UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

[Mark One]

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

for the fiscal year ended December 31, 2011

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 000-51466

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** (Zip Code)

(217) 235-3311

(Registrant s Telephone Number, including Area Code)

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

Title of each class:	**Name of exchange on which registered:**
Common Stock, $0.01 par value	NASDAQ Global Select Market

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

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES o NO x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO x

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 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 x NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2011 was approximately $509,792,519 based upon the closing price of the Common Stock reported for such date on the NASDAQ Global Select Market.

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

Class	**Outstanding as of March 1, 2012**
Common Stock, $0.01 par value	29,869,510 Shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the 2012 annual meeting of stockholders are incorporated by reference into Part III.

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YEAR ENDED DECEMBER 31, 2011

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Acronyms Used in this Annual Report on Form 10-K

CLEC	Competitive local exchange carrier
DSL	Digital subscriber line
EBITDA	Earnings before interest, taxes, depreciation and amortization
ETFL	East Texas Fiber Line, Inc.
FASB	Financial Accounting Standards Board
FCC	Federal Communications Commission
GAAP	Generally accepted accounting principles
ICC	Illinois Commerce Commission
ICTC	Illinois Consolidated Telephone Company
ILEC	Incumbent local exchange carrier
IP	Internet protocol
IPTV	Internet protocol digital television
ISP	Internet service provider
IXC	Inter exchange carrier
LIBOR	London interbank offer rate
NECA	National Exchange Carrier Association
NOL	Net operating loss
PAPUC	Pennsylvania Public Utility Commission
PAUSF	Pennsylvania Universal Service Fund
PUCT	Public Utility Commission of Texas
PURA	Texas Public Utilities Regulatory Act
RLEC	Rural local exchange carrier
SFAS	Statement of Financial Accounting Standards
SONET	Synchronous Optical Network
TXUCV	TXU Communications Ventures Company
UNE	Unbundled network element
UNE-P	Unbundled network element platform
VOIP	Voice over Internet Protocol

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Terminology Used in this Annual Report on Form 10-K

Access line equivalents represent a combination of voice services and data circuits. The calculations represent a conversion of data circuits to an access line basis. Equivalents are calculated by converting data circuits (basic rate interface (BRI), primary rate interface (PRI), DSL, DS-1, DS-3, and Ethernet) and SONET-based (optical) services (OC-3 and OC-48) to the equivalent of an access line.

Bill and keep is a pricing arrangement for the interconnection of two telecommunications networks under which the reciprocal call termination charge is zero. That is, each network agrees to terminate calls from the other network at no charge. Typically the traffic terminating to each party is in parity or balance.

Competitive local exchange carriers (CLECs) are telecommunications providers formed after enactment of the Telecommunications Act of 1996 to provide local exchange service that competes with ILECs and other established carriers.

Digital telephone or VOIP service involves the routing of voice calls, at least in part, over the Internet through packets of data instead of transmitting the calls over the telephone system.

An ***exchange*** is a geographic area established for administration and pricing of telecommunications services.

Hosted VOIP is our broadband phone product that utilizes our soft switch to provide an Internet Protocol based voice service to business and residential customers. The product provides the flexibility of utilizing new telephone technology and features provided by our hosted soft switch but does not require an investment in a new telephone system to use the advanced features.

Incumbent local exchange telephone companies (ILECs) are the local telephone companies that provided local telephone exchange service on the effective date of the Telecommunications Act of 1996, or their predecessors. This designation is important because ILECs have statutory obligations that other telephone companies do not have. For example, ILECs are required to give other carriers access to certain equipment (known as unbundled network elements) or to house equipment for other carriers (known as collocation), on reasonable and nondiscriminatory terms. For more information, see Part I Item 1 Business Regulatory Environment.

Metro Ethernet is the use of carrier Ethernet technology in metropolitan area networks. Metro Ethernet services are provided over a standard, widely used Ethernet interface and can connect business local area networks to wide area networks or to the Internet. Metro Ethernet offers cost-effectiveness, reliability, scalability and bandwidth management superior to most proprietary networks.

MPLS or Multiprotocol Label Switching refers to a highly scalable data-carrying mechanism in which data packets are assigned labels. Packet-forwarding decisions are made solely on the contents of this label, without the need to examine the packet itself. This allows for end-to-end circuits across any type of transport medium, using any protocol.

Rural telephone companies or rural local exchange carriers (RLECs) provide communications services to geographic areas that are not heavily populated. This designation is important because rural telephone companies historically have been eligible to receive government subsidies to compensate for the disproportionate cost of providing service in low density areas. In addition, ILECs that are statutory rural telephone companies, as defined in the Telecommunications Act of 1996, are exempt from some obligations to provide access to competitors.

Unified messaging is the integration of multiple messaging technologies into a single system. With this application, voice mail, fax, cellular and other messages are sent to the email inbox. From the email system, the messages can be heard, read or forwarded to others.

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FORWARD-LOOKING STATEMENTS

Any statements contained in this report that are not statements of historical fact, including statements about our beliefs and expectations, are forward-looking statements. We use words like anticipate, believe, expect, intend, plan, estimate, target, project, should, may, identify forward-looking statements throughout this report.

Forward-looking statements reflect, among other things, our current expectations, plans, strategies, and anticipated financial results. There are a number of risks, uncertainties, and conditions that may cause our actual results to differ materially from those expressed or implied by these forward-looking statements. Many of these circumstances are beyond our ability to control or predict. Moreover, forward-looking statements necessarily involve assumptions on our part.

