

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

FORM 10-Q

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

For the quarterly period ended September 30, 2021

or

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 000-51446



CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

<u>Delaware</u> (State or other jurisdiction of incorporation or organization)	<u>02-0636095</u> (I.R.S. Employer Identification No.)
<u>2116 South 17th Street, Mattoon, Illinois</u> (Address of principal executive offices)	<u>61938</u> (Zip Code)

(217) 235-3311

(Registrant's telephone number, including area code)

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

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

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

On October 25, 2021, the registrant had 98,754,185 shares of Common Stock outstanding.

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PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES**
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS*(Unaudited; Amounts in thousands except per share amounts)*

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net revenues	\$ 318,584	\$ 327,066	\$ 963,753	\$ 977,904
Operating expense:				
Cost of services and products (exclusive of depreciation and amortization)	142,507	144,428	431,797	421,717
Selling, general and administrative expenses	64,100	65,066	199,948	197,679
Loss on impairment of assets held for sale	5,704	—	5,704	—
Depreciation and amortization	73,765	80,220	225,455	244,024
Income from operations	32,508	37,352	100,849	114,484
Other income (expense):				
Interest expense, net of interest income	(43,176)	(31,661)	(137,022)	(95,215)
Gain (loss) on extinguishment of debt	—	—	(17,101)	234
Investment income	11,052	11,510	32,047	31,269
Change in fair value of contingent payment rights	(2,205)	—	(99,619)	—
Other, net	2,293	1,957	4,259	7,260
Income (loss) before income taxes	472	19,158	(116,587)	58,032
Income tax expense	4,953	4,576	5,066	13,892
Net income (loss)	(4,481)	14,582	(121,653)	44,140
Less: net income attributable to noncontrolling interest	240	72	523	243
Net income (loss) attributable to common shareholders	\$ (4,721)	\$ 14,510	\$ (122,176)	\$ 43,897
Net income (loss) per basic and diluted common shares attributable to common shareholders	\$ (0.05)	\$ 0.20	\$ (1.47)	\$ 0.60

See accompanying notes

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited; Amounts in thousands)

	<u>Quarter Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Net income (loss)	\$ (4,481)	\$ 14,582	\$ (121,653)	\$ 44,140
Pension and post-retirement obligations:				
Amortization of actuarial losses (gains) and prior service cost to earnings, net of tax	524	(344)	848	327
Derivative instruments designated as cash flow hedges:				
Change in fair value of derivatives, net of tax	(219)	(533)	90	(13,498)
Reclassification of realized loss to earnings, net of tax	2,071	3,400	8,933	8,143
Comprehensive income (loss)	(2,105)	17,105	(111,782)	39,112
Less: comprehensive income attributable to noncontrolling interest	240	72	523	243
Total comprehensive income (loss) attributable to common shareholders	<u>\$ (2,345)</u>	<u>\$ 17,033</u>	<u>\$ (112,305)</u>	<u>\$ 38,869</u>

See accompanying notes

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

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

	September 30, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 98,682	\$ 155,561
Short-term investments	154,963	—
Accounts receivable, net of allowance for credit losses	133,524	137,646
Income tax receivable	1,516	1,072
Prepaid expenses and other current assets	56,505	46,382
Assets held for sale	25,990	—
Total current assets	471,180	340,661
Property, plant and equipment, net	1,905,661	1,760,152
Investments	109,307	111,665
Goodwill	1,013,243	1,035,274
Customer relationships, net	83,782	113,418
Other intangible assets	11,175	10,557
Other assets	134,603	135,573
Total assets	<u>\$ 3,728,951</u>	<u>\$ 3,507,300</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 47,930	\$ 25,283
Advance billings and customer deposits	55,192	49,544
Accrued compensation	66,723	74,957
Accrued interest	52,621	21,194
Accrued expense	91,574	81,931
Current portion of long-term debt and finance lease obligations	6,944	17,561
Liabilities held for sale	90	—
Total current liabilities	321,074	270,470
Long-term debt and finance lease obligations	2,115,266	1,932,666
Deferred income taxes	179,479	171,021
Pension and other post-retirement obligations	269,119	300,373
Convertible security interest	262,124	238,701
Contingent payment rights	105,830	123,241
Other long-term liabilities	74,423	81,600
Total liabilities	3,327,315	3,118,072
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Common stock, par value \$0.01 per share; 150,000,000 and 100,000,000 shares authorized as of September 30, 2021 and December 31, 2020, respectively, 98,754,185 and 79,227,607 shares outstanding as of September 30, 2021 and December 31, 2020, respectively	988	792
Additional paid-in capital	649,667	525,673
Accumulated deficit	(156,690)	(34,514)
Accumulated other comprehensive loss, net	(99,547)	(109,418)
Noncontrolling interest	7,218	6,695
Total shareholders' equity	401,636	389,228
Total liabilities and shareholders' equity	<u>\$ 3,728,951</u>	<u>\$ 3,507,300</u>

See accompanying notes

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited; Amounts in thousands)

	<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Accumulated</u>	<u>Non-</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Earnings</u>	<u>Other</u>	<u>controlling</u>	
			<u>Capital</u>	<u>(Deficit)</u>	<u>Loss, net</u>	<u>Interest</u>	
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	1,081	11	(11)	—	—	—	—
Non-cash, share-based compensation	—	—	890	—	—	—	890
Other comprehensive income (loss)	—	—	—	—	(10,000)	—	(10,000)
Cumulative adjustment: adoption of ASU 2016-13	—	—	—	(105)	—	—	(105)
Net income (loss)	—	—	—	15,547	—	76	15,623
Balance at March 31, 2020	73,042	\$ 731	\$ 493,125	\$ (55,775)	\$ (90,868)	\$ 6,446	\$ 353,659
Shares issued under employee plan, net of forfeitures	16	—	—	—	—	—	—
Non-cash, share-based compensation	—	—	2,334	—	—	—	2,334
Other comprehensive income (loss)	—	—	—	—	2,449	—	2,449
Cumulative adjustment: adoption of ASU 2016-13	—	—	—	(169)	—	—	(169)
Net income (loss)	—	—	—	13,840	—	95	13,935
Balance at June 30, 2020	73,058	\$ 731	\$ 495,459	\$ (42,104)	\$ (88,419)	\$ 6,541	\$ 372,208
Non-cash, share-based compensation	—	—	2,263	—	—	—	2,263
Other comprehensive income (loss)	—	—	—	—	2,523	—	2,523
Net income (loss)	—	—	—	14,510	—	72	14,582
Balance at September 30, 2020	73,058	\$ 731	\$ 497,722	\$ (27,594)	\$ (85,896)	\$ 6,613	\$ 391,576
Balance at December 31, 2020	79,228	\$ 792	\$ 525,673	\$ (34,514)	\$ (109,418)	\$ 6,695	\$ 389,228
Shares issued under employee plan, net of forfeitures	755	8	(8)	—	—	—	—
Non-cash, share-based compensation	—	—	1,450	—	—	—	1,450
Other comprehensive income (loss)	—	—	—	—	3,911	—	3,911
Net income (loss)	—	—	—	(62,099)	—	16	(62,083)
Balance at March 31, 2021	79,983	\$ 800	\$ 527,115	\$ (96,613)	\$ (105,507)	\$ 6,711	\$ 332,506
Shares issued under employee plan, net of forfeitures	904	9	(9)	—	—	—	—
Non-cash, share-based compensation	—	—	2,493	—	—	—	2,493
Other comprehensive income (loss)	—	—	—	—	3,584	—	3,584
Net income (loss)	—	—	—	(55,356)	—	267	(55,089)
Balance at June 30, 2021	80,887	\$ 809	\$ 529,599	\$ (151,969)	\$ (101,923)	\$ 6,978	\$ 283,494
Shares issued under employee plan, net of forfeitures	(3)	—	—	—	—	—	—
Shares issued to Searchlight	17,870	179	116,851	—	—	—	117,030
Non-cash, share-based compensation	—	—	3,217	—	—	—	3,217
Other comprehensive income (loss)	—	—	—	—	2,376	—	2,376
Net income (loss)	—	—	—	(4,721)	—	240	(4,481)
Balance at September 30, 2021	98,754	\$ 988	\$ 649,667	\$ (156,690)	\$ (99,547)	\$ 7,218	\$ 401,636

See accompanying notes

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; Amounts in thousands)

	<u>Nine Months Ended September 30,</u>	
	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Net income (loss)	\$ (121,653)	\$ 44,140
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	225,455	244,024
Cash distributions from wireless partnerships in excess of (less than) current earnings	1,345	1,001
Pension and post-retirement contributions in excess of expense	(29,968)	(29,666)
Stock-based compensation expense	7,160	5,487
Amortization of deferred financing costs and discounts	13,121	3,628
Noncash interest expense on convertible security interest	24,334	—
Loss (gain) on extinguishment of debt	17,101	(234)
Loss on change in fair value of contingent payment rights	99,619	—
Loss on impairment of assets held for sale	5,704	—
Other, net	3,632	(4,485)
Changes in operating assets and liabilities:		
Accounts receivable, net	3,946	796
Income tax receivable	4,531	12,857
Prepaid expenses and other assets	(12,094)	(2,733)
Accounts payable	22,691	(8,551)
Accrued expenses and other liabilities	31,055	31,086
Net cash provided by operating activities	<u>295,979</u>	<u>297,350</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment, net	(339,488)	(152,215)
Purchase of investments	(154,963)	—
Proceeds from sale of assets	126	6,977
Proceeds from sale of investments	1,198	426
Net cash used in investing activities	<u>(493,127)</u>	<u>(144,812)</u>
Cash flows from financing activities:		
Proceeds from bond offering	400,000	—
Proceeds from issuance of long-term debt	150,000	40,000
Payment of finance lease obligations	(4,465)	(7,243)
Payment on long-term debt	(397,000)	(93,763)
Retirement of senior notes	—	(4,208)
Payment of financing costs	(8,266)	—
Net cash provided by (used in) financing activities	<u>140,269</u>	<u>(65,214)</u>
Change in cash and cash equivalents	(56,879)	87,324
Cash and cash equivalents at beginning of period	155,561	12,395
Cash and cash equivalents at end of period	<u>\$ 98,682</u>	<u>\$ 99,719</u>

See accompanying notes

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Basis of Accounting

Consolidated Communications Holdings, Inc. (the “Company,” “we,” “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 approximately 50,000 fiber route miles, we offer residential high-speed Internet, video, phone and home security services as well as a comprehensive business product suite including: data and Internet solutions, voice, data center services, security services, managed and IT services, and an expanded suite of cloud services.

