Consolidated Communications Holdings, Inc.
Form 10-Q
August 08, 2013
Table of Contents

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

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

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013

or

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

OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 000-51446

**CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

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

(217) 235-3311

(Registrant s telephone number, including area code)

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

Yes X No ___

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

Yes X No ___

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

Large accelerated filer ____ Accelerated filer X

Non-accelerated filer ___ (Do not check if a smaller reporting company)Smaller reporting company ___

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

Yes ______ No__X__

On July 26, 2013, the registrant had 40,111,518 shares of Common Stock outstanding.

Table of Contents

**TABLE OF CONTENTS**

Table of Contents

## PART I FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

### CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

### CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

| | Quarter Ended June 30, 2013 | Quarter Ended June 30, 2012 | Six Months Ended June 30, 2013 | Six Months Ended June 30, 2012 |
|---|---|---|---|---|
| Net revenues | $ 151,320 | $ 86,557 | $ 302,848 | $ 173,008 |
| Operating expense: | | | | |
| Cost of services and products (exclusive of depreciation and amortization) | 55,942 | 32,019 | 110,994 | 63,073 |
| Selling, general and administrative expenses | 33,544 | 19,121 | 66,670 | 37,804 |
| Financing and other transaction costs | 178 | 562 | 357 | 5,384 |
| Depreciation and amortization | 34,709 | 21,708 | 69,550 | 43,682 |
| Income from operations | 26,947 | 13,147 | 55,277 | 23,065 |
| Other income (expense): | | | | |
| Interest expense, net of interest income | (20,697) | (16,893) | (45,297) | (31,493) |
| Investment income | 8,693 | 6,762 | 17,477 | 13,228 |
| Other, net | 82 | 185 | (25) | 199 |
| Income from continuing operations before income taxes | 15,025 | 3,201 | 27,432 | 4,999 |
| Income tax expense | 5,465 | 880 | 11,014 | 1,501 |
| Income from continuing operations | 9,560 | 2,321 | 16,418 | 3,498 |
| (Loss) income from discontinued operations, net of tax | (272) | 585 | (248) | 1,292 |
| Net income | 9,288 | 2,906 | 16,170 | 4,790 |
| Less: net income attributable to noncontrolling interest | 94 | 120 | 193 | 245 |
| Net income attributable to common shareholders | $ 9,194 | $ 2,786 | $ 15,977 | $ 4,545 |
| Net income per common share - basic and diluted | | | | |
| Income from continuing operations | $ 0.23 | $ 0.07 | $ 0.40 | $ 0.11 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (Loss) income from discontinued operations, net of tax | | (0.01) | | 0.02 | | (0.01) | | 0.04 |
| Net income per basic and diluted common share attributable to common shareholders | $ | 0.22 | $ | 0.09 | $ | 0.39 | $ | 0.15 |
| Dividends declared per common share | $ | 0.38 | $ | 0.38 | $ | 0.77 | $ | 0.77 |

See accompanying notes.

1

Table of Contents

**CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

*(Unaudited; Amounts in thousands)*

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Net income | $ 9,288 | $ 2,906 | $ 16,170 | $ 4,790 |
| Pension and post-retirement obligations: | | | | |
| Amortization of actuarial losses and prior service cost to earnings, net of tax | 474 | 448 | 948 | 897 |
| Derivative instruments designated as cash flow hedges: | | | | |
| Change in fair value of derivatives, net of tax | 719 | 589 | 1,138 | 1,584 |
| Reclassification of realized (gain) loss to earnings, net of tax | - | (8) | 1,839 | - |
| Comprehensive income | 10,481 | 3,935 | 20,095 | 7,271 |
| Less: comprehensive income attributable to noncontrolling interest | 94 | 120 | 193 | 245 |
| Total comprehensive income attributable to common shareholders | $ 10,387 | $ 3,815 | $ 19,902 | $ 7,026 |

See accompanying notes.

Table of Contents

**CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

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

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 3,520 | $ 17,854 |
| Accounts receivable, net | 56,527 | 57,957 |
| Income tax receivable | 1,954 | 12,020 |
| Deferred income taxes | 8,984 | 8,984 |
| Prepaid expenses and other current assets | 13,761 | 11,269 |
| Assets of discontinued operations | 714 | 1,772 |
| Total current assets | 85,460 | 109,856 |
| | | |
| Property, plant and equipment, net | 895,597 | 907,672 |
| Investments | 111,800 | 109,750 |
| Goodwill | 603,446 | 603,446 |
| Other intangible assets | 44,994 | 49,530 |
| Deferred debt issuance costs, net and other assets | 15,992 | 13,800 |
| Total assets | $ 1,757,289 | $ 1,794,054 |
| | | |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 7,630 | $ 14,954 |
| Advance billings and customer deposits | 26,485 | 27,654 |
| Dividends payable | 15,538 | 15,463 |
| Accrued compensation | 19,445 | 21,912 |
| Accrued expense | 33,755 | 47,225 |
| Current portion of long-term debt and capital lease obligations | 9,849 | 9,596 |
| Current portion of derivative liability | 371 | 3,164 |
| Liabilities of discontinued operations | 254 | 4,209 |
| Total current liabilities | 113,327 | 144,177 |
| | | |
| Long-term debt and capital lease obligations | 1,214,404 | 1,208,248 |
| Deferred income taxes | 140,320 | 138,068 |
| Pension and other postretirement obligations | 149,672 | 156,710 |
| Other long-term liabilities | 12,989 | 10,746 |
| Total liabilities | 1,630,712 | 1,657,949 |
| | | |
| Commitments and contingencies | | |
| | | |
| Shareholders equity: | | |
| Common stock, par value $0.01 per share; 100,000,000 shares authorized, 40,111,518 and 39,877,998, shares outstanding as of June 30, 2013 and December 31, 2012, respectively | 401 | 399 |
| Additional paid-in capital | 163,668 | 177,315 |
| Retained earnings | - | - |
| Accumulated other comprehensive loss, net | (41,859) | (45,784) |
| Noncontrolling interest | 4,367 | 4,175 |
| Total shareholders equity | 126,577 | 136,105 |
| Total liabilities and shareholders equity | $ 1,757,289 | $ 1,794,054 |

See accompanying notes.

Table of Contents

**CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(Unaudited; amounts in thousands)*

| | Six Months Ended June 30, 2013 | Six Months Ended June 30, 2012 |
|---|---|---|
| Net cash provided by continuing operations | $ 67,346 | $ 49,228 |
| Net cash (used in) provided by discontinued operations | (3,097) | 912 |
| Net cash provided by operating activities | 64,249 | 50,140 |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment, net | (52,623) | (20,715) |
| Restricted cash for acquisition of SureWest | - | (298,035) |
| Other | (81) | (286) |
| Net cash used in continuing operations | (52,704) | (319,036) |
| Net cash used in discontinued operations | (48) | (97) |
| Net cash used in investing activities | (52,752) | (319,133) |
| Cash flows from financing activities: | | |
| Proceeds on bond offering | - | 298,055 |
| Restricted cash on bond offering | - | (17,047) |
| Proceeds from the issuance of long-term debt | 49,000 | - |
| Payment of capital lease obligation | (224) | (92) |
| Payment on long-term debt | (43,620) | (4,400) |
| Payment of financing costs | - | (5,070) |
| Dividends on common stock | (30,987) | (23,173) |
| Net cash used in financing activities | (25,831) | 248,273 |
| Decrease in cash and cash equivalents | (14,334) | (20,720) |
| Cash and cash equivalents at beginning of period | 17,854 | 105,704 |
| Cash and cash equivalents at end of period | $ 3,520 | $ 84,984 |

See accompanying notes.

Table of Contents

**CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Business and Basis of Accounting

Consolidated Communications Holdings, Inc. (the Company , we or our ) is a holding company with operating subsidiaries (collectively Consolidated ) that provide communications services to residential and business customers in Illinois, Texas, Pennsylvania, California, Kansas and Missouri.

We offer a wide range of telecommunications services to residential and business customers in the areas we serve. Our telecommunications services include local and long-distance service, high-speed broadband Internet access, video services, digital telephone service ( VOIP ), custom calling features, private line services, carrier grade access services, network capacity services over our regional fiber optic networks, directory publishing, Competitive Local Exchange Carrier ( CLEC ) services and equipment sales. As of June 30, 2013, we had approximately 263 thousand access lines, 126 thousand voice connections, 251 thousand data and Internet connections and 109 thousand video connections.