All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements that appear throughout this report. Furthermore, forward-looking statements speak only as of the date they are made. Except as required under the federal securities laws or the rules and regulations of the Securities and Exchange Commission, we are not under any obligation to update any forward-looking information whether as a result of new information, future events, or otherwise. You should not place undue reliance on forward-looking statements.

Please see Part I Item 1A Risk Factors of this report, as well as this report generally and the other documents that we file with the SEC from time to time, for important factors that could cause our actual results to differ from current expectations and from the forward-looking statements discussed in this report.

MARKET AND INDUSTRY DATA

Market and industry data and other information used throughout this report are based on independent industry publications, government publications, publicly available information, reports by market research firms or other published independent sources. Although we believe these sources are reliable, we have not verified the information. Some data is also based on estimates that members of management derive from their industry knowledge and review of internal surveys.

We cannot know, or reasonably determine, our market share in each of our markets or for our services because there is significant overlap in the telecommunications industry; it is difficult to isolate information regarding individual services. For example, wireless providers both compete with and complement our local telephone services.

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PART I

Item 1. Business

General

Consolidated Communications Holdings, Inc. and its subsidiaries, (Consolidated , the Company , we , our or us) operates its businesses under name Consolidated Communications. We are an established rural local exchange carrier (RLEC) offering a wide range of telecommunications services to residential and business customers in Illinois, Texas and Pennsylvania including: local and long-distance service; high-speed broadband Internet access (DSL); standard and high-definition digital television (IPTV); digital telephone service (VOIP); custom calling features; private line services; carrier access services; network capacity services over our regional fiber optic network; directory publishing and Competitive Local Exchange Carrier (CLEC) services. At December 31, 2011, we had 227,992 local access lines, 110,913 DSL lines, 34,356 IPTV subscribers and an estimated 89,774 CLEC access line equivalents.

We also operate two non-core complementary businesses: telephone services to correctional facilities and business equipment sales.

Founded in 1894 as the Mattoon Telephone Company by the great-grandfather of our current Chairman, Richard A. Lumpkin, we began as one of the nation s first independent telephone companies. After several acquisitions, the Mattoon Telephone Company was incorporated as the Illinois Consolidated Telephone Company (ICTC) on April 10, 1924.

In 1997, McLeodUSA acquired ICTC and all related businesses from the Lumpkin family. In 2002, ICTC and several related businesses were reacquired from McLeodUSA by a group of investors led by Mr. Lumpkin.

In 2004, we acquired the rural telephone operations in Lufkin, Conroe and Katy, Texas of TXU Communications Ventures Company (TXUCV) from TXU Corporation, which had been operating in those markets for over 90 years. This acquisition approximately tripled the size of the Company.

On December 31, 2007, we acquired all of the capital stock of North Pittsburgh Systems, Inc. (North Pittsburgh). North Pittsburgh provides services to residential and business customers in several counties in western Pennsylvania and also operates a CLEC in the Pittsburgh metropolitan area.

On February 5, 2012, we entered into a definitive agreement to acquire all the outstanding shares of SureWest Communications (SureWest) for $23.00 per share in a cash and stock transaction with a total consideration valued at approximately $340.9 million, exclusive of debt, based on our February 3, 2012 closing price. SureWest s shareholders may elect to exchange each share of SureWest common stock for either $23 in cash or shares of Consolidated common stock having an equivalent value based on average trading prices for the 20-day period ending two days before the closing of the acquisition, subject to a collar so that there will be a maximum exchange ratio of 1.40565 shares of Consolidated common stock for each share of SureWest common stock and a minimum of 1.03896 shares of Consolidated common stock for each share of SureWest common stock. Overall elections are also subject to proration so that 50% of the SureWest shares will be exchanged for cash and 50% for stock. The results of applying the collar and proration provisions are subject to adjustment to ensure the transaction will be treated as a tax-free reorganization for federal income tax purposes. The stock portion of the transaction will be tax free. The definitive agreement is not subject to any financing contingency. We intend to finance the cash portion of the acquisition price with debt and cash on hand. We have obtained a commitment for the

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financing necessary to complete the transaction from Morgan Stanley Senior Funding, Inc. The transaction is subject to approval by our and SureWest s stockholders and is subject to federal and state regulatory approvals, as well as other customary closing conditions. We and SureWest have made customary representations, warranties and covenants in the definitive agreement, including SureWest agreeing not to solicit alternative transactions or, subject to certain exceptions, to enter into discussions concerning, or provide confidential information in connection with, an alternative transaction. The definitive agreement also contains certain termination rights for both us and SureWest, and further provides that, upon termination of the agreement under certain circumstances, SureWest may be obligated to pay us a termination fee of $14,675,000. The transaction will be accretive to Consolidated s free cash flow per share in the first full year following closing, excluding integration costs, and the transaction is deleveraging to Consolidated. The consideration represents a 47% premium to SureWest s stock price as of the close on February 3, 2012. The transaction is expected to close in the third or fourth quarter of 2012. The agreement contains a termination date of November 5, 2012.

On a standalone basis, SureWest reported in their 2011 earnings release dated February 29, 2012, that they serve 268,400 residential and 15,700 business revenue generating units in the greater Kansas City, Kansas and Missouri and Sacramento, California regions, which contain over 327,700 residential marketable homes to SureWest. SureWest reported revenues of $248.1 million for 2011.