In the opinion of management, the accompanying unaudited condensed consolidated balance sheets and related condensed consolidated statements of operations, comprehensive income (loss), shareholders’ equity and cash flows include all adjustments, consisting only of normal recurring items, necessary for their fair presentation in conformity with accounting principles generally accepted in the United States (“US GAAP” or “GAAP”) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with US GAAP have been condensed or omitted pursuant to such SEC rules and regulations and accounting principles applicable for interim periods. Events subsequent to the balance sheet date have been evaluated for inclusion in the accompanying condensed consolidated financial statements through the date of issuance. Management believes that the disclosures made are adequate to make the information presented not misleading. Interim results are not necessarily indicative of results for a full year. The information presented in this Form 10-Q should be read in conjunction with Management’s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and the accompanying notes to the financial statements (“Notes”) thereto included in our 2020 Annual Report on Form 10-K filed with the SEC.

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 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 approximately 35% of the Company’s outstanding common stock. For a more complete discussion of the transaction, refer to Note 4. With the strategic investment from Searchlight, we intend to enhance our fiber infrastructure and accelerate the investment in our network, which will include the upgrade over the next five years of approximately 1.6 million passings across select service areas to enable multi-Gig capable services to these homes and small businesses. Our fiber build plan includes the upgrade of approximately 300,000 homes and small businesses in 2021.

COVID-19

We are closely monitoring the impact on our business of the current outbreak of a novel strain 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 worsens or new variants of the virus become more dominant and causes significant negative impacts to economic conditions, our results of operations, financial condition and liquidity could be materially and adversely impacted.

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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 included, among other things, the deferral of certain employer payroll tax payments and certain income tax law changes. In 2020, we deferred the payment of approximately \$12.0 million for the employer portion of Social Security taxes otherwise due in 2020 with 50% due by December 31, 2021 and the remaining 50% by December 31, 2022. The portion of the taxes deferred until 2021 were paid during the quarter ended September 30, 2021. On March 11, 2021, the American Rescue Plan Act of 2021 was enacted and provides further economic relief to address the continued economic impact of COVID-19. These Acts did not have a material impact on our consolidated financial statements and we will continue to monitor the impact of any effects from these Acts and other future legislation.

Accounts Receivable and Allowance for Credit Losses

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 ACL for the nine months ended September 30, 2021 and 2020:

<i>(In thousands)</i>	2021	2020
Balance at beginning of year	\$ 9,136	\$ 4,549
Cumulative adjustment upon adoption of ASU 2016-13	—	144
Provision charged to expense	6,075	6,812
Write-offs, less recoveries	(4,633)	(4,731)
Balance at end of year	<u>\$ 10,578</u>	<u>\$ 6,774</u>

Divestiture

On September 22, 2021, we entered into a definitive agreement to sell substantially all of the assets of our non-core, rural ILEC business located in Ohio, Consolidated Communications of Ohio Company (“CCOC”), for approximately \$26.0 million in cash, subject to a customary working capital adjustment. CCOC provides telecommunications and data services to residential and business customers in 11 rural communities in Ohio and surrounding areas and includes approximately 4,000 access lines and 3,900 data connections. The transaction is expected to close in the first quarter of 2022 and is subject to customary closing conditions, including regulatory approvals. The asset sale aligns with our strategic asset review and focus on our core broadband regions.

At September 30, 2021, the major classes of assets and liabilities to be sold were classified as held for sale in the condensed consolidated balance sheet and consisted of the following:

<i>(In thousands)</i>	
Current assets	\$ 190
Property, plant and equipment	9,473
Goodwill	16,327
Total assets	<u>\$ 25,990</u>
Current liabilities	\$ 83
Other long-term liabilities	7
Total liabilities	<u>\$ 90</u>

In connection with the classification as assets held for sale, the carrying value of the net assets were reduced to their estimated fair value of approximately \$25.9 million, which was determined based on the estimated selling price less costs

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to sell and were classified as Level 2 within the fair value hierarchy. As a result, we recognized an impairment loss of \$5.7 million during the quarter and nine months ended September 30, 2021.

Recent Accounting Pronouncements

Effective January 1, 2021, we adopted 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 adoption of this guidance did not have an impact on our condensed consolidated financial statements and related disclosures.

Effective January 1, 2021, we adopted 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 Accounting Standards Codification (“ASC”) 740, *Income Taxes*. The new guidance will be applied prospectively. The adoption of this guidance did not have a material impact on our condensed consolidated financial statements and related disclosures.

In March 2020, the Financial Accounting Standards Board (“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. 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 these updates will have on our condensed 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.

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Disaggregation of Revenue

The following table summarizes revenue from contracts with customers for the quarters and nine months ended September 30, 2021 and 2020:

<i>(In thousands)</i>	Quarter Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Operating Revenues				
Commercial and carrier:				
Data and transport services (includes VoIP)	\$ 91,101	\$ 90,153	\$ 272,262	\$ 269,297
Voice services	42,619	45,343	130,359	136,838
Other	10,580	10,909	29,785	33,027
	<u>144,300</u>	<u>146,405</u>	<u>432,406</u>	<u>439,162</u>
Consumer:				
Broadband (VoIP and Data)	68,604	67,163	202,340	196,806
Video services	16,163	18,452	49,743	56,796
Voice services	40,587	42,775	121,180	129,072
	<u>125,354</u>	<u>128,390</u>	<u>373,263</u>	<u>382,674</u>
Subsidies	17,264	18,064	52,068	54,587
Network access	29,923	32,009	92,641	93,947
Other products and services	1,743	2,198	13,375	7,534
Total operating revenues	<u>\$ 318,584</u>	<u>\$ 327,066</u>	<u>\$ 963,753</u>	<u>\$ 977,904</u>

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>	September 30,	
	2021	2020
Accounts receivable, net	\$ 133,524	\$ 119,076
Contract assets	22,846	20,746
Contract liabilities	62,210	56,086

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 quarters ended September 30, 2021 and 2020, the Company recognized expense of \$2.8 million and \$2.3 million, respectively, related to deferred contract acquisition costs. During the nine months ended September 30, 2021 and 2020, the Company recognized expense of \$8.1 million and \$6.6 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 quarters ended September 30, 2021 and 2020, the Company recognized previously deferred revenues of \$118.1 million and \$110.9 million, respectively. For the nine months ended September 30, 2021 and 2020, the Company recognized previously deferred revenues of \$347.6 million and \$332.1 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 Topic 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 September 30, 2021. 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 (LOSS) PER SHARE

Basic and diluted earnings (loss) per common share (“EPS”) are computed using the two-class method, which is an earnings allocation method that determines EPS for each class of common stock and participating securities considering dividends declared and participation rights in undistributed earnings. Common stock related to 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 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.

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

<i>(In thousands, except per share amounts)</i>	Quarter Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income (loss)	\$ (4,481)	\$ 14,582	\$ (121,653)	\$ 44,140
Less: net income attributable to noncontrolling interest	240	72	523	243
Income (loss) attributable to common shareholders before allocation of earnings to participating securities	(4,721)	14,510	(122,176)	43,897
Less: earnings allocated to participating securities	—	378	—	985
Net income (loss) attributable to common shareholders, after earnings allocated to participating securities	\$ (4,721)	\$ 14,132	\$ (122,176)	\$ 42,912
Weighted-average number of common shares outstanding	92,791	71,153	83,003	71,153
Net income (loss) per common share attributable to common shareholders - basic and diluted	\$ (0.05)	\$ 0.20	\$ (1.47)	\$ 0.60

Diluted EPS attributable to common shareholders for the quarter and nine months ended September 30, 2021 excludes 6.0 million and 3.4 million potential common shares related to our share-based compensation plan, respectively, because the inclusion of the potential common shares would have an antidilutive effect. Diluted EPS attributable to common shareholders for the quarter and nine months ended September 30, 2020 excludes 1.1 million and 1.4 million potential common shares that could be issued under our share-based compensation plan, respectively.

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 was issued 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 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, 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"), certain state public utility commission regulatory and Hart-Scott-Rodino approvals and the satisfaction of certain other customary closing conditions.

We have received approval under the Hart-Scott-Rodino Act and we received approval from the Company's shareholders on April 26, 2021. On July 15, 2021, the Company received all required state public utility commission regulatory approvals necessary for the conversion of the CPR into 16.9% additional shares of the Company's common stock. As a result, the CPR was converted into 17,870,012 shares of common stock, which were issued to Searchlight on July 16, 2021. These shares, together with the shares issued to Searchlight on October 2, 2020 in the first stage of the investment, constitute approximately 24.5% of the Company's outstanding common stock as of such date. We expect the closing of the second stage to be completed later this year, subject to the receipt of FCC approval and the satisfaction of certain other customary closing conditions.

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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 CPR at its full estimated fair value including a discount for lack of marketability and then allocated to the issuance of 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 were 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
Convertible security interest issued as unsecured subordinated note right, net of discount of \$146,018 and issuance costs of \$13,001	236,445
	<u>\$ 409,914</u>

At September 30, 2021 and 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 \$75.0 million and \$74.7 million, respectively, and is included within other assets in the consolidated balance sheets.

The CPR is reported at its 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 condensed consolidated statements of operations. As of September 30, 2021 and December 31, 2020, the estimated fair value of the CPR was \$105.8 million and \$123.2 million, respectively, and during the quarter and nine months ended September 30, 2021, we recognized a loss of \$2.2 million and \$99.6 million, respectively, on the increase in the fair value of the CPR.

