Consolidated Communications Holdings, Inc.
Form 10-Q
May 07, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

or

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

OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 000-51446

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	02-0636095

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

(217) 235-3311

(Registrant's telephone number, including area code)

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

Yes X No ____

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

Yes X No ____

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

Large accelerated filer X Accelerated filer

Non-accelerated filer___ (Do not check if a smaller reporting company) Smaller reporting company ____

Emerging growth company ____

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

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

Yes No X

On April 30, 2018, the registrant had 71,252,576 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 March 31,	
	2018	2017
Net revenues	$ 356,039	$ 169,935
Operating expense:		
Cost of services and products (exclusive of depreciation and amortization)	152,916	71,032
Selling, general and administrative expenses	85,618	36,300
Acquisition and other transaction costs	731	1,329
Depreciation and amortization	107,899	42,195
Income from operations	8,875	19,079
Other income (expense):		
Interest expense, net of interest income	(32,716)	(29,671)
Investment income	7,789	5,278
Other, net	606	(565)
Loss before income taxes	(15,446)	(5,879)
Income tax benefit	(4,248)	(2,174)
Net loss	(11,198)	(3,705)
Less: net income (loss) attributable to noncontrolling interest	100	(20)
Net loss attributable to common shareholders	$ (11,298)	$ (3,685)
Net loss per basic and diluted common shares attributable to common shareholders	$ (0.16)	$ (0.07)
Dividends declared per common share	$ 0.39	$ 0.39

See accompanying notes.

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CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited; Amounts in thousands)

	Quarter Ended March 31,	
	2018	2017
Net loss	$ (11,198)	$ (3,705)
Pension and post-retirement obligations:		
Amortization of actuarial losses and prior service credit to earnings, net of tax	922	862
Derivative instruments designated as cash flow hedges:		
Change in fair value of derivatives, net of tax	4,737	(56)
Reclassification of realized loss to earnings, net of tax	265	205
Comprehensive loss	(5,274)	(2,694)
Less: comprehensive income (loss) attributable to noncontrolling interest	100	(20)
Total comprehensive loss attributable to common shareholders	$ (5,374)	$ (2,674)

See accompanying notes.

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CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	March 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,140	$ 15,657
Accounts receivable, net of allowance for doubtful accounts	134,095	121,528
Income tax receivable	21,892	21,846
Prepaid expenses and other current assets	40,202	33,318
Assets held for sale	21,524	21,310
Total current assets	228,853	213,659
Property, plant and equipment, net	2,019,399	2,037,606
Investments	107,114	108,858
Goodwill	1,032,912	1,038,032
Other intangible assets	292,560	306,783
Other assets	28,026	14,188
Total assets	$ 3,708,864	$ 3,719,126
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 21,014	$ 24,143
Advance billings and customer deposits	43,629	42,526
Dividends payable	27,602	27,418
Accrued compensation	53,689	49,770
Accrued interest	17,689	9,343
Accrued expense	77,331	72,041
Current portion of long-term debt and capital lease obligations	31,554	29,696
Liabilities held for sale	1,083	1,003
Total current liabilities	273,591	255,940
Long-term debt and capital lease obligations	2,317,398	2,311,514
Deferred income taxes	214,447	209,720
Pension and other post-retirement obligations	326,825	334,193
Other long-term liabilities	32,500	33,817
Total liabilities	3,164,761	3,145,184
Commitments and contingencies (Note 11)		
Shareholders' equity:		

Common stock, par value $0.01 per share; 100,000,000 shares authorized, 71,252,576 and 70,777,354 shares outstanding as of March 31, 2018 and December 31, 2017, respectively	713	708
Additional paid-in capital	591,092	615,662
Accumulated deficit	(11,298)	—
Accumulated other comprehensive loss, net	(42,159)	(48,083)
Noncontrolling interest	5,755	5,655
Total shareholders' equity	544,103	573,942
Total liabilities and shareholders' equity	$ 3,708,864	$ 3,719,126

See accompanying notes.