We historically operated our business as two separate reportable segments: Telephone Operations and Other Operations. Based on recent changes in our business structure, as of the quarter ended June 30, 2013 we concluded that we operate our business as one reportable segment. See the Recent Business Developments section below for a more detailed discussion regarding the circumstances that resulted in the change to our segment reporting.

In the opinion of management, the accompanying condensed consolidated balance sheets and related consolidated statements of income, comprehensive income 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 ( U.S. 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 U.S. 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 2012 Annual Report on Form 10-K filed with the SEC.

### Recent Business Developments

*SureWest Merger*

We completed the acquisition of SureWest Communications on July 2, 2012. SureWest Communications results of operations are included within our results following the acquisition date. For a more complete discussion of the transaction, refer to Note 2.

*Segment Reporting*

Historically, we have classified our operations into two separate reportable business segments: Telephone Operations and Other Operations. Our Telephone Operations consisted of a wide range of telecommunications services to residential and business customers, including local and long-distance service, high-speed broadband Internet access, video services, VOIP services, custom calling features, private line services, carrier access services, network capacity services over a regional fiber optic network, mobile services and directory publishing. Our Other Operations segment operated two complementary non-core businesses including telephone services to state and county correctional facilities ( Prison Services ) and equipment sales. As discussed below, our contract to provide telephone services to correctional facilities operated by the Illinois Department of Corrections was not renewed and the process of transitioning these services to another service provider was completed during the quarter ended March 31, 2013. During the quarter ended June 30, 2013, upon establishing a plan to sell certain assets related to the Prison Services business, we classified the assets

Table of Contents

and operations as a discontinued operation. Prison Services comprised nearly all of the Other Operations segment revenue and results of operations. Consequently, with the cessation of our Prison Services business and based on the segment accounting guidance, the Company has concluded that it operates as one segment as of the quarter ended June 30, 2013. As required by the authoritative guidance for segment presentation, segment results of operations have been retrospectively adjusted to reflect this change for all periods presented.

*Prison Services Contract*

We previously provided telephone service to inmates incarcerated at facilities operated by the Illinois Department of Corrections and to certain county jails. On June 27, 2012, the Illinois Department of Central Management Services announced its intent to replace us as the provider of those services with a competitor. Although we challenged our competitor s bid and the State s decision to accept that bid in a variety of different forums, during the quarter ended March 31, 2013, the process of transitioning these services to another service provider was completed. All related assets have been assessed for recoverability in light of this change and we determined that no impairment was necessary. During 2012, the prison services contract comprised 5% of consolidated operating revenues and approximately 2% of consolidated operating income, excluding financing and other transaction fees.

*Discontinued Operations*

During the quarter ended June 30, 2013, the Company established a plan to sell certain assets related to the Prison Services business. We expect the plan to be completed by the end of the third quarter of 2013. In accordance with the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 205-20, *Discontinued Operations* , the financial results of these prison services operations have been classified as discontinued operations and are presented in a separate line on the condensed consolidated statements of income for all periods presented. The related prison services assets have been classified on the condensed consolidated balance sheets as assets of discontinued operations for all periods presented. For a more complete discussion of the transaction, refer to Note 2.

**Reclassifications**

Certain amounts in our 2012 condensed consolidated financial statements have been reclassified to conform to the presentation of our 2013 condensed consolidated financial statements, which consists primarily of the effects of reclassifications from the presentation of prison services as a discontinued operation and the finalization of purchase accounting for the SureWest acquisition.

**Recent Accounting Pronouncements**

Effective January 1, 2013, we adopted Financial Accounting Standards Board ( FASB ) Accounting Standards Update No. 2012-02 ( ASU 2012-02 ), *Testing Indefinite-Lived Intangible Assets for Impairment*. ASU 2012-02 permits an entity to perform an initial assessment of qualitative factors to determine whether it is more likely than not that a non-goodwill indefinite-lived intangible asset is impaired and thus whether it is necessary to calculate the asset s fair value for the purpose of comparing it with the asset s carrying amount. The adoption of this standard did not have a material impact on our condensed consolidated financial statements.

Effective January 1, 2013, we adopted Accounting Standards Update No. 2013-02 ( ASU 2013-02 ), *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income,* which establishes new requirements for disclosing reclassifications of items out of accumulated other comprehensive income ( OCI ). ASU 2013-2 requires disclosures for the (i) changes in components of accumulated OCI, (ii) effects on individual line items in net income for each item of accumulated OCI that is reclassified in its entirety to net income, and (iii) cross references to other disclosures that provide additional details for OCI items that are not reclassified in their entirety to net income. For public companies, amendments are effective prospectively for reporting periods beginning after December 15, 2012, with early adoption permitted. In accordance with the provisions of this guidance, disclosures related to accumulated OCI can be found in Note 8.

Table of Contents

**2. ACQUISITION AND DISPOSITIONS**

***Merger With SureWest Communications***

On July 2, 2012, we completed the merger with SureWest Communications ( SureWest ), which resulted in the acquisition of 100% of all the outstanding shares of SureWest for $23.00 per share in a cash and stock transaction. SureWest provides telecommunications services in Northern California, primarily in the greater Sacramento region, and in the greater Kansas City, Kansas and Missouri areas. The total purchase price of $550.8 million consisted of cash and assumed debt of $402.4 million and 9,965,983 shares of the Company s common stock valued at the Company s opening stock price on July 2, 2012 of $14.89, which totaled $148.4 million. We acquired SureWest to provide additional diversification of our revenues and cash flows.

Subsequent to the merger, the financial results of SureWest operations have been included in our condensed consolidated statement of income. During the quarter and six months ended June 30, 2013, we paid change-in-control obligations to former members of the SureWest management team of $0.8 million and $7.9 million, respectively, that were previously accrued. At June 30, 2013, unpaid obligations under the change-in-control agreements were $0.3 million, which are expected to be paid during the three months ended September 30, 2013.

The acquisition of SureWest has been accounted for using the acquisition method in accordance with the FASB s ASC Topic 805, *Business Combinations*. Accordingly, the net assets acquired were recorded at their estimated fair values at July 2, 2012. These values were derived from a purchase price allocation, which was finalized during the quarter ended June 30, 2013 with the completion of various tax analysis and adjustments.

The following table summarizes the final purchase price allocation:

| | *(In thousands)* |
|---|---|
| Current assets | $ 47,073 |
| Property, plant and equipment | 591,818 |
| Goodwill | 84,016 |
| Other intangible assets | 3,600 |
| Other long-term assets | 4,861 |
| Total assets acquired | 731,368 |
| Current liabilities | 53,566 |
| Pension and other post-retirement obligations | 55,916 |
| Deferred income taxes | 66,976 |
| Other long-term liabilities | 4,114 |
| Total liabilities assumed | 180,572 |
| Net assets acquired | $ 550,796 |

As noted above, during the quarter ended June 30, 2013, the Company recorded tax related adjustments to the preliminary purchase price allocation which decreased deferred income taxes by $1.3 million, increased current assets by $0.2 million and decreased goodwill by $1.5 million. As of June 30, 2013, the Company has completed its accounting for the acquisition of SureWest. These adjustments were retrospectively applied on the balance sheet to reflect the appropriate balances as of July 2, 2012. There was no impact to the income statement for the twelve months ended December 31, 2012.

*Unaudited Pro Forma Results*

The following unaudited pro forma information presents our results of operations as if the acquisition of SureWest occurred on January 1, 2011. The adjustments to arrive at the pro forma information below include additional depreciation and amortization expense for the fair value increases to property plant and equipment, software and customer relationships. Interest expense was increased to reflect the additional debt acquired to finance a portion of the acquisition price. Shares used in the calculation of basic and diluted earnings per share were adjusted to reflect the additional shares of common stock issued to fund a portion of the acquisition price. The pro forma information below does not purport to present the actual results that would have resulted if the acquisition had in fact occurred at the beginning of the fiscal periods presented, nor does the information project results for any future period.

Table of Contents

| *(In thousands, except per share amounts)* | Quarter Ended June 30, 2012 | Six Months Ended June 30, 2012 |
|---|---|---|
| Operating revenues | $ 151,563 | $ 300,910 |
| Income from operations | $ 12,037 | $ 26,113 |
| Loss from continuing operations | $ (1,659) | $ (761) |
| Discontinued operations, net of tax | $ 585 | $ 1,292 |
| Net (loss) income | $ (1,074) | $ 531 |
| Less: income attributable to noncontrolling interest | 120 | 245 |
| Net (loss) income attributable to common shareholders | $ (1,194) | $ 286 |
| Net income per common share - basic and diluted | | |
| Loss from continuing operations | $ (0.04) | $ (0.02) |
| Discontinued operations, net of tax | 0.01 | 0.03 |
| Net (loss) income per basic and diluted common share attributable to common shareholders | $ (0.03) | $ 0.01 |

***Discontinued Operations***

During the quarter ended June 30, 2013, the Company established a plan to sell certain assets related to the Prison Services business. We expect the plan to be completed by the end of the third quarter of 2013. The financial results of the operations for prison services, which were previously reported in the Other Operations segment, have been reported as a discontinued operation in our condensed consolidated financial statements for all periods presented.