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 on April 1 and October 1 of each year. 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 September 30, 2021, the net carrying value of the Note was \$262.1 million, net of unamortized discount and issuance costs of \$140.3 million and \$8.8 million, respectively. On April 1, 2021 and October 1, 2021, the Company elected the PIK option and accrued interest of \$15.8 million and \$16.5 million was added to the principal balance of the Note on the respective payment dates. 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>	September 30, 2021	December 31, 2020
Short-term investments:		
Held-to-maturity debt securities	\$ 154,963	\$ —
Long-term investments:		
Cash surrender value of life insurance policies	\$ 2,539	\$ 2,536
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	7,867	8,882
Other	272	273
Equity method investments:		
GTE Mobilnet of Texas RSA #17 Limited Partnership (20.51% interest)	19,674	20,299
Pennsylvania RSA 6(I) Limited Partnership (16.67% interest)	7,237	7,482
Pennsylvania RSA 6(II) Limited Partnership (23.67% interest)	27,318	27,793
Totals	\$ 109,307	\$ 111,665

Held-to-Maturity Debt Securities

Investments in debt securities that we have the positive intent and ability to hold until maturity are classified as held-to-maturity. We consider all highly liquid investments with original maturities of three months or less to be cash equivalents. Investments with original maturities of more than three months and less than one year are classified as short-term investments. Held-to-maturity debt securities are recorded at amortized cost, which approximates fair value, and realized gains or losses are recognized in earnings. Our held-to-maturity debt securities consist of investments in commercial paper and certificate of deposits. At September 30, 2021, we had \$20.0 million of investments in commercial paper included in cash and cash equivalents and \$105.0 million of investments in commercial paper and \$50.0 million of investments in certificate of deposits included in short-term investments. The investments have original maturities of less than one year. As of September 30, 2021, the amortized cost of the investments approximated their fair value and the gross unrecognized gains and losses were not material.

Investments at Cost

We own 2.34% of GTE Mobilnet of South Texas Limited Partnership (the "Mobilnet South Partnership"). The principal activity of the Mobilnet South Partnership is providing cellular service in the Houston, Galveston and Beaumont, Texas metropolitan areas. We also own 3.60% of Pittsburgh SMSA Limited Partnership, which provides cellular service in and around the Pittsburgh metropolitan area. Because of our limited influence over these partnerships, we account for these investments at our initial cost less any impairment because fair value is not readily available for these investments. No indicators of impairment existed for any of the investments during the quarters and nine months ended September 30, 2021 or 2020. For these investments, we adjust the carrying value for any purchases or sales of our ownership interests, if any. We record distributions received from these investments as investment income in non-operating income (expense). For the quarters ended September 30, 2021 and 2020, we received cash distributions from these partnerships totaling \$5.5 million and \$5.8 million, respectively. For the nine months ended September 30, 2021 and 2020, we received cash distributions from these partnerships totaling \$15.9 million and \$15.0 million, respectively.

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

Equity Method

We own 20.51% of GTE Mobilnet of Texas RSA #17 Limited Partnership (“RSA #17”), 16.67% of Pennsylvania RSA 6(I) Limited Partnership (“RSA 6(I)”) and 23.67% of Pennsylvania RSA 6(II) Limited Partnership (“RSA 6(II)”). RSA #17 provides cellular service to a limited rural area in Texas. RSA 6(I) and RSA 6(II) provide cellular service in and around our Pennsylvania service territory. Because we have significant influence over the operating and financial policies of these three entities, we account for the investments using the equity method. In connection with adoption of ASU 2016-13 by our equity method partnerships, the value of our combined partnership interests decreased \$0.2 million, which is reflected in the cumulative effect adjustment to retained earnings during the nine months ended September 30, 2020. Income is recognized as investment income in non-operating income (expense) on our proportionate share of earnings and cash distributions are recorded as a reduction in our investment. For the quarters ended September 30, 2021 and 2020, we received cash distributions from these partnerships totaling \$5.6 million and \$6.5 million, respectively. For the nine months ended September 30, 2021 and 2020, we received cash distributions from these partnerships totaling \$17.2 million and \$17.0 million, respectively.

6. FAIR VALUE MEASUREMENTS

Our derivative instruments related to interest rate swap agreements are required to be measured at fair value on a recurring basis. The fair values of the interest rate swaps are determined using valuation models and are categorized within Level 2 of the fair value hierarchy as the valuation inputs are based on quoted prices and observable market data of similar instruments. See Note 8 for further discussion regarding our interest rate swap agreements.

Our interest rate swap agreements measured at fair value on a recurring basis as of September 30, 2021 and December 31, 2020 were as follows:

		<u>As of September 30, 2021</u>		
<i>(In thousands)</i>	<u>Total</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Long-term interest rate swap liabilities	\$ (16,126)	\$ —	\$ (16,126)	\$ —

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

Contingent Payment Obligation

Our contingent payment obligation represents the CPR issued to Searchlight in connection with the Investment Agreement. We are required to measure the CPR at its estimated fair value on a recurring basis based on a market approach utilizing observable market values and a marketability discount. As of September 30, 2021 and December 31, 2020, the estimated fair value of the CPR was \$105.8 million and \$123.2 million, respectively, and was classified as Level 2 within the fair value hierarchy.

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 and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short maturities. The following table presents the other financial

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instruments that are not carried at fair value but which require fair value disclosure as of September 30, 2021 and December 31, 2020.

<i>(In thousands)</i>	As of September 30, 2021		As of December 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, excluding finance leases	\$ 2,139,176	\$ 2,224,662	\$ 1,978,694	\$ 2,039,790

Cost & Equity Method Investments

Our investments as of September 30, 2021 and December 31, 2020 accounted for at cost and under the equity method consisted primarily of minority positions in various cellular telephone limited partnerships and our investment in CoBank. It is impracticable to determine the fair value of these investments.

Long-term Debt

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

7. LONG-TERM DEBT

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

<i>(In thousands)</i>	September 30, 2021	December 31, 2020
Senior secured credit facility:		
Term loans, net of discounts of \$10,699 and \$18,181 at September 30, 2021 and December 31, 2020, respectively	\$ 989,176	\$ 1,228,694
6.50% Senior notes due 2028	750,000	750,000
5.00% Senior notes due 2028	400,000	—
Finance leases	22,166	17,467
	<u>2,161,342</u>	<u>1,996,161</u>
Less: current portion of long-term debt and finance leases	(6,944)	(17,561)
Less: deferred debt issuance costs	(39,132)	(45,934)
Total long-term debt	<u>\$ 2,115,266</u>	<u>\$ 1,932,666</u>

Credit Agreement

On October 2, 2020, the Company, through certain of its wholly-owned subsidiaries, entered into a Credit Agreement with various financial institutions (as amended, the “Credit Agreement”) to replace the Company’s previous credit agreement in its entirety. The Credit Agreement consisted of term loans in an original aggregate amount of \$1,250.0 million (the “Initial Term Loans”) and a revolving loan facility of \$250.0 million. 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 Initial Term Loans were issued in an original aggregate principal amount of \$1,250.0 million with a maturity date of October 2, 2027 and contained an original issuance discount of 1.5% or \$18.8 million, which is being amortized over the term of the loan. Prior to amendments to the Credit Agreement, as described below, the Initial Term Loans required quarterly principal payments of \$3.1 million, which commenced December 31, 2020, and bore interest at a rate of 4.75% plus the London Interbank Offered Rate (“LIBOR”) subject to a 1.00% LIBOR floor.

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

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Incremental Term Loans have terms and conditions identical to the Initial Term Loans including the same maturity date and interest rate. The Initial Term Loans and Incremental Term Loans, collectively (the “Term Loans”) will comprise a single class of term loans under the Credit Agreement.

On March 18, 2021, the Company repaid \$397.0 million of the outstanding Term Loans with the net proceeds received from the issuance of \$400.0 million aggregate principal amount of 5.00% senior secured notes due 2028 (the “5.00% Senior Notes”), as described below. The repayment of the Term Loans was applied to the remaining principal payments in direct order of maturity, thereby eliminating the required quarterly principal payments through the remaining term of the loan. In connection with the repayment of the Term Loans, we recognized a loss on extinguishment of debt of \$12.0 million during the nine months ended September 30, 2021.

On April 5, 2021, the Company, entered into a second amendment to the Credit Agreement (the “Second Amendment”) to refinance the outstanding Term Loans of \$999.9 million. The terms and conditions of the Credit Agreement remain substantially similar and unchanged except with respect to the interest rate applicable to the Term Loans and certain other provisions. As a result of the Second Amendment, the interest rate of the Term Loans was reduced to 3.50% plus LIBOR subject to a 0.75% LIBOR floor. The maturity date of the Term Loans of October 2, 2027 remains unchanged. In connection with entering into the Second Amendment, we recognized a loss of \$5.1 million on the extinguishment of debt during the nine months ended September 30, 2021.

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. At September 30, 2021 and December 31, 2020, there were no borrowings outstanding under the revolving credit facility. Stand-by letters of credit of \$17.8 million were outstanding under our revolving credit facility as of September 30, 2021. The stand-by letters of credit are renewable annually and reduce the borrowing availability under the revolving credit facility. As of September 30, 2021, \$232.2 million was available for borrowing under the revolving credit facility.

The weighted-average interest rate on outstanding borrowings under our credit facility was 4.25% and 5.75% as of September 30, 2021 and December 31, 2020, respectively. Interest is payable at least quarterly.

Credit Agreement Covenant Compliance

The Credit Agreement contains various provisions and covenants, including, among other items, restrictions on the ability to pay dividends, incur additional indebtedness, and issue certain capital stock. We have agreed to maintain certain financial ratios, including 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 September 30, 2021, our consolidated first lien leverage ratio under the Credit Agreement was 4.09:1.00. As of September 30, 2021, we were in compliance with the Credit Agreement covenants.

Senior Notes

On October 2, 2020, we completed an offering of \$750.0 million aggregate principal amount of 6.50% unsubordinated secured notes due 2028 (the “6.50% Senior Notes”). The 6.50% 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 6.50% Senior Notes will mature on October 1, 2028. The net proceeds from the issuance of the 6.50% Senior Notes were used to redeem our then outstanding \$440.5 million aggregate principal amount of 6.50% Senior Notes due in October 2022 at a price equal to 100% of the aggregate principal amount plus accrued and unpaid interest through the redemption date, to repay a portion of the outstanding borrowings under the previous credit agreement as part of the refinancing in October 2020 and to pay related fees and expenses.

