Consolidated Communications Holdings, Inc.
Form 10-Q
November 05, 2010
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 September 30, 2010

OR

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the transition period from to .

COMMISSION FILE NUMBER 000-51446

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**02-0636095** (IRS Employer Identification No.)
121 South 17th Street **Mattoon, Illinois** (Address of Principal Executive Offices)	**61938-3987** (Zip Code)

(217) 235-3311

(Registrant s Telephone Number, including Area Code)

Indicate by checkmark 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 o

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 o NO o

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO x

Indicate the number of shares outstanding of each class of Common Stock, as of the latest practicable date

Class	Outstanding as of November 3, 2010
Common Stock, $0.01 Par Value	29,816,659 Shares

Table of Contents

FORM 10-Q

QUARTERLY REPORT

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Communications Holdings, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited)

(In thousands, except per share amounts)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net revenues	**$ 95,576**	$ 101,590	**$ 289,615**	$ 305,342
Operating expense:				
Cost of services and products (exclusive of depreciation and amortization shown separately below)	**36,371**	36,151	**107,960**	108,595
Selling, general and administrative expenses	**21,686**	25,600	**65,879**	79,327
Depreciation and amortization	**21,918**	21,341	**64,920**	63,999
Operating income	**15,601**	18,498	**50,856**	53,421
Other income (expense):				
Interest expense, net	**(11,723)**	(14,775)	**(37,675)**	(43,794)
Investment income	**6,830**	6,237	**20,268**	18,046
Other, net	**210**	(183)	**(242)**	1,032
Income before income taxes	**10,918**	9,777	**33,207**	28,705
Income tax expense (benefit)	**(1,049)**	2,494	**7,015**	10,066
Net income	**11,967**	7,283	**26,192**	18,639
Less: net income attributable to noncontrolling interest	**130**	226	**385**	769
Net income attributable to common stockholders	**$ 11,837**	$ 7,057	**$ 25,807**	$ 17,870
Net income per common share basic	**$ 0.40**	$ 0.24	**$ 0.86**	$ 0.60
Net income per common share diluted	**$ 0.40**	$ 0.24	**$ 0.86**	$ 0.60
Cash dividends per common share	**$ 0.38**	$ 0.39	**$ 1.16**	$ 1.16

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

Consolidated Communications Holdings, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands, except share and per share amounts)		September 30, 2010 (Unaudited)		December 31, 2009
Assets				
Current assets:				
Cash and equivalents	$	**55,961**	$	42,758
Accounts receivable, net of allowance for doubtful accounts of $3,263 in 2010 and $1,796 in 2009		**41,647**		42,125
Income taxes receivable		**5,425**		3,564
Inventories		**7,339**		6,874
Deferred income taxes		**6,992**		5,970
Prepaid expenses and other current assets		**7,440**		6,639
Total current assets		**124,804**		107,930
Property, plant and equipment, net		**359,618**		377,200
Investments		**98,123**		98,748
Goodwill		**520,562**		520,562
Customer lists, net		**85,484**		102,088
Tradenames		**13,446**		13,446
Deferred debt issuance costs, net and other assets		**6,023**		6,633
Total assets	$	**1,208,060**	$	1,226,607
Liabilities and Stockholders Equity				
Current liabilities:				
Accounts payable	$	**9,590**	$	13,482
Advance billings and customer deposits		**21,861**		20,025
Dividends payable		**11,553**		11,476
Accrued expense		**19,603**		23,133
Current portion of capital lease obligations				344
Current portion of derivative liability		**10,176**		6,074
Current portion of pension and postretirement benefit obligations		**2,908**		2,908
Total current liabilities		**75,691**		77,442
Senior secured long-term debt		**880,000**		880,000
Deferred income taxes		**70,380**		74,711
Pension and other postretirement obligations		**82,568**		80,298
Other long-term liabilities		**27,492**		33,439
Total liabilities		**1,136,131**		1,145,890
Stockholders equity:				
Common stock, par value $0.01 per share; 100,000,000 shares authorized, 29,816,659 and 29,608,653, shares outstanding as of September 30, 2010 and December 31, 2009, respectively		**298**		296
Additional paid-in capital		**102,639**		109,746
Retained earnings				
Accumulated other comprehensive loss		**(37,608)**		(35,540)
Noncontrolling interest		**6,600**		6,215
Total stockholders equity		**71,929**		80,717
Total liabilities and stockholders equity	$	**1,208,060**	$	1,226,607