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CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; Amounts in thousands)

	Three Months Ended March 31,	
	2018	2017
Net cash provided by operating activities	$ 90,842	$ 51,718
Cash flows from investing activities:		
Purchases of property, plant and equipment, net	(60,808)	(29,025)
Proceeds from sale of assets	144	43
Distributions from investments	233	—
Net cash used in investing activities	(60,431)	(28,982)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	27,000	7,000
Payment of capital lease obligations	(2,923)	(1,289)
Payment on long-term debt	(31,588)	(9,250)
Share repurchases for minimum tax withholding	—	(41)
Dividends on common stock	(27,417)	(19,604)
Net cash used in financing activities	(34,928)	(23,184)
Change in cash and cash equivalents	(4,517)	(448)
Cash and cash equivalents at beginning of period	15,657	27,077
Cash and cash equivalents at end of period	$ 11,140	$ 26,629

See accompanying notes.

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CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Basis of Accounting

Consolidated Communications Holdings, Inc. (the “Company”, “we” or “our”) is a holding company with operating subsidiaries (collectively “Consolidated”) that provide communication solutions to consumer, commercial and carrier customers across a 24-state service area.

Leveraging our advanced fiber network spanning more than 36,000 fiber route miles, we offer a wide range of communications solutions including data, voice, video, managed services, cloud computing and wireless backhaul. As of March 31, 2018, we had approximately 955,000 voice connections, 785,000 data connections and 101,000 video connections.

In the opinion of management, the accompanying unaudited condensed consolidated balance sheets and related condensed consolidated statements of operations, comprehensive income (loss) and cash flows include all adjustments, consisting only of normal recurring items, necessary for their fair presentation in conformity with accounting principles generally accepted in the United States (“US GAAP” or “GAAP”) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with US GAAP have been condensed or omitted pursuant to such SEC rules and regulations and accounting principles applicable for interim periods. Events subsequent to the balance sheet date have been evaluated for inclusion in the accompanying condensed consolidated financial statements through the date of issuance. Management believes that the disclosures made are adequate to make the information presented not misleading. Interim results are not necessarily indicative of results for a full year. The information presented in this Form 10-Q should be read in conjunction with Management’s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and the accompanying notes to the financial statements (“Notes”) thereto included in our 2017 Annual Report on Form 10-K filed with the SEC.

Recent Business Developments

On July 3, 2017, we completed our acquisition of FairPoint Communications, Inc. ("FairPoint"), pursuant to the terms of a definitive agreement and plan of merger (as amended, the "Merger Agreement") and acquired all of the issued and outstanding shares of FairPoint in exchange for shares of our common stock (the "Merger"). As a result of the Merger, FairPoint became a wholly owned subsidiary of the Company. The financial results for FairPoint have been included in our condensed consolidated financial statements as of the acquisition date. For a more complete discussion of the transaction, refer to Note 2.

Revenue Recognition

Effective January 1, 2018, we adopted ASU No. 2014-09 ("ASU 2014-09", "ASC 606", or the "new standard"), Revenue from Contracts with Customers, using the modified retrospective method for open contracts. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting practices under ASC 605 ("legacy GAAP").

The adoption of the new standard did not result in a material impact to our systems, processes or internal controls. The largest impact of the adoption of the new standard is related to the treatment of contract acquisition costs, which were previously expensed as incurred; however, under the new standard, these costs are now deferred and amortized over the expected customer life. The adoption also resulted in additional disclosures around the nature and timing of the Company's performance obligations, deferred revenue contract liabilities and deferred contract cost assets, as well as practical expedients used by the Company in applying the new five-step revenue model. During the first quarter of 2018, we recorded a cumulative effect adjustment of $2.9 million to opening retained earnings related to the adoption.

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Nature of Contracts with Customers

Our revenue contracts with customers may include a promise or promises to deliver services such as broadband, video or voice services. Promised services are considered distinct as the customer can benefit from the services either on their own or together with other resources that are readily available to the customer and the Company's promise to transfer service to the customer is separately identifiable from other promises in the contract. The Company accounts for 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 service to the customer. This amount is generally equal to the market price of the 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 up-front 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, which is consistent with ASC 606-10-32-4.

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

Revenue is recognized when or as performance obligations are satisfied by transferring service to the customer as described below.