On March 18, 2021, we issued \$400.0 million aggregate principal amount 5.00% Senior Notes, together with the 6.50% Senior Notes (the “Senior Notes”). The 5.00% Senior Notes were priced at par and bear interest at a rate of 5.00% per year, payable semi-annually on April 1 and October 1 of each year, beginning on October 1, 2021. The 5.00% Senior

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Notes will mature on October 1, 2028. Deferred debt issuance costs of \$3.8 million incurred in connection with the issuance of the 5.00% Senior Notes are being amortized using the effective interest method over the term of the Senior Notes. The net proceeds from the issuance of the 5.00% Senior Notes were used to repay \$397.0 million of the Term Loans outstanding under the Credit Agreement.

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 offerings of the Senior Notes have 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 indentures 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 indentures also contain customary events of default. As of September 30, 2021, the Company was in compliance with all terms, conditions and covenants under the indentures governing the Senior Notes.

Repurchase of Senior Notes due 2022

During the nine months ended September 30, 2020, we repurchased \$4.5 million of the aggregate principal amount of our then outstanding 6.50% Senior Notes due in October 2022 (the "2022 Notes") for \$4.2 million and recognized a gain on extinguishment of debt of \$0.2 million.

8. DERIVATIVE FINANCIAL INSTRUMENTS

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

The following interest rate swaps were outstanding as of September 30, 2021:

<i>(In thousands)</i>	Notional Amount	2021 Balance Sheet Location	Fair Value
Cash Flow Hedges:			
Fixed to 1-month floating LIBOR (with floor)	\$ 500,000	Other long-term liabilities	\$ (16,126)

Our interest rate swap agreements mature on July 31, 2023.

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The following interest rate swaps were outstanding as of 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>

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.

At least quarterly, the Company assesses whether the interest rate swaps are still expected to be highly effective over the remaining term of the hedging relationship. As a result of the refinancing of the Credit Agreement in April 2021, it was determined that certain critical terms of the interest rate swap agreements no longer match the terms of our variable rate debt due to the change in the LIBOR floor. The interest rate swap agreements were determined to still be highly effective as of September 30, 2021 based on retrospective and prospective assessments using regression analysis and the hypothetical derivative method.

As of September 30, 2021 and December 31, 2020, the total pre-tax unrealized loss related to our interest rate swap agreements included in AOCI was \$(13.0) million and \$(25.2) million, respectively. From the balance in AOCI as of September 30, 2021, we expect to recognize a loss of approximately \$7.2 million in earnings in the next twelve months.

Information regarding our cash flow hedge transactions is as follows:

<i>(In thousands)</i>	Quarter Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Unrealized gain (loss) recognized in AOCI, pretax	\$ (297)	\$ (721)	\$ 121	\$ (18,254)
Deferred loss reclassified from AOCI to interest expense	\$ (2,803)	\$ (4,598)	\$ (12,085)	\$ (11,013)

9. LEASES

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 quarter and nine months ended September 30, 2021, we entered into dark fiber IRU arrangements. The arrangements did not have a material impact on our financial statements. During the quarter and nine months ended September 30, 2020, we did not enter into any such arrangements.

10. EQUITY

Share-Based Compensation

Our Board of Directors may grant share-based awards from our shareholder approved Amended and Restated Consolidated Communications Holdings, Inc. 2005 Long-Term Incentive Plan (the "Plan"). The Plan permits the issuance of awards in the form of stock options, stock appreciation rights, stock grants, stock unit grants and other equity-based awards to eligible

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directors and employees at the discretion of the Compensation Committee of the Board of Directors. On April 26, 2021, the shareholders approved an amendment to the Plan to increase by 5,400,000 shares the number of shares of our common stock authorized for issuance under the Plan. With the amendment, approximately 10,050,000 shares of our common stock are authorized for issuance under the Plan, provided that no more than 300,000 shares may be granted in the form of stock options or stock appreciation rights to any eligible employee or director in any calendar year. Unless terminated sooner, the Plan will continue in effect until April 30, 2028.

The following table summarizes total compensation costs recognized for share-based payments during the quarters and nine-month periods ended September 30, 2021 and 2020:

<i>(In thousands)</i>	Quarter Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Restricted stock	\$ 1,776	\$ 1,299	\$ 3,931	\$ 3,429
Performance shares	1,441	964	3,229	2,058
Total	\$ 3,217	\$ 2,263	\$ 7,160	\$ 5,487

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

As of September 30, 2021, total unrecognized compensation cost related to non-vested Restricted Stock Awards (“RSAs”) and Performance Share Awards (“PSAs”) was \$18.3 million and will be recognized over a weighted-average period of approximately 1.7 years.

The following table summarizes the RSA and PSA activity for the nine-month period ended September 30, 2021:

	RSAs		PSAs	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Non-vested shares outstanding - December 31, 2020	833,973	\$ 7.81	365,040	\$ 11.06
Shares granted	941,748	\$ 7.51	788,054	\$ 6.31
Shares forfeited, cancelled or retired	(34,356)	\$ 8.15	(38,880)	\$ 8.44
Non-vested shares outstanding - September 30, 2021	<u>1,741,365</u>	\$ 7.64	<u>1,114,214</u>	\$ 7.78

Accumulated Other Comprehensive Loss

The following table summarizes the changes in accumulated other comprehensive loss, net of tax, by component for the nine-month period ended September 30, 2021:

<i>(In thousands)</i>	Pension and Post-Retirement Obligations	Derivative Instruments	Total
Balance at December 31, 2020	\$ (90,887)	\$ (18,531)	\$ (109,418)
Other comprehensive loss before reclassifications	—	90	90
Amounts reclassified from accumulated other comprehensive loss	848	8,933	9,781
Net current period other comprehensive income	848	9,023	9,871
Balance at September 30, 2021	\$ (90,039)	\$ (9,508)	\$ (99,547)

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The following table summarizes reclassifications from accumulated other comprehensive loss for the quarters and nine-month periods ended September 30, 2021 and 2020:

<i>(In thousands)</i>	<u>Quarter Ended September 30,</u>		<u>Nine Months Ended September 30,</u>		<u>Affected Line Item in the Statement of Income</u>
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	
Amortization of pension and post-retirement items:					
Prior service credit (cost)	\$ 194	\$ (68)	\$ 584	\$ (952)	(a)
Actuarial gain (loss)	(902)	544	(1,732)	520	(a)
	(708)	476	(1,148)	(432)	Total before tax
	184	(132)	300	105	Tax benefit
	<u>\$ (524)</u>	<u>\$ 344</u>	<u>\$ (848)</u>	<u>\$ (327)</u>	Net of tax
Gain (Loss) on cash flow hedges:					
Interest rate derivatives	\$ (2,803)	\$ (4,598)	\$ (12,085)	\$ (11,013)	Interest expense
	732	1,198	3,152	2,870	Tax benefit
	<u>\$ (2,071)</u>	<u>\$ (3,400)</u>	<u>\$ (8,933)</u>	<u>\$ (8,143)</u>	Net of tax

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

11. PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS

Defined Benefit Plans

We sponsor 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. 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 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.

The following table summarizes the components of net periodic pension benefit for our Pension Plans for the quarters and nine-month periods ended September 30, 2021 and 2020:

<i>(In thousands)</i>	<u>Quarter Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Interest cost	\$ 5,707	\$ 6,439	\$ 17,068	\$ 19,478
Expected return on plan assets	(9,221)	(8,616)	(27,747)	(25,907)
Net amortization loss	618	252	1,732	874
Net prior service cost amortization	31	31	92	92
Net periodic pension benefit	<u>\$ (2,865)</u>	<u>\$ (1,894)</u>	<u>\$ (8,855)</u>	<u>\$ (5,463)</u>

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

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 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 table summarizes the components of the net periodic cost for our Post-retirement Plans for the quarters and nine-month periods ended September 30, 2021 and 2020:

<i>(In thousands)</i>	Quarter Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Service cost	\$ 42	\$ 103	\$ 487	\$ 619
Interest cost	620	680	1,934	2,449
Expected return on plan assets	(50)	(56)	(150)	(148)
Net amortization loss (gain)	284	(796)	—	(1,394)
Net prior service cost (credit) amortization	(225)	37	(676)	860
Net periodic post-retirement cost (benefit)	\$ 671	\$ (32)	\$ 1,595	\$ 2,386

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 condensed consolidated statements of operations.

Contributions

We expect to contribute approximately \$20.7 million to our Pension Plans and \$8.8 million to our Post-retirement Plans in 2021. As of September 30, 2021, we have contributed \$16.1 million and \$6.6 million of the annual contribution to the Pension Plans and Post-retirement Plans, respectively.

12. INCOME TAXES

Our unrecognized tax benefits as of September 30, 2021 and December 31, 2020 were \$4.9 million. The net amount of unrecognized tax benefits that, if recognized, would result in an impact to the effective tax rate is \$4.7 million as of September 30, 2021 and December 31, 2020. We do not expect any material change in our unrecognized tax benefits during the remainder of 2021.

Our practice is to recognize interest and penalties related to income tax matters in interest expense and selling, general and administrative expenses, respectively. As of September 30, 2021, 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 2020. The periods subject to examination for our state returns are years 2017 through 2020. In addition, prior tax years may be subject to examination by federal or state taxing authorities if the Company’s net operating loss carryovers from those prior years are utilized in the future. We are currently under examination by certain 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.

For the quarter and nine months ended September 30, 2021, the Company has utilized the discrete effective tax rate method, as allowed by ASC 740-270-30-18, “*Income Taxes – Interim Reporting*,” to calculate its interim income tax provision. The discrete method is applied when the application of the estimated annual effective tax rate is impractical because it is not possible to reliably estimate the annual effective tax rate. The discrete method treats the year to date period as if it was

the annual period and determines the income tax expense or benefit on that basis. The Company believes that, at this time, the use of the discrete method is more appropriate than the annual effective tax rate method as (i) the estimated annual effective tax rate method is not reliable due to the high degree of uncertainty in estimating annual pretax earnings and (ii) small changes in the projected ordinary annual income would result in significant changes in the estimated annual effective rate. The uncertainty in the estimated pretax earnings is driven by uncertainty in the date of regulatory approval and second closing date in connection with the Searchlight transaction.

