wells Fargo Bank, National Association, as Administrative Agent, Issuing Bank and Swingline Lender (incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K dated October 2, 2020)
10.6	Amendment No. 1, dated as of January 15, 2021, to the Credit Agreement among Consolidated Communications Holdings, Inc., Consolidated Communications, Inc., JPMorgan Chase Bank, N.A., as incremental term loan lender, and Wells Fargo Bank, National Association, as administrative agent (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K dated January 15, 2021)
10.7**	Amended and Restated Consolidated Communications Holdings, Inc. Restricted Share Plan (incorporated by reference to Exhibit 10.11 to Amendment No. 7 to Form S-1 dated July 19, 2005)
10.8**	Consolidated Communications Holdings, Inc. 2005 Long-Term Incentive Plan (as amended and restated effective May 5, 2009, as amended by amendments effective as of May 4, 2015 and amendments effective as of April 30, 2018) (incorporated by reference to Exhibit A to our definitive proxy statement on Schedule 14A filed with the SEC on March 16, 2018)

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10.9**	Fifth Amendment to the Consolidated Communications Holdings, Inc. 2005 Long-Term Incentive Plan, dated October 29, 2018 (incorporated by reference to Exhibit 10.9 to our Annual Report on Form 10-K for the period ended December 31, 2018)
10.10**	Form of Employment Security Agreement with the CEO of the Company (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K dated October 25, 2020)
10.11*	Form of Employment Security Agreement with the CFO of the Company (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K dated October 25, 2020)
10.12**	Form of Employment Security Agreement with certain of the Company’s employees (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2012)
10.13**	Form of Employment Security Agreement with certain of the Company’s other executive officers (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K dated December 4, 2009)
10.14**	Form of Employment Security Agreement with the Company’s and its subsidiaries vice president and director level employees (incorporated by reference to Exhibit 10.12 to our Annual Report on Form 10-K for the period ended December 31, 2007)
10.15**	Executive Long-Term Incentive Program, as revised March 12, 2007 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K dated March 12, 2007)
10.16**	Form of 2005 Long-Term Incentive Plan Performance Stock Grant Certificate (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017)
10.17**	Form of 2005 Long-Term Incentive Plan Restricted Stock Grant Certificate (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-K for the quarter ended March 31, 2017)
10.18**	Form of 2005 Long-Term Incentive Plan Restricted Stock Grant Certificate (Executive) (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2019)
10.19**	Form of 2005 Long-Term Incentive Plan Performance Stock Grant Certificate (Executive) (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2019)
10.20**	Form of 2005 Long-Term Incentive Plan Restricted Stock Grant Certificate for Directors (incorporated by reference to Exhibit 10.4 to our Current Report on Form 8-K dated March 12, 2007)
10.21**	Description of the Consolidated Communications Holdings, Inc. Bonus Plan (incorporated by reference to Exhibit 10.5 to our Current Report on Form 8-K dated March 12, 2007)
10.22	Form of Indemnification Agreement with Directors and Executive Officers (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K dated May 7, 2013)
21	List of subsidiaries of the Registrant
23.1	Consent of Ernst & Young LLP (St. Louis)
31.1	Certificate of Chief Executive Officer of Consolidated Communications Holdings, Inc. pursuant to Rule 13(a)-14(a) under the Securities Exchange Act of 1934
31.2	Certificate of Chief Financial Officer of Consolidated Communications Holdings, Inc. pursuant to Rule 13(a)-14(a) under the Securities Exchange Act of 1934
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. Annual Report on Form 10-K for the year ended December 31, 2020, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Changes in Shareholders’ Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements
104	Cover Page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101)

*Schedules and other attachments are omitted. The Company agrees to furnish, as a supplement, a copy of any schedule or other attachment to the Securities and Exchange Commission upon request.

**Compensatory plan or arrangement.

Item 16. Form 10-K Summary

Not Applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in Mattoon, Illinois on February 26, 2021.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.

By: /s/ C. ROBERT UDELL JR.

C. Robert Udell Jr.

Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
By: <u>/s/ C. ROBERT UDELL JR.</u> C. Robert Udell Jr.	President and Chief Executive Officer, Director (Principal Executive Officer)	February 26, 2021
By: <u>/s/ STEVEN L. CHILDERS</u> Steven L. Childers	Chief Financial Officer (Principal Financial and Accounting Officer)	February 26, 2021
By: <u>/s/ ROBERT J. CURREY</u> Robert J. Currey	Chairman of the Board	February 26, 2021
By: <u>/s/ ROGER H. MOORE</u> Roger H. Moore	Director	February 26, 2021
By: <u>/s/ MARIBETH S. RAHE</u> Maribeth S. Rahe	Director	February 26, 2021
By: <u>/s/ TIMOTHY D. TARON</u> Timothy D. Taron	Director	February 26, 2021
By: <u>/s/ THOMAS A. GERKE</u> Thomas A. Gerke	Director	February 26, 2021
By: <u>/s/ DAVID G. FULLER</u> David G. Fuller	Director	February 26, 2021
By: <u>/s/ WAYNE L. WILSON</u> Wayne L. Wilson	Director	February 26, 2021

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Consolidated Communications Holdings, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Consolidated Communications Holdings, Inc. and subsidiaries (the Company) as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for each of the three years in the period ended December 31, 2020 and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 26, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Goodwill impairment test

Description of the Matter

At December 31, 2020, the Company's goodwill balance was \$1,035 million. As discussed in Note 1 to the consolidated financial statements, goodwill is tested for impairment at least annually at the reporting unit level. The operations of the Company comprise a single reporting unit.

Auditing management's annual goodwill impairment test is complex and highly judgmental due to the significant estimation required in determining the fair value of the Company. In particular, the fair value estimate was sensitive to significant assumptions, such as changes in the future cash flow projections, weighted average cost of capital, control premium, and guideline company revenue and EBITDA.

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multiples, which are affected by expectations about future market and economic conditions.

How we addressed the Matter in our audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's goodwill impairment review process, including controls over management's review of the significant assumptions described above.

To test the estimated fair value of the Company, we performed audit procedures that included, among others, assessing methodologies and testing the significant assumptions discussed above and the underlying data used by the Company in its analysis. We evaluated the sensitivity of the estimated fair value to changes in the significant assumptions and reviewed market data relative to implied control premiums.

To evaluate management's weighted average cost of capital assumptions, we involved EY valuation specialists to assess the methodology and selected assumptions. Our specialists also evaluated the estimated fair value of the Company using guideline company revenue and EBITDA multiples. We also tested management's reconciliation of the fair value of the Company to the market capitalization of the Company and evaluated the implied control premium for reasonableness against observable transactions in the industry.

Searchlight Investment

Description of the Matter

On September 13, 2020, the Company and Searchlight entered into an investment agreement (the "Investment Agreement"). As discussed in Note 4 to the consolidated financial statements affiliates of Searchlight committed to invest up to an aggregate of \$425.0 million in the Company in exchange for common stock, contingent payment rights and the right to an unsecured subordinated note convertible into shares of a new series of perpetual preferred stock (the "Investment Instruments"). The total proceeds from the Investment Agreement were allocated among each of the individual components of the investment on a fair value basis as of October 2, 2020.

Auditing management's estimate of the fair values for each of the Investment Instruments is complex due to the significance of the transaction and the subjectivity of the fair value estimates. The fair values of the Investment Instruments were sensitive to changes in assumptions, primarily due to the discount for lack of marketability on the common stock and contingent payment rights.

How we addressed the Matter in our audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's accounting for the Searchlight Investment, including controls over management's review of the accounting treatment and significant assumptions used in determining the fair values of the different Investment Instruments described above.

With the assistance of professionals in our firm having expertise in debt and equity issuance accounting, we evaluated the Company's conclusions regarding the accounting treatment applied to the Investment Instruments.

With the support of EY valuation specialists, we evaluated the reasonableness of the valuation methodologies and the significant assumptions used by management to determine the estimated fair values of the Investment Instruments. As part of our procedures we involved EY valuation specialists and developed an independent

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estimate of fair values and compared our estimate to the Company's estimate. We evaluated the sensitivity of the fair values to changes in the discount rate for lack of marketability and tested the data underlying the fair value estimates.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2002.
St. Louis, Missouri
February 26, 2021

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(amounts in thousands, except per share amounts)

	Year Ended December 31,		
	2020	2019	2018
Net revenues	\$ 1,304,028	\$ 1,336,542	\$ 1,399,074
Operating expense:			
Cost of services and products (exclusive of depreciation and amortization)	560,644	574,936	611,872
Selling, general and administrative expenses	275,361	299,088	333,605
Acquisition and other transaction costs	7,646	—	1,960
Depreciation and amortization	324,864	381,237	432,668
Income from operations	135,513	81,281	18,969
Other income (expense):			
Interest expense, net of interest income	(143,591)	(136,660)	(134,578)
Gain (loss) on extinguishment of debt	(18,264)	4,510	—
Investment income	41,062	38,088	39,596
Change in fair value of contingent payment rights	23,802	—	—
Other, net	9,716	(10,864)	1,315
Income (loss) before income taxes	48,238	(23,645)	(74,698)
Income tax expense (benefit)	10,936	(3,714)	(24,127)
Net income (loss)	37,302	(19,931)	(50,571)
Less: net income attributable to noncontrolling interest	325	452	263
Net income (loss) attributable to common shareholders	\$ 36,977	\$ (20,383)	\$ (50,834)
Net income (loss) per basic and diluted common shares attributable to common shareholders	\$ 0.47	\$ (0.29)	\$ (0.73)
Dividends declared per common share	\$ —	\$ 0.39	\$ 1.55

See accompanying notes.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(amounts in thousands)

	Year Ended December 31,		
	2020	2019	2018
Net income (loss)	\$ 37,302	\$ (19,931)	\$ (50,571)
Pension and post-retirement obligations:			
Change in net actuarial loss and prior service cost, net of tax of \$(9,710), \$(5,875) and \$(3,941)	(27,007)	(16,738)	(10,835)
Amortization of actuarial losses and prior service cost to earnings, net of tax of \$140, \$2,842 and \$1,370	436	7,936	3,785
Derivative instruments designated as cash flow hedges:			
Change in fair value of derivatives, net of tax of \$(4,797), \$(6,776) and \$(244)	(13,601)	(19,237)	(691)
Cumulative adjustment upon adoption of ASU 2017-12, net of tax of \$(203)	—	(576)	—
Reclassification of realized loss to earnings, net of tax of \$4,061, \$149 and \$855	11,622	959	2,612
Comprehensive income (loss)	8,752	(47,587)	(55,700)
Less: comprehensive income attributable to noncontrolling interest	325	452	263
Total comprehensive income (loss) attributable to common shareholders	<u>\$ 8,427</u>	<u>\$ (48,039)</u>	<u>\$ (55,963)</u>

See accompanying notes.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except share and per share amounts)

	December 31,	
	2020	2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 155,561	\$ 12,395
Accounts receivable, net of allowance for credit losses	137,646	120,016
Income tax receivable	1,072	2,669
Prepaid expenses and other current assets	46,382	41,787
Total current assets	<u>340,661</u>	<u>176,867</u>
Property, plant and equipment, net	1,760,152	1,835,878
Investments	111,665	112,717
Goodwill	1,035,274	1,035,274
Customer relationships, net	113,418	164,069
Other intangible assets	10,557	10,557
Other assets	135,573	54,915
Total assets	<u>\$ 3,507,300</u>	<u>\$ 3,390,277</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 25,283	\$ 30,936
Advance billings and customer deposits	49,544	45,710
Accrued compensation	74,957	57,069
Accrued interest	21,194	7,874
Accrued expense	81,931	75,406
Current portion of long-term debt and finance lease obligations	17,561	27,301
Total current liabilities	<u>270,470</u>	<u>244,296</u>
Long-term debt and finance lease obligations	1,932,666	2,250,677
Deferred income taxes	171,021	173,027
Pension and other post-retirement obligations	300,373	302,296
Convertible security interest	238,701	—
Contingent payment rights	123,241	—
Other long-term liabilities	81,600	72,730
Total liabilities	<u>3,118,072</u>	<u>3,043,026</u>
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Common stock, par value \$0.01 per share; 100,000,000 shares authorized, 79,227,607 and 71,961,045 shares outstanding as of December 31, 2020 and December 31, 2019, respectively	792	720
Additional paid-in capital	525,673	492,246
Accumulated deficit	(34,514)	(71,217)
Accumulated other comprehensive loss, net	(109,418)	(80,868)
Noncontrolling interest	6,695	6,370
Total shareholders' equity	<u>389,228</u>	<u>347,251</u>
Total liabilities and shareholders' equity	<u>\$ 3,507,300</u>	<u>\$ 3,390,277</u>