As of June 30, 2013 and December 31, 2012, the major classes of the prison services assets and liabilities included in discontinued operations were as follows:

| *(In thousands)* | June 30, 2013 | December 31, 2012 |
|---|---|---|
| Accounts receivable, net | $ 60 | $ 625 |
| Deferred income taxes | 583 | 583 |
| Property, plant and equipment, net | 71 | 564 |
| Total assets | $ 714 | $ 1,772 |
| | | |
| Accounts payable | $ - | $ 13 |
| Advance billings and customer deposits | 165 | 938 |
| Accrued expense | 89 | 3,258 |
| Total liabilities | $ 254 | $ 4,209 |

The following table summarizes the financial information for the prison services operations for the quarters and six months ended June 30, 2013 and 2012:

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(In thousands)* | 2013 | 2012 | 2013 | 2012 |
| Operating revenues | $ 482 | $ 6,448 | $ 5,249 | $ 13,361 |
| Operating expenses including depreciation and amortization | 878 | 5,543 | 5,577 | 11,361 |

| | | | | |
|---|---|---|---|---|
| (Loss) income from operations | (396) | 905 | (328) | 2,000 |
| Income tax (benefit) expense | (124) | 320 | (80) | 708 |
| (Loss) income from discontinued operations | $ (272) | $ 585 | $ (248) | $ 1,292 |

Table of Contents

### 3. EARNINGS PER SHARE

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

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(In thousands, except per share amounts)* | **2013** | **2012** | **2013** | **2012** |
| Income from continuing operations | $ 9,560 | $ 2,321 | $ 16,418 | $ 3,498 |
| Less: net income attributable to noncontrolling interest | 94 | 120 | 193 | 245 |
| Income attributable to common shareholders before allocation of earnings to participating securities | 9,466 | 2,201 | 16,225 | 3,253 |
| Less: earnings allocated to participating securities | 131 | 95 | 263 | 160 |
| Income from continuing operations attributable to common shareholders | 9,335 | 2,106 | 15,962 | 3,093 |
| Net income (loss) from discontinued operations | (272) | 585 | (248) | 1,292 |
| Net income attributable to common shareholders | $ 9,063 | $ 2,691 | $ 15,714 | $ 4,385 |
| Weighted-average number of common shares outstanding | 39,755 | 29,689 | 39,755 | 29,689 |
| Basic and diluted earnings per common share: | | | | |
| Income from continuing operations | $ 0.23 | $ 0.07 | $ 0.40 | $ 0.11 |
| Income (loss) from discontinued operations, net of tax | (0.01) | 0.02 | (0.01) | 0.04 |
| Net income per common share attributable to common shareholders | $ 0.22 | $ 0.09 | $ 0.39 | $ 0.15 |

Diluted earnings per common share attributable to common shareholders for the three and six months ended June 30, 2013 excludes 0.4 million shares and 0.2 million shares, respectively, of potential common securities related to our share-based compensation plan, because the inclusion of the potential common shares would have had an antidilutive effect. For the three and six months ended June 30, 2012, diluted earnings per share excluded 0.3 million potential common shares.

### 4. INVESTMENTS

Our investments are as follows:

| *(In thousands)* | June 30, 2013 | December 31, 2012 |
|---|---|---|
| Cash surrender value of life insurance policies | $ 2,115 | $ 2,045 |
| Cost method investments: | | |
| GTE Mobilnet of South Texas Limited Partnership (2.34% interest) | 21,450 | 21,450 |
| Pittsburgh SMSA Limited Partnership (3.60% interest) | 22,950 | 22,950 |
| CoBank, ACB Stock | 5,028 | 5,023 |
| Other | 430 | 430 |
| Equity method investments: | | |
| GTE Mobilnet of Texas RSA #17 Limited Partnership (20.51% interest) | 26,543 | 25,695 |
| Pennsylvania RSA 6(I) Limited Partnership (16.6725% interest) | 7,434 | 7,286 |

| | | |
|---|---|---|
| Pennsylvania RSA 6(II) Limited Partnership (23.67% interest) | 24,186 | 23,338 |
| CVIN, LLC (13.43% interest) | 1,664 | 1,533 |
| Totals | $ 111,800 | $ 109,750 |

**Cost Method**

We own 2.34% of GTE Mobilnet of South Texas Limited Partnership (the Mobilnet South Partnership ). The principal activity of the Mobilnet South Partnership is providing cellular service in the Houston, Galveston, and Beaumont, Texas metropolitan areas. We also own 3.60% of Pittsburgh SMSA Limited Partnership ( Pittsburgh SMSA ), which provides cellular service in and around the Pittsburgh metropolitan area. Because of our limited influence over these partnerships, we use the cost method to account for both of these investments. It is not practicable to estimate fair value of these investments. We did not evaluate any of the investments for impairment

Table of Contents

during the quarters or six months ended June 30, 2013 or 2012 as no factors indicating impairment existed. For the three months ended June 30, 2013 and 2012, we received cash distributions from these partnerships totaling $3.8 million and $3.0 million, respectively. For the six months ended June 30, 2013 and 2012, we received cash distributions from these partnerships totaling $7.8 million and $5.5 million, respectively.

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

**Equity Method**

We own 20.51% of GTE Mobilnet of Texas RSA #17 Limited Partnership ( RSA #17 ), 16.6725% of Pennsylvania RSA 6(I) Limited Partnership ( RSA 6(I) ) and 23.67% of Pennsylvania RSA 6(II) Limited Partnership ( RSA 6(II) ). RSA #17 provides cellular service to a limited rural area in Texas. RSA 6 (I) and RSA 6 (II) provide cellular service in and around our Pennsylvania service territory. Because we have significant influence over the operating and financial policies of these three entities, we account for the investments using the equity method. For the three months ended June 30, 2013 and 2012, we received cash distributions from these partnerships totaling $3.9 million and $2.9 million, respectively. For the six months ended June 30, 2013 and 2012, we received cash distributions from these partnerships totaling $8.0 million and $6.5 million, respectively.

We have a 13.43% interest in Central Valley Independent Network, LLC ( CVIN ), a joint enterprise comprised of affiliates of several independent telephone companies located in central and northern California. CVIN provides network services and oversees a broadband infrastructure project designed to expand and improve the availability of network services to counties in central California. Because we have significant influence over the operating and financial policies of this entity, we account for this investment using the equity method. During the six months ended June 30, 2013, we made additional capital investments of $0.1 million in this partnership. We did not receive any distributions from this partnership during the quarters or six months ended June 30, 2013 and 2012.

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

| | **Quarter Ended June 30,** | | **Six Months Ended June 30,** | |
|---|---|---|---|---|
| *(In thousands)* | **2013** | **2012** | **2013** | **2012** |
| Total revenues | $ 79,342 | $ 73,555 | $ 156,061 | $ 145,890 |
| Income from operations | 24,914 | 22,235 | 48,888 | 41,927 |
| Net income before taxes | 24,926 | 22,247 | 48,911 | 41,956 |
| Net income | 24,926 | 22,143 | 48,911 | 41,748 |

| *(In thousands)* | **June 30, 2013** | **December 31, 2012** |
|---|---|---|
| Current assets | $ 58,650 | $ 49,982 |
| Non-current assets | 81,826 | 79,529 |
| Current liabilities | 15,798 | 15,417 |
| Non-current liabilities | 1,492 | 1,351 |

| | | |
|---|---|---|
| Partnership equity | 123,186 | 112,734 |

**5. FAIR VALUE MEASUREMENTS**

Our derivative instruments related to interest rate swap agreements are required to be measured at fair value on a recurring basis. The fair values of the interest rate swaps are determined using valuation models which rely on the expected London Interbank Offered Rate ( LIBOR ) based yield curve and estimates of counterparty and Consolidated s non-performance risk as the most significant inputs. Because each of these inputs are directly observable or can be corroborated by observable market data, we have categorized these interest rate swaps as Level 2 within the fair value hierarchy. See Note 7 for further discussion regarding our interest rate swap agreements.