Our effective tax rate was 1,047.9% and 23.9% for the quarters ended September 30, 2021 and 2020, respectively, and (4.4)% and 23.9% for the nine-month periods ended September 30, 2021 and 2020, respectively. On September 22, 2021, we entered into a definitive agreement to sell substantially all of the assets of our non-core, rural ILEC business located in Ohio (the “Ohio transaction”). As a result, we recorded an increase to our current tax expense of \$1.5 million related to the \$5.7 million impairment loss of noncash goodwill that is not deductible for tax purposes. In addition, the investment made by Searchlight in 2020 is treated as a contribution of equity for federal tax purposes. Accordingly, the impact of the non-cash PIK interest expense, discount and issuance costs, and fair value adjustments on the CPR are not recognized for federal income tax purposes, resulting in an increase to our current tax expense of \$3.4 million and \$34.3 million for the quarter and nine-month period ended September 30, 2021, respectively. Exclusive of the discrete effective tax rate method and the discrete permanent income tax impact related to the Searchlight and Ohio transactions, our effective tax rate for the quarters ended September 30, 2021 and 2020 would have been approximately 24.8% and 23.9%, respectively, and approximately 24.8% and 23.9% for the nine-month periods ended September 30, 2021 and 2020, respectively. The effective tax rate differed from the federal and state statutory rates primarily due to permanent income tax differences related to the Searchlight and Ohio transactions, recurring permanent tax differences, and differences in allocable income for the Company’s state tax filings.

As of September 30, 2021, the American Rescue Plan 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.

13. COMMITMENTS AND CONTINGENCIES

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 2018. We filed Petitions for Reassessment with the DOR’s Board of Appeals contesting these audit assessments. These cases remain pending and are in various stages of appeal. We received notification that the DOR will be also be conducting audits for the tax years 2019 and 2020.

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 2018, for which we have filed appeals, continue to lack merit. However, in 2019, CCPA and CCES finalized a settlement of the intrastate and interstate tax liabilities for the tax years 2008 through 2013, except for the 2010 CCPA appeals, bringing the appeals to a conclusion. The additional tax liabilities calculated by the DOR for these tax years for CCPA and CCES were approximately \$3.4 million and \$4.0 million, respectively. The settlement resulted in a payment from us to the DOR of \$2.1 million, including interest, which the Company previously reserved for.

The additional tax liabilities calculated by the DOR for CCPA and CCES for the remaining unsettled tax years 2010 (CCPA) and 2014 through 2018 (CCPA and CCES) are approximately \$4.6 million and \$2.6 million, respectively. 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 remaining unsettled tax years 2010 (CCPA) and 2014 through 2018 (CCPA and CCES), we have reserved \$0.8 million and \$1.6 million, including interest, for our CCPA and CCES 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

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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.

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

The Securities and Exchange Commission (“SEC”) encourages companies to disclose forward-looking information so that investors can better understand a company’s future prospects and make informed investment decisions. Certain statements in this Quarterly Report on Form 10-Q, including those which relate to the impact on future revenue sources, pending and future regulatory orders, continued expansion of the telecommunications network and expected changes in the sources of our revenue and cost structure resulting from our entrance into new communications markets, are forward-looking statements and are made pursuant to the safe harbor provisions of the Securities Litigation Reform Act of 1995. These forward-looking statements reflect, among other things, our current expectations, plans, strategies and anticipated financial results. There are a number of risks, uncertainties and conditions that may cause our actual results to differ materially from those expressed or implied by these forward-looking statements including the impact of the ongoing novel coronavirus (“COVID-19”) pandemic and our response to it. Many of these circumstances are beyond our ability to control or predict. Moreover, forward-looking statements necessarily involve assumptions on our part. These forward-looking statements generally are identified by the words “believe,” “expect,” “anticipate,” “estimate,” “project,” “intend,” “plan,” “should,” “may,” “will,” “would,” “will be,” “will continue” or similar expressions. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of Consolidated Communications Holdings, Inc. and its subsidiaries (“Consolidated,” the “Company,” “we” or “our”) to be different from those expressed or implied in the forward-looking statements. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements that appear throughout this report. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in our 2020 Annual Report on Form 10-K filed with the SEC and in Item 1A – “Risk Factors” of this report. Furthermore, undue reliance should not be placed on forward-looking statements, which 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. Management’s Discussion and Analysis (“MD&A”) should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes to the financial statements (“Notes”) as of and for the quarter and nine months ended September 30, 2021 included in Item 1 of Part I of this Quarterly Report on Form 10-Q.

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

Overview

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 approximately 50,000 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 residential and business 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 for business customers by developing solutions to fit their specific

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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 expanding our fiber broadband services and upgrading data speeds in order to offer a highly competitive fiber product. 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 September 30, 2021, approximately 62% 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. 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. The strategic investment with Searchlight Capital Partners L.P. (“Searchlight”) combined with the refinancing of our capital structure, as described below, provides us additional capital to accelerate our fiber expansion 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. 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 part of our fiber expansion plan, we plan to upgrade approximately 1.6 million passings over five years across select service areas to enable multi-Gig capable services to these homes and small businesses including more than 1 million passings within our northern New England service areas. Our fiber build plan includes the upgrade of approximately 300,000 homes and small businesses in 2021. During the quarter and nine months ended September 30, 2021, we upgraded approximately 97,000 and 219,100 passings, respectively and added approximately 4,000 and 11,000 consumer fiber Gig-capable subscribers, respectively.

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 linear video subscription may impact our future video subscriber base and, accordingly, reduce our video revenue as well as our video programming costs. Total video connections decreased 14% as of September 30, 2021 compared to September 30, 2020. 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 including services offered through our TV streaming partnerships.

Operating revenues also continue to be impacted by the 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 September 30, 2021 compared to 2020. 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.

Recent Developments

Searchlight Investment

On September 13, 2020, we entered into an investment agreement (the “Investment Agreement”) with 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 and the receipt of applicable regulatory approvals, 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 FCC, certain state public utility commission regulatory and Hart-Scott-Rodino approvals and the satisfaction of certain other customary closing conditions.

We have received approval under the Hart-Scott-Rodino Act and we received approval from the Company’s shareholders on April 26, 2021. On July 15, 2021, the Company received all required state public utility commission regulatory approvals necessary for the conversion of the CPR into 16.9% additional shares of the Company’s common stock. As a result, the CPR was converted into 17,870,012 shares of common stock as of such date, which were issued to Searchlight on July 16, 2021. These shares, together with the shares issued to Searchlight on October 2, 2020 in the first stage of the investment, constitute approximately 24.5% of the Company’s outstanding common stock. We expect the closing of the second stage to be completed later this year, subject to the receipt of FCC approval and the satisfaction of certain other customary closing conditions. 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 existing then outstanding debt obligations. As described in the “Liquidity and Capital Resources” section, we entered into a new credit agreement and 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. On March 18, 2021, we issued \$400.0 million aggregate principal amount 5.00% Senior Notes and used the net proceeds from the issuance of notes to repay \$397.0 million of the Term Loans outstanding under the credit agreement. On April 5, 2021, we entered into an amendment to the credit agreement to refinance the outstanding Term Loans, which reduced the interest rate to 3.50% plus LIBOR subject to a 0.75% LIBOR floor. The refinancings 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.

Divestiture

On September 22, 2021, we entered into a definitive agreement to sell substantially all of the assets of our non-core, rural ILEC business located in Ohio, Consolidated Communications of Ohio Company (“CCOC”), for approximately \$26.0 million in cash, subject to a customary working capital adjustment. CCOC provides telecommunications and data services to residential and business customers in 11 rural communities in Ohio and surrounding areas and includes approximately 4,000 access lines and 3,900 data connections. The asset sale aligns with our strategic asset review and focus on our core broadband regions. As of September 30, 2021, the assets and liabilities to be disposed of were classified as held for sale in the condensed consolidated balance sheet and consisted primarily of allocated goodwill of \$16.3 million and property, plant and equipment of \$9.5 million. In connection with the classification as assets held for sale, we recognized an impairment loss of \$5.7 million during the quarter and nine months ended September 30, 2021. The transaction is expected to close in the first quarter of 2022 and is subject to customary closing conditions, including regulatory approvals.

COVID-19 Pandemic

We are closely monitoring the impact on our business of the outbreak of the 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. Some of our suppliers may also experience disruption in the global supply chain as a result of the pandemic, which could delay or prevent our ability to purchase materials and equipment. If the pandemic worsens or new variants of the virus become more dominant and 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 included, among other things, the deferral of certain employer payroll tax payments and certain income tax law changes. In 2020, we deferred the payment of approximately \$12.0 million for the employer portion of Social Security taxes otherwise due in 2020 with 50% due by December 31, 2021 and the remaining 50% by December 31, 2022. The portion of the taxes deferred until 2021 were paid during the quarter ended September 30, 2021. On March 11, 2021, the American Rescue Plan Act of 2021 was enacted and provides further economic relief to address the continued economic impact of COVID-19. These Acts did not have a material impact on our consolidated financial statements and we will continue to monitor the impact of any effects from these Acts and other future legislation.

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Results of Operations

The following tables reflect our financial results on a consolidated basis and key operating metrics as of and for the quarters and nine months ended September 30, 2021 and 2020.