See accompanying notes.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(amounts in thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss, net	Non- controlling Interest	Total
	Shares	Amount					
Balance at December 31, 2017	70,777	\$ 708	\$ 615,662	\$ —	\$ (48,083)	\$ 5,655	\$ 573,942
Cash dividends on common stock	—	—	(107,112)	(3,271)	—	—	(110,383)
Shares issued under employee plan, net of forfeitures	460	5	(7)	—	—	—	(2)
Non-cash, share-based compensation	—	—	5,119	—	—	—	5,119
Purchase and retirement of common stock	(50)	(1)	(592)	—	—	—	(593)
Other comprehensive income (loss)	—	—	—	—	(5,129)	—	(5,129)
Cumulative adjustment: adoption of ASC 606	—	—	—	3,271	—	—	3,271
Net income	—	—	—	(50,834)	—	263	(50,571)
Balance at December 31, 2018	71,187	\$ 712	\$ 513,070	\$ (50,834)	\$ (53,212)	\$ 5,918	\$ 415,654
Cash dividends on common stock	—	—	(27,289)	(576)	—	—	(27,865)
Shares issued under employee plan, net of forfeitures	870	9	(9)	—	—	—	—
Non-cash, share-based compensation	—	—	6,836	—	—	—	6,836
Purchase and retirement of common stock	(96)	(1)	(362)	—	—	—	(363)
Other comprehensive income (loss)	—	—	—	—	(27,656)	—	(27,656)
Cumulative adjustment upon adoption of ASU 2017-12	—	—	—	576	—	—	576
Net income (loss)	—	—	—	(20,383)	—	452	(19,931)
Balance at December 31, 2019	71,961	\$ 720	\$ 492,246	\$ (71,217)	\$ (80,868)	\$ 6,370	\$ 347,251
Shares issued under employee plan, net of forfeitures	1,061	11	(11)	—	—	—	—
Shares issued to Searchlight	6,353	63	26,716	—	—	—	26,779
Non-cash, share-based compensation	—	—	7,533	—	—	—	7,533
Purchase and retirement of common stock	(147)	(2)	(811)	—	—	—	(813)
Other comprehensive income (loss)	—	—	—	—	(28,550)	—	(28,550)
Cumulative adjustment: adoption of ASU 2016-13	—	—	—	(274)	—	—	(274)
Net income (loss)	—	—	—	36,977	—	325	37,302
Balance at December 31, 2020	79,228	\$ 792	\$ 525,673	\$ (34,514)	\$ (109,418)	\$ 6,695	\$ 389,228

See accompanying notes.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands)

	Year Ended December 31,		
	2020	2019	2018
Cash flows from operating activities:			
Net income (loss)	\$ 37,302	\$ (19,931)	\$ (50,571)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	324,864	381,237	432,668
Deferred income taxes	8,386	(5,249)	(26,008)
Cash distributions from wireless partnerships in excess of (less than) current earnings	844	(1,901)	(194)
Pension and post-retirement contributions in excess of expense	(37,301)	(24,507)	(30,361)
Stock-based compensation expense	7,533	6,836	5,119
Amortization of deferred financing costs and discounts	7,871	4,932	4,721
Loss (gain) on extinguishment of debt	10,629	(4,510)	—
Gain on change in fair value of contingent payment rights	(23,802)	—	—
Other, net	5,374	1,487	6,066
Changes in operating assets and liabilities:			
Accounts receivable, net	(4,993)	13,120	(2,044)
Income tax receivable	3,103	9,908	10,754
Prepaid expenses and other assets	(7,457)	(1,546)	(12,785)
Accounts payable	(5,653)	(1,566)	8,359
Accrued expenses and other liabilities	38,280	(19,214)	11,597
Net cash provided by operating activities	<u>364,980</u>	<u>339,096</u>	<u>357,321</u>
Cash flows from investing activities:			
Purchases of property, plant and equipment, net	(217,563)	(232,203)	(244,816)
Proceeds from sale of assets	7,071	14,718	2,125
Proceeds from business dispositions	—	—	20,999
Proceeds from sale of investments	426	329	233
Other	—	(663)	—
Net cash used in investing activities	<u>(210,066)</u>	<u>(217,819)</u>	<u>(221,459)</u>
Cash flows from financing activities:			
Proceeds from bond offering	750,000	—	—
Proceeds from issuance of long-term debt	1,271,250	195,000	189,588
Proceeds from issuance of common stock	350,000	—	—
Payment of finance lease obligations	(9,020)	(12,519)	(12,755)
Payment on long-term debt	(1,867,838)	(195,350)	(207,938)
Retirement of senior notes	(444,717)	(49,804)	—
Payment of financing costs	(59,139)	—	—
Share repurchases for minimum tax withholding	(812)	(363)	(593)
Dividends on common stock	—	(55,445)	(110,222)
Other	(1,472)	—	—
Net cash used in financing activities	<u>(11,748)</u>	<u>(118,481)</u>	<u>(141,920)</u>
Change in cash and cash equivalents	143,166	2,796	(6,058)
Cash and cash equivalents at beginning of period	12,395	9,599	15,657
Cash and cash equivalents at end of period	<u>\$ 155,561</u>	<u>\$ 12,395</u>	<u>\$ 9,599</u>

See accompanying notes.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018

1. BUSINESS DESCRIPTION & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Basis of Accounting

Consolidated Communications Holdings, Inc. (the “Company,” “we,” “our” or “us”) is a holding company with operating subsidiaries (collectively “Consolidated”) that provide communication solutions to consumer, commercial and carrier customers across a 23-state service area.

Leveraging our advanced fiber network spanning more than 46,600 fiber route miles, we offer residential high-speed Internet, video, phone and home security services as well as multi-service residential and small business bundles. Our business product suite includes data and Internet solutions, voice, data center services, security services, managed and IT services, and an expanded suite of cloud services. As of December 31, 2020, we had approximately 780,000 voice connections, 792,000 data connections and 76,000 video connections.

Use of Estimates

Preparation of the financial statements in conformity with accounting principles generally accepted in the United States and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ materially from those estimates. Our critical accounting estimates include (i) impairment evaluations associated with indefinite-lived intangible assets (Note 1), (ii) the determination of deferred tax asset and liability balances (Notes 1 and 12) and (iii) pension plan and other post-retirement costs and obligations (Notes 1 and 11).

Principles of Consolidation

Our consolidated financial statements include the accounts of the Company and our wholly-owned subsidiaries and subsidiaries in which we have a controlling financial interest. All significant intercompany transactions have been eliminated.

Recent Business Developments

Searchlight Investment

On September 13, 2020, we entered into an investment agreement (the “Investment Agreement”) with an affiliate of Searchlight Capital Partners, L.P. (“Searchlight”). In connection with the Investment Agreement, affiliates of Searchlight have committed to invest up to an aggregate of \$425.0 million in the Company and, assuming satisfaction of certain conditions set forth in the Investment Agreement will hold a combination of perpetual Series A preferred stock and up to 35% of the Company’s outstanding common stock. For a more complete discussion of the transaction, refer to Note 4.

Refinancing of Long-term Debt

On October 2, 2020, the Company and certain of its wholly-owned subsidiaries completed a refinancing of our long-term debt through the issuance of \$2,250.0 million in new secured debt and retired all of our existing then outstanding debt obligations. As described in Note 7, we entered into a new credit agreement which consists of term loans in the aggregate amount of \$1,250.0 million and a \$250.0 million revolving credit facility. On October 2, 2020, we also issued \$750.0 million aggregate principal amount of 6.50% senior secured notes due 2028. On January 15, 2021, the Company issued an additional \$150.0 million aggregate principal amount of incremental term loans under the credit agreement. For a more complete discussion of the refinancing, refer to Note 7.

COVID-19

We are closely monitoring the impact on our business of the outbreak of coronavirus (“COVID-19”) and its variants. We are taking precautions to ensure the safety of our employees, customers and business partners, while assuring business continuity and reliable service and support to our customers. While we have not seen a significant adverse impact to our financial results from COVID-19 to date, if the pandemic continues to cause significant negative impacts to economic conditions, our results of operations, financial condition and liquidity could be materially and adversely impacted.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was enacted by the U.S. government as an emergency economic stimulus package that includes spending and tax breaks to strengthen the US economy and fund a nationwide effort to curtail the economic effects of COVID-19. The CARES Act includes, among other things, deferral of certain employer payroll tax payments, the delay in payment of minimum required pension contributions due in 2020 until January 1, 2021 and certain income tax law changes including modifications to the net interest deduction limitations. In 2020, we deferred the payment of approximately \$12.0 million for the employer portion of Social Security taxes otherwise due in 2020 of which 50% will be due by December 31, 2021 and the remaining 50% by December 31, 2022. We elected not to delay the payment of our minimum required pension contributions due in 2020 and have made all scheduled quarterly pension contributions during 2020. The CARES Act is not expected to have a material impact on our consolidated financial statements.

Cash and Cash Equivalents

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. Our cash equivalents consist primarily of money market funds. The carrying amounts of our cash equivalents approximate their fair values.

Accounts Receivable and Allowance for Credit Losses

Effective January 1, 2020, we adopted Accounting Standards Update (“ASU”) No. 2016-13 (“ASU 2016-13”), *Measurement of Credit Losses on Financial Instruments*, using the modified retrospective method. The adoption of the new standard did not result in a material impact to the Company. As part of the adoption, we recorded a cumulative effect adjustment of \$0.3 million, net of tax, which decreased retained earnings during the year ended December 31, 2020. Of this amount, \$0.2 million was related to the decrease in the value of our partnership interests as a result of the adoption of ASU 2016-13 by our equity method partnerships. The following disclosures have been made in accordance with ASU 2016-13.

Accounts receivable (“AR”) consists primarily of amounts due to the Company from normal business activities. We maintain an allowance for credit losses (“ACL”) based on our historical loss experience, current conditions and forecasted changes including but not limited to changes related to the economy, our industry and business. Uncollectible accounts are written-off (removed from AR and charged against the ACL) when internal collection efforts have been unsuccessful. Subsequently, if payment is received from the customer, the recovery is credited to the ACL.

The following table summarizes the activity in the ACL for the years ended December 31, 2020, 2019 and 2018:

<i>(In thousands)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Balance at beginning of year	\$ 4,549	\$ 4,421	\$ 6,667
Cumulative adjustment upon adoption of ASU 2016-13	144	—	—
Provision charged to expense	11,573	9,347	8,793
Write-offs, less recoveries	(7,130)	(9,219)	(11,039)
Balance at end of year	<u>\$ 9,136</u>	<u>\$ 4,549</u>	<u>\$ 4,421</u>

Investments

Our investments are primarily accounted for under either the equity method or at cost. If we have the ability to exercise significant influence over the operations and financial policies of an affiliated company, the investment in the affiliated company is accounted for using the equity method. If we do not have control and also cannot exercise significant influence, we account for these investments at our initial cost less impairment because fair value is not readily available for these investments.

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We review our investment portfolio periodically to determine whether there are identified events or circumstances that would indicate there is a decline in the fair value that is considered to be other than temporary. If we believe the decline is other than temporary, we evaluate the financial performance of the business and compare the carrying value of the investment to quoted market prices (if available) or the fair value of similar investments. If an investment is deemed to have experienced an impairment that is considered other-than temporary, the carrying amount of the investment is reduced to its quoted or estimated fair value, as applicable, and an impairment loss is recognized in other income (expense).

Fair Value of Financial Instruments

We account for certain assets and liabilities at fair value. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. A financial asset or liability's classification within a three-tiered value hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The hierarchy prioritizes the inputs to valuation techniques into three broad levels in order to maximize the use of observable inputs and minimize the use of unobservable inputs. The levels of the fair value hierarchy are as follows:

Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Inputs that reflect quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets and inputs other than quoted prices that are directly or indirectly observable in the marketplace.

Level 3 – Unobservable inputs which are supported by little or no market activity.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. We capitalize additions and substantial improvements and expense repairs and maintenance costs as incurred.

We capitalize the cost of internal-use network and non-network software which has a useful life in excess of one year. Subsequent additions, modifications or upgrades to internal-use network and non-network software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred. Also, we capitalize interest associated with the development of internal-use network and non-network software.

Property, plant and equipment consisted of the following as of December 31, 2020 and 2019:

<i>(In thousands)</i>	December 31, 2020	December 31, 2019	Estimated Useful Lives
Land and buildings	\$ 274,535	\$ 270,443	18 -40 years
Central office switching and transmission	1,475,590	1,363,533	3 -25 years
Outside plant cable, wire and fiber facilities	2,036,312	2,002,264	3 -50 years
Furniture, fixtures and equipment	303,680	287,711	3 -15 years
Assets under finance leases	40,407	51,324	1 -20 years
Total plant in service	4,130,524	3,975,275	
Less: accumulated depreciation and amortization	(2,466,407)	(2,228,481)	
Plant in service	1,664,117	1,746,794	
Construction in progress	64,056	59,624	
Construction inventory	31,979	29,460	
Totals	<u>\$ 1,760,152</u>	<u>\$ 1,835,878</u>	

Construction inventory, which is stated at weighted average cost, consists primarily of network construction materials and supplies that when issued are predominately capitalized as part of new customer installations and the construction of the network.

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We record depreciation using the straight-line method over estimated useful lives using either the group or unit method. The useful lives are estimated at the time the assets are acquired and are based on historical experience with similar assets, anticipated technological changes and the expected impact of our strategic operating plan on our network infrastructure. In addition, the ranges of estimated useful lives presented above are impacted by the accounting for business combinations as the lives assigned to these acquired assets are generally much shorter than that of a newly acquired asset. The group method is used for depreciable assets dedicated to providing regulated telecommunication services, including the majority of the network, outside plant facilities and certain support assets. A depreciation rate for each asset group is developed based on the average useful life of the group. The group method requires periodic revision of depreciation rates. When an individual asset is sold or retired, the difference between the proceeds, if any, and the cost of the asset is charged or credited to accumulated depreciation, without recognition of a gain or loss.

The unit method is primarily used for buildings, furniture, fixtures and other support assets. Each asset is depreciated on the straight-line basis over its estimated useful life. When an individual asset is sold or retired, the cost basis of the asset and related accumulated depreciation are removed from the accounts and any associated gain or loss is recognized.

Depreciation and amortization expense related to property, plant and equipment was \$274.2 million, \$315.0 million and \$366.3 million in 2020, 2019 and 2018, respectively. Amortization of assets under capital leases is included in the depreciation and amortization expense in the consolidated statements of operations.

We evaluate the recoverability of our property, plant and equipment whenever events or substantive changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability is measured by a comparison of the carrying amount of an asset group to estimated undiscounted future cash flows expected to be generated by the asset group. If the total of the expected future undiscounted cash flows were less than the carrying amount of the asset group, we would recognize an impairment charge for the difference between the estimated fair value and the carrying value of the asset group.

Intangible Assets

Indefinite-Lived Intangibles

Goodwill and tradenames are evaluated for impairment annually or more frequently when events or changes in circumstances indicate that the asset might be impaired. We evaluate the carrying value of goodwill and tradenames as of November 30 of each year.