Disaggregation of Revenue

The following table summarizes revenue from contracts with customers for the quarters ended March 31, 2018 and 2017:

	Quarter Ended March 31,	
(In thousands)	2018	2017
Operating Revenues		
Commercial and carrier:		
Data and transport services (includes VoIP)	$ 86,025	$ 50,904

Voice services	52,161	22,026
Other	11,863	3,902
	150,049	76,832
Consumer:		
Broadband (VoIP and Data)	63,111	28,393
Video services	22,834	23,104
Voice services	52,062	13,042
	138,007	64,539
Subsidies	25,255	10,572
Network access	39,715	14,553
Other products and services	3,013	3,439
Total operating revenues	$ 356,039	$ 169,935

Service revenue is recognized over time, consistent with the transfer of service, as the customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs.

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Contract Assets and Liabilities

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

(In thousands)	Quarter Ended March 31, 2018	At Adoption
Accounts receivable, net	$ 134,496	$ 121,745
Contracts assets	4,527	1,804
Contracts liabilities	47,269	46,368

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 quarter ended March 31, 2018, the Company recognized expense of $0.4 million 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 under the new standard 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 quarter ended March 31, 2018, the Company recognized revenue of $87.3 million related to deferred revenues.

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 30-60 days.

Performance Obligations

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 March 31, 2018. 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.

Financial Statement Impact of Adopting ASC 606

As described above, the change in accounting for contract acquisition costs was the largest impact to the Company upon adoption of ASC 606. On an ongoing basis, a significant amount of commission costs, which were historically expensed as incurred, will now be deferred and amortized over the expected customer life under the new standard. The accretive benefit to operating income anticipated in 2018 is expected to moderate in future years as the basis of the amortization builds. For the quarter ended March 31, 2018, we recognized commission expense of $0.4 million under the new standard as compared to $3.1 million for the same period under legacy GAAP.

Recent Accounting Pronouncements

Effective January 1, 2018, we adopted ASU 2014-09 (also known as ASC 606). The core principle of ASU 2014-09 is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In addition, ASU 2014-09 requires disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. For additional information on the new standard and the impact to our results of operations, refer to the Revenue Recognition section above.

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Effective January 1, 2018, we adopted ASU No. 2017-09 ("ASU 2017-09"), Scope of Modification Accounting. ASU 2017-09 clarifies the modification accounting guidance for stock compensation included in Topic 718, Compensation – Stock Compensation. ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award must be accounted for as a modification under Topic 718. The adoption of this guidance did not have a material impact on our condensed consolidated financial statements and related disclosures.

Effective January 1, 2018, we adopted ASU No. 2017-07 ("ASU 2017-07"), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. ASU 2017-07 requires presentation of the service cost component of net periodic benefit cost within the same income statement line item as other compensation costs arising from services rendered by relevant employees during the period, and presentation of the other cost components of net periodic benefit cost separately and outside of the income from operations subtotal. In addition, only the service cost component is eligible for capitalization. We adopted ASU 2017-07 prospectively for the capitalization of the service cost component of the net periodic benefit cost. ASU 2017-07 was applied retrospectively using the practical expedient for the presentation of the other components of net periodic benefit cost in the statement of operations and as a result, we reclassified $0.4 million of expense from cost of services and products and $0.1 million of expense from selling, general and administrative expenses into other, net within non-operating income (expense) for the quarter ended March 31, 2017. See Note 9 for the amount of each component of net periodic pension and post-retirement benefit costs.

Effective January 1, 2018, we adopted ASU No. 2017-05 ("ASU 2017-05"), Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. ASU 2017-05 provides additional guidance to (i) clarify the scope for recognizing gains and losses from the transfer of nonfinancial assets and in substance nonfinancial assets in contracts with non-customers, and (ii) clarify the accounting for partial sales of nonfinancial assets. The adoption of this guidance did not have a material impact on our condensed consolidated financial statements and related disclosures.

Effective January 1, 2018, we adopted ASU No. 2017-04 ("ASU 2017-04"), Simplifying the Accounting for Goodwill Impairment. ASU 2017-04 eliminates Step 2 from the goodwill impairment test. Under the updated guidance, the goodwill impairment test will be performed by comparing the fair value of a reporting unit with its carrying amount and an impairment charge will be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. The adoption of this guidance did not have a material impact on our condensed consolidated financial statements and related disclosures and is not expected to have a material impact on our testing of goodwill.