Financial Data

<i>(In millions, except for percentages)</i>	Quarter Ended September 30,				Nine Months Ended September 30,			
	2021	2020	\$ Change	% Change	2021	2020	\$ Change	% Change
Operating Revenues								
Commercial and carrier:								
Data and transport services (includes VoIP)	\$ 91.1	\$ 90.2	\$ 0.9	1 %	\$ 272.2	\$ 269.3	\$ 2.9	1 %
Voice services	42.6	45.3	(2.7)	(6)	130.4	136.8	(6.4)	(5)
Other	10.6	10.9	(0.3)	(3)	29.8	33.0	(3.2)	(10)
	<u>144.3</u>	<u>146.4</u>	<u>(2.1)</u>	<u>(1)</u>	<u>432.4</u>	<u>439.1</u>	<u>(6.7)</u>	<u>(2)</u>
Consumer:								
Broadband (Data and VoIP)	68.6	67.1	1.5	2	202.4	196.8	5.6	3
Video services	16.1	18.5	(2.4)	(13)	49.7	56.8	(7.1)	(13)
Voice services	40.6	42.8	(2.2)	(5)	121.2	129.1	(7.9)	(6)
	<u>125.3</u>	<u>128.4</u>	<u>(3.1)</u>	<u>(2)</u>	<u>373.3</u>	<u>382.7</u>	<u>(9.4)</u>	<u>(2)</u>
Subsidies	17.3	18.1	(0.8)	(4)	52.1	54.6	(2.5)	(5)
Network access	29.9	32.0	(2.1)	(7)	92.6	94.0	(1.4)	(1)
Other products and services	1.8	2.2	(0.4)	(18)	13.4	7.5	5.9	79
Total operating revenues	<u>318.6</u>	<u>327.1</u>	<u>(8.5)</u>	<u>(3)</u>	<u>963.8</u>	<u>977.9</u>	<u>(14.1)</u>	<u>(1)</u>
Operating Expenses								
Cost of services and products (exclusive of depreciation and amortization)	142.5	144.4	(1.9)	(1)	431.8	421.7	10.1	2
Selling, general and administrative costs	64.1	65.1	(1.0)	(2)	200.0	197.7	2.3	1
Loss on impairment of assets held for sale	5.7	—	5.7	100	5.7	—	5.7	100
Depreciation and amortization	73.8	80.2	(6.4)	(8)	225.5	244.0	(18.5)	(8)
Total operating expenses	<u>286.1</u>	<u>289.7</u>	<u>(3.6)</u>	<u>(1)</u>	<u>863.0</u>	<u>863.4</u>	<u>(0.4)</u>	<u>(0)</u>
Income from operations	32.5	37.4	(4.9)	(13)	100.8	114.5	(13.7)	(12)
Interest expense, net	(43.2)	(31.7)	11.5	36	(137.0)	(95.2)	41.8	44
Gain (loss) on extinguishment of debt	—	—	—	—	(17.1)	0.2	(17.3)	(8,650)
Change in fair value of contingent payment rights	(2.2)	—	(2.2)	100	(99.6)	—	(99.6)	100
Other income, net	13.4	13.4	—	—	36.3	38.5	(2.2)	(6)
Income tax expense	5.0	4.6	0.4	9	5.1	13.9	(8.8)	(63)
Net income (loss)	<u>(4.5)</u>	<u>14.5</u>	<u>(19.0)</u>	<u>(131)</u>	<u>(121.7)</u>	<u>44.1</u>	<u>(165.8)</u>	<u>(376)</u>
Net income attributable to noncontrolling interest	0.2	—	0.2	100	0.5	0.2	0.3	150
Net income (loss) attributable to common shareholders	<u>\$ (4.7)</u>	<u>\$ 14.5</u>	<u>\$ (19.2)</u>	<u>(132)</u>	<u>\$ (122.2)</u>	<u>\$ 43.9</u>	<u>\$ (166.1)</u>	<u>(378)</u>
Adjusted EBITDA ⁽¹⁾	\$ 127.4	\$ 132.2	\$ (4.8)	(4)%	\$ 380.7	\$ 396.9	\$ (16.2)	(4)%

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

Key Operating Statistics

	As of September 30,			
	2021	2020	Change	% Change
Consumer customers	527,327	562,587	(35,260)	(6)%
Consumer data connections	390,661	407,659	(16,998)	(4)
Consumer voice connections	341,135	380,236	(39,101)	(10)
Video connections	66,971	77,854	(10,883)	(14)

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 voice and data 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. 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 \$0.9 million and \$2.9 million during the quarter and nine months ended September 30, 2021, respectively, compared to the same periods in 2020 primarily due to continued growth in Metro Ethernet and SD-WAN services.

Voice Services

Voice services include basic local phone and long-distance service packages for business customers. The plans include options for voicemail, conference calling, linking multiple office locations and other custom calling features such as caller ID, call forwarding, speed dialing and call waiting. Services can be charged at a fixed monthly rate, a measured rate or can be bundled with selected services at a discounted rate. Voice services revenues decreased \$2.7 million and \$6.4 million during the quarter and nine months ended September 30, 2021, respectively, compared to the same periods in 2020 primarily due to an 8% decline in access lines as commercial customers are increasingly choosing alternative technologies 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, including 9-1-1 service revenues. We are 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.

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Other services revenues decreased \$0.3 million and \$3.2 million during the quarter and nine months ended September 30, 2021, respectively, compared to the same periods in 2020 primarily due the expiration of our 9-1-1 service contract in Vermont as well as a decrease in pole attachment revenue.

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 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. CCiTV, which is a customizable, cloud-enabled video service, supports a wide variety of viewing habits and provides an app-based approach to video services. Content can be delivered in high-definition quality to a big-screen TV, as well as to tablets and mobile devices.

Broadband services revenues increased \$1.5 million and \$5.6 million during the quarter and nine months ended September 30, 2021, respectively, compared to the same periods in 2020 despite a decrease in data and VoIP connections of 4% and 16%, respectively, primarily as a result of price increases implemented during 2021 as well as growth in revenue for CCiTV, which was launched in additional markets during 2020.

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 video subscribers can also watch their favorite shows, movies and livestreams on any device. In addition, we offer other in-demand streaming content including: ATT TV, fuboTV, Philo and HBO NOW®.

Video services revenues decreased \$2.4 million and \$7.1 million during the quarter and nine months ended September 30, 2021, respectively, compared to the same periods in 2020 primarily due to a 15% decrease in connections as consumers are choosing to subscribe to alternative video services such as over-the-top streaming services.

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 \$2.2 million and \$7.9 million during the quarter and nine months ended September 30, 2021, respectively, compared to the same periods in 2020 primarily due to a 10% decline in access lines. The number of local access lines in service directly affects the recurring revenues we generate from end users and continues to be impacted by the industry-wide decline in access lines. We expect to continue to experience erosion in voice connections due to competition from alternative technologies.

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 \$0.8 million and \$2.5 million during the quarter and nine months ended September 30, 2021, respectively, compared to the same periods in 2020 primarily due to a reduction in state subsidies support. See the “Regulatory Matters” section below for a further discussion of the subsidies we receive.

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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 \$2.1 million and \$1.4 million during the quarter and nine months ended September 30, 2021, respectively, compared to the same periods in 2020 primarily due to a decrease in the Federal Universal Service Fund Contribution Factor during the third quarter of 2021 as well as the continuing decline in interstate rates, minutes of use, voice connections and carrier circuits.

Other Products and Services

Other products and services include revenues from telephone directory publishing, video advertising, billing and support services and other miscellaneous revenues. We have entered into numerous Public Private Partnership agreements with several towns in New Hampshire to build new FTTP Internet networks. The new town networks provide broadband speeds of up to 1 Gbps to residential and commercial customers. Public Private Partnerships are a key component of Consolidated's commitment to expand rural broadband access.

Other products and services revenues decreased \$0.4 million during the quarter ended September 30, 2021 compared to the same period in 2020 primarily due to a decline in telephone directory advertising revenues. Other products and services revenues increased \$5.9 million during the nine months ended September 30, 2021 compared to the same period in 2020 primarily due to revenue recognition of Public Private Partnership construction projects during 2021.

Operating Expenses

Cost of Services and Products

Cost of services and products decreased \$1.9 million and increased \$10.1 million during the quarter and nine months ended September 30, 2021, respectively, compared to the same periods in 2020. Employee labor costs declined due to an increase in capitalized costs for the fiber network expansion in 2021 as well as a reduction in headcount. Video programming costs also decreased as a result of a decline in video connections. Contract labor costs and repair and maintenance expense also decreased as a result of operating efficiencies and a reduction in maintenance costs for utility poles. However, access expense increased during the nine months ended September 30, 2021 related to fiber costs for the Public Private Partnership agreements, as described above. In addition, during the nine months ended September 30, 2021, we incurred access charges of \$3.4 million related to the early termination of a contract obligation for fixed wireless services. Required contributions to the Federal Universal Service Fund ("USF") also increased in 2021 as a result of an increase in the annual funding rate.

Selling, General and Administrative Costs

Selling, general and administrative costs decreased \$1.0 million and increased \$2.3 million during the quarter and nine months ended September 30, 2021, respectively, compared to the same periods in 2020. Property and real estate taxes decreased primarily due to property tax refunds and settlements received during the quarter and nine months ended September 30, 2021. However, advertising expense increased during the nine months ended September 30, 2021 from additional radio and television advertising to promote our new fiber broadband speeds.

Depreciation and Amortization

Depreciation and amortization expense decreased \$6.4 million and \$18.5 million during the quarter and nine months ended September 30, 2021, respectively, compared to the same periods in 2020 primarily due to certain acquired assets becoming fully depreciated or amortized. Amortization expense declined for customer relationships, which are amortized under the accelerated method. Depreciation expense also declined due to the sale of utility poles located in the state of New Hampshire in 2020. These declines in depreciation and amortization expense were offset in part by ongoing capital expenditures related to success-based capital projects for consumer and commercial services as well as the fiber network expansion 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.

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, USF subsidies promote widely available, quality telephone service at affordable prices in rural areas.

Our current annual support through the FCC's Connect America Fund ("CAF") Phase II funding is \$48.1 million through 2021. The specific obligations associated with CAF Phase II funding included 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 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 received funding.

We accepted CAF Phase II support in all of our operating states except Colorado and Kansas, where we declined the offered CAF Phase II support. 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 16, 2021 and became effective on July 1, 2021. The net impact is a decrease of approximately \$3.3 million in network access and CAF ICC support funding for the July 2021 through June 2022 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 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.

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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 and received FCC approval on July 26, 2021. We are required to file our letter of credit and bankruptcy opinion letter by December 15, 2021. Funding will begin January 1, 2022 and go through December 31, 2031.