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

Consolidated Communications Holdings, Inc. and Subsidiaries

Consolidated Statement of Changes in Stockholders Equity

(Unaudited)

(In thousands, except share amounts)	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interest	Total
Balance - December 31, 2009	29,608,653	$ 296	$ 109,746	$	$ (35,540)	$ 6,215	$ 80,717
Dividends on common stock			(4,626)	(6,920)			(11,546)
Shares issued under employee plan, net of forfeitures	213,951	2	(2)				
Non-cash, stock-based compensation			503				503
Comprehensive income:							
Net income				6,920		131	7,051
Change in prior service cost and net loss, net of tax of $26					47		47
Change in fair value of cash flow hedges, net of tax of $54					90		90
Total comprehensive income							7,188
Balance - March 31, 2010	29,822,604	$ 298	$ 105,621	$	$ (35,403)	$ 6,346	$ 76,862
Dividends on common stock			(4,503)	(7,050)			(11,553)
Non-cash, stock-based compensation			616				616
Comprehensive income:							
Net income				7,050		124	7,174
Change in prior service cost and net loss, net of tax of $26					48		48
Change in fair value of cash flow hedges, net of tax of $(722)					(1,253)		(1,253)
Total comprehensive income							5,969
Balance - June 30, 2010	29,822,604	$ 298	$ 101,734	$	$ (36,608)	$ 6,470	$ 71,894
Dividends on common stock			284	(11,837)			(11,553)
Share forfeitures	(5,945)						
Non-cash, stock-based compensation			621				621
Comprehensive income:							
Net income				11,837		130	11,967
Change in prior service cost and net loss, net of tax of $35					61		61
Change in fair value of cash flow hedges, net of tax of $(616)					(1,061)		(1,061)
Total comprehensive income							10,967
Balance September 30, 2010	29,816,659	$ 298	$ 102,639	$	$ (37,608)	$ 6,600	$ 71,929

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

Consolidated Communications Holdings, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)	Nine Months ended September 30, 2010	2009
Operating Activities		
Net income	**$ 26,192**	$ 18,639
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**64,920**	63,999
Deferred income taxes	**(24)**	(833)
Loss on disposal of assets	**902**	
Non-cash change in uncertain tax positions	**(5,186)**	
Cash distributions from wireless partnerships in excess of/(less than) current earnings	**304**	(2,299)
Stock-based compensation expense	**1,740**	1,434
Amortization of deferred financing costs	**970**	978
Changes in operating assets and liabilities:		
Accounts receivable, net	**478**	102
Income tax receivable	**(4,936)**	(1,316)
Inventories	**(451)**	364
Other assets	**(732)**	651
Accounts payable	**(3,892)**	(869)
Accrued expenses and other liabilities	**(540)**	1,360
Net cash provided by operating activities	**79,745**	82,210
Investing Activities		
Additions to property, plant and equipment, net	**(32,578)**	(30,952)
Proceeds from the sale of assets	**997**	300
Proceeds from the sale of investments	**35**	
Net cash used for investing activities	**(31,546)**	(30,652)
Financing Activities		
Payment of capital lease obligation	**(344)**	(685)
Repurchase and retirement of common stock		(9)
Dividends on common stock	**(34,652)**	(34,452)
Net cash used for financing activities	**(34,996)**	(35,146)
Net increase in cash and equivalents	**13,203**	16,412
Cash and equivalents at beginning of year	**42,758**	15,471
Cash and equivalents at end of period	**$ 55,961**	$ 31,883

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

Consolidated Communications Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

1. Nature of Operations

The accompanying unaudited condensed consolidated financial statements include the accounts of Consolidated Communications Holdings, Inc. and its subsidiaries, which are collectively referred to as Consolidated , the Company , we , our or us , unless the context otherwise requires. A significant intercompany transactions have been eliminated in consolidation.