We are a Delaware corporation organized in 2002, and are the successor to businesses engaged in providing telecommunications services since 1894.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports are available on our website, at no charge, at www.consolidated.com, as soon as reasonably practicable after electronic filing or furnishing such information to the U.S. Securities and Exchange Commission (SEC). Also available on our website, or in print upon written request at no charge, are our corporate governance guidelines, the charters of our audit, compensation and corporate governance committees, and a copy of our code of business conduct and ethics that applies to our directors, officers and employees, including our chief executive officer, principal financial officer, principal accounting officer, controller or other persons performing similar functions. Information on our website should not be considered to be part of this Annual Report on Form 10-K.

Business Overview

We derive our revenue principally from the sale of telecommunication services, including local and long-distance telephone (both traditional telephone service and VOIP), high-speed broadband Internet, and standard and high-definition digital IPTV services to residential and business customers in Illinois, Texas and Pennsylvania. We also derive revenues from two complementary non-core businesses: telephone services to correctional facilities and equipment sales. Prior to December 2010, we also derived revenues from our Operator Services business which we sold as of November 30, 2010. Prior to March 2010, we derived revenues from our telemarketing and order fulfillment business which we sold as of February 28, 2010. We operate in two reportable segments: Telephone Operations and Other Operations. Our Telephone Operations segment generates the substantial majority of our revenue and operating income and substantially all of our cash flow from operations.

Sources of Revenue

The following chart summarizes our sources of revenue for the last three years:

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(in millions, except for percentages)	2011 $	2011 % of Revenues	2010 $	2010 % of Revenues	2009 $	2009 % of Revenues
Telephone operations:						
Local calling services	**86.9**	**23.2**	91.9	24.0	97.2	23.9
Network access services	**80.5**	**21.5**	81.7	21.3	86.3	21.3
Subsidies	**45.4**	**12.1**	48.7	12.7	56.0	13.8
Long-distance services	**15.9**	**4.2**	18.0	4.7	20.4	5.0
Data, Internet and video services	**80.3**	**21.5**	75.2	19.6	68.1	16.8
Other services	**33.6**	**9.0**	34.1	8.9	36.6	9.0
Total telephone operations	**342.6**	**91.5**	349.6	91.2	364.6	89.8
Other operations	**31.7**	**8.5**	33.8	8.8	41.6	10.2
Total operating revenue	**374.3**	**100.0**	383.4	100.0	406.2	100.0

Telephone Operations

Our Telephone Operations segment consists of local and long-distance calling services, network access services and subsidies, all of which are related to our traditional wireline business. Our telephone operations segment also consists of data, Internet and video services (including DSL, IPTV and VOIP telephone service) and other services. Our Telephone Operations segment had the following service lines as of December 31:

	December 31, 2011	2010	2009
Residential access lines in service	137,179	140,660	146,766
Business access lines in service	90,813	96,481	100,469
Total local access lines in service	227,992	237,141	247,235
VOIP telephone subscribers	9,199	8,640	8,665
IPTV subscribers	34,356	29,236	23,127
ILEC DSL subscribers	110,913	106,387	100,122
Total broadband connections	154,468	144,263	131,914
CLEC access line equivalents (1)	89,774	81,090	72,681
Total connections	472,234	462,494	451,830
Long-distance lines (2)	177,610	172,856	165,714

(1) CLEC access line equivalents represent a combination of voice services and data circuits. The calculations represent a conversion of data circuits to an access line basis. Equivalents are calculated by converting data circuits (basic rate interface, primary rate interface, DSL, DS-1, DS-3 and Ethernet) and SONET-based (optical) services (OC-3 and OC-48) to the equivalent of an access line.

(2) Reflects the inclusion of long-distance service provided as part of our VOIP offering while excluding CLEC long-distance subscribers.

Our Telephone Operations segment generated approximately $130.0 million and $115.4 million of cash flows from operating activities for the years ended December 31, 2011 and 2010, respectively. As of December 31, 2011, our Telephone Operations had total assets of approximately $1.2 billion.

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Local calling services

These services include dial tone and other basic services. We generally charge residential and business customers a fixed monthly rate for access to the network and for originating and receiving telephone calls within their local calling area.

Custom calling features include caller name and number identification, call forwarding and call waiting. Value-added services include usage-based services and voice mail. We usually charge a flat monthly fee for custom calling features and value-added services. Otherwise, we bundle the selected services with local calling services at a discounted rate.

We offer private lines that provide direct connections between two or more local locations primarily to business customers at flat monthly rates. In all of our markets, we offer small- and medium-sized businesses a hosted VOIP package, which utilizes a soft switch and allows the customer the flexibility of utilizing new telephone technology and features without investing in a new telephone system. The package bundles local service, calling features, Internet protocol (IP) business telephones and unified messaging, which integrates multiple messaging technologies into a single system, such as allowing the customer to receive and listen to voice messages through email. We offer similar products to our residential customers in Texas, Pennsylvania and Illinois.

Network access services

A significant portion of our revenue comes from network access charges paid by long-distance and other carriers for originating or terminating calls within our service areas. These services allow customers to make or receive calls in our service area. Our long-distance customers typically pay a monthly fee for this service. In addition, other carriers pay network access charges for originating or terminating calls within our service areas. These charges, which are regulated, also apply to private lines that connect a customer in one of our service areas to a location outside of our service areas. Network access charges include subscriber line charges (a fee for being connected to the telephone network), local number portability fees (whereby consumers can keep their telephone number when changing carriers) and universal services surcharges, as well as the costs of originating and terminating calls from/to our local exchanges. The amount of network access revenues we receive is based on rates set or approved by federal and state regulatory commissions or as directed by law that are subject to change at any time.