Goodwill

Goodwill is the excess of the acquisition cost of a business over the fair value of the identifiable net assets acquired. Goodwill is not amortized but instead evaluated annually for impairment. The evaluation of goodwill may first include a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. Events and circumstances integrated into the qualitative assessment process include a combination of macroeconomic conditions affecting equity and credit markets, significant changes to the cost structure, overall financial performance and other relevant events affecting the reporting unit.

For the 2020 assessment, we evaluated the fair value of goodwill compared to the carrying value using the quantitative approach. When we use the quantitative approach to assess the goodwill carrying value and the fair value of our single reporting unit, the fair value of our reporting unit is compared to its carrying amount, including goodwill. The estimated fair value of the reporting unit is determined using a combination of market-based approaches and a discounted cash flow (“DCF”) model and reconciled to our market capitalization plus an estimated control premium. The assumptions used in the estimate of fair value are based upon a combination of historical results and trends, new industry developments and future cash flow projections, as well as relevant comparable company earnings multiples for the market-based approaches. Such assumptions are subject to change as a result of changing economic and competitive conditions. We use a weighting of the results derived from the valuation approaches to estimate the fair value of the reporting unit. For the 2020 assessment, using the quantitative approach, we concluded that the fair value of the reporting unit exceeded the carrying value at November 30, 2020 and that there was no impairment of goodwill.

In measuring the fair value of our single reporting unit as described, we consider the fair value of our reporting unit in relation to our overall enterprise value, measured as the publicly traded stock price multiplied by the fully diluted shares

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outstanding plus the fair value of outstanding debt. Our reporting unit fair value models are consistent with a range in value indicated by both the preceding three-month average stock price and the stock price on the valuation date, plus an estimated acquisition premium which is based on observable transactions of comparable companies, if applicable.

If the carrying value of the reporting unit exceeds its fair value, a goodwill impairment is recorded for the difference in the carrying value and fair value. We did not recognize any goodwill impairment in 2020, 2019 or 2018 as a result of the impairment tests.

At December 31, 2020 and 2019, the carrying value of goodwill was \$1,035.3 million.

Trade Name

Our trade name is the federally registered mark CONSOLIDATED, a design of interlocking circles, which is used in association with our communication services. The Company's corporate branding strategy leverages the CONSOLIDATED name and brand identity. All of the Company's business units and several of our products and services incorporate the CONSOLIDATED name. Trade names with indefinite useful lives are not amortized but are tested for impairment at least annually. If facts and circumstances change relating to a trade name's continued use in the branding of our products and services, it may be treated as a finite-lived asset and begin to be amortized over its estimated remaining life. The carrying value of our trade names, excluding any finite lived trade names, was \$10.6 million at December 31, 2020 and 2019.

For the 2020 assessment, we used the quantitative approach to evaluate the fair value compared to the carrying value of the trade name. Based on our assessment, we concluded that the fair value of the trade names continued to exceed the carrying value.

When we use the quantitative approach to estimate the fair value of our trade names, we use DCFs based on a relief from royalty method. If the fair value of our trade names was less than the carrying amount, we would recognize an impairment charge for the difference between the estimated fair value and the carrying value of the assets. We perform our impairment testing of our trade names as single units of accounting based on their use in our single reporting unit.

Finite-Lived Intangible Assets

Finite-lived intangible assets subject to amortization consist primarily of our customer lists of an established base of customers that subscribe to our services, trade names of acquired companies and other intangible assets. Finite-lived intangible assets are amortized using an accelerated amortization method or on a straight-line basis over their estimated useful lives. We evaluate the potential impairment of finite-lived intangible assets when impairment indicators exist. If the carrying value is no longer recoverable based upon the undiscounted future cash flows of the asset, an impairment equal to the difference between the carrying amount and the fair value of the asset is recognized. We did not recognize any intangible impairment charges in the years ended December 31, 2020, 2019 or 2018.

The components of finite-lived intangible assets are as follows:

<i>(In thousands)</i>	Useful Lives	December 31, 2020		December 31, 2019	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer relationships	5 - 11 years	\$ 318,921	\$ (205,503)	\$ 321,333	\$ (157,264)

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Amortization expense related to the finite-lived intangible assets for the years ended December 31, 2020, 2019 and 2018 was \$50.7 million, \$66.2 million and \$66.3 million, respectively. Expected future amortization expense of finite-lived intangible assets is as follows:

<i>(In thousands)</i>	
2021	\$ 39,479
2022	30,850
2023	23,963
2024	10,617
2025	3,180
Thereafter	5,329
Total	<u>\$ 113,418</u>

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. At the inception of a hedge transaction, we formally document the relationship between the hedging instruments including our objective and strategy for establishing the hedge. In addition, the effectiveness of the derivative instrument is assessed at inception and on an ongoing basis throughout the hedging period.

Counterparties to derivative instruments expose us to credit-related losses in the event of nonperformance. We execute agreements only with financial institutions we believe to be creditworthy and regularly assess the credit worthiness of each of the counterparties. We do not use derivative instruments for trading or speculative purposes.

Derivative financial instruments are recorded at fair value in our consolidated balance sheets. Fair value is determined based on projected interest rate yield curves and an estimate of our nonperformance risk or our counterparty's nonperformance credit risk, as applicable. We do not anticipate any nonperformance by any counterparty.

For derivative instruments designated as a cash flow hedge, 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. Cash flows from hedging activities are classified under the same category as the cash flows from the hedged items in our consolidated statement of cash flows. See Note 8 for further discussion of our derivative financial instruments.

Share-based Compensation

We recognize share-based compensation expense for all restricted stock awards ("RSAs") and performance share awards ("PSAs") (collectively, "stock awards") based on the estimated fair value of the stock awards on the date of grant. We recognize the expense associated with RSAs and PSAs on a straight-line basis over the requisite service period, which generally ranges from immediate vesting to a four-year vesting period, and account for forfeitures as they occur. See Note 10 for additional information regarding share-based compensation.

Pension Plan and Other Post-Retirement Benefits

We maintain noncontributory defined benefit pension plans and provide certain post-retirement health care and life insurance benefits to certain eligible employees. We also maintain two unfunded supplemental retirement plans to provide incremental pension payments to certain former employees. See Note 11 for a more detailed discussion regarding our pension and other post-retirement benefits.

We recognize pension and post-retirement benefits expense during the current period in the consolidated statement of operations using certain assumptions, including the expected long-term rate of return on plan assets, interest cost implied by the discount rate, expected health care cost trend rate and the amortization of unrecognized gains and losses. We

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determine expected long-term rate of return on plan assets by considering historical investment performance, plan asset allocation strategies and return forecasts for each asset class and input from its advisors. Projected returns by such advisors were based on broad equity and fixed income indices. The expected long-term rate of return is reviewed annually in conjunction with other plan assumptions and revised, if considered necessary, to reflect changes in the financial markets and the investment strategy. Our plan assets are valued at fair value as of the measurement date.

Our discount rate assumption is determined annually to reflect the rate at which the benefits could be effectively settled and approximate the timing of expected future payments based on current market determined interest rates for similar obligations. We use bond matching model BOND:Link comprising of high quality corporate bonds to match cash flows to the expected benefit payments.

We recognize the overfunded or underfunded status of our defined benefit pension and post-retirement plans as either an asset or liability in the consolidated balance sheet. Actuarial gains and losses that arise during the year are recognized as a component of comprehensive income (loss), net of applicable income taxes, and included in accumulated other comprehensive income (loss). These gains and losses are amortized over future years as a component of the net periodic benefit cost when the net gains and losses exceed 10% of the greater of the market-related value of the plan assets or the projected benefit obligation at the beginning of the year. The amount in excess of the corridor is amortized over the average remaining service period of participating employees expected to receive benefits under the plans.

Income Taxes

Our estimates of income taxes and the significant items resulting in the recognition of deferred tax assets and liabilities are disclosed in Note 12 and reflect our assessment of future tax consequences of transactions that have been reflected in our financial statements or tax returns for each taxing jurisdiction in which we operate. We base our provision for income taxes on our current period income, changes in our deferred income tax assets and liabilities, income tax rates, changes in estimates of our uncertain tax positions and tax planning opportunities available in the jurisdictions in which we operate. We recognize deferred tax assets and liabilities when there are temporary differences between the financial reporting basis and tax basis of our assets and liabilities and for the expected benefits of using net operating loss and tax credit loss carryforwards. We establish valuation allowances when necessary to reduce the carrying amount of deferred income tax assets to the amounts that we believe are more likely than not to be realized. We evaluate the need to retain all or a portion of the valuation allowance on our deferred tax assets.

When a change in the tax rate or tax law has an impact on deferred taxes, we apply the change when the tax law change is enacted, based on the years in which the temporary differences are expected to reverse. As we operate in more than one state, changes in our state apportionment factors, based on operating results, may affect our future effective tax rates and the value of our deferred tax assets and liabilities. We record a change in tax rates in our consolidated financial statements in the period of enactment.

Income tax consequences that arise in connection with a business combination include identifying the tax basis of assets and liabilities acquired and any contingencies associated with uncertain tax positions assumed or resulting from the business combination. Deferred tax assets and liabilities related to temporary differences of an acquired entity are recorded as of the date of the business combination and are based on our estimate of the appropriate tax basis that will be accepted by the various taxing authorities.

We record unrecognized tax benefits as liabilities in accordance with Accounting Standard Codification (“ASC”) 740, *Income Taxes*, and adjust these liabilities in the appropriate period when our judgment changes as a result of the evaluation of new information. In certain instances, the ultimate resolution may result in a payment that is materially different from our current estimate of the unrecognized tax benefit liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which new information is available. We classify interest and penalties, if any, associated with our uncertain tax positions as a component of interest expense and general and administrative expense, respectively. See Note 12 for further discussion on income taxes.

Revenue Recognition

Revenue is recognized when or as performance obligations are satisfied by transferring control of the good or service to the customer.

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Services

Services revenues, with the exception of usage-based revenues, are generally billed in advance and recognized in subsequent periods when or as services are transferred to the customer.

We offer bundled service packages that consists of high-speed Internet, video and voice services including local and long distance calling, voicemail and calling features. Each service is considered distinct and therefore accounted for as a separate performance obligation. Service revenue is recognized over time, consistent with the transfer of service, as the customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs.

Usage-based services, such as per-minute long-distance service and access charges billed to other telephone carriers for originating and terminating long-distance calls in our network, are billed in arrears. We recognize revenue from these services when or as services are transferred to the customer.

Revenue related to nonrefundable upfront fees, such as service activation and set-up fees are deferred and amortized over the expected customer life.

Equipment

Equipment revenue is generated from the sale of voice and data communications equipment as well as design, configuration, installation and professional support services related to such equipment. Equipment revenue generated from telecommunications systems and structured cabling projects is recognized when or as the project is completed and control is transferred to the customer. Maintenance services are provided on both a contract and time and material basis and are recognized when or as services are transferred.

Subsidies and Surcharges

Subsidies consist of both federal and state subsidies, which are designed to promote widely available, quality telephone service at affordable prices in rural areas. These revenues are calculated by the administering government agency based on information we provide. There is a reasonable possibility that out-of-period subsidy adjustments may be recorded in the future, but they are expected to be immaterial to our results of operations, financial position and cash flows.

We recognize Federal Universal Service contributions on a gross basis. We account for all other taxes collected from customers and remitted to the respective government agencies on a net basis.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was \$11.1 million, \$11.5 million and \$11.4 million in 2020, 2019 and 2018, respectively.

Statement of Cash Flows Information

During 2020, 2019 and 2018, we made payments for interest and income taxes as follows:

<i>(In thousands)</i>	2020	2019	2018
Interest, net of amounts capitalized (\$1,660, \$3,737 and \$5,659 in 2020, 2019 and 2018, respectively)	\$ 120,897	\$ 129,508	\$ 122,422
Income taxes (received) paid, net	\$ (553)	\$ (8,374)	\$ (9,060)

In 2020, 2019 and 2018, we acquired equipment of \$2.5 million, \$6.2 million and \$19.2 million, respectively, through finance or capital lease agreements.

Noncontrolling Interest

We have a majority-owned subsidiary, East Texas Fiber Line Incorporated ("ETFL"), which is a joint venture owned 63% by the Company and 37% by Eastex Telecom Investments, LLC. ETFL provides connectivity over a fiber optic transport network to certain customers residing in Texas.

Recent Accounting Pronouncements

Effective January 1, 2020, we adopted ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, using the modified retrospective method. 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. For additional information on the adoption of the new standard and the impact to our consolidated financial statements and related disclosures, refer to the Accounts Receivable and Allowance for Credit Losses section above.

Effective January 1, 2020, we adopted ASU No. 2018-15 (“ASU 2018-15”), *Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*. ASU 2018-15 provides guidance on accounting for costs of implementation activities in a cloud computing arrangement that is a service contract. The new guidance will be applied prospectively. The adoption of this guidance did not have a material impact on our consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU No. 2018-14 (“ASU 2018-14”), *Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*. ASU 2018-14 modifies disclosure requirements for defined benefit pension and other postretirement plans by removing disclosures that no longer are considered cost beneficial, clarifying the specific requirement of disclosures and adding disclosure requirements identified as relevant. We adopted ASU 2018-14 for the year ended December 31, 2020 and applied the amendments to the disclosures in this update on a retrospective basis to all periods presented. The adoption of this guidance did not have a material impact on our consolidated financial statements and related disclosures.

In August 2020, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2020-06 (“ASU 2020-06”), *Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity*. ASU 2020-06 simplifies guidance on accounting for convertible instruments and contracts in an entity’s own equity including calculating diluted earnings per share. The new guidance is effective for annual periods beginning after December 15, 2021. We early adopted this update as of January 1, 2021 and do not expect it to have a material impact on our consolidated financial statements and related disclosures.