Effective January 1, 2018, we adopted ASU No. 2017-01 ("ASU 2017-01"), Clarifying the Definition of a Business. ASU 2017-01 clarifies the definition of a business and establishes a screening process to determine whether an integrated set of assets and activities acquired is deemed the acquisition of a business or the acquisition of assets. The adoption of this guidance did not have a material impact on our condensed consolidated financial statements and related disclosures.

Effective January 1, 2018, we adopted ASU No. 2016-16 ("ASU 2016-16"), Intra-Entity Transfers of Assets Other Than Inventory. ASU 2016-16 eliminates the existing exception prohibiting the recognition of the income tax consequences for intra-entity asset transfers until the asset has been sold to an outside party. Under ASU 2016-16, entities will be required to recognize the income tax consequences of intra-entity asset transfers other than inventory when the transfer occurs. The adoption of this guidance did not have a material impact on our condensed consolidated financial statements and related disclosures.

Effective January 1, 2018, we adopted ASU No. 2016-15 ("ASU 2016-15"), Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 provides guidance concerning the classification of certain cash receipts and cash payments in the statement of cash flows. The adoption of this guidance did not have a material impact on our condensed consolidated financial statements and related disclosures.

In February 2018, the Financial Accounting Standards Board (the "FASB") issued ASU No. 2018-02 ("ASU 2018-02"), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. ASU 2018-02 provides an option to allow reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. The new guidance is effective for annual and interim periods beginning after December 15, 2018 with early adoption permitted. We are currently evaluating the impact this update will have on our condensed consolidated financial statements and related disclosures.

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In August 2017, the FASB issued ASU Update No. 2017-12 (“ASU 2017-12”), Targeted Improvements to Accounting for Hedging Activities. ASU 2017-12 amends current guidance on accounting for hedges mainly to align more closely an entity’s risk management activities and financial reporting relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. In addition, amendments in ASU 2017-12 simplify the application of hedge accounting by allowing more time to prepare hedge documentation and allowing effectiveness assessments to be performed on a qualitative basis after hedge inception. The new guidance is effective for annual and interim periods beginning after December 15, 2018 with early adoption permitted. We are currently evaluating the impact this update will have on our condensed consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13 (“ASU 2016-13”), Measurement of Credit Losses on Financial Instruments. ASU 2016-13 establishes the new “current expected credit loss” model for measuring and recognizing credit losses on financial assets based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts. The new guidance is effective on a modified retrospective basis for annual and interim periods beginning after December 15, 2019, with early adoption permitted for annual and interim periods beginning after December 15, 2018. We have not yet made a decision on the timing of adoption and are currently evaluating the impact this update will have on our condensed consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02 (“ASU 2016-02”), Leases. ASU 2016-02 establishes a new lease accounting model for leases. Lessees will be required to recognize most leases on their balance sheets but lease expense will be recognized on the income statement in a manner similar to existing requirements. ASU 2016-02 is effective on a modified retrospective basis for annual and interim periods beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the population of our leases and anticipate that most of our operating lease commitments will be recognized on our consolidated balance sheets. We plan to adopt this update effective January 1, 2019 and are continuing to assess the potential impact of this update on our condensed consolidated financial statements and related disclosures.

Reclassifications

Certain amounts in our 2017 condensed consolidated financial statements have been reclassified to conform to the current year presentation. In accordance with the adoption of ASU 2017-07, as described above, certain components of net periodic benefit cost were reclassified from operating expense to non-operating income (expense) in our condensed consolidated statement of operations.

2. ACQUISITIONS AND DIVESTITURES

Acquisitions

FairPoint Communications, Inc.

On July 3, 2017, we completed the Merger with FairPoint and acquired all of the issued and outstanding shares of FairPoint in exchange for shares of our common stock. As a result, FairPoint became a wholly-owned subsidiary of the Company. FairPoint is an advanced communications provider to business, wholesale and residential customers within its service territory, which spans across 17 states. FairPoint owns and operates a robust fiber-based network with more than 22,000 route miles of fiber, including 17,000 route miles of fiber in northern New England. The acquisition reflects our strategy to diversify revenue and cash flows amongst multiple products and to expand our network to new markets.