We have prepared the unaudited condensed consolidated financial statements included herein pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations, although we believe that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009.

The accompanying unaudited condensed consolidated financial statements presented herewith reflect all adjustments (consisting of only normal and recurring adjustments) which, in the opinion of management, are necessary for a fair presentation of the results of operations for the three and nine month periods ended September 30, 2010 and 2009. The results of operations for interim periods are not necessarily indicative of results to be expected for an entire year.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

As of September 30, 2010, the Company s Summary of Critical Accounting Policies for the year ended December 31, 2009, which are detailed in the Company s Annual Report on Form 10-K, have not changed.

Certain prior year amounts have been reclassified to conform to the current year s presentation. These reclassifications had no effect on total stockholders equity, total revenue, income from operations or net income.

The Company has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through the day the financial statements are issued.

2. Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures about Fair Value Measurements* (ASU No. 2010-06). ASU No. 2010-06 provides amended disclosure requirements related to fair value measurements. Certain disclosure requirements of ASU No. 2010-06 were effective beginning in the first quarter of 2010, while other disclosure requirements of the ASU are effective for financial statements issued for reporting periods beginning after December 15, 2010. Since these amended principles require only additional disclosures

Table of Contents

concerning fair value measurements, adoption did not and will not affect the Company s financial condition, results of operations or cash flows.

3. Prepaid expenses and other current assets

Prepaid and other current assets are as follows:

(In thousands)		September 30, 2010		December 31, 2009
Prepaid maintenance	**$**	**2,279**	$	3,152
Prepaid taxes		**655**		43
Deferred charges		**1,003**		718
Prepaid insurance		**991**		471
Prepaid expense - other		**2,456**		2,200
Current portion of derivative assets		**33**		
Other current assets		**23**		55
Total	**$**	**7,440**	$	6,639

4. Property, plant and equipment

Property, plant and equipment are as follows:

(In thousands)		September 30, 2010		December 31, 2009
Land and buildings	**$**	**66,138**	$	66,700
Network and outside plant facilities		**856,881**		833,879
Furniture, fixtures and equipment		**80,806**		80,315
Assets under capital lease		**5,144**		5,144
Less: accumulated depreciation		**(661,274)**		(617,141)
		347,695		368,897
Construction in progress		**11,923**		8,303
Total	**$**	**359,618**	$	377,200

Depreciation expense totaled $16.4 million and $15.8 million for the three months ended September 30, 2010 and 2009, respectively, and $48.3 million and $47.4 million for the nine months ended September 30, 2010 and 2009, respectively.

5. Investments

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. For the three month periods ended September 30, 2010 and 2009, we received cash distributions from these partnerships totaling $2.9 million and $3.0 million, respectively. For the nine months ended September 30, 2010 and 2009, we received cash distributions from these partnerships totaling $8.9 million and $8.5 million, respectively.

We also own 17.02% 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

Table of Contents

RSA 6(II) Limited Partnership (RSA 6(II)). RSA #17 provides cellular service to a limited rural area in Texas. RSA 6(I) and RSA 6(II) provide cellular service in and around our Pennsylvania service territory. In addition, we have a 50% ownership interest in Boulevard Communications LLP, a competitive access provider in western Pennsylvania. Because we have significant influence over the operating and financial policies of these four entities, we account for the investments using the equity method. For the three months ended September 30, 2010 and 2009, we received cash distributions from these partnerships totaling $4.0 million and $2.8 million, respectively. For the nine months ended September 30, 2010 and 2009, we received cash distributions from these partnerships totaling $11.5 million and $7.0 million, respectively.