We capture the details of long-distance and switched access calls through our carrier access billing system and bill the applicable carriers on a monthly basis. The network access rates for intrastate long-distance calls and private lines within Texas and Pennsylvania are regulated and approved by the Public Utility Commission of Texas (PUCT) and the Pennsylvania Public Utility Commission (PAPUC), respectively. Access rates for interstate long-distance calls and private lines are regulated and approved by the Federal Communications Commission (FCC). Illinois passed a statute in 2010 requiring intrastate access rates in Illinois to be no higher than interstate access rates. There is no effective regulation of the intrastate access rates by the Illinois Commerce Commission (ICC). See Regulatory Environment Federal Regulation and Regulatory Environment Access Charges .

Subsidies

Subsidies consist of federal and state subsidies designed to promote widely available, quality telephone service at affordable prices in rural areas. Subsidies come from pools to which we and other telecommunications providers, including local, long-distance and wireless carriers, contribute on a monthly basis. Subsidies are allocated and distributed to rural carriers monthly based upon their respective costs for providing local service. Like access charges, subsidies are regulated by federal and

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state regulatory commissions. In Illinois, we receive federal but not state subsidies. In Texas and Pennsylvania, we receive both federal and state subsidies. See Regulatory Environment and Part I Item 1A Risk Factors Regulatory Risks .

Long-distance services

Long-distance services enable customers to make calls that terminate outside their local calling area. We offer a variety of long-distance plans, including an unlimited calling plan, and offer a combination of subscription and usage fees.

Data, Internet and video services

Data, Internet and video services include revenues from providing access to the Internet and IPTV services along with providing non-local private lines (typically inter-city). We also offer a variety of data connectivity services, including Metro Ethernet services (both copper and fiber-based), Asynchronous Transfer Mode and frame relay networks. In select markets, we also provide virtual hosting services and collocation services.

Although we expect our revenues from data, Internet and video services to grow substantially, these products typically generate lower margins than our traditional wireline business (primarily due to a lack of subsidies for this revenue stream). As a result, as we replace traditional wireline revenue with revenue from data, Internet and video services, our margins may decline. See Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Trends and Factors that May Affect Future Operating Results .

Other services

Other services include revenues from telephone directory publishing, wholesale transport services on our fiber-optic network in Texas, billing and collection services, inside wiring service and maintenance.

Other Operations

Prior to 2010, our Other Operations segment consisted of Prison Services, Business Systems, Market Response (telemarketing and order fulfillment) (CMR) and Operator Services. During 2010, we sold both our CMR and Operator Services businesses. Our on-going Other Operations segment consists of two complementary non-core businesses:

- *Prison Services* provides local and long-distance service and automated calling service for correctional facilities.

- *Business Systems* sells and supports telecommunications equipment, such as key, private branch exchange (PBX) and IP-based telephone systems, to business customers in Texas and Illinois. We are an Avaya and ShoreTel distributor.

Our Other Operations segment generated approximately $0.2 million of cash flows for operating activities for the year ended December 31, 2011 and used approximately $0.4 million in cash flow from operations for the year ended December 31, 2010. As of December 31, 2011, Other Operations had total assets of approximately $6.4 million.

See Part I Item 1A Risk Factors Risks Relating To Our Business The State of Illinois is a significant customer, and our contracts with the state are favorable to the government.

Wireless partnerships

Wireless partnership investment income is included as a component of other income. Our wireless partnership investment consisted of five cellular partnerships: GTE Mobilnet of South Texas, GTE Mobilnet of Texas RSA #17, Pittsburgh SMSA, Pennsylvania RSA 6(I) and Pennsylvania RSA 6(II).

We own 2.34% of GTE Mobilnet of South Texas Limited Partnership (Mobilnet South Partnership). The principal activity of the Mobilnet South Partnership is providing cellular service in the Houston, Galveston and Beaumont, Texas metropolitan areas. Because we have a minor ownership interest and cannot influence operations, we account for this investment using the cost basis. Income is recognized only upon cash distributions of our proportionate earnings in the partnership. We recognized income on cash distributions of $3.7 million from this partnership for the year ended December 31, 2011, and $5.3 million for the year ended December 31, 2010.

We own 17.02% of GTE Mobilnet of Texas RSA #17, which serves areas in and around Conroe, Texas. Because we have some influence over the operating and financial policies of this partnership, we account for the investment under the equity method, recognizing income on our proportionate share of earnings. Cash distributions are recorded as a reduction in our investment. For the years ended December 31, 2011 and 2010, we recognized income from this partnership of $6.3 million and $4.9 million, respectively and received cash distributions of $6.1 million and $4.8 million, respectively.

San Antonio MTA, L.P., a wholly owned partnership of Cellco Partnership (doing business as Verizon Wireless), is the general partner for both GTE Mobilnet of South Texas and GTE Mobilnet of Texas RSA #17.