At the effective time of the Merger, each share of common stock of FairPoint issued and outstanding immediately prior to the effective time of the Merger converted into and became the right to receive 0.7300 shares of common stock of Consolidated and cash in lieu of fractional shares, pursuant to the terms of the Merger Agreement. Based on the closing price of our common stock on the last complete trading day prior to the effective date of the Merger, the total value of the consideration to be exchanged was $431.0 million, exclusive of debt of approximately $919.3 million. On the date of the Merger, we issued an approximate aggregate total of 20.1 million shares of our common stock to the former FairPoint stockholders and we assumed approximately 2,615,153 outstanding warrants, each eligible to purchase one share of the

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Company's common stock at an exercise price of $66.86 per share, subject to adjustment in accordance with the warrant agreement. On January 24, 2018, all of the warrants expired in accordance with their terms without being exercised.

In connection with the Merger, we secured committed debt financing in December 2016 through a $935.0 million incremental term loan facility, as described in Note 6, that, in addition to cash on hand and other sources of liquidity, was used to repay certain existing indebtedness of FairPoint and to pay the fees and expenses in connection with the Merger.

The acquisition was accounted for in accordance with the acquisition method of accounting for business combinations. The tangible and intangible assets acquired and liabilities assumed were recorded at their estimated fair values as of the date of the acquisition.

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

(In thousands)	
Cash and cash equivalents	$ 56,980
Accounts receivable	71,225
Other current assets	22,012
Assets held for sale	21,417
Property, plant and equipment	1,053,562
Intangible assets	303,180
Other long-term assets	2,685
Total assets acquired	1,531,061
Current liabilities	123,047
Liabilities held for sale	1,016
Pension and other post-retirement obligations	219,298
Deferred income taxes	97,500
Other long-term liabilities	15,916
Total liabilities assumed	456,777
Net fair value of assets acquired	1,074,284
Goodwill	276,034
Total consideration transferred	$ 1,350,318

The fair values of the assets acquired and liabilities assumed are based on a preliminary valuation, which is subject to change within the measurement period. Upon completion of the final fair value assessment, the fair values of the net assets acquired may differ materially from the preliminary assessment. We are in the process of finalizing the valuation of the net assets acquired, most notably, the valuation of property, plant and equipment, intangible assets, pension and other post-retirement obligations and deferred income taxes. Any changes to the initial estimates of the fair value of the assets acquired and liabilities assumed will be recorded to those assets and liabilities and residual amounts will be allocated to goodwill.

Goodwill recognized from the acquisition primarily relates to the expected contributions of the entity to the overall corporate strategy and the synergies expected to be realized from the acquisition. Amortization of goodwill is not deductible for income tax purposes.

Based on the preliminary valuation analysis, the identifiable intangible assets acquired consisted of customer relationships of $300.3 million, tradenames of $1.1 million and non-compete agreements of $1.8 million. The customer relationships are being amortized using an accelerated amortization method over their preliminary estimated useful lives of seven to eleven years depending on the nature of the customer. The tradenames and non-compete agreements are amortized using the straight-line method over their preliminary estimated useful lives of six months and one year, respectively.

During the quarter ended March 31, 2018, we made certain adjustments to the fair value of the identifiable assets acquired and liabilities assumed which resulted in an increase in accounts receivable of $8.4 million and deferred income taxes of $3.3 million. The net impact of the adjustments increased net assets acquired and reduced goodwill by $5.1 million. The increase in accounts receivable during the quarter ended March 31, 2018 represents the recognition of a contingent asset arising from a pre-acquisition gain contingency related to the approval on April 19, 2018 of our petition filed with the

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Federal Communications Commission ("FCC") regarding frozen local switching support ("LSS") for the period from January 1, 2015 through the FairPoint acquisition date. For a more complete discussion of the LSS petition filed with the FCC, refer to Note 11.