Table of Contents

Our interest rate swap liabilities measured at fair value on a recurring basis and subject to disclosure requirements at June 30, 2013 and December 31, 2012 were as follows:

| | As of June 30, 2013 | | | |
|---|---|---|---|---|
| *(In thousands)* | **Total** | **Quoted Prices In Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| Current interest rate swap liabilities | $ (371) | $ | $ (371) | $ |
| Long-term interest rate swap liabilities | (2,779) | | (2,779) | |
| Totals | $ (3,150) | $ | $ (3,150) | $ |

| | As of December 31, 2012 | | | |
|---|---|---|---|---|
| *(In thousands)* | **Total** | **Quoted Prices In Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| Current interest rate swap liabilities | $ (3,164) | $ | $ (3,164) | $ |
| Long-term interest rate swap liabilities | (3,919) | | (3,919) | |
| Totals | $ (7,083) | $ | $ (7,083) | $ |

The change in the fair value of the derivatives is primarily a result of a change in market expectations for future interest rates and the expiration of certain instruments during the six months ended June 30, 2013.

We have not elected the fair value option for any of our financial assets or liabilities. The carrying value of other financial instruments, including cash, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short maturities or variable-rate nature of the respective balances. The following table presents the other financial instruments that are not carried at fair value but which require fair value disclosure as of June 30, 2013 and December 31, 2012.

| | **As of June 30, 2013** | | **As of December 31, 2012** | |
|---|---|---|---|---|
| *(In thousands)* | **Carrying Value** | **Fair Value** | **Carrying Value** | **Fair Value** |
| Investments, equity basis | $ 59,827 | n/a | $ 57,852 | n/a |
| Investments, at cost | $ 49,858 | n/a | $ 49,853 | n/a |
| Long-term debt | $ 1,218,839 | $ 1,268,870 | $ 1,213,000 | $ 1,231,355 |

**Cost & Equity Method Investments**

Our investments at June 30, 2013 and December 31, 2012 accounted for under both the equity and cost methods consists primarily of minority positions in various cellular telephone limited partnerships and our investment in CoBank. These investments are recorded using either the equity or cost methods. It is impracticable to determine fair value of these investments.

**Long-term Debt**

The fair value of our long-term debt was estimated using a discounted cash flow analyses based on incremental borrowing rates for similar types of borrowing arrangements.  We have categorized the long-term debt as Level 2 within the fair value hierarchy.

Table of Contents

**6. LONG-TERM DEBT**

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

| *(In thousands)* | June 30, 2013 | December 31, 2012 |
|---|---|---|
| Senior secured credit facility: | | |
| Term Loan 2 | $ 402,916 | $ 404,961 |
| Term Loan 3, net of discount of $4,714 and $5,088 at June 30, 2013 and December 31, 2012, respectively | 507,711 | 509,912 |
| Revolving loan | 10,000 | - |
| Senior notes, net of discount of $1,788 and $1,873 at June 30, 2013 and December 31, 2012, respectively | 298,212 | 298,127 |
| Capital leases | 5,414 | 4,844 |
| | 1,224,253 | 1,217,844 |
| Less: current portion of long-term debt and capital leases | (9,849) | (9,596) |
| Total long-term debt | $ 1,214,404 | $ 1,208,248 |

**Credit Agreement**

The Company, through certain of its wholly owned subsidiaries, has an outstanding credit agreement with several financial institutions, which consists of a $50.0 million revolving credit facility and outstanding term loans of $910.6 million at June 30, 2013. The credit facility also includes an incremental term loan facility which provides the ability to borrow up to $300.0 million of incremental term loans. As of June 30, 2013, $10.0 million was outstanding under the revolving credit facility. No amounts were outstanding under the revolving credit facility at December 31, 2012. Borrowings under the senior secured credit facility are secured by substantially all of the assets of the Company, with the exception of Illinois Consolidated Telephone Company and our majority-owned subsidiary, East Texas Fiber Line Incorporated.

Our term loans under the credit facility, as amended, were issued in separate tranches, resulting in different maturity dates and interest rate margins for each term loan. The second term loan ( Term 2 ) consists of an original aggregate principal amount of $409.1 million, matures on December 31, 2017 and currently has an applicable margin (at our election) equal to either 4.00% for a LIBOR-based term loan or 3.00% for an alternative base rate term loan. The Term 2 loan requires $1.0 million in quarterly principal payments, which began on March 31, 2012. The third term loan ( Term 3 ) consists of an original aggregate principal amount of $515.0 million, with a maturity date of December 31, 2018. The Term 3 loan requires quarterly principal payments of $1.3 million which commenced March 31, 2013 and has an applicable margin (at our election) equal to either 4.00% for a LIBOR-based term loan or 3.00% for an alternative base rate term loan subject to a 1.25% LIBOR floor. The Term 3 loan contains an original issuance discount of $5.2 million, which is being amortized over the term of the loan.

Our revolving credit facility has a maturity date of June 8, 2016 and an applicable margin (at our election) of between 2.75% and 3.50% for LIBOR-based borrowings and between 1.75% and 2.50% for alternative base rate borrowings, depending on our leverage ratio. Based on our leverage ratio at June 30, 2013, the borrowing margin for the next three month period ending September 30, 2013 will be at a weighted-average margin of 3.25% for a LIBOR-based loan or 2.25% for an alternative base rate loan. The applicable borrowing margin for the revolving credit facility is adjusted quarterly to reflect the leverage ratio from the prior quarter-end. As of June 30, 2013, $10.0 million was outstanding under the revolving credit facility. There were no borrowings or letters of credit outstanding under the revolving credit facility at December 31, 2012.

The weighted-average interest rate on outstanding borrowings under our credit agreement was 4.77% and 4.79% at June 30, 2013 and December 31, 2012, respectively.  Interest is payable at least quarterly.

Net proceeds from asset sales exceeding certain thresholds, to the extent not reinvested, are required to be used to repay loans outstanding under the credit agreement.

Table of Contents

*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 capital stock. We have agreed to maintain certain financial ratios, including interest coverage and total net leverage ratios, all as defined in the credit agreement. As of June 30, 2013, we were in compliance with the credit agreement covenants.

Effective February 17, 2012, we amended our credit facility to provide us with the ability to incur indebtedness necessary to finance the acquisition of SureWest, which enabled us to issue the unsecured Senior Notes ( Senior Notes ), as described below. In connection with the amendment, fees of $3.5 million were recognized as financing and other transaction costs during the six months ended June 30, 2012.

In general, our credit agreement restricts our ability to pay dividends to the amount of our Available Cash as defined in our credit agreement. As of June 30, 2013, and including the $15.5 million dividend declared in May 2013 and paid on August 1, 2013, we had $194.2 million in dividend availability under the credit facility covenant.

Under our credit agreement, if our total net leverage ratio (as defined in the credit agreement), as of the end of any fiscal quarter, is greater than 5.10:1.00, we will be required to suspend dividends on our common stock unless otherwise permitted by an exception for dividends that may be paid from the portion of proceeds of any sale of equity not used to fund acquisitions, or make other investments. During any dividend suspension period, we will be required to repay debt in an amount equal to 50.0% of any increase in Available Cash, among other things. In addition, we will not be permitted to pay dividends if an event of default under the credit agreement has occurred and is continuing. Among other things, it will be an event of default if our total net leverage ratio and interest coverage ratio as of the end of any fiscal quarter is greater than 5.25:1.00 and less than 2.25:1.00, respectively. As of June 30, 2013, our total net leverage ratio under the credit agreement was 4.26:1.00, and our interest coverage ratio was 3.32:1.00.

**Senior Notes**

On May 30, 2012, we completed an offering of $300.0 million aggregate principal amount of 10.875% unsecured Senior Notes, due 2020 through our wholly-owned subsidiary, Consolidated Communications Finance Co. ( Finance Co. ) for the acquisition of SureWest. The Senior Notes will mature on June 1, 2020 and earn interest at a rate of 10.875% per year, payable semi-annually in arrears on June 1 and December 1 of each year, commencing on December 1, 2012. The Senior Notes were sold in the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933 (the Securities Act ) and outside the United States in compliance with Regulation S under the Securities Act. In addition, some of the Senior Notes were sold to certain accredited investors (as defined in Rule 501 under the Securities Act). The Senior Notes were sold to investors at a price equal to 99.345% of the principal amount thereof, for a yield to maturity of 11.00%. This discount is being amortized over the term of the Senior Notes. The proceeds of the sale of the Senior Notes were held in an escrow account prior to the closing of the SureWest transaction. Upon closing of the SureWest acquisition on July 2, 2012, Finance Co. merged with and into our wholly-owned subsidiary Consolidated Communications, Inc., which assumed the Senior Notes, and we and certain of our subsidiaries fully and unconditionally guaranteed the Senior Notes. On August 3, 2012, SureWest and its subsidiaries guaranteed the Senior Notes.