We own 3.6% of Pittsburgh SMSA, 16.6725% of Pennsylvania RSA 6(I) and 23.67% of Pennsylvania RSA 6(II) wireless partnerships, all of which are majority owned and operated by Verizon Wireless. These partnerships cover territories that almost entirely overlap the markets served by our Pennsylvania ILEC and CLEC operations. Because of our limited influence over Pittsburgh SMSA, we account for the investment using the cost basis. For the years ended December 31, 2011 and 2010, we recognized income on cash distributions from Pittsburgh SMSA of $7.4 million and $6.5 million, respectively. The Pennsylvania RSA 6(I) and RSA 6(II) partnerships are accounted for under the equity method. For the years ended December 31, 2011 and 2010, we recognized income of $9.7 million and $10.7 million, respectively, and received cash distributions of $11.0 million and $10.9 million, respectively, from these partnerships.

Customers and Markets

Our Illinois local telephone markets consist of 35 geographically contiguous exchanges serving predominantly small towns and rural areas. We cover an area of 2,681 square miles, primarily in five central Illinois counties: Coles, Christian, Montgomery, Effingham and Shelby. We provide basic telephone services in this territory with 59,121 local access lines (averaging 22.1 lines per square mile) as of December 31, 2011.

Approximately 59.3% of our Illinois local access lines serve residential customers, with the remainder serving business customers. Our Illinois business customers are predominantly small retail, commercial, light manufacturing and service industry accounts, as well as universities and hospitals.

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Our 21 exchanges in Texas serve three principal geographic markets Lufkin, Conroe and Katy in a 2,054 square mile area. We provide basic telephone services in this territory with 119,889 local access lines (averaging 58.4 lines per square mile) as of December 31, 2011. Approximately 65.4% of our Texas local access lines serve residential customers, with the remainder serving business customers. Our Texas business customers are predominately manufacturing and retail industries; our largest business customers are hospitals, local governments and school districts.

The Lufkin market is centered primarily in Angelina County in east Texas, approximately 120 miles northeast of Houston, and extends into three neighboring counties. The area is a center for the lumber industry and includes other significant industries such as education, healthcare, manufacturing, retail and social services.

The Conroe market is located primarily in Montgomery County and is centered approximately 40 miles north of Houston. Parts of the Conroe operating territory extend south to within 28 miles of downtown Houston, including parts of the affluent suburb of The Woodlands. Major industries in this market include education, healthcare, manufacturing, retail and social services.

The Katy market is located in parts of Fort Bend, Harris, Waller and Brazoria Counties and is centered approximately 30 miles west of downtown Houston along the busy and expanding I-10 corridor. Most of the Katy market is considered part of metropolitan Houston, with major industries including administrative, education, healthcare, management, professional, retail, and scientific and waste management services.

The Pennsylvania ILEC territory consists of nine exchanges and covers 285 square miles, serving portions of Allegheny, Armstrong, Butler and Westmorland Counties in western Pennsylvania. The southernmost point of the ILEC territory is 12 miles north of the city of Pittsburgh. We provide basic telephone services in this territory, with 48,982 local access lines (averaging 171.9 lines per square mile) as of December 31, 2011. Approximately 48.4% of our Pennsylvania local access lines in this territory serve residential customers and the remainder service business customers. The CLEC operations expand south to serve the city of Pittsburgh and north to serve the city of Butler. The CLEC primarily targets small to mid-sized businesses, educational institutions, and healthcare facilities.

Sales and Marketing

Telephone Operations

The key components of our overall marketing strategy in the Telephone Operations segment include:

- Organizing our sales and marketing activities around our consumer, enterprise, and carrier customers;
- Positioning ourselves as a single point of contact for our customers communications needs;

- Providing customers with a broad array of voice, data and video services and bundling these services whenever possible;
- Providing excellent customer service, including 24-hour, 7-days a week centralized customer support to coordinate installation of new services, repair and maintenance functions;
- Developing and delivering new services to meet evolving customer needs and market demands; and

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- Leveraging our history and involvement with local communities and expanding Consolidated Communications and Consolidated brand recognition across all market areas.

Our sales strategy is focused on increasing our penetration of broadband services (especially DSL and IPTV) in our service areas. We are also focused on cross-selling our services, developing additional services to maximize revenues and increase revenues per user, and increasing customer loyalty through superior service, local presence and compelling product offerings.

Our Telephone Operations segment currently has three sales channels: call centers, communication centers and commissioned sales people. Our customer service call centers serve as the primary sales channels for consumer and small business enterprise customers. We also have a group of commissioned sales people, called our Feet on the Street team, who focus on the consumer business. This team canvasses our territories offering residential customers our full suite of products, leading with our triple-play bundled offering of voice, DSL, and IPTV services. In addition to being a strong sales point of contact, this sales effort also helps us to identify and address customer service issues, if any, on a proactive, face-to-face basis. This team of individuals can be scaled up or down to match our business needs, including, for example, if we launch a new product.

In both the ILEC and CLEC markets, we have sales teams led by a manager who has geographic market responsibility. Sales representatives/account managers support the existing base of larger business enterprises and new prospects. Individual sales representatives are responsible for the entire telecom product set and customize proposals to meet the customer needs (access lines, long-distance, Metro-Ethernet circuits, data connectivity, hosted VOIP and business systems). In most cases individual sales representatives are also charged with retaining and growing the telecom services within their account base.

Our customers can also visit one of our seven communications centers to address various communications needs, including paying bills or exploring and purchasing new services. We believe that customer availability to communication centers has helped decrease late payments and bad debt, and reinforces our local presence.

Our Telephone Operations sales efforts are supported by direct mail, bill inserts, newspaper advertising, public relations activities, sponsorship of community events and website promotions.