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 (“TTA”), which Consolidated is a member, and the Texas Statewide Telephone Cooperative, Inc. (“TSTCI”), filed a lawsuit seeking to overturn the PUCT decision as well as a temporary injunction on the funding reduction. On June 7, 2021, the court ruled in favor of the PUCT. The TTA and TSTCI filed a notice to appeal on July 2, 2021. We filed our brief on September 18, 2021, along with a Motion to Expedite. The defendant’s response was due October 21, 2021, unless the motion to expedite was granted. The potential impact is a reduction in support of approximately \$4.0 million annually.

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. In 2020, 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 for the towns of Danbury, Springfield and Mason. The state funded 10% upfront with the remainder received upon completion of projects in December 2020.

American Rescue Plan Act (“ARPA”) Funding

President Biden signed the ARPA on March 11, 2021. States have been allocated federal funds to be utilized for capital infrastructure, including broadband deployment, and are in various stages of implementation. We are working with the states and municipalities to participate in this broadband grant program.

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. Most state moratoriums on disconnections have expired; however, certain states such as Washington and New York were extended to July 31, 2021 and December 31, 2021, respectively.

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In February 2021, the FCC created the Emergency Broadband Benefit Program to help low income households stay connected during the COVID-19 pandemic by providing broadband service discounts for eligible households. Consolidated is a participant in this program.

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 \$11.5 million and \$41.8 million during the quarter and nine months ended September 30, 2021, respectively, compared to the same periods in 2020. During the quarter and nine months ended September 30, 2021, we recognized interest expense, including amortized costs, of \$10.9 million and \$32.0 million, respectively, on the Note issued to Searchlight as part of the investment agreement entered into in October 2020. Interest expense on our outstanding senior notes also increased during the quarter and nine months ended September 30, 2021 as part of the refinancing of our long-term debt as described in the “Liquidity and Capital Resources” section below.

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 \$12.0 million in connection with the repayment of \$397.0 million of outstanding term loans under our credit agreement during the nine months ended September 30, 2021. In addition, we recognized a loss of \$5.1 million on the extinguishment of debt during the nine-month period ended September 30, 2021 related to the refinancing of our credit agreement in April 2021.

During the nine months ended September 30, 2020, we repurchased \$4.5 million of the aggregate principal amount of our 6.50% Senior Notes due 2022 and recognized a gain on extinguishment of debt of \$0.2 million in connection with the partial repurchase of the notes.

Change in Fair Value of Contingent Payment Rights

We are required to measure our contingent payment rights at fair value until they are converted into shares of the Company’s common stock. During the quarter and nine months ended September 30, 2021, we recognized a loss of \$2.2 million and \$99.6 million, respectively, on the increase in the fair value of the contingent payment right issued to Searchlight.

Other Income

Other income decreased \$2.2 million during the nine months ended September 30, 2021 compared to the same periods in 2020. Other income for the quarter ending September 30, 2021 was consistent with the same quarter in 2020. Investment income decreased \$0.4 million and increased \$0.8 million during the quarter and nine months ended September 30, 2021, respectively, from our wireless partnership interests. Pension and post-retirement expense decreased \$0.2 million and \$4.1 million during the quarter and nine months ended September 30, 2021, respectively. See Note 11 to the condensed consolidated financial statements for a more detailed discussion regarding our pension and post-retirement plans. However, during the nine months ended September 30, 2021, we recognized a loss of \$3.6 million on the disposition of

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wireless spectrum licenses. During the nine months ended September 30, 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.

Income Taxes

For the quarter and nine months ended September 30, 2021, the Company has utilized the discrete effective tax rate method, as allowed by Accounting Standards Codification ("ASC") 740-270-30-18, "*Income Taxes – Interim Reporting*," to calculate its interim income tax provision. The discrete method is applied when the application of the estimated annual effective tax rate is impractical because it is not possible to reliably estimate the annual effective tax rate. The discrete method treats the year to date period as if it was the annual period and determines the income tax expense or benefit on that basis. The Company believes that, at this time, the use of the discrete method is more appropriate than the annual effective tax rate method as (i) the estimated annual effective tax rate method is not reliable due to the high degree of uncertainty in estimating annual pretax earnings and (ii) small changes in the projected ordinary annual income would result in significant changes in the estimated annual effective rate. The uncertainty in the estimated pretax earnings is driven by uncertainty in the date of regulatory approval and second closing date in connection with the Searchlight transaction.

Income taxes increased \$0.4 million and decreased \$8.8 million during the quarter and nine months ended September 30, 2021, respectively, compared to the same periods in 2020. Our effective tax rate was 1,047.9% and 23.9% for the quarters ended September 30, 2021 and 2020, respectively, and (4.4)% and 23.9% for the nine-month periods ended September 30, 2021 and 2020, respectively. On September 22, 2021, we entered into a definitive agreement to sell substantially all of the assets of our non-core, rural ILEC business located in Ohio (the "Ohio transaction"). As a result, we recorded an increase to our current tax expense of \$1.5 million related to the \$5.7 million impairment loss of noncash goodwill that is not deductible for tax purposes. In addition, the investment made by Searchlight in 2020 is treated as a contribution of equity for federal tax purposes. Accordingly, the impact of the non-cash PIK interest expense, discount and issuance costs, and fair value adjustments on the CPR are not recognized for federal income tax purposes, resulting in an increase to our current tax expense of \$3.4 million and \$34.3 million for the quarter and nine-month period ended September 30, 2021, respectively. Exclusive of the discrete effective tax rate method and the discrete permanent income tax impact related to the Searchlight and Ohio transactions, our effective tax rate for the quarters ended September 30, 2021 and 2020 would have been approximately 24.8% and 23.9%, respectively, and approximately 24.8% and 23.9% for the nine-month periods ended September 30, 2021 and 2020, respectively. The effective tax rate differed from the federal and state statutory rates primarily due to permanent income tax differences related to the Searchlight and Ohio transactions, recurring permanent tax differences, and differences in allocable income for the Company's state tax filings.

Non-GAAP Measures

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

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

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The following table is a reconciliation of net income (loss) to adjusted EBITDA for the quarters and nine months ended September 30, 2021 and 2020:

<i>(In thousands, unaudited)</i>	Quarter Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income (loss)	\$ (4,481)	\$ 14,582	\$ (121,653)	\$ 44,140
Add (subtract):				
Interest expense, net of interest income	43,176	31,661	137,022	95,215
Income tax expense	4,953	4,576	5,066	13,892
Depreciation and amortization	73,765	80,220	225,455	244,024
EBITDA	117,413	131,039	245,890	397,271
Adjustments to EBITDA:				
Other, net ⁽¹⁾	(12,308)	(13,412)	(27,950)	(37,656)
Investment distributions ⁽²⁾	11,127	12,350	33,160	32,046
(Gain) loss on extinguishment of debt	—	—	17,101	(234)
Loss on impairment	5,704	—	5,704	—
Change in fair value of contingent payment rights	2,205	—	99,619	—
Non-cash, stock-based compensation	3,217	2,263	7,160	5,487
Adjusted EBITDA	\$ 127,358	\$ 132,240	\$ 380,684	\$ 396,914

⁽¹⁾ 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, 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 for our accelerated fiber network expansion and growth plan and invest in future business opportunities.

The following table summarizes our cash flows:

<i>(In thousands)</i>	Nine Months Ended September 30,	
	2021	2020
Cash flows provided by (used in):		
Operating activities	\$ 295,979	\$ 297,350
Investing activities	(493,127)	(144,812)
Financing activities	140,269	(65,214)
Change in cash and cash equivalents	\$ (56,879)	\$ 87,324

Cash Flows Provided by Operating Activities

Net cash provided by operating activities was \$296.0 million during the nine-month period ended September 30, 2021, a decrease of \$1.4 million compared to the same period in 2020. The change is primarily due to improvements in working

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capital and the timing of expenditures and cash receipts. In addition, cash contributions to our defined benefit pension plan decreased \$3.9 million during the nine-month period ended September 30, 2021 compared to the same period in 2020. However, in response to the potential impacts of the COVID-19 pandemic in 2020, we deferred certain employer payroll tax payments under the CARES Act. The portion of the taxes deferred until 2021 of approximately \$6.0 million were paid during the nine months ended September 30, 2021.

Cash Flows Used In Investing Activities

Net cash used in investing activities was \$493.1 million during the nine-month period ended September 30, 2021 and consisted primarily of cash used for capital expenditures and the purchase of short-term investments. Capital expenditures continue to be our primary recurring investing activity and were \$339.5 million and \$152.2 million during the nine-month periods ended September 30, 2021 and 2020, respectively. Capital expenditures for 2021 are expected to be \$440.0 million to \$460.0 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.

During the nine months ended September 30, 2021, we purchased \$155.0 million in short-term investments consisting primarily of held-to-maturity debt securities with original maturities of three to twelve months.

Cash proceeds from the sale of assets decreased \$6.8 million during the nine-month period ended September 30, 2021. During the nine months ended September 30, 2020, we received cash proceeds of \$3.7 million on the sale of our 39 GHz wireless spectrum licenses.

Cash Flows 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

Credit Agreement

On October 2, 2020, the Company, through certain of its wholly-owned subsidiaries, entered into a Credit Agreement with various financial institutions (as amended, the "Credit Agreement") to replace the Company's previous credit agreement in its entirety. The Credit Agreement consisted of term loans in an original aggregate amount of \$1,250.0 million (the "Initial Term Loans") and a revolving loan facility of \$250.0 million. 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 Initial Term Loans were issued in an original aggregate principal amount of \$1,250.0 million with a maturity date of October 2, 2027 and contained an original issuance discount of 1.5% or \$18.8 million, which is being amortized over the term of the loan. Prior to amendments to the Credit Agreement, as described below, the Initial Term Loans required quarterly principal payments of \$3.1 million, which commenced December 31, 2020, and bore interest at a rate of 4.75% plus the London Interbank Offered Rate ("LIBOR") subject to a 1.00% LIBOR floor.

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 Initial Term Loans including the same maturity date and interest rate. The Initial Term Loans and Incremental Term Loans, collectively (the "Term Loans") will comprise a single class of term loans under the Credit Agreement.