During the quarter ended June 30, 2013, we completed an exchange offer to issue registered notes ( Exchange Notes ) for $287.3 million of the original Senior Notes. The terms of the Exchange Notes are substantially identical to the Senior Notes, except that the Exchange Notes are registered under the Securities Act and the transfer restrictions and registration rights applicable to the Senior Notes do not apply to the Exchange Notes. The exchange offer did not impact the aggregate principal amount or the remaining terms of the Senior Notes outstanding.

*Senior Notes Covenant Compliance*

The indenture governing the Senior Notes contains customary covenants for high yield notes, which limits Consolidated Communications, Inc. s and its restricted subsidiaries ability to: incur 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.

Table of Contents

Among other matters, the Senior Notes indenture provides that Consolidated Communications, Inc. may not pay dividends or make other restricted payments to the Company if its total net leverage ratio is 4.25:1.00 or greater. At June 30, 2013, this ratio, which is calculated differently than the comparable ratio under the credit agreement, was 4.00:1.00. If this ratio is met, dividends and other restricted payments may be made from cumulative consolidated cash flow since the date the Senior Notes were issued, less 1.75 times fixed charges, less dividends and other restricted payments made since the date the Senior Notes were issued. Dividends may be paid and other restricted payments may also be made from a basket of $50.0 million, none of which has been used to date, and pursuant to other exceptions identified in the Senior Notes indenture. Since dividends of $77.5 million have been paid since May 30, 2012, at June 30, 2013 there was $115.2 million of the $192.7 million of cumulative consolidated cash flow since May 30, 2012 available to pay dividends.

**Bridge Loan Facility**

In connection with the acquisition of SureWest, in February 2012 the Company received committed financing for a total of $350.0 million to fund the cash portion of the anticipated transaction, to refinance SureWest s debt and to pay for certain transaction costs. The financing package included a $350.0 million Senior Unsecured Bridge Loan Facility ( Bridge Facility ). As anticipated, permanent financing for the SureWest acquisition was funded by our Senior Note offering, as described above. As a result, the $4.2 million commitment fee incurred for the Bridge Facility was capitalized as deferred debt issuance costs in February 2012 and was amortized over the expected life of the Bridge Facility, which was four months.

**Capital Leases**

As of June 30, 2013, we had seven capital leases which expire between 2015 and 2021. As of June 30, 2013, the present value of the minimum remaining lease commitments was approximately $5.4 million, of which $0.6 million was due and payable within the next twelve months. The leases require total remaining rental payments of $8.5 million as of June 30, 2013, of which $6.1 million will be paid to LATEL LLC, a related party entity.

During the quarter ended June 30, 2013, we acquired equipment of $0.8 million through capital lease agreements, which represents a noncash investing activity.

**7. DERIVATIVE FINANCIAL INSTRUMENTS**

We use derivative financial instruments to manage our exposure to the risks associated with fluctuations in interest rates. Our interest rate swap agreements effectively convert a portion of our floating-rate debt to a fixed-rate basis, thereby reducing the impact of interest rate changes on future cash interest payments. Derivative financial instruments are recorded at fair value in our condensed consolidated balance sheet. Certain of our interest rate swaps are designated as cash flow hedges of our expected future interest payments. For derivative instruments designated as a cash flow hedge, the effective portion of the change in the fair value is recognized as a component of accumulated other comprehensive income (loss) ( AOCI ) and is recognized as an adjustment to earnings over the period in which the hedged item impacts earnings. When an interest rate swap agreement terminates, any resulting gain or loss is recognized over the shorter of the remaining original term of the hedging instrument or the remaining life of the underlying debt obligation. If a derivative instrument is de-designated, the remaining gain or loss in AOCI on the date of de-designation is amortized to earnings over the remaining term of the hedging instrument. For derivative financial instruments that are not designated as a hedge, changes in fair value are recognized on a current basis in earnings. The ineffective portion of the change in fair value of any hedging derivative is recognized immediately in earnings. Cash flows from hedging activities are classified under the same category as the cash flows from the hedged items in our consolidated statement of cash flows.

The following interest rate swaps were outstanding at June 30, 2013:

| *(In thousands)* | Notional Amount | 2013 Balance Sheet Location | Fair Value |
|---|---|---|---|
| **Cash Flow Hedges:** | | | |
| Fixed to 1-month floating LIBOR | $ 275,000 | Other long-term liabilities | $ (2,779) |
| Fixed to 1-month floating LIBOR | 100,000 | Current portion of derivative liability | (371) |
| Total Fair Values | | | $ (3,150) |

Table of Contents

The following interest rate swaps were outstanding at December 31, 2012:

| *(In thousands)* | Notional Amount | 2012 Balance Sheet Location | Fair Value |
|---|---|---|---|
| **Cash Flow Hedges:** | | | |
| Fixed to 1-month floating LIBOR | $ 200,000 | Other long-term liabilities | $ (2,758) |
| Fixed to 1-month floating LIBOR | 100,000 | Current portion of derivative liability | (1,069) |
| Forward starting fixed to 1-month floating LIBOR | 75,000 | Other long-term liabilities | (1,161) |
| **De-designated Hedges:** | | | |
| Fixed to 3-month floating LIBOR | 130,000 | Current portion of derivative liability | (1,300) |
| 3-month floating LIBOR minus spread to 1-month floating LIBOR | 130,000 | Current portion of derivative liability | (16) |
| Fixed to 1-month floating LIBOR | 200,000 | Current portion of derivative liability | (779) |
| Total Fair Values | | | $ (7,083) |

At June 30, 2013 and December 31, 2012, the interest rate on approximately 41% and 69%, respectively, of our outstanding debt under the term loan credit facility was fixed through the use of interest rate swaps.

As of June 30, 2013, the counterparties to our various swaps are four major U.S. and European banks. 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. This provision allows us to partially mitigate the risk of non-performance by a counterparty.

On December 4, 2012, $660.0 million notional interest rate swaps designated as cash flow hedges were de-designated in connection with an amendment to our credit agreement. Prior to the de-designation, the effective portion of the change in fair value of these interest rate swaps were recognized in AOCI. The balance of the unrealized loss included in AOCI as of the date the swaps were de-designated was amortized to earnings over the remaining term of the swap agreements. On December 31, 2012, $200.0 million notional interest rate swap agreements expired and the remainder expired on March 31, 2013. Subsequent to December 4, 2012, changes in fair value of the de-designated swaps were recognized in earnings. During the six months ended June 30, 2013, a gain of $2.1 million was recognized as a reduction to interest expense for the change in fair value of the de-designated swaps.

Information regarding our cash flow hedge transactions is as follows:

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(In thousands)* | 2013 | 2012 | 2013 | 2012 |
| Gain recognized in AOCI, pretax | $ 1,161 | $ 932 | $ 1,838 | $ 2,508 |
| Deferred losses reclassed from AOCI to interest expense | $ - | $ 13 | $ (2,912) | $ 1 |
| Gain arising from ineffectiveness reducing interest expense | $ - | $ 15 | $ - | $ 31 |

| *(In thousands, except months)* | **June 30, 2013** | **December 31, 2012** |
|---|---|---|
| Aggregate notional value of current derivatives outstanding | $ 375,000 | $ 630,000 |
| Aggregate notional value of forward derivatives outstanding | $ - | $ 75,000 |
| Period through which derivative positions currently exist | March 2016 | March 2016 |
| Fair value of derivatives | $ (3,150) | $ (7,083) |
| Deferred losses included in AOCI (pretax) | $ 3,149 | $ 7,899 |
| Losses included in AOCI to be recognized in the next 12 months | $ - | $ 2,912 |
| Number of months over which loss in AOCI is to be recognized | N/A | 3 |

Table of Contents

## 8. EQUITY

### Share-Based Compensation

The following table summarizes total compensation costs recognized for share-based payments during the quarters and six-month periods ended June 30, 2013 and 2012:

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(In thousands)* | **2013** | **2012** | **2013** | **2012** |
| Restricted stock | $ 461 | $ 325 | $ 917 | $ 650 |
| Performance shares | 323 | 264 | 523 | 440 |
| Total | $ 784 | $ 589 | $ 1,440 | $ 1,090 |

Stock-based compensation expense is included in selling, general and administrative expenses in the accompanying statements of income.

As of June 30, 2013, total unrecognized compensation costs related to nonvested Restricted Stock Awards ( RSAs ) and Performance Share Awards ( PSAs ) was $5.1 million and will be recognized over a weighted-average period of approximately 1.3 years.