Our Carrier Services sales effort is led by a dedicated team and addresses the growing wireless backhaul business, as well as, dedicated and switched access services and large institutional and governmental opportunities within and near our geographic markets. The Carrier Services team also focuses on the legacy competitive industry participants such as IXCs, CAPs, LECs and CLECs. The Carrier Services sales effort is supported by sales engineers and provisioning resources which leverage the common infrastructure which supports the rest of the Company. Our carrier networks include our local exchange carrier and regional long haul fiber-based ringed networks in Texas, Illinois and Pennsylvania with Texas having a transport business unit to support our large regional fiber network.

Our Directory Publishing business is supported by a dedicated sales force, which is focused on each of the directory markets in order to maximize sales with both traditional print and online advertising products. We believe the directory business has been an efficient tool for marketing our telecom services and for promoting brand development and awareness.

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Other Operations

Each of our Other Operations businesses executes our sales and marketing strategy primarily through an independent sales and marketing team comprised of dedicated field sales account managers, management and service representatives. Our executives enhance these efforts by attending industry trade shows and assuming leadership roles in industry groups including the U.S. Telecom Association, the Associated Communications Companies of America, and the Independent Telephone and Telecommunications Alliance.

Information Technology and Support Systems

Our information technology and support systems staff is a seasoned organization that supports day-to-day operations and develops system enhancements. The technology supporting our Telephone Operations segment is centered on a core of commercially available and internally maintained systems.

We have successfully migrated most of the key business processes from previous acquisitions into a single Company-wide system and platform, which includes common network provisioning, network management, workforce management systems and financial systems. Our core systems and hardware platforms are expandable.

Network Architecture and Technology

All of our local networks are based on Carrier Serving Area (CSA) architecture. CSA architecture allows access equipment to be placed closer to customer premises, which means customers can be connected to the equipment over shorter copper loops than would be possible if all customers were connected directly to the carrier s main switch. The access equipment is connected back to the main switch on a high capacity fiber circuit, resulting in extensive fiber deployment throughout our network, enabling us to provide broadband services in excess of 20 megabits per second (mbps) to customers.

A single engineering team is responsible for the overall architecture and inter-operability of the various elements within our network in support of our consumer, enterprise and carrier groups. Our network operations center (NOC) in Mattoon, Illinois monitors the performance of our enterprise-wide communications network around the clock and deals with customer-specific issues. We believe our NOC allows us to maintain superior network performance standards using common network systems and platforms, allowing us to quickly and efficiently provide weekend and after-hours coverage in all of our markets while allocating personnel to manage fluctuations in our workload volumes in a more efficient manner.

Our network is supported by advanced 100% digital switches, with a fiber network connecting 64 of our 65 exchanges. These switches provide all of our local telephone customers with access to custom calling features, value-added services and dial-up Internet access. We have four additional switches: one that supports feature-rich VOIP, two dedicated to long-distance service and one that supports our Prison Services business.

We have developed a high-quality 100% digital switching network, comprising 65 central offices and 487 CSAs. The CSA architecture has enabled us to provide DSL service, with speeds up to 6 mbps, to over 96% of our DSL lines. In addition, we have deployed fiber-optic cable extensively throughout our network, resulting in a 100% fiber backbone network that supports all of the inter-office and host-remote links, as well as the majority of business parks within our ILEC service areas.

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As a result of our advanced network, we introduced IPTV service in selected Illinois markets in 2005, Texas markets in 2006 and Pennsylvania markets in 2008. We leverage our high definition head-end equipment in Illinois and distribute content across our three state backbone network allowing the Company to better manage costs of future channel additions and upgrades. As of December 31, 2011, IPTV was available to approximately 212,000 homes in our markets. Our IPTV subscriber base continues to grow and now totals 34,356 subscribers as of December 31, 2011. We do not anticipate having to make any material capital upgrades to our network infrastructure in connection with the continued growth of our IPTV product except for providing set-top boxes to future subscribers and adding head-end equipment and capacity as we further increase our high-definition channel offerings.

We also operate a 2,000 mile fiber network in the State of Texas. Approximately 52% of this network consists of cable sheath that we own, either directly or through our majority-owned subsidiary East Texas Fiber Line, Inc. (ETFL).

For the remaining route-miles of this network, we utilize strands on third-party fiber networks under contracts commonly known as indefeasible rights of use (IRU). An IRU conveys the right to use (including the right to lease to others) a number of fiber strands between two points along a specific route, with the grantee usually having the right to access the fibers at intermediate points along the route. The use of IRU s provides us with long-term availability of a fixed amount of capacity at a set price in order to meet our business needs without the cost of constructing our own network. Besides the initial cost to acquire the IRU, we are also typically required to pay an ongoing maintenance fee. The use of IRU s is a common practice among telecommunications companies.

We sell competitive wholesale capacity on our fiber network to other carriers, wireless providers, CLECs and large commercial customers. In addition, this fiber infrastructure provides the connectivity required to provide IPTV, Internet and long-distance services to all Consolidated residential and enterprise customers.

In Pennsylvania, we operate a CLEC with an extensive network consisting of over 575 route-miles of fiber-optic facilities in the Pittsburgh metropolitan area. The CLEC has placed equipment in 27 Verizon central offices and one CenturyLink central office, and serves its customers using UNE loops, VOIP and Metro Ethernet circuits (both copper and fiber-based). In the Pittsburgh market, the CLEC operates a carrier hotel that serves as the hub for its fiber-optic network. We offer space in this carrier hotel to ISPs, long-distance carriers, other CLECs, and other customers who need a carrier-class location to house voice and data equipment and access to a number of networks, including ours.