In March 2020, the FASB issued ASU No. 2020-04 (“ASU 2020-04”), *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU 2020-04 provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. In January 2021, the FASB issued ASU No. 2021-01 (“ASU 2021-01”), *Reference Rate Reform (Topic 848): Scope*. ASU 2021-01 clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. The ASU 2020-04 and ASU 2021-01 are both elective and are effective upon issuance through December 31, 2022. We are currently evaluating the impact this update will have on our consolidated financial statements and related disclosures.

In November 2019, the FASB issued ASU No. 2019-12 (“ASU 2019-12”), *Income Taxes*. ASU 2019-12 simplifies the accounting for income taxes by eliminating certain exceptions and adding certain requirements to the general framework in ASC 740, Income Taxes. The new guidance is effective for annual periods beginning after December 15, 2020 with early adoption permitted. We adopted this update as of January 1, 2021 and do not expect it to have a material impact on our consolidated financial statements and related disclosures.

2. REVENUE

Nature of Contracts with Customers

Our revenue contracts with customers may include a promise or promises to deliver goods such as equipment and/or services such as broadband, video or voice services. Promised goods and services are considered distinct as the customer can benefit from the goods or services either on their own or together with other resources that are readily available to the customer and the Company's promise to transfer a good or service to the customer is separately identifiable from other promises in the contract.

The Company accounts for goods and services as separate performance obligations. Each service is considered a single performance obligation as it is providing a series of distinct services that are substantially the same and have the same pattern of transfer.

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

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

Revenue is recognized when or as performance obligations are satisfied by transferring control of the good or service to the customer.

Disaggregation of Revenue

The following table summarizes revenue from contracts with customers for the years ended December 31, 2020, 2019 and 2018:

<i>(In thousands)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating Revenues			
Commercial and carrier:			
Data and transport services (includes VoIP)	\$ 362,078	\$ 355,325	349,413
Voice services	181,700	188,322	202,875
Other	45,155	52,894	56,395
	<u>588,933</u>	<u>596,541</u>	<u>608,683</u>
Consumer:			
Broadband (VoIP and Data)	263,059	257,083	253,119
Video services	74,343	81,378	88,338
Voice services	170,503	180,839	202,032
	<u>507,905</u>	<u>519,300</u>	<u>543,489</u>
Subsidies	71,989	72,440	83,371
Network access	125,261	138,056	152,582
Other products and services	9,940	10,205	10,949
Total operating revenues	<u>\$ 1,304,028</u>	<u>\$ 1,336,542</u>	<u>\$ 1,399,074</u>

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Contract Assets and Liabilities

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

<i>(In thousands)</i>	Year Ended December 31,	
	2020	2019
Accounts receivable, net	\$ 137,646	\$ 120,016
Contract assets	21,004	18,804
Contract liabilities	55,942	50,974

Contract assets include costs that are incremental to the acquisition of a contract. Incremental costs are those that result directly from obtaining a contract or costs that would not have been incurred if the contract had not been obtained, which primarily relate to sales commissions. These costs are deferred and amortized over the expected customer life. We determined that the expected customer life is the expected period of benefit as the commission on the renewal contract is not commensurate with the commission on the initial contract. During the years ended December 31, 2020, 2019 and 2018, the Company recognized expense of \$9.0 million, \$6.3 million and \$2.9 million, respectively, related to deferred contract acquisition costs.

Contract liabilities include deferred revenues related to advanced payments for services and nonrefundable, upfront service activation and set-up fees, which are generally deferred and amortized over the expected customer life as the option to renew without paying an upfront fee provides the customer with a material right. During the years ended December 31, 2020, 2019 and 2018, the Company recognized previously deferred revenues of \$443.0 million, \$397.5 million and \$354.2 million, respectively.

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

Performance Obligations

ASC 606, *Revenue from Contracts with Customers* ("ASC 606"), requires that the Company disclose the aggregate amount of the transaction price that is allocated to remaining performance obligations that are unsatisfied as of December 31, 2020. The guidance provides certain practical expedients that limit this requirement. The service revenue contracts of the Company meet the following practical expedients provided by ASC 606:

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

The Company has elected these practical expedients. Performance obligations related to our service revenue contracts are generally satisfied over time. For services transferred over time, revenue is recognized based on amounts invoiced to the customer as the Company has concluded that the invoice amount directly corresponds with the value of services provided to the customer. Management considers this a faithful depiction of the transfer of control as services are substantially the same and have the same pattern of transfer over the life of the contract. As such, revenue related to unsatisfied performance obligations that will be billed in future periods has not been disclosed.

3. EARNINGS PER SHARE

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

The potentially dilutive impact of the Company's restricted stock awards is determined using the treasury stock method. Under the treasury stock method, if the average market price during the period exceeds the exercise price, these instruments

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are treated as if they had been exercised with the proceeds of exercise used to repurchase common stock at the average market price during the period. Any incremental difference between the assumed number of shares issued and repurchased is included in the diluted share computation.

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

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>	2020	2019	2018
Net income (loss)	\$ 37,302	\$ (19,931)	\$ (50,571)
Less: net income attributable to noncontrolling interest	325	452	263
Income (loss) attributable to common shareholders before allocation of earnings to participating securities	36,977	(20,383)	(50,834)
Less: earnings allocated to participating securities	2,844	462	810
Net income (loss) attributable to common shareholders, after earnings allocated to participating securities	<u>\$ 34,133</u>	<u>\$ (20,845)</u>	<u>\$ (51,644)</u>
Weighted-average number of common shares outstanding	<u>72,752</u>	<u>70,837</u>	<u>70,613</u>
Net income (loss) per common share attributable to common shareholders - basic and diluted	<u>\$ 0.47</u>	<u>\$ (0.29)</u>	<u>\$ (0.73)</u>

Diluted EPS attributable to common shareholders for the year ended December 31, 2020 excludes 6.1 million potential common shares related to our share-based compensation plan and the contingent payment right (“CPR”) issued to Searchlight on October 2, 2020, as described in Note 4, because the inclusion of the potential common shares would have an antidilutive effect. Diluted EPS attributable to common shareholders for the years ended December 31, 2019 and 2018 excludes 1.1 million and 0.5 million potential common shares, respectively, that could be issued under our share-based compensation plan.

4. SEARCHLIGHT INVESTMENT

In connection with the Investment Agreement entered into on September 13, 2020, affiliates of Searchlight have committed to invest up to an aggregate of \$425.0 million in the Company. The investment commitment is structured in two stages. In the first stage of the transaction, which was completed on October 2, 2020, Searchlight invested \$350.0 million in the Company in exchange for 6,352,842 shares, or approximately 8%, of the Company’s common stock and a CPR that is convertible, upon the receipt of certain regulatory and shareholder approvals, into an additional 17,870,012 shares, or 16.9% of the Company’s common stock. In addition, Searchlight received the right to an unsecured subordinated note with an aggregate principal amount of approximately \$395.5 million (the “Note”).

In the second stage of the transaction, Searchlight will invest an additional \$75.0 million and will be issued the Note, which will be convertible into shares of a new series of perpetual preferred stock of the Company with an aggregate liquidation preference equal to the principal amount of the Note plus accrued interest as of the date of conversion. The Note may be issued to Searchlight prior to the closing of the second stage of the transaction upon the occurrence of certain events. In addition, following shareholder approval, if received, the CPR will be convertible into an additional 15,115,899 shares, or an additional 10.1%, of the Company’s common stock. Upon completion of both stages, the common stock and CPR issued to Searchlight will represent approximately 35% of the Company’s common stock on an as-converted basis. The closing of the second stage of the transaction is subject to the receipt of Federal Communications Commission (“FCC”) and Hart Scott Rodino approvals and the satisfaction of certain other customary closing conditions. We expect the closing of the second stage to be completed in mid-2021.

The total expected proceeds from the Investment Agreement were allocated among each of the individual components of the investment and recorded at their estimated fair values as of October 2, 2020. The proceeds were first allocated to the CPRs at their full estimated fair values including a discount for lack of marketability and then allocated to the issuance of

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the common stock with the remaining proceeds allocated to the Note. The estimated fair value of the components of the Investment Agreement at October 2, 2020 are as follows:

<i>(In thousands)</i>	
Assets Received:	
Cash proceeds	\$ 350,000
Receivable from Searchlight, net of discount of \$612	74,388
Less: Issuance costs	(14,474)
Total consideration	<u>\$ 409,914</u>
Assets Exchanged:	
6,352,842 shares of common stock, par value \$0.01 per share, net of issuance costs of \$1,473	\$ 26,779
CPR for 16.9% additional shares of common stock	79,469
CPR for 10.1% additional shares of common stock	67,221
Unsecured subordinated note right, net of discount of \$146,018 and issuance costs of \$13,001	236,445
	<u>\$ 409,914</u>

At December 31, 2020, the net present value of the receivable for the additional investment of \$75.0 million expected to be received from Searchlight upon the closing of the second stage of the transaction was \$74.7 million, net of unamortized discount of \$0.3 million, and is included within other assets in the consolidated balance sheets.

The CPRs are reported at their estimated fair value within long-term liabilities in the consolidated balance sheets. Subsequent changes in fair value are reflected in earnings within other income and expense in the consolidated statements of operations. As of December 31, 2020, the estimated fair value of the CPRs was \$123.2 million and during the year ended December 31, 2020, we recognized a gain of \$23.5 million on the decline in the fair value of the CPRs. Issuance costs allocated to the CPRs of \$7.6 million were expensed as incurred during the year ended December 31, 2020, which were included in acquisition and other transaction costs in the consolidated statements of operations.

The Note bears interest at 9.0% per annum from the date of the closing of the first stage of the transaction and is payable semi-annually in arrears. Upon conversion of the Note, dividends on the preferred stock will accrue daily on the liquidation preference at a rate of 9.0% per annum, payable semi-annually in arrears. The Note and preferred stock include a paid-in-kind (“PIK”) option for a five-year period beginning as of October 2, 2020. The Company intends to exercise the PIK interest option on the Note through at least 2022. The term of the Note is 10 years and is due on October 1, 2029. At December 31, 2020, the net carrying value of the Note was \$238.7 million, net of unamortized discount and issuance costs of \$144.8 million and \$12.0 million, respectively. The unamortized discount and issuance costs are being amortized over the contractual term of the Note using the effective interest method.

5. INVESTMENTS

Our investments are as follows:

<i>(In thousands)</i>	2020	2019
Cash surrender value of life insurance policies	\$ 2,536	\$ 2,474
Investments at cost:		
GTE Mobilnet of South Texas Limited Partnership (2.34% interest)	21,450	21,450
Pittsburgh SMSA Limited Partnership (3.60% interest)	22,950	22,950
CoBank, ACB Stock	8,882	8,910
Other	273	298
Equity method investments:		
GTE Mobilnet of Texas RSA #17 Limited Partnership (20.51% interest)	20,299	20,162
Pennsylvania RSA 6(I) Limited Partnership (16.67% interest)	7,482	7,658
Pennsylvania RSA 6(II) Limited Partnership (23.67% interest)	27,793	28,815
Totals	<u>\$ 111,665</u>	<u>\$ 112,717</u>

Investments at Cost

We own 2.34% of GTE Mobilnet of South Texas Limited Partnership (the “Mobilnet South Partnership”). The principal activity of the Mobilnet South Partnership is providing cellular service in the Houston, Galveston, and Beaumont, Texas metropolitan areas. We also own 3.60% of Pittsburgh SMSA Limited Partnership (“Pittsburgh SMSA”), which provides cellular service in and around the Pittsburgh metropolitan area. Because of our limited influence over these partnerships, we account for these investments at our initial cost less any impairment because fair value is not readily available for these investments. We did not evaluate any of the investments for impairment as no factors indicating impairment existed during the year. For these investments, we adjust the carrying value for any purchases or sales of our ownership interests, if any (there were none during the periods presented). We record distributions received from these investments as investment income in non-operating income (expense). In 2020, 2019 and 2018, we received cash distributions from these partnerships totaling \$19.1 million, \$16.8 million and \$17.3 million, respectively.

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

Equity Method

We own 20.51% of GTE Mobilnet of Texas RSA #17 Limited Partnership (“RSA #17”), 16.67% of Pennsylvania RSA 6(I) Limited Partnership (“RSA 6(I)”) and 23.67% of Pennsylvania RSA 6(II) Limited Partnership (“RSA 6(II)”). RSA #17 provides cellular service to a limited rural area in Texas. RSA 6(I) and RSA 6(II) provide cellular service in and around our Pennsylvania service territory. Because we have significant influence over the operating and financial policies of these three entities, we account for the investments using the equity method. In connection with the adoption of ASC 606 by our equity method partnerships, the value of our combined partnership interests increased \$1.8 million, which is reflected in the cumulative effect adjustment to retained earnings during the year ended December 31, 2018. In 2020, 2019 and 2018, we received cash distributions from these partnerships totaling \$22.4 million, \$19.0 million and \$21.8 million, respectively. The carrying value of the investments exceeds the underlying equity in net assets of the partnerships by \$32.8 million as of December 31, 2020 and 2019.

6. FAIR VALUE MEASUREMENTS

Financial Instruments

Interest Rate Swap Agreements

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 8 for further discussion regarding our interest rate swap agreements.

Our interest rate swap agreements measured at fair value on a recurring basis at December 31, 2020 and 2019 were as follows:

<i>(In thousands)</i>	Total	As of December 31, 2020		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Current interest rate swap liabilities	\$ (6,297)	\$ —	\$ (6,297)	\$ —
Long-term interest rate swap liabilities	(22,958)	—	(22,958)	—
Total	\$ (29,255)	\$ —	\$ (29,255)	\$ —

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<i>(In thousands)</i>	Total	As of December 31, 2019		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Current interest rate swap liabilities	\$ (2,565)	\$ —	\$ (2,565)	\$ —
Long-term interest rate swap liabilities	(24,960)	—	(24,960)	—
Total	\$ (27,525)	\$ —	\$ (27,525)	\$ —

Contingent Payment Obligations

Our contingent payment obligations represent the CPRs issued to Searchlight in connection with the Investment Agreement. We are required to measure the CPRs at their estimated fair value on a recurring basis based on a market approach utilizing observable market values and a marketability discount. As of December 31, 2020, the estimated fair value of the CPRs was \$123.2 million and was classified as Level 2 within the fair value hierarchy at December 31, 2020.