The following table summarizes the RSA and PSA activity for the six-month period ended June 30, 2013:

| | RSAs | | PSAs | |
|---|---|---|---|---|
| | **Shares** | **Weighted Average Grant Date Fair Value** | **Shares** | **Weighted Average Grant Date Fair Value** |
| Non-vested shares outstanding - January 1, 2013 | 64,318 | $ 18.33 | 58,221 | $ 18.85 |
| Shares granted | 168,516 | 17.13 | 66,504 | 19.30 |
| Shares cancelled | (1,500) | 17.13 | - | - |
| Shares vested | - | - | - | - |
| Non-vested shares outstanding - June 30, 2013 | 231,334 | | 124,725 | |

### Accumulated Other Comprehensive Income

The following table summarizes the changes in accumulated other comprehensive loss, net of tax, by component for the six-month period ended June 30, 2013:

| *(In thousands)* | **Pension and Post-Retirement Obligations** | **Derivative Instruments** | **Total** |
|---|---|---|---|
| Balance at December 31, 2012 | $ (40,581) | $ (5,203) | $ (45,784) |
| Other comprehensive income before reclassifications | - | 1,138 | 1,138 |
| Amounts reclassified from accumulated other comprehensive income | 948 | 1,839 | 2,787 |
| Net current period other comprehensive income | 948 | 2,977 | 3,925 |
| Balance at June 30, 2013 | $ (39,633) | $ (2,226) | $ (41,859) |

Table of Contents

The following table summarizes reclassifications from accumulated other comprehensive loss for the three and six-month periods ended June 30, 2013:

| (In thousands) | Amount Reclassified from AOCI Quarter Ended June 30, 2013 | Six Months Ended June 30, 2013 | Affected Line Item in the Statement of Income |
|---|---|---|---|
| Amortization of pension and post-retirement items: | | | |
| Prior service credit | $ 115 | $ 231 | (a) |
| Actuarial loss | (891) | (1,782) | (a) |
| | (776) | (1,551) | Total before tax |
| | 302 | 603 | Tax benefit |
| | $ (474) | $ (948) | Net of tax |
| Loss on cash flow hedges: | | | |
| Interest rate derivatives | $ - | $ (2,912) | Interest expense |
| | - | 1,073 | Tax benefit |
| | $ - | $ (1,839) | Net of tax |

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

## 9. PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS

*Defined Benefit Plans*

We sponsor a qualified defined benefit pension plan ( Retirement Plan ) that is non-contributory covering certain of our hourly employees who fulfill minimum age and service requirements. Certain salaried employees are also covered by the Retirement Plan, although these benefits have previously been frozen. In April 2013, the Retirement Plan was amended to among other things: (i) change the benefit formula to a cash balance account as of May 1, 2013 and (ii) freeze entrance into the Retirement Plan so that no person is eligible to become a participant on or following May 1, 2013.

In connection with the acquisition of SureWest, we assumed sponsorship in 2012 of a frozen non-contributory defined benefit pension plan (the SureWest Plan ). The SureWest Plan covers certain eligible employees and benefits are based on years of service and the employee s average compensation during the five highest consecutive years of the last ten years of credited service. This plan has previously been frozen so that no person is eligible to become a new participant and all future benefit accruals for existing participants have ceased.

We also have two non-qualified supplemental retirement plans ( Supplemental Plans ): the Restoration Plan, which we acquired as part of our North Pittsburgh Systems, Inc. ( North Pittsburgh ) and TXU Communications Venture Company ( TXUCV ) acquisitions, and a Supplemental Executive Retirement Plan ( SERP ), which we acquired as part of our acquisition of SureWest. The Supplemental Plans provide supplemental retirement benefits to certain former employees by providing for incremental pension payments to partially offset the reduction that would have been payable under the qualified defined benefit pension plans if it were not for limitations imposed by federal income tax regulations. Both plans have previously been frozen so that no person is eligible to become a new participant in the Supplemental Plans.  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.

Table of Contents

The following table summarizes the components of net periodic pension cost for our defined benefit plans for the quarters and six-month periods ended June 30, 2013 and 2012:

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(In thousands)* | **2013** | **2012** | **2013** | **2012** |
| Service cost | $ 304 | $ 357 | $ 608 | $ 713 |
| Interest cost | 3,860 | 2,641 | 7,722 | 5,283 |
| Expected return on plan assets | (5,151) | (2,611) | (10,302) | (5,222) |
| Net amortization loss | 891 | 809 | 1,782 | 1,618 |
| Prior service credit amortization | (70) | (41) | (141) | (83) |
| Net periodic pension (benefit) cost | $ (166) | $ 1,155 | $ (331) | $ 2,309 |

*Other Non-qualified Deferred Compensation Agreements*

We also are liable for deferred compensation agreements with former members of the board of directors and certain other former employees of a subsidiary of TXUCV, which was acquired in 2004. The benefits are payable for up to the life of the participant and may begin as early as age 65 or upon the death of the participant. Participants accrue no new benefits as these plans had previously been frozen by TXUCV s predecessor company prior to our acquisition of TXUCV. Payments related to the deferred compensation agreements totaled approximately $0.1 million for the three month period ended June 30, 2013 and 2012, respectively and $0.3 million for the six-month periods ended June 30, 2013 and 2012, respectively. The net present value of the remaining obligations was approximately $1.9 million and $2.2 million at June 30, 2013 and December 31, 2012, respectively, and is included in pension and post-retirement benefit obligations in the accompanying balance sheets.

We also maintain 37 life insurance policies on certain of the participating former directors and employees. The excess of the cash surrender value of the remaining life insurance policies over the notes payable balances related to these policies is determined by an independent consultant, and totaled $2.1 million at June 30, 2013 and $2.0 million at December 31, 2012. These amounts are included in investments in the accompanying condensed consolidated balance sheets. Cash principal payments for the policies and any proceeds from the policies are classified as operating activities in the condensed consolidated statements of cash flows.

*Post-retirement Benefit Obligations*

We sponsor a healthcare and life insurance plan ( Post-retirement Plan ) that provides post-retirement medical benefits and life insurance to certain groups of retired employees. 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. The Post-retirement Plan is unfunded and has no assets, and benefits are paid from the general operating funds of the Company.

In connection with the acquisition of SureWest, we acquired its post-retirement benefit plan which provides life insurance benefits and a stated reimbursement for Medicare supplemental insurance to certain eligible retired participants. This plan has previously been frozen so that no person is eligible to become a new participant. Employer contributions for retiree medical benefits are separately designated within the SureWest Plan pension trust for the sole purpose of providing payments of retiree medical benefits. The nature of the assets used to provide payment of retiree medical benefits is the same as that of the SureWest Plan.

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(In thousands)* | **2013** | **2012** | **2013** | **2012** |
| Service cost | $ 231 | $ 213 | $ 463 | $ 427 |
| Interest cost | 392 | 414 | 783 | 828 |
| Expected return on plan assets | (58) | - | (116) | - |
| Net prior service credit amortization | (45) | (47) | (90) | (95) |
| Net periodic postretirement benefit cost | $ 520 | $ 580 | $ 1,040 | $ 1,160 |

Table of Contents

*Contributions*

We expect to contribute approximately $11.5 million to our pension plans and $2.5 million to our other post-retirement plans in 2013. As of June 30, 2013, we have contributed $4.6 million and $1.4 million of the annual contribution to the pension plans and other post-retirement plans, respectively.

**10. INCOME TAXES**

There have been no changes to the balance of our unrecognized tax benefits reported at December 31, 2012. As of June 30, 2013 and December 31, 2012, the amount of unrecognized tax benefits was $1.2 million. The total amount of unrecognized benefits that, if recognized, would affect the effective tax rate is $0.8 million. A decrease of the full amount of unrecognized tax benefits and $0.2 million of related accrued interest is expected in the third quarter of 2013 due to the expiration of federal and state statute of limitations. The tax benefit attributable to the decrease in unrecognized tax benefits will not have a significant effect on the Company s effective tax rate.

Our practice is to recognize interest and penalties related to income tax matters in interest expense and general and administrative expense, respectively. At June 30, 2013, we had no 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 2009 through 2012. The periods subject to examination for our state returns are years 2005 through 2011. We are currently under examination by federal and state taxing authorities. We do not expect any settlement or payment that may result from the audit to have a material effect on our results of operations or cash flows.