Employees

At December 31, 2011, we had 940 full-time and 23 part-time employees. Approximately 50% of our employees are covered by collective bargaining agreements as shown in the table below:

Location	**# of Employees Covered**	**Union (1)**	**Contract Expiration Date**
Illinois	198	IBEW	11/14/2012
Lufkin/Conroe, Texas	182	CWA	10/15/2013

Pennsylvania (ILEC)	51	CWA	09/30/2011 (2)
Katy, Texas	38	CWA	02/28/2014
Pennsylvania (CLEC)	10	CWA	02/29/2012
Totals	479		

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(1) IBEW International Brotherhood of Electrical Workers

CWA Communication Workers of America

(2) The Company and the CWA are currently in negotiations on a new collective bargaining agreement. Since the contract has expired the employees have continued to work without a bargaining agreement.

As a whole, we believe our relations with our employees are good; however, we have been in contract negotiations with our Pennsylvania (ILEC) CWA since September 2011 and since the contract has expired the employees have continued to work without a bargaining agreement. Any protracted labor disputes or labor disruptions by any of our employees could have a negative effect on our financial results.

During 2010, we reduced the number of employees by 66 full-time and 48 part-time positions as a result of the sale of our CMR and Operator Services businesses.

See Part I Item 1A Risk Factors Risks Relating To Our Business We have employees who are covered by collective bargaining agreements and could be adversely affected by labor disputes .

Our Strengths

Technologically advanced network

We have made significant investments building our technologically advanced telecommunications network. As a result, we are able to deliver high-quality, reliable video, data and voice services in all markets we serve. Our wide-ranging network and extensive use of fiber provide an easy reach into existing and new areas. By bringing the fiber network closer to the customer premises, we can increase our service offerings, quality and bandwidth services.

Our IP backbone network provides a high-quality, flexible platform that allows us to deliver broadband applications to our customers at competitive prices. Approximately 95% of our total local access lines were DSL-capable as of December 31, 2011, and approximately 96% of these DSL-capable lines are capable of speeds of 6 mbps or greater. Metro-Ethernet, VOIP services, and other additional IP services leverage the extensive MPLS (Multi-Protocol Label Switching) core network, making it more efficient and scalable. Our existing network can support increased IPTV subscribers with limited additional network preparation thereby driving additional revenue growth.

Attractive markets

The geographic areas we serve are characterized by a balanced mix of growing suburban areas and stable, rural territories.

Our Lufkin, Texas and central Illinois markets have experienced only nominal population growth over the past decade. As of December 31, 2011, 92,154, or 40.4%, of our local access lines were located in these markets. These low growth, low customer density markets, along with the predominantly rural residential character of these areas, have limited the number of, and product offerings, from potential competitors in these areas.

Our Conroe and Katy, Texas markets are suburbs of the Houston metropolitan area. As of December 31, 2011, 86,856, or 38.1%, of our local access lines were located in these markets. Conroe and Katy have experienced above-average population and business employment growth over the past decade as compared to the remainder of Texas and the United States as a whole.

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Our Pennsylvania ILEC operates in a territory that has experienced population growth as the suburban communities in its territory have been expanding (the southernmost point of this territory is only 12 miles from Pittsburgh). For similar reasons, the ILEC has benefited from growth in business activity and favorable market demographics. As of December 31, 2011, 48,982, or 21.5%, of our local access lines are located in our Pennsylvania ILEC territory.

Our Pennsylvania CLEC assets provide telecommunications and broadband services south of our ILEC territory to customers in the metropolitan Pittsburgh area, and to the north of the ILECs territory in the City of Butler and surrounding areas.

Broad product offerings and bundling of services

We are able to leverage our long-standing relationship with our customers by offering them a broad suite of telecommunications and information services that enables us to pursue increased revenue per access line by selling additional services through a bundling strategy, which includes our triple play offering of voice, DSL and IPTV services. Our consumer and enterprise customers have access to a broad array of competitively priced advanced television programming, data and voice service choices with a single point of contact. In addition to providing local and long-distance telephone service, customers can choose multiple speeds of DSL service and IPTV programming with over 230 all-digital channels, 60 high-definition (HD) offerings, video on demand programming and digital video recorder (DVR) services. We also offer custom calling services, carrier access services, VOIP service to residential and business customers and directory publishing.

By bundling our service offerings, we are able to offer and sell a more complete package of services, which we believe simultaneously increases our average revenue per user (ARPU) and adds value for the consumer. We also believe that bundling leads to increased customer loyalty and retention. As of December 31, 2011, we had 48,417 customers who subscribed to service bundles that included local service and a selection of other services including custom calling features, DSL and IPTV.

Experienced management team with proven track record

With an average of over 25 years of experience in both regulated and non-regulated telecommunications businesses, our management team has demonstrated that it can deliver profitable growth while providing high levels of customer satisfaction. Specifically, our management team has a proven track record of:

- Providing superior quality services to rural customers in a regulated environment;
- Implementing successful business acquisitions and integrations;
- Launching and growing new services, such as DSL and IPTV; and
- Managing CLEC and complementary businesses, such as transport, business systems and directory publishing.