We have not elected the fair value option for any of our other assets or liabilities. The carrying value of other financial instruments, including cash, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short maturities. The following table presents the other financial instruments that are not carried at fair value but which require fair value disclosure as of December 31, 2020 and 2019.

<i>(In thousands)</i>	As of December 31, 2020		As of December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, excluding finance leases	\$ 1,978,694	\$ 2,039,790	\$ 2,262,111	\$ 2,125,497

Cost & Equity Method Investments

Our investments at December 31, 2020 and 2019 accounted for at cost and under the equity method consisted primarily of minority positions in various cellular telephone limited partnerships and our investment in CoBank. It is impracticable to determine 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.

7. LONG-TERM DEBT

Long-term debt outstanding, presented net of unamortized discounts, consisted of the following as of December 31, 2020 and 2019:

<i>(In thousands)</i>	2020	2019
Senior secured credit facility:		
Term loans, net of discounts of \$18,181 and \$5,604 at December 31, 2020 and 2019, respectively	\$ 1,228,694	\$ 1,779,109
Revolving loan	—	40,000
6.50% Senior notes due 2028	750,000	—
6.50% Senior notes due 2022, net of discount of \$1,998 at December 31, 2019	—	443,002
Finance leases	17,467	24,019
	1,996,161	2,286,130
Less: current portion of long-term debt and finance leases	(17,561)	(27,301)
Less: deferred debt issuance costs	(45,934)	(8,152)
Total long-term debt	\$ 1,932,666	\$ 2,250,677

Credit Agreement

On October 2, 2020, the Company, through certain of its wholly-owned subsidiaries, entered into a Credit Agreement with various financial institutions (the “Credit Agreement”) to replace the Company’s previous credit agreement in its entirety. The Credit Agreement consists of term loans in the aggregate amount of \$1,250.0 million (the “Term Loans”) and a revolving loan facility of \$250.0 million, which replaced the previous \$110.0 million revolving loan facility scheduled to mature on October 5, 2021. 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 plus (b) an amount which would not cause its senior secured leverage ratio not to exceed 3.70:1.00 (the “Incremental Facility”). Borrowings under the Credit Agreement are secured by substantially all of the assets of the Company and its subsidiaries, subject to certain exceptions.

The Term Loans were issued in an original aggregate principal amount of \$1,250.0 million with a maturity date of October 2, 2027 and contain an original issuance discount of 1.5% or \$18.8 million, which is being amortized over the term of the loan. The Term Loans require quarterly principal payments of \$3.1 million, which commenced December 31, 2020, and bear interest at a rate 4.75% plus the London Interbank Offered Rate (“LIBOR”) subject to a 1.00% LIBOR floor.

The revolving credit facility has a maturity date of October 2, 2025 and an applicable margin (at our election) of 4.00% for LIBOR-based borrowings or 3.00% for alternate base rate borrowings, with a 0.25% reduction in each case if the consolidated first lien leverage ratio, as defined in the Credit Agreement, does not exceed 3.20 to 1.00. As of December 31, 2020, there were no borrowings outstanding under the revolving credit facility. At December 31, 2019, borrowings of \$40.0 million were outstanding under the previous revolving credit facility, which consisted of LIBOR-based borrowings of \$30.0 million and alternate base rate borrowings of \$10.0 million. Stand-by letters of credit of \$18.1 million were outstanding under our revolving credit facility as of December 31, 2020. The stand-by letters of credit are renewable annually and reduce the borrowing availability under the revolving credit facility. As of December 31, 2020, \$231.9 million was available for borrowing under the revolving credit facility.

The weighted-average interest rate on outstanding borrowings under our credit facilities was 5.75% and 4.80% at December 31, 2020 and 2019, respectively. Interest is payable at least quarterly.

Financing Costs

In connection with entering into the Credit Agreement in October 2020, fees of \$29.1 million were capitalized as deferred debt issuance costs. These capitalized costs are amortized over the term of the debt and are included as a component of interest expense in the consolidated statements of operations. We also incurred a loss on the extinguishment of debt of \$12.3 million during the year ended December 31, 2020 related to the repayment of the outstanding term loan under the previous credit agreement.

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 a maximum consolidated first lien leverage ratio, as defined in the Credit Agreement. Among other things, it will be an event of default, with respect to the revolving credit facility only, if our consolidated first lien leverage ratio as of the end of any fiscal quarter is greater than 5.85:1.00. As of December 31, 2020, our consolidated first lien leverage ratio under the Credit Agreement was 3.56:1.00. As of December 31, 2020, we were in compliance with the Credit Agreement covenants.

Credit Agreement Amendment

On January 15, 2021, the Company entered into Amendment No. 1 to the Credit Agreement in which we borrowed an additional \$150.0 million aggregate principal amount of incremental term loans (the “Incremental Term Loans”). The Incremental Term Loans have terms and conditions identical to the Term Loans including the same maturity date and interest rate. The Term Loans and Incremental Term Loans will collectively comprise a single class of term loans under the Credit Agreement, as amended. The Term Loans will require quarterly principal payments of \$3.5 million beginning on March 31, 2021.

Senior Notes

6.50% Senior Notes due 2028

On October 2, 2020, we completed an offering of \$750.0 million aggregate principal amount of 6.50% unsubordinated secured notes due 2028 (the “Senior Notes”). The Senior Notes were priced at par and bear interest at a rate of 6.50%, payable semi-annually on April 1 and October 1 of each year, beginning on April 1, 2021. The Senior Notes will mature on October 1, 2028. Deferred debt issuance costs of \$17.0 million incurred in connection with the issuance of the Senior Notes are being amortized using the effective interest method over the term of the Senior Notes.

The Senior Notes are unsubordinated secured obligations of the Company, secured by a first priority lien on the collateral that secures the Company’s obligations under the Credit Agreement. The Senior Notes are fully and unconditionally guaranteed on a first priority secured basis by the Company and the majority of our wholly-owned subsidiaries. The offering of the Senior Notes has not been registered under the Securities Act of 1933, as amended or any state securities laws.

Senior Notes Covenant Compliance

Subject to certain exceptions and qualifications, the indenture governing the Senior Notes contains customary covenants that, among other things, limits the Company 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. At December 31, 2020, the Company was in compliance with all terms, conditions and covenants under the indenture governing the Senior Notes.

Redemption of 6.50% Senior Notes due 2022

On October 2, 2020, a notice of redemption was issued to holders of our then outstanding \$440.5 million aggregate principal amount of 6.50% Senior Notes due in October 2022 (the “2022 Notes”) to redeem all outstanding 2022 Notes at a price equal to 100% of the aggregate principal amount plus accrued and unpaid interest through the redemption date. A portion of the proceeds from the issuance of the Senior Notes was deposited with the trustee to pay and discharge the entire indebtedness under the 2022 Notes. The 2022 Notes were redeemed on November 2, 2020, in accordance with the notice of redemption.

In connection with the redemption of the 2022 Notes, we recognized a loss on extinguishment of debt of \$5.9 million during the year ended December 31, 2020. During the year ended December 31, 2019, we repurchased \$55.0 million of the aggregate principal amount of the 2022 Notes for \$49.8 million and recognized a gain on extinguishment of debt of \$4.5 million.

Future Maturities of Debt

At December 31, 2020, the aggregate maturities of our long-term debt excluding finance leases were as follows:

<i>(In thousands)</i>	
2021	\$ 12,500
2022	12,500
2023	12,500
2024	12,500
2025	12,500
Thereafter	1,934,375
Total maturities	1,996,875
Less: Unamortized discount	(18,181)
	<u>\$ 1,978,694</u>

See Note 9 regarding the future maturities of our obligations for finance leases.

8. DERIVATIVE FINANCIAL INSTRUMENTS

We may utilize interest rate swap agreements to mitigate risk associated with fluctuations in interest rates related to our variable rate debt obligations under the Credit Agreement. Derivative financial instruments are recorded at fair value in our consolidated balance sheet.

The following interest rate swaps were outstanding at December 31, 2020:

<i>(In thousands)</i>	Notional Amount	2020 Balance Sheet Location	Fair Value
Cash Flow Hedges:			
Fixed to 1-month floating LIBOR (with floor)	\$ 705,000	Accrued expense	\$ (6,297)
Fixed to 1-month floating LIBOR (with floor)	\$ 500,000	Other long-term liabilities	(22,958)
Total Fair Values			<u>\$ (29,255)</u>

Our interest rate swap agreements mature on various dates between July 2021 and July 2023.

The following interest rate swaps were outstanding at December 31, 2019:

<i>(In thousands)</i>	Notional Amount	2019 Balance Sheet Location	Fair Value
Cash Flow Hedges:			
Fixed to 1-month floating LIBOR (with floor)	\$ 705,000	Accrued expense	\$ (2,565)
Fixed to 1-month floating LIBOR (with floor)	\$ 500,000	Other long-term liabilities	(18,303)
Forward starting fixed to 1-month floating LIBOR (with floor)	\$ 705,000	Other long-term liabilities	(6,657)
Total Fair Values			<u>\$ (27,525)</u>

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

In 2018, we entered into an interest rate swap agreement with a notional value of \$500.0 million and a term of five years. The interest rate swap agreement was designated as a cash flow hedge at inception. On March 12, 2018, we completed a syndication of a portion of the \$500.0 million interest rate swap agreement with five new counterparties. On the date of the syndication, the interest rate swap agreements were de-designated due to changes in critical terms as a result of the syndication. Prior to de-designation, the change in fair value of the interest rate swap was recognized in AOCI. The balance of the unrealized loss included in AOCI as of the date the swaps were de-designated is being amortized to earnings over the remaining term of the interest rate swap agreements. In April 2018, the interest rate swap agreements were re-designated as a cash flow hedge. Changes in fair value of the de-designated swaps were immediately recognized in earnings as interest expense prior to the re-designation date. During the year ended December 31, 2018, a loss of \$2.5 million was recognized in interest expense for the change in fair value of the de-designated swaps.

At December 31, 2020 and 2019, the total pre-tax unrealized loss related to our interest rate swap agreements included in AOCI was \$(25.2) million and \$(22.5) million, respectively. From the balance in AOCI as of December 31, 2020, we expect to recognize a loss of approximately \$13.8 million in earnings as interest expense in the next twelve months.

Information regarding our cash flow hedge transactions is as follows:

<i>(In thousands)</i>	Year Ended December 31,	
	2020	2019
Unrealized loss recognized in AOCI, pretax	\$ (18,398)	\$ (26,013)
Deferred loss reclassified from AOCI to interest expense	\$ (15,683)	\$ (1,108)



9. LEASES

We have entered into various leases for certain facilities, land, underground conduit, colocations, and equipment used in our operations. For leases with a term greater than 12 months, we recognize a right-to-use asset and a lease liability based on the present value of lease payments over the lease term. The leases have remaining lease terms of one year to 88 years and may include one or more options to renew, which can extend the lease term from one to five years or more. Operating lease expense is recognized on a straight-line basis over the lease term.

As most of our leases do not provide a readily determinable implicit rate, we use our incremental borrowing rate based on the information available at lease commencement date in determining the present value of lease payments. We use the implicit rate when a rate is readily determinable. Our leases may also include scheduled rent increases and options to extend or terminate the lease which is included in the determination of lease payments when it is reasonably certain that we will exercise that option. For all asset classes, we do not separate lease and nonlease components, as such we account for the components as a single lease component.

Leases with an initial term of 12 months or less are not recognized on the balance sheet and the expense for these short-term leases is recognized on a straight-line basis over the lease term. Short-term lease expense, which is recognized in cost of services and products, was not material to the consolidated statements of operations for the years ended December 31, 2020 and 2019. Variable lease payments are expensed as incurred.

The following table summarizes the components of our lease right-of use assets and liabilities at December 31, 2020 and 2019:

<i>(In thousands)</i>	Balance Sheet Classification	2020	2019
Operating leases			
Operating lease right-of-use assets	Other assets	\$ 25,808	\$ 26,239
Current lease liabilities	Accrued expense	\$ (5,824)	\$ (6,173)
Noncurrent lease liabilities	Other long-term liabilities	\$ (20,192)	\$ (20,235)
Finance leases			
Finance lease right-of-use assets, net of accumulated depreciation of \$23,034 and \$28,909	Property, plant and equipment, net	\$ 17,373	\$ 22,414
Current lease liabilities	Current portion of long-term debt and finance lease obligations	\$ (5,061)	\$ (8,951)
Noncurrent lease liabilities	Long-term debt and finance lease obligations	\$ (12,406)	\$ (15,068)
Weighted-average remaining lease term			
Operating leases		7.2 years	7.6 years
Finance leases		6.2 years	5.6 years
Weighted-average discount rate			
Operating leases		6.43 %	7.20 %
Finance leases		6.99 %	7.15 %

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The components of lease expense for the years ended December 31, 2020 and 2019 consisted of the following:

<i>(In thousands)</i>	Year Ended December 31,	
	2020	2019
Finance lease cost:		
Amortization of right-of-use assets	\$ 7,442	\$ 12,031
Interest on lease liabilities	1,356	1,993
Operating lease cost	8,421	8,902
Variable lease cost	2,205	2,392
Total lease cost	\$ 19,424	\$ 25,318

The following table presents supplemental cash flow information related to leases for the years ended December 31, 2020 and 2019:

<i>(In thousands)</i>	Year Ended December 31,	
	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	\$ 8,325	\$ 8,701
Operating cash flows for finance leases	1,356	1,993
Financing cash flows for finance leases	9,020	12,519
Right-of-use assets obtained in exchange for new lease liabilities:		
Operating leases	6,842	2,269
Finance leases	2,534	6,227

At December 31, 2020, the aggregate maturities of our lease liabilities were as follows:

<i>(In thousands)</i>	Operating Leases	Finance Leases
2021	\$ 7,319	\$ 5,968
2022	6,767	3,971
2023	4,583	2,343
2024	2,943	1,850
2025	2,246	1,732
Thereafter	9,491	4,721
Total lease payments	33,349	20,585
Less: Interest	(7,333)	(3,118)
	\$ 26,016	\$ 17,467

Lessor

We have various arrangements for use of our network assets for which we are the lessor, including tower space, certain colocation, conduit and dark fiber arrangements. These leases meet the criteria for operating lease classification. Lease income associated with these types of leases is not material. Occasionally, we enter into arrangements where the term may be for a major part of the asset's remaining economic life such as in indefeasible right of use ("IRU") arrangements for dark fiber or conduit, which meet the criteria for sales-type lease classification. During the years ended December 31, 2020 and 2019, we entered into IRU arrangements for exclusive access to and unrestricted use of specific assets. These arrangements were recognized as sales-type leases as the term of the arrangements were for a major part of the asset's remaining economic life. During the years ended December 31, 2020 and 2019, we recognized revenue of \$2.2 million and \$2.0 million, respectively, as well as a gain of \$1.1 million and \$1.6 million, respectively, related to these arrangements.