Our effective tax rate was 36.4% and 27.5% for the three-month periods ended June 30, 2013 and 2012, respectively, and 40.2% and 30.0% for the six-month periods ended June 30, 2013 and 2012, respectively. For the six-month period ended June 30, 2013, the effective tax rate differed from the federal and state statutory rates primarily due to non-deductible compensation in relation to the acquisition of SureWest. Exclusive of this adjustment, our effective tax rate for the six months ended June 30, 2013 would have been approximately 36.7%.

**11. COMMITMENTS AND CONTINGENCIES**

Prior to the completion of the SureWest Merger on July 2, 2012, six putative class action lawsuits were filed by alleged SureWest shareholders challenging the Company s proposed merger with SureWest in which the Company, WH Acquisition Corp. and WH Acquisition II Corp., SureWest and members of the SureWest board of directors have been named as defendants. Five shareholder actions were filed in the Superior Court of California, Placer County, and one shareholder action was filed in the United States District Court for the Eastern District of California. The actions are called Needles v. SureWest Communications, et al., filed February 17, 2012, Errecart v. Oldham, et al., filed February 24, 2012, Springer v. SureWest Communications, et al., filed March 9, 2012, Aievoli v. Oldham, et al., filed March 15, 2012, and Waterbury v. SureWest Communications, et al., filed March 26, 2012, and the federal action is called Broering v. Oldham, et al., filed April 18, 2012. The actions generally allege, among other things, that each member of the SureWest board of directors breached fiduciary duties to SureWest and its shareholders by authorizing the sale of SureWest to the Company for consideration that allegedly was unfair to the SureWest shareholders and agreed to terms that allegedly unduly restrict other bidders from making a competing offer. The complaints also allege that the Company and SureWest aided and abetted the breaches of fiduciary duties allegedly committed by the members of the SureWest board of directors. The Broering complaint also alleges, among other things, that the joint proxy statement/prospectus filed with the SEC on March 28, 2012 did not make sufficient disclosures regarding the merger, that SureWest s board should have appointed an independent committee to negotiate the transaction and that SureWest should have gone back to another bidder to create a competitive bid process. The lawsuits seek equitable relief, including an order to prevent the defendants from consummating the merger on the agreed-upon terms and/or an award of unspecified monetary damages. On March 14, 2012, the Placer County Superior Court entered an order consolidating the Needles, Errecart and Springer actions into a single action under the caption In re SureWest Communications Shareholder Litigation. Under the terms of this order, all cases subsequently filed in the Superior Court for the State of California, County of Placer, that relate to the same subject matter and involve similar questions of law or fact were to be consolidated with these cases as well. This included the Aievoli and Waterbury cases. On April 10, 2012, the plaintiff in Waterbury filed a request for voluntary dismissal of her complaint without prejudice. On May 18, 2012, pursuant to the parties stipulation, the federal Court entered an order staying the Broering action for 90 days. The federal Court subsequently extended the stay of the Broering action until June 1, 2013. On June 1, 2012, the parties entered into a proposed settlement of all of the shareholder actions without any admission of

Table of Contents

liability by the Company or the other defendants. Pursuant to the proposed settlement, SureWest agreed to make, and subsequently made, certain additional disclosures in a Current Report on Form 8-K filed with the SEC in advance of the special meeting of SureWest shareholders held on June 12, 2012. The proposed settlement also provided that plaintiffs counsel collectively are to receive attorneys fees of $0.525 million, to be paid by the Company and SureWest and its insurer. On December 20, 2012, the court issued a ruling preliminarily approving the proposed settlement. Notice of the proposed settlement was thereafter given to the SureWest shareholders. Eight shareholders representing approximately 4,500 shares of SureWest stock opted-out of the settlement class. A final hearing on the proposed settlement was held before the court on March 28, 2013. On April 5, 2013, the court issued a final judgment for $0.525 million, of which the Company was to pay approximately $0.2 million, with the balance to be paid by SureWest and its insurer. In accordance with the terms of the final judgment, on April 17, 2013 the Company disbursed its portion of the settlement. Pursuant to the settlement and the terms of the final judgment, the consolidated state court actions are now concluded, and the claims of all shareholders who did not opt-out of the settlement have been released and discharged. In accordance with the settlement, the Broering action pending in federal court was voluntarily dismissed on April 16, 2013.

On April 15, 2008, Salsgiver Inc., a Pennsylvania-based telecommunications company, and certain of its affiliates filed a lawsuit against us and our subsidiaries North Pittsburgh Telephone Company and North Pittsburgh Systems Inc. in the Court of Common Pleas of Allegheny County, Pennsylvania alleging that we have prevented Salsgiver from connecting their fiber optic cables to our utility poles. Salsgiver seeks compensatory and punitive damages as the result of alleged lost projected profits, damage to its business reputation, and other costs. Salsgiver originally claimed to have sustained losses of approximately $125 million and did not request a specific dollar amount in damages. We believe that these claims are without merit and that the alleged damages are completely unfounded. We intend to defend against these claims vigorously. Discovery concluded and Consolidated filed a motion for summary judgment on June 18, 2012 and the court heard oral arguments on August 30, 2012. On February 12, 2013, the court granted, in part, Consolidated s motion. The court ruled that Salsgiver could not recover prejudgment interest and could not use as a basis of liability any actions prior to April 14, 2006. The court has set a tentative trial date for early November 2013. Additional discovery will be taken prior to that time.

In addition, we have asked the Federal Communications Commission ( FCC ) Enforcement Bureau to address Salsgiver s unauthorized pole attachments and safety violations on those attachments. We believe that these are violations of an FCC order regarding Salsgiver s complaint against us. We do not believe that these claims will have a material adverse impact on our financial results.

Two of our subsidiaries, Consolidated Communications of Pennsylvania Company LLC ( CCPA ) and Consolidated Communications Enterprise Services Inc. ( CCES ), received assessment notices from the Commonwealth of Pennsylvania Department of Revenue increasing the amounts owed for Pennsylvania Gross Receipt Taxes for the tax period ending December 31, 2009. These two assessments adjusted the subsidiaries combined total outstanding taxable gross receipts liability (with interest) to approximately $2.3 million. In addition, based upon recently completed audits of CCES for 2008, 2009 and 2010, we believe the Commonwealth of Pennsylvania may issue additional assessments totaling approximately $1.7 million for Gross Receipt Taxes allegedly owed. Our CCPA subsidiary has also been notified by the Commonwealth of Pennsylvania that they will conduct a gross receipts audit for the calendar year 2008. An appeal challenging the 2009 CCPA assessment was filed with the Department of Revenue s Board of Appeals on September 15, 2011, and we filed a similar appeal for CCES with the Board of Appeals on November 11, 2011 challenging the 2009 CCES assessment. The Board of Appeals denied CCPA and CCES s appeals. On November 13, 2012, CCPA and CCES filed appeals with the Commonwealth s Board of Finance and Revenue. These have been stayed pending the outcome of present litigation in the Commonwealth Court between Verizon Pennsylvania, Inc. and the Commonwealth of Pennsylvania (Verizon Pennsylvania, Inc. v. Commonwealth, Docket No. 266 F.R. 2008). The Gross Receipts Tax issues in the Verizon Pennsylvania case are substantially the same as those presently facing CCPA and CCES. In addition, there are numerous telecommunications carriers with Gross Receipts Tax matters dealing with the same issues that are in various stages of appeal before the Board of Finance and Revenue and the Commonwealth Court. Those appeals by other similarly situated telecommunications carriers have been continued until resolution of the Verizon Pennsylvania case. We believe that these assessments and the positions taken by the Commonwealth of Pennsylvania are without substantial merit. We do not believe that the outcome of these claims will have a material adverse impact on our financial results or cash flows.

Table of Contents

We previously provided telephone service to inmates incarcerated at facilities operated by the Illinois Department of Corrections. On June 27, 2012, the Illinois Department of Central Management Services announced its intent to replace the Company as the provider of those services with a competitor, Securus Technologies, Inc. Since that decision, Securus has replaced the Company as the provider of telephone service at the Illinois Department of Corrections facilities. We challenged Securus bid, and the State s decision to accept that bid, in a variety of different forums including: (i) protests with the Chief Procurement Officer of the Illinois Executive Ethics Commission, which were denied, (ii) a lawsuit filed in the Circuit Court of Sangamon County, Illinois that was dismissed, but is now under appeal in the Illinois Appellate Court Fourth District, (iii) a declaratory ruling request filed with the Illinois Commerce Commission, which was granted on April 9, 2013 and (iv) a complaint filed with the Illinois Procurement Policy Board. In each of those challenges, we claimed either that Securus was not a responsible vendor, as defined by the State s bid solicitation document, and/or that rates for the services Securus proposes to provide are subject to regulatory limits below those Securus has proposed to charge. Our efforts to challenge our competitors bid and the States decision to accept the bid have not been successful. As of June 30, 2013 the process to transition these services to our competitor was complete.