Our investments are as follows:

(In thousands)	September 30, 2010	December 31, 2009
Cash surrender value of life insurance policies	**$ 1,327**	$ 1,797
Cost method investments:		
GTE Mobilnet of South Texas Limited Partnership (2.34%)	**21,450**	21,450
Pittsburgh SMSA Limited Partnership (3.60%)	**22,950**	22,950
CoBank, ACB Stock	**3,086**	2,902
Other	**25**	60
Equity method investments:		
GTE Mobilnet of Texas RSA #17 Limited Partnership (17.02% interest)	**18,989**	19,080
Pennsylvania RSA 6(I) Limited Partnership (16.6725% interest)	**7,149**	7,301
Pennsylvania RSA 6(II) Limited Partnership (23.67% interest)	**22,990**	23,049
Boulevard Communications, LLP (50% interest)	**157**	159
Total	**$ 98,123**	$ 98,748

CoBank is a cooperative bank owned by its customers. Annually, CoBank distributes patronage in the form of cash and stock in the cooperative based on the Company s outstanding loan balance with CoBank, who 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.

6. Fair Value Measurements

The Company s 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 an internal valuation model which relies on the expected 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.

The Company s swap assets and liabilities measured at fair value on a recurring basis subject to disclosure requirements at September 30, 2010 are as follows:

Table of Contents

(In thousands)		September 30, 2010	Fair Value Measurements at Reporting Date Using 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 assets	$	33	$	$	33	$	
Current interest rate swap liabilities		(10,176)			(10,176)		
Long-term interest rate swap liabilities		(25,402)			(25,402)		
Totals	$	(35,545)	$	$	(35,545)	$	

The change in the fair value of the derivatives is primarily a result of a change in market expectations for future interest rates.

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 September 30, 2010 and December 31, 2009.

(In thousands)	As of September 30, 2010 Carrying Value		Fair Value		As of December 31, 2009 Carrying Value		Fair Value	
Investments, equity basis	**$**	**49,285**		**(a)**	$	49,589		(a)
Investments, at cost	**$**	**47,511**		**(a)**	$	47,362		(a)
Long-term debt	**$**	**880,000**	**$**	**880,000**	$	880,000	$	880,000

(a) The Company s investments at September 30, 2010 and December 31, 2009 accounted for under both the equity and cost methods consist of minority positions in various cellular telephone limited partnerships. These investments are recorded using either the equity or cost methods, and it is not practical to estimate a fair value for these non-publicly traded entities.

Our long-term debt allows us to select a one month LIBOR repricing option, which we have elected. As such, the fair value of this debt approximates its carrying value.

7. Goodwill and Other Intangible Assets

In accordance with the applicable accounting guidance, goodwill and tradenames are not amortized but are subject to impairment testing no less than annually or more frequently if circumstances indicate potential impairment.

The following table presents the carrying amount of goodwill by segment:

(In thousands)	September 30, 2010	December 31, 2009
Telephone Operations	**$ 519,541**	$ 519,541
Other Operations	**1,021**	1,021
Totals	**$ 520,562**	$ 520,562

Our most valuable tradename is the federally registered mark CONSOLIDATED, which is used in association with our telephone communication services and is a design of interlocking circles. The Company s corporate branding strategy leverages a CONSOLIDATED naming structure. All of the

Table of Contents

Company s business units and several of our products and services incorporate the CONSOLIDATED name. These tradenames are indefinitely renewable intangibles. The carrying value of the tradenames was $13.4 million at both September 30, 2010 and December 31, 2009.

The Company s customer lists consist of an established base of customers that subscribe to its services. The carrying amount of customer lists is as follows:

	Telephone Operations		Other Operations	
(In thousands)	**September 30, 2010**	**December 31, 2009**	**September 30, 2010**	**December 31, 2009**
Gross carrying amount	**$ 193,124**	$ 193,124	**$ 11,712**	$ 11,712
Less: accumulated amortization	**(108,632)**	(92,358)	**(10,720)**	(10,390)
Net carrying amount	**$ 84,492**	$ 100,766	**$ 992**	$ 1,322

Amortization associated with customer lists totaled approximately $5.5 million and $16.6 million in each of the three and nine month periods ended September 30, 2010 and 2009, respectively.