We elected the practical expedient to combine lease and non-lease components in our lessor arrangements. We have arrangements where the non-lease component associated with the lease component is the predominant component in the contract, such as in revenue contracts that involve the customer leasing equipment from us. In such cases, we account for

the combined component in accordance with ASC 606 as the service component is the predominant component in the contract.

10. EQUITY

Dividends

Our Board of Directors declared quarterly dividends of approximately \$0.38738 per share during 2018. On February 18, 2019, the Board of Directors declared a dividend of approximately \$0.38738 per share, paid on May 1, 2019 to stockholders of record on April 15, 2019.

On April 25, 2019, we announced the elimination of the payment of quarterly dividends on our stock beginning in the second quarter of 2019. Future dividend payments, if any, are at the discretion of our Board of Directors. Changes in our dividend program will depend on our earnings, capital requirements, financial condition, debt covenant compliance, expected cash needs and other factors considered relevant by our Board of Directors.

Share-based Compensation

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

We measure the fair value of RSAs based on the market price of the underlying common stock on the date of grant. We recognize the expense associated with RSAs on a straight-line basis over the requisite service period, which generally ranges from immediate vesting to a four-year vesting period.

We implemented an ongoing performance-based incentive program under the Plan. The performance-based incentive program provides for annual grants of PSAs. PSAs are restricted stock that are issued, to the extent earned, at the end of each performance cycle. Under the performance-based incentive program, each participant is given a target award expressed as a number of shares, with a payout opportunity ranging from 0% to 120% of the target, depending on performance relative to predetermined goals. An estimate of the number of PSAs that are expected to vest is made, and the fair value of the PSAs is expensed utilizing the fair value on the date of grant over the requisite service period.

The following table summarizes grants of RSAs and PSAs under the Plan during the years ended December 31, 2020, 2019 and 2018:

	Year Ended December 31,					
	2020	Grant Date Fair Value	2019	Grant Date Fair Value	2018	Grant Date Fair Value
RSAs Granted	863,710	\$ 6.30	551,214	\$ 9.87	478,210	\$ 12.45
PSAs Granted	240,669	\$ 9.86	371,672	\$ 12.45	—	\$ —
Total	<u>1,104,379</u>		<u>922,886</u>		<u>478,210</u>	

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The following table summarizes the RSA and PSA activity during the year ended December 31, 2020:

	RSAs		PSAs	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Non-vested shares outstanding - December 31, 2019	532,445	\$ 11.58	275,995	\$ 13.29
Shares granted	863,710	\$ 6.30	240,669	\$ 9.86
Shares vested	(532,414)	\$ 8.74	(137,969)	\$ 12.33
Shares forfeited, cancelled or retired	(29,768)	\$ 9.36	(13,655)	\$ 11.51
Non-vested shares outstanding - December 31, 2020	833,973	\$ 7.81	365,040	\$ 11.06

The total fair value of the RSAs and PSAs that vested during the years ended December 31, 2020, 2019 and 2018 was \$6.4 million, \$5.6 million and \$4.1 million, respectively.

Share-based Compensation Expense

The following table summarizes total compensation costs recognized for share-based payments during the years ended December 31, 2020, 2019 and 2018:

<i>(In thousands)</i>	Year Ended December 31,		
	2020	2019	2018
Restricted stock	\$ 4,597	\$ 4,013	\$ 3,249
Performance shares	2,936	2,823	1,870
Total	\$ 7,533	\$ 6,836	\$ 5,119

Income tax benefits related to share-based compensation of approximately \$2.0 million, \$1.8 million and \$1.3 million were recorded for the years ended December 31, 2020, 2019 and 2018, respectively. Share-based compensation expense is included in “selling, general and administrative expenses” in the accompanying consolidated statements of operations.

As of December 31, 2020, total unrecognized compensation cost related to non-vested RSAs and PSAs was \$11.5 million and will be recognized over a weighted-average period of approximately 1.6 years.

Accumulated Other Comprehensive Income (Loss)

The following table summarizes the changes in accumulated other comprehensive income (loss), net of tax, by component during 2020 and 2019:

<i>(In thousands)</i>	Pension and Post-Retirement Obligations	Derivative Instruments	Total
Balance at December 31, 2018	\$ (55,514)	\$ 2,302	\$ (53,212)
Other comprehensive loss before reclassifications	(16,738)	(19,237)	(35,975)
Cumulative adjustment upon adoption of ASU 2017-12	—	(576)	(576)
Amounts reclassified from accumulated other comprehensive loss	7,936	959	8,895
Net current period other comprehensive income (loss)	(8,802)	(18,854)	(27,656)
Balance at December 31, 2019	\$ (64,316)	\$ (16,552)	\$ (80,868)
Other comprehensive loss before reclassifications	(27,007)	(13,601)	(40,608)
Amounts reclassified from accumulated other comprehensive loss	436	11,622	12,058
Net current period other comprehensive income (loss)	(26,571)	(1,979)	(28,550)
Balance at December 31, 2020	\$ (90,887)	\$ (18,531)	\$ (109,418)

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The following table summarizes reclassifications from accumulated other comprehensive loss during 2020 and 2019:

<i>(In thousands)</i>	Amount Reclassified from AOCI		Affected Line Item in the Statement of Income
	Year Ended December 31,		
	2020	2019	
Amortization of pension and post-retirement items:			
Prior service cost	\$ (1,270)	\$ (857)	(a)
Actuarial gain (loss)	694	(3,195)	(a)
Settlement loss	—	(6,726)	(a)
	<u>(576)</u>	<u>(10,778)</u>	Total before tax
	140	2,842	Tax benefit
	<u>\$ (436)</u>	<u>\$ (7,936)</u>	Net of tax
Gain (Loss) on cash flow hedges:			
Interest rate derivatives	\$ (15,683)	\$ (1,108)	Interest expense
	4,061	149	Tax benefit (expense)
	<u>\$ (11,622)</u>	<u>\$ (959)</u>	Net of tax

(a) These items are included in the components of net periodic benefit cost for our pension and post-retirement benefit plans. See Note 11 for additional details.

11. PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

Defined Benefit Plans

We sponsor three qualified defined benefit pension plans that are non-contributory covering substantially all of our hourly employees under collective bargaining agreements who fulfill minimum age and service requirements and certain salaried employees. The defined benefit pension plans are closed to all new entrants. In November 2018, a defined benefit pension plan was amended to freeze benefit accruals under the cash balance benefit plan for certain participants under collective bargaining agreements effective as of March 31, 2019. Consequently, as of April 1, 2019 all of our defined benefit pension plans are now frozen to all current employees, and no additional monthly pension benefits will accrue under those plans.

We also have two non-qualified supplemental retirement plans (the “Supplemental Plans” and, together with the defined benefit pension plans, 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 are frozen so that no person is eligible to become a new participant. These plans are unfunded and have no assets. The benefits paid under the Supplemental Plans are paid from the general operating funds of the Company.

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The following tables summarize the change in benefit obligation, plan assets and funded status of the Pension Plans as of December 31, 2020 and 2019:

<i>(In thousands)</i>	2020	2019
Change in benefit obligation		
Benefit obligation at the beginning of the year	\$ 759,821	\$ 712,174
Service cost	—	50
Interest cost	25,971	30,327
Actuarial loss	75,131	80,023
Benefits paid	(34,803)	(31,581)
Plan settlement	—	(31,172)
Benefit obligation at the end of the year	<u>\$ 826,120</u>	<u>\$ 759,821</u>

<i>(In thousands)</i>	2020	2019
Change in plan assets		
Fair value of plan assets at the beginning of the year	\$ 556,967	\$ 499,791
Employer contributions	24,039	27,516
Actual return on plan assets	77,623	92,413
Benefits paid	(34,803)	(31,581)
Plan settlement	—	(31,172)
Fair value of plan assets at the end of the year	<u>\$ 623,826</u>	<u>\$ 556,967</u>
Funded status at year end	<u>\$ (202,294)</u>	<u>\$ (202,854)</u>

In the years ended December 31, 2020 and 2019, the actuarial loss on the benefit obligation was primarily due to decreases in the discount rate.

Amounts recognized in the consolidated balance sheets at December 31, 2020 and 2019 consisted of:

<i>(In thousands)</i>	2020	2019
Current liabilities	\$ (244)	\$ (243)
Long-term liabilities	\$ (202,050)	\$ (202,611)

Amounts recognized in accumulated other comprehensive loss for the years ended December 31, 2020 and 2019 consisted of:

<i>(In thousands)</i>	2020	2019
Unamortized prior service cost	\$ 930	\$ 1,052
Unamortized net actuarial loss	138,868	107,982
	<u>\$ 139,798</u>	<u>\$ 109,034</u>

The following table summarizes the components of net periodic pension cost recognized in the consolidated statements of operations for the plans for the years ended December 31, 2020, 2019 and 2018:

<i>(In thousands)</i>	2020	2019	2018
Service cost	\$ —	\$ 50	\$ 5,809
Interest cost	25,971	30,327	28,870
Expected return on plan assets	(34,544)	(34,627)	(38,640)
Amortization of:			
Net actuarial loss	1,165	2,890	6,110
Prior service cost (credit)	123	123	(204)
Plan curtailment	—	—	(1,156)
Plan settlement	—	6,726	94
Net periodic pension cost	<u>\$ (7,285)</u>	<u>\$ 5,489</u>	<u>\$ 883</u>

The components of net periodic pension cost other than the service cost component are included in other, net within other income (expense) in the consolidated statements of operations.



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In 2019, we purchased a group annuity contract to transfer the pension benefit obligations and annuity administration for a select group of retirees or their beneficiaries to an annuity provider. Upon issuance of the group annuity contract, the pension benefit obligation of \$24.4 million for approximately 500 participants was irrevocably transferred to the annuity provider. The purchase of the group annuity was funded directly by the assets of the Pension Plans. During the year ended December 31, 2019, we recognized a pension settlement charge of \$6.7 million as a result of the transfer of the pension liability to the annuity provider and other lump sum payments made during the year.

In 2018, the Retirement Plan was amended to freeze benefit accruals under the cash balance benefit plan for certain participants under collective bargaining agreements. As a result of these amendments, we recognized a pre-tax curtailment gain of \$1.2 million as a component of net periodic pension cost during the year ended December 31, 2018.

The following table summarizes other changes in plan assets and benefit obligations recognized in other comprehensive loss, before tax effects, during 2020 and 2019:

<i>(In thousands)</i>	2020	2019
Actuarial loss, net	\$ 32,052	\$ 22,236
Recognized actuarial loss	(1,165)	(2,890)
Prior service credit	—	(123)
Recognized prior service cost	(123)	—
Plan settlement	—	(6,726)
Total amount recognized in other comprehensive loss, before tax effects	<u>\$ 30,764</u>	<u>\$ 12,497</u>

The weighted-average assumptions used to determine the projected benefit obligations and net periodic benefit cost for the years ended December 31, 2020, 2019 and 2018 were as follows:

	2020	2019	2018
Discount rate - net periodic benefit cost	3.51 %	4.36 %	3.75 %
Discount rate - benefit obligation	2.81 %	3.51 %	4.39 %
Expected long-term rate of return on plan assets	6.25 %	6.97 %	7.03 %
Rate of compensation/salary increase	2.50 %	2.50 %	2.50 %
Interest crediting rate for cash balance plans	2.00 %	3.00 %	3.00 %

Other Non-qualified Deferred Compensation Agreements

We also are 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 death of the participant and may begin as early as age 55. Participants accrue no new benefits as these plans had previously been frozen. Payments related to the deferred compensation agreements totaled approximately \$0.2 million and \$0.3 million for the years ended December 31, 2020 and 2019, respectively. The net present value of the remaining obligations was approximately \$0.8 million and \$1.4 million at December 31, 2020 and 2019, respectively, and is included in pension and post-retirement benefit obligations in the accompanying balance sheets.

We also maintain 24 life insurance policies on certain of the participating former directors and employees. We recognized \$1.4 million in life insurance proceeds as other non-operating income in 2020. We did not recognize any life insurance proceeds in 2019. The excess of the cash surrender value of the remaining life insurance policies over the notes payable balances related to these policies is determined by an independent consultant, and totaled \$2.5 million at December 31, 2020 and 2019. These amounts are included in investments in the accompanying consolidated balance sheets. Cash principal payments for the policies and any proceeds from the policies are classified as operating activities in the consolidated statements of cash flows. The aggregate death benefit payment payable under these policies totaled \$6.3 million and \$7.1 million as of December 31, 2020 and 2019, respectively.