As discussed in the "Divestures" section below, we have committed to a formal plan to sell certain assets of FairPoint and these assets have been classified as held for sale at the acquisition date. In connection with the classification as assets held for sale at the acquisition date, the carrying value of these assets was recorded at their estimated fair value of approximately $20.4 million, which was determined based on the estimated selling price less costs to sell.

Unaudited Pro Forma Results

The following unaudited pro forma information presents our results of operations as if the acquisition of FairPoint occurred on January 1, 2016. The adjustments to arrive at the pro forma information below included adjustments for depreciation and amortization on the acquired tangible and intangible assets acquired, interest expense on the debt incurred to finance the acquisition and to repay certain existing indebtedness of FairPoint, and the exclusion of certain acquisition related costs. Shares used to calculate the basic and diluted earnings per share were adjusted to reflect the additional shares of common stock issued to fund the acquisition.

(Unaudited; in thousands, except per share amounts)	Quarter Ended March 31, 2017
Operating revenues	$ 371,843
Income from operations	$ 11,132
Net loss	$ (8,548)
Less: net loss attributable to noncontrolling interest	(20)
Net loss attributable to common stockholders	$ (8,528)
Net loss per common share-basic and diluted	$ (0.12)

Transaction costs related to the acquisition of FairPoint were $1.5 million during the quarter ended March 31, 2017 which are included in acquisition and other transaction costs in the condensed consolidated statements of operations. These costs are considered to be non-recurring in nature and therefore pro forma adjustments have been made to exclude these costs from the pro forma results of operations.

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

Divestitures

In August 2017, we entered into a letter of intent to sell our subsidiaries Peoples Mutual Telephone Company and Peoples Mutual Long Distance Company, (collectively “Peoples”), which were acquired as part of the acquisition of FairPoint. Peoples operates as a local exchange carrier in Virginia and provides telecommunications services to residential and business customers. In November 2017, the Company entered into an agreement to sell all of the issued and outstanding stock of Peoples in exchange for cash of approximately $21.0 million, subject to certain contractual adjustments. The closing of the transaction is subject to certain regulatory approvals, which are expected to be completed in the second quarter of 2018.

As of the FairPoint acquisition date, the net assets to be sold have been classified as held for sale in the consolidated balance sheet. The expected sale of these assets has not been reported as discontinued operations in the condensed consolidated statements of operations as the annual revenues of these operations is less than 1% of the consolidated operating revenues. The estimated fair value of the net assets held for sale was determined based on the estimated selling price less costs to sell and was classified as Level 2 within the fair value hierarchy at March 31, 2018 and December 31, 2017.

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

(In thousands)	March 31, 2018	December 31, 2017
Current assets	$ 401	$ 227
Property, plant and equipment	4,294	4,254
Goodwill	16,829	16,829
Total assets	$ 21,524	$ 21,310
Current liabilities	$ 935	$ 701
Deferred taxes	148	302
Total liabilities	$ 1,083	$ 1,003

3. EARNINGS (LOSS) PER SHARE

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

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.

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

(In thousands, except per share amounts)	Quarter Ended March 31, 2018	2017
Net loss	$ (11,198)	$ (3,705)
Less: net income (loss) attributable to noncontrolling interest	100	(20)
Loss attributable to common shareholders before allocation of earnings to participating securities	(11,298)	(3,685)
Less: earnings allocated to participating securities	221	49
Net loss attributable to common shareholders, after earnings allocated to participating securities	$ (11,519)	$ (3,734)
Weighted-average number of common shares outstanding	70,598	50,410
Net loss per common share attributable to common shareholders - basic and diluted	$ (0.16)	$ (0.07)

Diluted EPS attributable to common shareholders for each of the quarters ended March 31, 2018 and 2017 excludes 0.3 million and 0.2 million potential common shares, respectively, that could be issued under our share-based compensation plan, because the inclusion of the potential common shares would have an antidilutive effect.