On January 18, 2012, we filed a petition with the U.S. Court of Appeals for the District of Columbia Circuit to review the FCC s Order issued November 18, 2011 that reformed intercarrier compensation and core parts of the Universal Service Fund. We are appealing five core issues in the November 18, 2011 FCC order. The U.S. Court of Appeals for the tenth circuit will hear oral arguments on November 19, 2013.

We are from time to time involved in various other legal proceedings and regulatory actions arising out of our operations. We do not believe that any of these, individually or in the aggregate, will have a material adverse effect upon our business, operating results or financial condition.

Table of Contents

**12. CONDENSED CONSOLIDATING FINANCIAL INFORMATION**

Consolidated Communications, Inc. is the primary obligor under the unsecured Senior Notes it issued on May 30, 2012. We and the following of our subsidiaries: Consolidated Communications Enterprise Services, Inc., Consolidated Communications Services Company, Consolidated Communications of Fort Bend Company, Consolidated Communications of Texas Company, Consolidated Communications of Pennsylvania Company, LLC, SureWest Communications, Inc., SureWest Broadband, SureWest Communications, SureWest Long Distance, SureWest Telephone, SureWest TeleVideo, SureWest Kansas, Inc., SureWest Kansas Holdings, Inc., SureWest Fiber Ventures, LLC, SureWest Kansas Connections, LLC, SureWest Kansas Licenses, LLC, SureWest Kansas Operations, LLC and SureWest Kansas Purchasing, LLC, have jointly and severally guaranteed the Senior Notes. All of the subsidiary guarantors are 100% direct or indirect wholly owned subsidiaries of the parent, and all guarantees are full, unconditional and joint and several with respect to principal, interest and liquidated damages, if any. As such, we present condensed consolidating balance sheets as of June 30, 2013 and December 31, 2012, condensed consolidating statements of operations for the quarters and six-month periods ended June 30, 2013 and 2012 and condensed consolidating statements of cash flows for the six months ended June 30, 2013 and 2012 for each of Consolidated Communications Holdings, Inc. (Parent), Consolidated Communications, Inc. (Subsidiary Issuer), guarantor subsidiaries and other non-guarantor subsidiaries with any consolidating adjustments. See Note 6 for more information regarding our Senior Notes.

## Condensed Consolidating Balance Sheet

*(amounts in thousands)*

| | June 30, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Parent | Subsidiary Issuer | Guarantors | Non-Guarantors | Eliminations | Consolidated |
| **ASSETS** | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | $ - | $ - | $ 2,166 | $ 1,354 | $ - | $ 3,520 |
| Accounts receivable, net | - | 251 | 48,397 | 7,879 | - | 56,527 |
| Income taxes receivable | 23,665 | (6,087) | (10,631) | (4,993) | - | 1,954 |
| Deferred income taxes | (51) | (310) | 8,969 | 376 | - | 8,984 |
| Prepaid expenses and other current assets | - | - | 13,410 | 351 | - | 13,761 |
| Assets of discontinued operations | - | - | 714 | - | - | 714 |
| Total current assets | 23,614 | (6,146) | 63,025 | 4,967 | - | 85,460 |
| Property, plant and equipment, net | - | - | 843,732 | 51,865 | - | 895,597 |
| Intangibles and other assets: | | | | | | |
| Investments | - | 3,645 | 108,140 | 15 | - | 111,800 |
| Investments in subsidiaries | 1,010,284 | 258,563 | 11,755 | - | (1,280,602) | - |
| Goodwill | - | - | 537,265 | 66,181 | - | 603,446 |
| Other intangible assets | - | - | 35,907 | 9,087 | - | 44,994 |
| Deferred debt issuance costs, net and other assets | - | 10,975 | 5,017 | - | - | 15,992 |
| Total assets | $ 1,033,898 | $ 267,037 | $ 1,604,841 | $ 132,115 | $ (1,280,602) | $ 1,757,289 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | $ - | $ 169 | $ 7,461 | $ - | $ - | $ 7,630 |
| Advance billings and customer deposits | - | - | 24,085 | 2,400 | - | 26,485 |
| Dividends payable | 15,538 | - | - | - | - | 15,538 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Accrued compensation | 36 | - | 17,652 | 1,757 | - | 19,445 |
| Accrued expense | 2 | 3,169 | 28,760 | 1,824 | - | 33,755 |
| Current portion of long term debt and capital lease obligations | - | 9,240 | 550 | 59 | - | 9,849 |
| Current portion of derivative liability | - | 371 | - | - | - | 371 |
| Liabilities of discontinued operations | - | - | 254 | - | - | 254 |
| Total current liabilities | 15,576 | 12,949 | 78,762 | 6,040 | - | 113,327 |
| | | | | | | |
| Long-term debt and capital lease obligations | - | 1,209,599 | 3,959 | 846 | - | 1,214,404 |
| Advances due to/from affiliates, net | 898,338 | (1,966,776) | 1,098,173 | (29,735) | - | - |
| Deferred income taxes | (2,358) | (1,799) | 135,406 | 9,071 | - | 140,320 |
| Pension and postretirement benefit obligations | - | - | 122,091 | 27,581 | - | 149,672 |
| Other long-term liabilities | 131 | 2,779 | 9,794 | 285 | - | 12,989 |
| Total liabilities | 911,687 | (743,248) | 1,448,185 | 14,088 | - | 1,630,712 |
| | | | | | | |
| Shareholders equity: | | | | | | |
| Common Stock | 401 | - | 17,411 | 30,000 | (47,411) | 401 |
| Other shareholders equity | 121,810 | 1,010,285 | 134,878 | 88,027 | (1,233,191) | 121,809 |
| Total Consolidated Communications Holdings, Inc. shareholders equity | 122,211 | 1,010,285 | 152,289 | 118,027 | (1,280,602) | 122,210 |
| Noncontrolling interest | - | - | 4,367 | - | - | 4,367 |
| Total shareholders equity | 122,211 | 1,010,285 | 156,656 | 118,027 | (1,280,602) | 126,577 |
| Total liabilities and shareholders equity | $ 1,033,898 | $ 267,037 | $ 1,604,841 | $ 132,115 | $ (1,280,602) | $ 1,757,289 |

Table of Contents

## Condensed Consolidating Balance Sheet

*(amounts in thousands)*

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Parent | Subsidiary Issuer | Guarantors | Non-Guarantors | Eliminations | Consolidated |
| **ASSETS** | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | $ - | $ 6,577 | $ 8,530 | $ 2,747 | $ - | $ 17,854 |
| Accounts receivable, net | 19 | 457 | 49,483 | 7,998 | - | 57,957 |
| Income taxes receivable | 4,258 | - | 7,886 | (124) | - | 12,020 |
| Deferred income taxes | (51) | (310) | 8,969 | 376 | - | 8,984 |
| Prepaid expenses and other current assets | - | - | 10,855 | 414 | - | 11,269 |
| Assets of discontinued operations | - | - | 1,772 | - | - | 1,772 |
| Total current assets | 4,226 | 6,724 | 87,495 | 11,411 | - | 109,856 |
| Property, plant and equipment, net | - | - | 855,158 | 52,514 | - | 907,672 |
| Intangibles and other assets: | | | | | | |
| Investments | - | 3,641 | 106,094 | 15 | - | 109,750 |
| Investments in subsidiaries | 958,199 | 219,955 | 11,234 | - | (1,189,388) | - |
| Goodwill | - | - | 537,265 | 66,181 | - | 603,446 |
| Other intangible assets | - | - | 40,443 | 9,087 | - | 49,530 |
| Deferred debt issuance costs, net and other assets | - | 12,788 | 1,012 | - | - | 13,800 |
| Total assets | $ 962,425 | $ 243,108 | $ 1,638,701 | $ 139,208 | $ (1,189,388) | $ 1,794,054 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | $ - | $ - | $ 14,954 | $ - | $ - | $ 14,954 |
| Advance billings and customer deposits | - | - | 25,131 | 2,523 | - | 27,654 |
| Dividends payable | 15,463 | - | - | - | - | 15,463 |
| Accrued compensation | 36 | - | 19,863 | 2,013 | - | 21,912 |
| Accrued expense | 235 | 3,373 | 39,673 | 3,944 | - | 47,225 |
| Current portion of long term debt and capital lease obligations | - | 9,242 | 300 | 54 | - | 9,596 |
| Current portion of derivative liability | - | | | | | |