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 are 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

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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 certain healthcare plan is funded by assets that are separately designated within the Pension Plans for the sole purpose of providing payments of retiree medical benefits for this specific plan.

The following tables summarize the change in benefit obligation, plan assets and funded status of the post-retirement benefit obligations as of December 31, 2020 and 2019:

<i>(In thousands)</i>	2020	2019
Change in benefit obligation		
Benefit obligation at the beginning of the year	\$ 107,132	\$ 109,902
Service cost	825	957
Interest cost	3,265	4,231
Plan participant contributions	218	269
Actuarial loss	6,387	570
Benefits paid	(9,376)	(8,797)
Plan amendments	(1,747)	—
Benefit obligation at the end of the year	<u>\$ 106,704</u>	<u>\$ 107,132</u>

<i>(In thousands)</i>	2020	2019
Change in plan assets		
Fair value of plan assets at the beginning of the year	\$ 3,164	\$ 2,791
Employer contributions	9,159	8,527
Plan participant's contributions	218	269
Actual return on plan assets	172	374
Benefits paid	(9,376)	(8,797)
Fair value of plan assets at the end of the year	<u>\$ 3,337</u>	<u>\$ 3,164</u>
Funded status at year end	<u>\$ (103,367)</u>	<u>\$ (103,968)</u>

In the years ended December 31, 2020 and 2019, the actuarial loss on the benefit obligation was primarily due to decreases in discount rate which was partially offset by the underwriting gain.

Amounts recognized in the consolidated balance sheets at December 31, 2020 and 2019 consist of:

<i>(In thousands)</i>	2020	2019
Current liabilities	\$ (5,709)	\$ (5,619)
Long-term liabilities	\$ (97,658)	\$ (98,349)

Amounts recognized in accumulated other comprehensive loss for the years ended December 31, 2020 and 2019 consist of:

<i>(In thousands)</i>	2020	2019
Unamortized prior service credit	\$ (3,766)	\$ (872)
Unamortized net actuarial loss (gain)	284	(7,987)
	<u>\$ (3,482)</u>	<u>\$ (8,859)</u>

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The following table summarizes the components of the net periodic costs for post-retirement benefits for the years ended December 31, 2020, 2019 and 2018:

<i>(In thousands)</i>	2020	2019	2018
Service cost	\$ 825	\$ 957	\$ 405
Interest cost	3,265	4,231	4,128
Expected return on plan assets	(197)	(180)	(142)
Amortization of:			
Net actuarial gain	(1,859)	(2,033)	(56)
Prior service cost	1,147	3,072	367
Net periodic postretirement benefit cost	<u>\$ 3,181</u>	<u>\$ 6,047</u>	<u>\$ 4,702</u>

The components of net periodic post-retirement benefit cost other than the service cost component are included in other, net within other income (expense) in the consolidated statements of operations.

The following table summarizes other changes in plan assets and benefit obligations recognized in other comprehensive loss, before tax effects, during 2020 and 2019:

<i>(In thousands)</i>	2020	2019
Actuarial loss, net	\$ 6,412	\$ 376
Recognized actuarial gain	1,859	2,033
Prior service credit	(1,747)	—
Recognized prior service cost	(1,147)	(3,072)
Total amount recognized in other comprehensive loss, before tax effects	<u>\$ 5,377</u>	<u>\$ (663)</u>

The weighted-average discount rate assumptions utilized for the years ended December 31 were as follows:

	2020	2019	2018
Net periodic benefit cost	3.35 %	4.35 %	3.62 %
Benefit obligation	2.56 %	3.34 %	4.35 %

For purposes of determining the cost and obligation for post-retirement medical benefits, a 6.50% healthcare cost trend rate was assumed for the plan in 2020, declining to the ultimate trend rate of 5.00% in 2027.

Plan Assets

Our investment strategy is designed to provide a stable environment to earn a rate of return over time to satisfy the benefit obligations and minimize the reliance on contributions as a source of benefit security. The objectives are based on a long-term (5 to 15 year) investment horizon, so that interim fluctuations should be viewed with appropriate perspective. The assets of the fund are to be invested to achieve the greatest return for the pension plans consistent with a prudent level of risk.

The asset return objective is to achieve, as a minimum over time, the passively managed return earned by managed index funds, weighted in the proportions outlined by the asset class exposures identified in the pension plan's strategic allocation. We update our long-term, strategic asset allocations every few years to ensure they are in line with our fund objectives. At December 31, 2020, the target allocation of the Pension Plan assets is approximately 70 - 90% in return seeking assets consisting primarily of equity and fixed income funds with the remainder in hedge funds. Our investment policy allows the use of derivative instruments when appropriate to reduce anticipated asset volatility or to gain desired exposure to various markets and return drivers. Currently, we believe that there are no significant concentrations of risk associated with the Pension Plan assets.

The following is a description of the valuation methodologies for assets measured at fair value utilizing the fair value hierarchy discussed in Note 1, which prioritizes the inputs used in the valuation methodologies in measuring fair value. The fair value measurements used to value our plan assets as of December 31, 2020 were generated by using market transactions involving identical or comparable assets. There were no changes in the valuation techniques used during 2020.

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Common Stocks: Includes domestic and international common stocks and are valued at the closing price as of the measurement date as reported on the active market on which the individual securities are traded.

Common Collective Trusts and Commingled Funds: Units in the fund are valued based on the net asset value (“NAV”) of the funds, which is based on the fair value of the underlying investments held by the fund less its liabilities as reported by the issuer of the fund. The NAV per share is used as a practical expedient to estimate fair value. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported net asset value. These investments have no unfunded commitments, are redeemable daily, weekly, monthly or quarterly and have redemption notice periods of up to 180 days.

The fair values of our assets for our defined benefit pension plans at December 31, 2020 and 2019, by asset category were as follows:

		As of December 31, 2020		
<i>(In thousands)</i>	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equities:				
Stocks:				
U.S. common stocks	\$ 15	\$ 15	\$ —	\$ —
International stocks	1	1	—	—
Total plan assets in the fair value hierarchy	16	\$ 16	\$ —	\$ —
Common Collective Trusts measured at NAV: (1)				
Short-term investments (2)	7,479			
Equities:				
Global	232,933			
Real estate	89,508			
Fixed Income	247,479			
Hedge Funds	46,402			
Other assets/(liabilities) (3)	9			
Total plan assets	\$ 623,826			
		As of December 31, 2019		
<i>(In thousands)</i>	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 21	\$ 21	\$ —	\$ —
Equities:				
Stocks:				
U.S. common stocks	15	15	—	—
International stocks	4	4	—	—
Total plan assets in the fair value hierarchy	40	\$ 40	\$ —	\$ —
Common Collective Trusts measured at NAV: (1)				
Short-term investments (2)	9,201			
Equities:				
Global	220,453			
Real estate	83,433			
Fixed Income	243,840			
Total plan assets	\$ 556,967			

(1) Certain investments that are measured at fair value using NAV per share as a practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to the total plan assets.

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- (2) Short-term investments include an investment in a common collective trust which is principally comprised of certificates of deposit, commercial paper, U.S. government obligations and variable rate securities with maturities less than one year.
- (3) Other assets/(liabilities) include accrued receivables, net payables and pending settlements.

The fair values of our assets for our post-retirement benefit plans at December 31, 2020 and 2019 were as follows:

<i>(In thousands)</i>	As of December 31, 2020
<u>Common Collective Trusts measured at NAV: ⁽¹⁾</u>	
Short-term investments ⁽²⁾	\$ 41
Equities:	
Global	1,288
Real estate	496
Fixed Income	1,369
Hedge Funds	257
Total plan assets	3,451
Benefit payments payable	(114)
Net plan assets	<u>\$ 3,337</u>

<i>(In thousands)</i>	As of December 31, 2019
<u>Common Collective Trusts measured at NAV: ⁽¹⁾</u>	
Short-term investments ⁽²⁾	\$ 53
Equities:	
Global	1,252
Real estate	474
Fixed Income	1,385
Total plan assets	<u>\$ 3,164</u>

-
- (1) Certain investments that are measured at fair value using NAV per share as a practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to the total plan assets.
- (2) Short-term investments include investment in a common collective trust which is principally comprised of certificates of deposit, commercial paper and U.S. government obligations with maturities less than one year.

Cash Flows

Contributions

Our funding policy is to contribute annually an actuarially determined amount necessary to meet the minimum funding requirements as set forth in employee benefit and tax laws. We expect to contribute approximately \$20.7 million to our Pension Plans and \$8.8 million to our other post-retirement plans in 2021.

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Estimated Future Benefit Payments

As of December 31, 2020, benefit payments expected to be paid over the next ten years are outlined in the following table:

<i>(In thousands)</i>	Pension Plans	Other Post-retirement Plans
2021	\$ 34,982	\$ 8,789
2022	35,976	8,164
2023	36,667	7,705
2024	37,821	7,265
2025	38,290	6,702
2026 - 2030	201,101	28,640

Defined Contribution Plans

We offer defined contribution 401(k) plans to substantially all of our employees. Contributions made under the defined contribution plans include a match, at the Company's discretion, of employee contributions to the plans. We recognized expense with respect to these plans of \$15.6 million, \$15.8 million and \$13.7 million in 2020, 2019 and 2018, respectively.

12. INCOME TAXES

Income tax expense (benefit) consists of the following components:

<i>(In thousands)</i>	For the Year Ended		
	2020	2019	2018
Current:			
Federal	\$ 314	\$ 143	\$ 247
State	2,236	1,392	1,634
Total current expense	2,550	1,535	1,881
Deferred:			
Federal	8,802	(4,339)	(17,248)
State	(416)	(910)	(8,760)
Total deferred expense (benefit)	8,386	(5,249)	(26,008)
Total income tax expense (benefit)	\$ 10,936	\$ (3,714)	\$ (24,127)

The following is a reconciliation of the federal statutory tax rate to the effective tax rate for the years ended December 31, 2020, 2019 and 2018:

<i>(In percentages)</i>	For the Year Ended		
	2020	2019	2018
Statutory federal income tax rate	21.0 %	21.0 %	21.0 %
State income taxes, net of federal benefit	1.6	10.6	5.2
Searchlight investment	(3.3)	—	—
Other permanent differences	2.2	(4.5)	(0.9)
Change in deferred tax rate	—	(2.9)	3.7
Change in deferred tax rate - Federal Tax Reform	—	—	6.9
Valuation allowance	2.8	(4.7)	(2.3)
Provision to return	(1.1)	(0.5)	0.5
Sale of stock in subsidiary	—	—	(1.0)
State audit settlement	—	(3.2)	—
Acquisition related	—	—	(1.3)
Other	(0.5)	(0.1)	0.5
	<u>22.7 %</u>	<u>15.7 %</u>	<u>32.3 %</u>

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Deferred Taxes

The components of the net deferred tax liability are as follows:

<i>(In thousands)</i>	<u>Year Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Non-current deferred tax assets:		
Reserve for uncollectible accounts	\$ 2,420	\$ 1,194
Accrued vacation pay deducted when paid	4,354	4,152
Accrued expenses and deferred revenue	16,419	9,839
Net operating loss carryforwards	76,198	86,535
Pension and postretirement obligations	79,688	80,245
Share-based compensation	974	693
Derivative instruments	6,582	5,868
Financing costs	1,177	176
Tax credit carryforwards	4,990	6,077
	<u>192,802</u>	<u>194,779</u>
Valuation allowance	<u>(7,139)</u>	<u>(6,680)</u>
Net non-current deferred tax assets	<u>185,663</u>	<u>188,099</u>
Non-current deferred tax liabilities:		
Goodwill and other intangibles	(53,797)	(66,271)
Basis in investment	(12)	(5)
Partnership investments	(15,988)	(16,138)
Property, plant and equipment	(286,888)	(278,712)
Other	1	—
	<u>(356,684)</u>	<u>(361,126)</u>
Net non-current deferred taxes	<u>\$ (171,021)</u>	<u>\$ (173,027)</u>

As of December 31, 2020, the CARES Act did not have a material impact on the Company's income tax positions. We will continue to evaluate the impact of enacted and future legislation.

Deferred income taxes are provided for the temporary differences between assets and liabilities recognized for financial reporting purposes and assets and liabilities recognized for tax purposes. The ultimate realization of deferred tax assets depends upon taxable income during the future periods in which those temporary differences become deductible. To determine whether deferred tax assets can be realized, management assesses whether it is more likely than not that some portion or all of the deferred tax assets will not be realized, taking into consideration the scheduled reversal of deferred tax liabilities, projected future taxable income and tax-planning strategies.

Consolidated and its wholly owned subsidiaries, which file a consolidated federal income tax return, estimates it has available federal NOL carryforwards as of December 31, 2020 of \$314.6 million and related deferred tax assets of \$66.1 million. The federal NOL carryforwards for tax years beginning after December 31, 2017 of \$63.9 million and related deferred tax assets of \$13.4 million can be carried forward indefinitely. The federal NOL carryforwards for the tax years prior to December 31, 2017 of \$250.7 million and related deferred tax assets of \$52.7 million expire in 2027 to 2035.

ETFL, a nonconsolidated subsidiary for federal income tax return purposes, estimates it has available NOL carryforwards as of December 31, 2020 of \$0.8 million and related deferred tax assets of \$0.2 million. ETFL's federal NOL carryforwards are for the tax years prior to December 31, 2017 and expire in 2021 to 2024.

We estimate that we have available state NOL carryforwards as of December 31, 2020 of \$659.3 million and related deferred tax assets of \$14.7 million. The state NOL carryforwards expire from 2021 to 2041. Management believes that it is more likely than not that we will not be able to realize state NOL carryforwards of \$83.5 million and related deferred tax asset of \$5.4 million and has placed a valuation allowance on this amount. The related NOL carryforwards expire from 2021 to 2041. If or when recognized, the tax benefits related to any reversal of the valuation allowance will be accounted for as a reduction of income tax expense.