8. Deferred Debt Issuance Costs, Net and Other Assets

Deferred financing costs, net and other assets are as follows:

(In thousands)	**September 30, 2010**	**December 31, 2009**
Deferred debt issuance costs, net	**$ 5,494**	$ 6,464
Other assets	**529**	169
Total	**$ 6,023**	$ 6,633

The remaining deferred debt issuance costs at September 30, 2010 of $5.5 million related to our secured credit facility will be amortized over the remaining life of 4.2 years, resulting in amortization expense of $1.3 million yearly unless the facility is extinguished earlier.

9. Accrued Expenses

Accrued expenses are as follows:

(In thousands)		September 30, 2010		December 31, 2009
Salaries and employee benefits	**$**	**9,282**	$	11,727
Taxes payable		**3,673**		4,631
Accrued interest		**180**		1,177
Other accrued expenses		**6,468**		5,598
Total accrued expenses	**$**	**19,603**	$	23,133

Table of Contents

10. Debt

Long-term debt consists of the following:

(In thousands)		September 30, 2010		December 31, 2009
Senior secured credit facility - revolving loan	**$**		$	
Senior secured credit facility - term loan		**880,000**		880,000
Obligations under capital lease				344
		880,000		880,344
Less: current portion				(344)
Total long-term debt	**$**	**880,000**	$	880,000

Credit Agreement

The Company, through certain of its wholly owned subsidiaries, has outstanding a credit agreement with several financial institutions, which consists of a $50 million revolving credit facility (including a $10 million sub-limit for letters of credit) and an $880 million term loan facility. Borrowings under the credit agreement are secured by substantially all of the assets of the Company with the exception of Illinois Consolidated Telephone Company. The term loan requires no principal reductions prior to maturity and thus matures in full on December 31, 2014. The revolving credit facility matures on December 31, 2013. There were no borrowings outstanding under the revolving credit facility as of September 30, 2010.

At our election, borrowings under the credit facilities bear interest at a rate equal to an applicable margin plus either a base rate or LIBOR. As of September 30, 2010, the applicable margin for interest rates is 2.50% per year for the LIBOR-based term loans and 1.50% for alternative base rate loans. The applicable margin for our $880 million term loan is fixed for the duration of the loan. The applicable margin for borrowings on the revolving credit facility is determined via a pricing grid. Based on our leverage ratio of 4.79:1 at September 30, 2010, borrowings under the revolving credit facility will be priced at a margin of 2.75% for LIBOR-based borrowings and 1.75% for alternative base rate borrowings for the three month period ending December 31, 2010. The applicable borrowing margin for the revolving credit facility is adjusted quarterly to reflect the leverage ratio from the prior quarter-end.

The weighted-average interest rate incurred on our term loan facility during the three months ended September 30, 2010 and 2009, including amounts paid on our interest rate swap agreements and the applicable margin, was 5.58% and 6.26% per annum, respectively. The weighted-average interest rate incurred on our term loan facility during the nine months ended September 30, 2010 and 2009, including amounts paid on our interest rate swap agreements and the applicable margin, was 5.59% and 6.28% per annum, respectively. Interest is payable at least quarterly.

The credit agreement contains various provisions and covenants including, among other items, restrictions on the ability to pay dividends, incur additional indebtedness, issue capital stock, and commit to future capital expenditures. 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 September 30, 2010, we were in compliance with our credit agreement covenants.