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4. INVESTMENTS

Our investments are as follows:

(In thousands)	March 31, 2018	December 31, 2017
Cash surrender value of life insurance policies	$ 2,404	$ 2,272
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	9,097	9,105
Other	336	343
Equity method investments:		
GTE Mobilnet of Texas RSA #17 Limited Partnership (20.51% interest)	16,649	17,375
Pennsylvania RSA 6(I) Limited Partnership (16.67% interest)	6,895	7,300
Pennsylvania RSA 6(II) Limited Partnership (23.67% interest)	27,333	28,063
Totals	$ 107,114	$ 108,858

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 factors of impairment existed for any of the investments during the quarters ended March 31, 2018 or 2017. For these investments, we adjust the carrying value for any purchases or sales of our ownership interests. We record distributions received from these investments as investment income in non-operating income (expense). For the quarters ended March 31, 2018 and 2017, we received cash distributions from these partnerships totaling $3.0 million and $1.6 million, respectively.

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

Equity Method

We own 20.51% of GTE Mobilnet of Texas RSA #17 Limited Partnership (“RSA #17”), 16.67% of Pennsylvania RSA 6(I) Limited Partnership (“RSA 6(I)”) and 23.67% of Pennsylvania RSA 6(II) Limited Partnership (“RSA 6(II)”). RSA #17 provides cellular service to a limited rural area in Texas. RSA 6(I) and RSA 6(II) provide cellular service in and around our Pennsylvania service territory. Because we have significant influence over the operating and financial policies of these three entities, we account for the investments using the equity method. For the quarters ended March 31, 2018 and 2017, we received cash distributions from these partnerships totaling \$6.5 million and \$4.0 million, respectively.

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The unaudited results of operations and financial position of our equity investment in RSA #17, which was deemed significant for the periods, is summarized below:

	Quarter Ended March 31,	
(In thousands)	2018	2017
Total revenues	$ 33,284	$ 32,503
Income from operations	10,993	10,168
Net income before taxes	10,708	9,825
Net income	10,708	9,825

(In thousands)	March 31, 2018	December 31, 2017
Current assets	$ 27,070	$ 37,439
Non-current assets	52,867	52,732
Current liabilities	9,129	9,816
Non-current liabilities	40,718	40,785
Partnership equity	30,090	39,570

5. FAIR VALUE MEASUREMENTS

Our derivative instruments related to interest rate swap agreements are required to be measured at fair value on a recurring basis. The fair values of the interest rate swaps are determined using valuation models and are categorized within Level 2 of the fair value hierarchy as the valuation inputs are based on quoted prices and observable market data of similar instruments. See Note 7 for further discussion regarding our interest rate swap agreements.

Our interest rate swap agreements measured at fair value on a recurring basis as of March 31, 2018 and December 31, 2017 were as follows:

	As of March 31, 2018		
	Quoted Prices	Significant Other	Significant

(In thousands)	Total	In Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Current interest rate swap assets	$ 694	$ —	$ 694	$ —
Long-term interest rate swap assets	6,479	—	6,479	—
Long-term interest rate swap liabilities	(3,284)	—	(3,284)	—
Total	$ 3,889	$ —	$ 3,889	$ —

		As of December 31, 2017		
(In thousands)	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Long-term interest rate swap assets	$ 1,256	$ —	$ 1,256	$ —
Current interest rate swap liabilities	(27)	—	(27)	—
Long-term interest rate swap liabilities	(1,761)	—	(1,761)	—
Total	$ (532)	$ —	$ (532)	$ —

We have not elected the fair value option for any of our financial assets or liabilities. The carrying value of other financial instruments, including cash, accounts receivable, accounts payable and accrued liabilities approximate fair value due to

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their short maturities. The following table presents the other financial instruments that are not carried at fair value but which require fair value disclosure as of March 31, 2018 and December 31, 2017.

	As of March 31, 2018		As of December 31, 2017	
(In thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Investments, equity basis	$ 50,877	n/a	$ 52,738	n/a
Investments, at cost	$ 53,833	n/a	$ 53,848	n/a
Long-term debt, excluding capital leases	$ 2,327,311	$ 2,252,569	$ 2,331,400	$ 2,253,545

Cost & Equity Method Investments

Our investments as of March 31, 2018 and December 31, 2017 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.

6. LONG-TERM DEBT

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

(In thousands)	March 31, 2018	December 31, 2017
Senior secured credit facility:		
Term loans, net of discounts of $8,010 and $8,344 at March 31, 2018 and December 31, 2017, respectively		