We estimate that we have available state tax credit carryforwards as of December 31, 2020 of \$6.3 million and related deferred tax assets of \$5.0 million. The state tax credit carryforwards are limited annually and expire from 2021 to 2030.



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Management believes that it is more likely than not that we will not be able to realize state tax carryforwards of \$2.2 million and related deferred tax asset of \$1.7 million and has placed a valuation allowance on this amount. The related state tax credit carryforwards expire from 2021 to 2030. If or when recognized, the tax benefits related to any reversal of the valuation allowance will be accounted for as a reduction of income tax expense.

Unrecognized Tax Benefits

Under the accounting guidance applicable to uncertainty in income taxes, we have analyzed filing positions in all of the federal and state jurisdictions where we are required to file income tax returns as well as all open tax years in these jurisdictions. Our unrecognized tax benefits as of December 31, 2020 and 2019 were \$4.9 million. There were no material effects on the Company's effective tax rate. The net amount of unrecognized benefits that, if recognized, would result in an impact to the effective rate is \$4.7 million for each of the years ended December 31, 2020 and 2019.

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 December 31, 2020 and 2019, we did not have a material liability for interest or penalties and had no material interest or penalty expense.

The periods subject to examination for our federal return are years 2017 through 2019. The periods subject to examination for our state returns are years 2016 through 2019. In addition, prior tax years may be subject to examination by federal or state taxing authorities if the Company's NOL carryovers from those prior years are utilized in the future. We are currently under examination by state taxing authorities. We do not expect any settlement or payment that may result from the examination to have a material effect on our results or cash flows.

We do not expect that the total unrecognized tax benefits and related accrued interest will significantly change due to the settlement of audits or the expiration of statute of limitations in the next twelve months. There were no material effects on the Company's effective tax rate.

13. COMMITMENTS AND CONTINGENCIES

We have certain other obligations for various contractual agreements to secure future rights to goods and services to be used in the normal course of our operations. These include purchase commitments for planned capital expenditures, agreements securing dedicated access and transport services, and service and support agreements.

As of December 31, 2020, future minimum contractual obligations and the estimated timing and effect the obligations will have on our liquidity and cash flows in future periods are as follows:

<i>(in thousands)</i>	Minimum Annual Contractual Obligations						Total
	2021	2022	2023	2024	2025	Thereafter	
Service and support agreements ⁽¹⁾	\$ 16,574	\$ 14,262	\$ 9,146	\$ 689	\$ 337	\$ 1,359	\$ 42,367
Transport and data connectivity	8,359	7,044	5,431	5,417	178	203	26,632
Capital expenditures ⁽²⁾	10,454	—	—	—	—	—	10,454
Other operating agreements ⁽³⁾	2,495	2,289	2,225	611	244	675	8,539
Total	\$ 37,882	\$ 23,595	\$ 16,802	\$ 6,717	\$ 759	\$ 2,237	\$ 87,992

(1) We have entered into service and maintenance agreements to support various computer hardware and software applications and certain equipment.

(2) We have binding commitments with numerous suppliers for future capital expenditures.

(3) We have entered into various non-cancelable rental agreements for certain facilities and equipment used in our operations.

Litigation, Regulatory Proceedings and Other Contingencies

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 and/or Audit Assessment Notices from the Commonwealth of Pennsylvania Department of Revenue (“DOR”) increasing the amounts owed for the Pennsylvania Gross Receipts Tax, and have had audits performed for the tax years 2008 through 2016. For our CCES and CCPA subsidiaries, the total additional tax liabilities calculated by the DOR auditors for the tax years 2008 through 2016, including interest, are approximately \$6.1 million and \$7.4 million, respectively. We filed Petitions for Reassessment with the DOR’s Board of Appeals for the tax years 2008 through 2016, contesting these audit assessments. These cases remain pending and are in various stages of appeal.

In May 2017, we entered into an agreement to guarantee any potential liabilities to the DOR up to \$5.0 million. We believe that certain of the DOR’s findings regarding CCPA’s and CCES’s additional tax liabilities for the tax years 2008 through 2016, for which we have filed appeals, continue to lack merit. However, in 2019, CCES and CCPA finalized a settlement of the intrastate and interstate tax liabilities for the 2008 through 2013 tax years, except for the 2010 CCPA appeals, bringing the appeals to a conclusion. The settlement resulted in a payment from us to the DOR of \$2.1 million, which the Company previously reserved for. Based on the initial settlement offers for the tax years 2008 through 2013 and the Company’s best estimate of the potential additional tax liabilities for the tax years 2010 (CCPA) and 2014 through 2018 (CCPA and CCES), we have reserved \$1.5 million and \$0.7 million, including interest, for our CCES and CCPA subsidiaries, respectively. We expect the filings for the tax years 2014 through 2018 to be settled at a later date similar to the initial settlement. While we continue to believe a settlement of all remaining disputed claims is possible, we cannot anticipate at this time what the ultimate resolution of these cases will be, nor can we evaluate the likelihood of a favorable or unfavorable outcome or the potential losses (or gains) should such an outcome occur. 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.

14. RELATED PARTY TRANSACTIONS

Richard A. Lumpkin, who was a member of our Board of Directors until April 4, 2019, had related party transactions. The following speaks to the related party transactions involving Mr. Lumpkin through April 4, 2019. As of December 31, 2020, there were no other significant related party transactions.

Finance Leases

Mr. Lumpkin, together with his family, beneficially owned 37.0% of Agracel, Inc. (“Agracel”), a real estate investment company, at April 4, 2019 and December 31, 2018. Mr. Lumpkin was also a director of Agracel. Agracel was the sole managing member and 50% owner of LATEL LLC (“LATEL”). Mr. Lumpkin and his immediate family had a 68.5% beneficial ownership of LATEL at April 4, 2019 and December 31, 2018.

We had three finance lease agreements with LATEL for the occupancy of three buildings on a triple net lease basis. In accordance with the Company’s related person transactions policy, these leases were approved by our Audit Committee and Board of Directors (“BOD”). We accounted for these leases as finance leases in accordance with ASC 842, *Leases*. The finance lease agreements require us to pay substantially all expenses associated with general maintenance and repair, utilities, insurance and taxes. One of the lease agreements was terminated on October 31, 2019 while the remaining two lease agreements have a maturity date of May 31, 2021 each with two five-year options to extend the term of the lease after the initial expiration date. We were required to pay LATEL approximately \$7.9 million over the initial terms of the lease agreements. We recognized \$0.1 million through April 4, 2019 and \$0.3 million in 2018 in interest expense. We also recognized \$0.1 million in 2019 through April 4, 2019 and \$0.4 million in 2018 in amortization expense related to the finance leases.

Long-Term Debt

A trust, for which Mr. Lumpkin was the beneficiary of, owned \$5.0 million of the 2022 Senior Notes. We recognized approximately \$0.1 million through April 4, 2019 and \$0.3 million in 2018 in interest expense for the 2022 Senior Notes owned by the related party.

Other Services

Mr. Lumpkin also had a minority ownership interest in First Mid Bank & Trust (“First Mid”). We provided telecommunications products and services to First Mid and in return received approximately \$0.2 million through April 4, 2019 and \$0.9 million in 2018 for these services.

15. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

2020	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
	<i>(In thousands, except per share amounts)</i>			
Net revenues	\$ 325,662	\$ 325,176	\$ 327,066	\$ 326,124
Operating income	\$ 37,352	\$ 39,780	\$ 37,352	\$ 21,029
Net income (loss) attributable to common stockholders	\$ 15,547	\$ 13,840	\$ 14,510	\$ (6,920)
Basic and diluted earnings (loss) per share	\$ 0.22	\$ 0.19	\$ 0.20	\$ (0.09)

2019	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
	<i>(In thousands, except per share amounts)</i>			
Net revenues	\$ 338,649	\$ 333,532	\$ 333,326	\$ 331,035
Operating income	\$ 16,720	\$ 14,300	\$ 23,542	\$ 26,719
Net loss attributable to common stockholders	\$ (7,265)	\$ (7,387)	\$ 257	\$ (5,988)
Basic and diluted loss per share	\$ (0.11)	\$ (0.10)	\$ —	\$ (0.08)

In connection with the Investment Agreement entered into with Searchlight in October 2020 as discussed in Note 4, we recognized transaction costs of \$7.6 million during the quarter ended December 31, 2020 associated with the CPRs issued as part of the transaction. We also incurred additional interest expense of \$7.9 million on the Note issued to Searchlight in the fourth quarter of 2020.

During the quarter ended December 31, 2020, we recognized a gain of \$23.8 million on the decline in the fair value of contingent payment rights issued to Searchlight as part of the Investment Agreement.

We incurred a loss on the extinguishment of debt of \$18.5 million in connection with the refinancing of our credit agreement and redemption of our 2022 Senior Notes during the quarter ended December 31, 2020. We recognized a gain on extinguishment of debt from the partial repurchase of our 2022 Senior Notes of \$0.2 million during the quarter ended March 31, 2020 and \$0.3 million, \$1.1 million and \$3.1 million during the quarters ended June 30, 2019, September 30, 2019, and December 31, 2019, respectively.

As part of continued cost saving initiatives, we incurred severance costs of \$7.5 million and \$8.7 million during the quarters ended December 31, 2020 and 2019, respectively.

During the quarter ended December 31, 2019, we purchased a group annuity contract to transfer the pension benefit obligations and annuity administration for a select group of retirees or their beneficiaries to an annuity provider. As a result of the transfer of the pension liability to the annuity provider and other lump sum payments to participants of the Pension Plans, we recognized a non-cash pension settlement charge of \$6.7 million during the quarter ended December 31, 2019.

SUBSIDIARIES OF THE COMPANY

The following is a list of subsidiaries of the Company, omitting subsidiaries which, considered in the aggregate, would not constitute a significant subsidiary. Unless otherwise noted, all subsidiaries are 100% owned (directly or indirectly) by Consolidated Communications Holdings, Inc.

Name	State of Incorporation
Berkshire Cable Corp.	New York
Berkshire Cellular, Inc.	New York
Berkshire New York Access, Inc.	New York
Berkshire Telephone Corporation	New York
C&E Communications, Ltd.	New York
Chautauqua & Erie Communications, Inc.	New York
Chautauqua and Erie Telephone Corporation	New York
Consolidated Communications of Comerco Company	Washington
Consolidated Communications Enterprise Services, Inc.	Delaware
Consolidated Communications Finance III Co.	Delaware
Consolidated Communications of California Company	California
Consolidated Communications of Central Illinois Company	Illinois
Consolidated Communications of Colorado Company	Delaware
Consolidated Communications of Florida Company	Florida
Consolidated Communications of Illinois Company	Illinois
Consolidated Communications of Kansas Company	Kansas
Consolidated Communications of Maine Company	Maine
Consolidated Communications of Minnesota Company	Minnesota
Consolidated Communications of Missouri Company	Missouri
Consolidated Communications of New York Company, LLC	Delaware
Consolidated Communications of Northern New England Company, LLC	Delaware
Consolidated Communications of Northland Company	Delaware
Consolidated Communications of Ohio Company, LLC	Delaware
Consolidated Communications of Oklahoma Company	Oklahoma
Consolidated Communications of Pennsylvania Company, LLC	Delaware
Consolidated Communications of Texas Company	Texas
Consolidated Communications of Vermont Company, LLC	Delaware
Consolidated Communications of Washington Company, LLC	Delaware
Consolidated Communications, Inc.	Illinois
FairPoint Business Services LLC	Delaware
St. Joe Communications, Inc.	Florida
Taconic Technology Corp.	New York
Taconic Telecom Corp.	New York
Taconic Telephone Corp.	New York

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (i) Registration Statement (Form S-8 No. 333-135440) pertaining to the Consolidated Communications, Inc. 401(k) Plan and Consolidated Communications 401(k) Plan for Texas Bargaining Associates,
- (ii) Registration Statement (Form S-8 No. 333-128934) pertaining to the Consolidated Communications Holdings, Inc. 2005 Long-Term Incentive Plan,
- (iii) Registration Statement (Form S-8 No. 333-166757) pertaining to the Consolidated Communications, Inc. 2005 Long-Term Incentive Plan,
- (iv) Registration Statement (Form S-8 No. 333-182597) pertaining to the SureWest Communications Employee Stock Ownership Plan of Consolidated Communications Holdings, Inc.,
- (v) Registration Statement (Form S-8 to Form S-4/A No. 333-198000) pertaining to the Hickory Tech Corporation 1993 Stock Award Plan,
- (vi) Registration Statement (Form S-8 No. 333-203974) pertaining to the Consolidated Communications Holdings, Inc. 2005 Long-Term Incentive Plan, and
- (vii) Registration Statement (Form S-8 No. 333-228199) pertaining to the Consolidated Communications Holdings, Inc. 2005 Long-Term Incentive Plan;

of our reports dated February 26, 2021, with respect to the consolidated financial statements of Consolidated Communications Holdings, Inc. and subsidiaries and the effectiveness of internal control over financial reporting of Consolidated Communications Holdings, Inc. and subsidiaries included in this Annual Report (Form 10-K) of Consolidated Communications Holdings, Inc. and subsidiaries for the year ended December 31, 2020.

/s/ Ernst & Young LLP

St. Louis, Missouri
February 26, 2021

CHIEF EXECUTIVE OFFICER CERTIFICATION

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

1. I have reviewed this annual report on Form 10-K 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.

February 26, 2021

/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 annual report on Form 10-K 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.

February 26, 2021

/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 Annual Report on Form 10-K for the fiscal year ended December 31, 2020 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)
February 26, 2021

/s/ Steven L. Childers

Steven L. Childers
Chief Financial Officer
(Principal Financial Officer and Chief Accounting Officer)
February 26, 2021