11. Derivatives

In order to manage the risk associated with changes in interest rates, we have entered into interest rate swap agreements that effectively convert a portion of our floating-rate debt to a fixed-rate basis, thereby reducing the impact of interest rate changes on future cash interest payments. We account for these transactions as cash flow hedges under the FASB s Accounting Standards Codification Topic 815 (ASC 815), *Derivatives and Hedging*. The swaps are designated as cash flow

Table of Contents

hedges of our expected future interest payments. In a cash flow hedge, the effective portion of the change in the fair value of the hedging derivative is recorded in accumulated other comprehensive loss and is subsequently reclassified into earnings during the same period in which the hedged item affects earnings. The change in fair value of any ineffective portion of the hedging derivative is recognized immediately in earnings.

We currently have in place interest rate swap agreements whereby we receive 3-month LIBOR-based interest payments from the swap counterparties and pay a fixed rate. We also have interest rate swap agreements whereby we make 3-month LIBOR-based payments, less a fixed percentage to a counterparty and receive 1-month LIBOR. The combination effectively hedges the interest payments based on 1-month LIBOR resets on a portion of our credit facility. The net effect of these swaps is that we pay a weighted-average fixed rate of 4.36% to our swap counterparties on $605 million of notional amount and receive 1-month LIBOR less a fixed percentage. The weighted average fixed percentage received was 0.06% for the third quarter of 2010.

We also have in place $200 million notional amount of forward floating to fixed interest rate swap agreements that will become effective on December 31, 2010 and a $100 million notional amount forward fixed to floating interest rate swap agreement that becomes effective on September 30, 2011. Under the forward swap agreements that become effective on December 31, 2010, we will make fixed payments to the swap counterparties at a weighted-average fixed rate of 1.83% and receive 1-month LIBOR. The December 2010 forward swap agreements have a maturity date of March 31, 2013. For the swap agreement that becomes effective on September 30, 2011, we will make fixed payments to the swap counterparty at a weighted-average fixed rate of 1.65% and receive 1-month LIBOR. The September 2011 forward swap agreement has a maturity date of September 30, 2013.

At September 30, 2010 and December 31, 2009, approximately 68.75% of our outstanding debt was fixed through the use of interest rate swaps.

The counterparties to our various swaps are 5 major U.S. and European banks. None of the swap agreements provide for either Consolidated 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.

We report the gross fair value of our derivatives in either Prepaid expenses and other current assets, Current portion of derivative liability or Other long-term liabilities on our Condensed Consolidated Balance Sheets. The table below shows the balance sheet classification and fair value of our interest rate swaps designated as hedging instruments under ASC 815:

	Fair Value	
(In thousands)	**September 30, 2010**	**December 31, 2009**
Prepaid expenses and other current assets	**$ 33**	$
Current portion of derivative liability	**(10,176)**	(6,074)
Other long-term liabilities	**(25,402)**	(26,105)

Information regarding our cash flow hedge transactions is as follows:

Table of Contents

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2010**	**2009**	**2010**	**2009**
Loss/(gain) recognized in accumulated other comprehensive loss (OCI)	**$ 1,677**	$ (225)	**$ 3,508**	$ 10,293
Loss/(Gain) arising from ineffectiveness increasing/(reducing) interest expense	**$ (62)**	$ 7	**$ (142)**	$ (55)
Losses reclassed from OCI to interest expense	**$ 1,037**	$ 2,884	**$ 3,953**	$ 8,764

	September 30,	
(In thousands)	**2010**	**2009**
Aggregate notional value of current derivatives outstanding	**$ 605,000**	$ 680,000
Aggregate notional value of forward derivatives outstanding	**$ 300,000**	$
Period through which derivative positions currently exist	**September 2013**	March 2013
Loss in fair value of derivatives	**$ 35,545**	$ 37,559
Deferred losses included in OCI (pretax)	**$ 35,399**	$ 37,219
Losses included in OCI to be recognized in the next 12 months	**$ 1,990**	$ 6,239
Number of months over which loss in OCI is to be recognized	**30**	42

12. Interest Expense, Net

The following table summarizes interest expense, net:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2010**	**2009**	**2010**	**2009**