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On March 18, 2021, the Company repaid \$397.0 million of the outstanding Term Loans with the net proceeds received from the issuance of \$400.0 million aggregate principal amount of 5.00% senior secured notes due 2028 (the “5.00% Senior Notes”), as described below. The repayment of the Term Loans was applied to the remaining principal payments in direct order of maturity, thereby eliminating the required quarterly principal payments through the remaining term of the loan. In connection with the repayment of the Term Loans, we recognized a loss on extinguishment of debt of \$12.0 million during the nine months ended September 30, 2021.

On April 5, 2021, the Company entered into a second amendment to the Credit Agreement (the “Second Amendment”) to refinance the outstanding Term Loans of \$999.9 million. The terms and conditions of the Credit Agreement remain substantially similar and unchanged except with respect to the interest rate applicable to the Term Loans and certain other provisions. As a result of the Second Amendment, the interest rate of the Term Loans was reduced to 3.50% plus LIBOR subject to a 0.75% LIBOR floor. The maturity date of the Term Loans of October 2, 2027 remains unchanged. In connection with entering into the Second Amendment, we recognized a loss of \$5.1 million on the extinguishment of debt during the nine months ended September 30, 2021.

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. At September 30, 2021 and December 31, 2020, there were no borrowings outstanding under the revolving credit facility. Stand-by letters of credit of \$17.8 million were outstanding under our revolving credit facility as of September 30, 2021. The stand-by letters of credit are renewable annually and reduce the borrowing availability under the revolving credit facility. As of September 30, 2021, \$232.2 million was available for borrowing under the revolving credit facility.

The weighted-average interest rate on outstanding borrowings under our credit facility was 4.25% and 5.75% as of September 30, 2021 and December 31, 2020, respectively. Interest is payable at least quarterly.

Credit Agreement Covenant Compliance

The Credit Agreement contains various provisions and covenants, including, among other items, restrictions on the ability to pay dividends, incur additional indebtedness, and issue certain capital stock. We have agreed to maintain certain financial ratios, including 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 September 30, 2021, our consolidated first lien leverage ratio under the Credit Agreement was 4.09:1.00. As of September 30, 2021, we were in compliance with the Credit Agreement covenants.

Senior Notes

On October 2, 2020, we completed an offering of \$750.0 million aggregate principal amount of 6.50% unsubordinated secured notes due 2028 (the “6.50% Senior Notes”). The 6.50% 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 6.50% Senior Notes will mature on October 1, 2028. The net proceeds from the issuance of the 6.50% Senior Notes were used to redeem our then outstanding \$440.5 million aggregate principal amount of 6.50% Senior Notes due in October 2022 at a price equal to 100% of the aggregate principal amount plus accrued and unpaid interest through the redemption date, to repay a portion of the outstanding borrowings under the previous credit agreement as part of the refinancing in October 2020 and to pay related fees and expenses.

On March 18, 2021, we issued \$400.0 million aggregate principal amount 5.00% Senior Notes, together with the 6.50% Senior Notes (the “Senior Notes”). The 5.00% Senior Notes were priced at par and bear interest at a rate of 5.00% per year, payable semi-annually on April 1 and October 1 of each year, beginning on October 1, 2021. The 5.00% Senior Notes will mature on October 1, 2028. Deferred debt issuance costs of \$3.8 million incurred in connection with the issuance of the 5.00% Senior Notes are being amortized using the effective interest method over the term of the Senior Notes. The net proceeds from the issuance of the 5.00% Senior Notes were used to repay \$397.0 million of the Term Loans outstanding under the Credit Agreement.

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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 offerings of the Senior Notes have 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 indentures 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 indentures also contain customary events of default. As of September 30, 2021, the Company was in compliance with all terms, conditions and covenants under the indentures governing the Senior Notes.

Repurchase of Senior Notes due 2022

During the nine months ended September 30, 2020, we repurchased \$4.5 million of the aggregate principal amount of our then outstanding 6.50% Senior Notes due in October 2022 (the "2022 Notes") for \$4.2 million and recognized a gain on extinguishment of debt of \$0.2 million.

Finance Leases

We lease certain facilities and equipment under various finance leases which expire between 2021 and 2040. As of September 30, 2021, the present value of the minimum remaining lease commitments was approximately \$22.2 million, of which \$6.9 million was due and payable within the next twelve months. The leases require total remaining rental payments of \$25.1 million as of September 30, 2021.

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 later this year at which time, we will receive the additional investment of \$75.0 million from Searchlight.

Sufficiency of Cash Resources

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

<i>(In thousands, except for ratio)</i>	September 30, 2021	December 31, 2020
Cash and cash equivalents and short-term investments	\$ 253,645	\$ 155,561
Working capital	150,106	70,191
Current ratio	1.47	1.26

Our net working capital improved \$79.9 million as of September 30, 2021 compared to December 31, 2020 primarily as a result of an increase in cash, cash equivalents and short-term investments of \$98.1 million. As described above, on January 15, 2021, we borrowed an additional \$150.0 million aggregate principal amount of incremental term loans under our Credit Agreement. Working capital also improved from a decline in the current portion of long-term debt and finance lease

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obligations of \$10.6 million as a result of the prepayment in March 2021 of \$397.0 million of the outstanding Term Loans, which eliminated the required quarterly principal payments through the remaining term of the loan. At September 30, 2021, working capital also included assets classified as held for sale of \$25.9 million related to the pending sale of substantially all of the assets of our ILEC business located in Ohio. However, working capital was reduced by an increase in accounts payable of \$22.6 million at September 30, 2021 related to the timing of expenditures. Accrued interest also increased \$31.4 million at September 30, 2021 related to the timing on the semi-annual interest payments for our Senior Notes.

Our most significant use of funds for the remainder of 2021 is expected to be for: (i) interest payments on our indebtedness of between \$46.0 million and \$51.0 million; and (ii) capital expenditures of between \$100.0 million and \$120.0 million. The recent refinancing of our capital structure combined with the Searchlight investment provides us the capital and financial flexibility to fund our accelerated fiber network expansion and growth plans. 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 expected uses of cash and to comply with the financial covenants under our debt agreements will depend on the results of future operations, performance and cash flow. Our ability to fund 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 monitor liquidity.

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. In addition, the COVID-19 pandemic has caused a disruption in the capital markets, which could make obtaining additional financing more difficult and we may not be able to obtain financing on favorable terms or at all.

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

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 September 30, 2021, we had approximately \$6.4 million of these bonds outstanding.

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 as described in the Note 11 to the Condensed Consolidated Financial Statements, included in this report in Part I – Item 1 "Financial Statements". 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.

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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 estimate the long-term rate of return on assets will be 6.00%.

The Pension Plans invest in marketable equity securities which are exposed to changes in the financial markets. COVID-19 has also impacted the financial markets, which could significantly impact the returns on our plan assets. If the financial markets experience a sustained 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.

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. As of September 30, 2021, we have contributed \$16.1 million and \$6.6 million to our Pension Plans and our other post-retirement benefit plans, respectively. Our contribution amounts meet the minimum funding requirements as set forth in employee benefit and tax laws.

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.

Critical Accounting Estimates

Our condensed consolidated financial statements and accompanying notes are prepared in accordance with US GAAP. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by management’s application of accounting policies. Our judgments are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making estimates about the carrying values of assets and liabilities that are not readily apparent from other sources. For a full discussion of our accounting estimates and assumptions that we have identified as critical in the preparation of our condensed consolidated financial statements, refer to our 2020 Annual Report on Form 10-K filed with the SEC.

Recent Accounting Pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

As of September 30, 2021, the majority of our variable rate debt was subject to a 0.75% London Interbank Offered Rate (“LIBOR”) floor. Based on our variable rate debt outstanding as of September 30, 2021, a 1.00% increase in market interest rates would increase annual interest expense by approximately \$1.7 million. A 1.00% decrease in current interest rates would not impact annual interest expense on our variable rate debt due to the 0.75% LIBOR floor.

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As of September 30, 2021, the fair value of our interest rate swap agreements amounted to a net liability of \$16.1 million. Total pre-tax deferred losses related to our interest rate swap agreements included in accumulated other comprehensive loss was \$13.0 million as of September 30, 2021.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (“Exchange Act”) that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. In connection with the filing of this Form 10-Q, management evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design to provide reasonable assurance of achieving their objectives and operation of our disclosure controls and procedures as of September 30, 2021. 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 September 30, 2021.

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 have been no changes in our internal controls over financial reporting during the quarter ended September 30, 2021 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Limitations on the Effectiveness of Controls

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time we may be involved in litigation that we believe is of the type common to companies in our industry, including regulatory issues. While the outcome of these claims cannot be predicted with certainty, we do not believe that the outcome of any of these legal matters will have a material adverse impact on our business, results of operations, financial condition or cash flows. See Note 13 to the Condensed Consolidated Financial Statements, included in this report in Part I - Item 1 “Financial Statements” for a discussion of recent developments related to these legal proceedings.

ITEM 6. EXHIBITS

- 31.1 [Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2 [Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1 [Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101 The following financial information from Consolidated Communications Holdings, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2021, formatted in Inline XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Operations, (ii) Condensed Consolidated Statements of Comprehensive Income (Loss), (iii) Condensed Consolidated Balance Sheets, (iv) Condensed Consolidated Statements of Changes in Shareholders' Equity, (v) Condensed Consolidated Statements of Cash Flows, and (vi) Notes to Unaudited Condensed Consolidated Financial Statements.
- 104 Cover Page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101).

SIGNATURES

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

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.

(Registrant)

October 29, 2021

By: /s/ C. Robert Udell Jr.

C. Robert Udell Jr.,
Chief Executive Officer
(Principal Executive Officer)

October 29, 2021

By: /s/ Steven L. Childers

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

CHIEF EXECUTIVE OFFICER CERTIFICATION

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

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

October 29, 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 quarterly report on Form 10-Q of Consolidated Communications Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 29, 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 Quarterly Report on Form 10-Q for the period ended September 30, 2021 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)
October 29, 2021

/s/ Steven L. Childers

Steven L. Childers
Chief Financial Officer
(Principal Financial Officer and Chief Accounting Officer)
October 29, 2021