Business Strategies

Increase revenues per customer

We continue to focus on increasing our revenue per customer, primarily by improving our DSL and IPTV market penetration, by increasing the sale of other value-added services and by encouraging customers to subscribe to our service bundles.

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We provide IPTV service in all of the markets we serve. We offer HD programming, video on demand and DVR service in all markets, which further increases our ARPU. As of December 31, 2011, over 98% of our video customers have subscribed to our double or triple play offerings. At December 31, 2011, we had 34,356 video subscribers and the capability of offering the service to over 212,000 households in our service territories.

Improve operating efficiency

Over the years, we have made significant operational improvements in our business which has resulted in significant cost savings and reductions in headcount. As an example, in 2011 we used the departure of one of our senior executives as the occasion to conduct a company-wide reorganization that extracted significant cost savings and created a dedicated carrier sales team. As a result, we achieved annual cost savings of $2.3 million. We started to recognize these benefits in the second quarter. We have also centralized most of the business and back office operations from our acquisitions into one functional organization with common work groups, processes and systems thereby removing redundant costs. All of our ILEC businesses use a common billing system platform. We have consolidated most of our principal accounting functions to our Mattoon, Illinois corporate office. We also have consolidated all network operations into a single NOC. We have reduced the number of customer care centers from six to two. We now operate one residential customer care center in Texas and one business customer care center in Illinois. Because of these efficiencies, we are better able to deliver a consistent customer experience, service our customers in a more cost-effective manner and lower our cost structure. We have identified and continue to look for additional projects which will allow us to reduce our cost structure while launching new products and improving the customer experience.

Maintain capital expenditure discipline

Across all of our service territories, we have successfully managed capital expenditures to optimize returns through disciplined planning and targeted investment of capital. For example, specific investments in our IP core and access networks allow us to continue to have significant flexibility to expand our new service offerings, such as IPTV and Metro Ethernet services in a very cost-efficient manner while maintaining our reputation as a high-quality service provider.

Pursue selective acquisitions

We have in the past taken, and expect to continue to take in the future, a disciplined approach in pursuing the acquisition of access lines or operating companies. When we evaluate potential transactions, important considerations include whether or not:

- The market is attractive;
- The network is of appropriate quality;
- We can integrate the acquired company efficiently;
- There are significant potential operating synergies; and

- The transaction is cash flow accretive from day one.

We believe all of the above criteria were met in connection with our agreement to acquire SureWest Communications announced on February 6, 2012. See Part I - Item 1- Business General . We will initially be focused on integrating SureWest into our existing operations and continuing to deliver solid results and returns for shareholders. However, in the longer term, we believe that this

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transaction gives us additional scale and better positions us financially, strategically and competitively to pursue additional acquisitions.

Competition

Competition for telecommunications and information services is intense. Technological advances have expanded the types and uses of services and products available. In addition, the lack of or a reduced level of regulation applicable to comparable alternatives (e.g., cable, wireless and VOIP providers) has lowered costs for these alternative communications providers. As a result, we face heightened competition as well as some new opportunities in significant portions of our business. We expect competition to remain a significant factor affecting our operating results in 2012 and beyond. See Part I - Item 1A Risk Factors Risks Relating to Our Business The Telecommunications Industry is Constantly Changing and Competition is Intense .

Local telephone market

In general, telecommunications service in rural areas is more costly to provide than service in urban areas as a lower customer density necessitates higher capital expenditures on a per-customer basis. As a result, it generally is not economically viable for new entrants to overlap existing networks in rural territories.

Despite the barriers to entry, rural telephone companies face significant competition for voice services from wireless providers, cable providers and, to a lesser extent, competitive telephone companies. Cable providers have upgraded their networks with fiber optics and are able to provide fully interactive broadband voice, data and video communications. Competitive telephone companies have been granted permission by federal law and state regulators to offer local telephone service in areas already served by a local telephone company.

Industry participants are increasingly embracing VOIP service, which essentially involves the routing of voice calls, at least in part, over the Internet through packets of data instead of transmitting the calls over the telephone system. While current VOIP applications typically complete calls using ILEC infrastructure and networks, as VOIP services become more widespread and technology advances, more calls may be placed without using the telephone system. On March 10, 2004, the FCC issued a Notice of Proposed Rulemaking with respect to IP-enabled services. Among other things, the FCC is considering whether VOIP services are regulated telecommunications services or unregulated information services. As of December 31, 2011, this proceeding is still active; however the FCC has yet to issue a decision. We cannot predict the outcome of the FCC s rulemaking or how it will affect the revenues of our rural telephone companies. The proliferation of VOIP, particularly to the extent such communications do not utilize our networks, may reduce our customer base and cause us to lose access fees and other funding.

Mediacom, which serves portions of our Illinois territories, offers a VOIP service that competes with our basic voice services. NewWave Communications offers a competing voice product in the portions of our Illinois territory not served by Mediacom. In addition, both Suddenlink and Comcast, cable competitors in Texas, offer a competing voice product. In our Pennsylvania territory, each of the two incumbent cable providers, Armstrong and Comcast, offer a competitive VOIP service. All of these companies also compete with us for video and high speed Internet customers. In all markets, our competitors offer aggressive triple play packages of voice, video and Internet services. In general, cable companies have modern networks and the capacity to serve a substantial number of customers. We estimate that cable companies now cover 85% of our territory.

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Wireless service

Rural telephone companies have historically faced less wireless competition than non-rural providers of traditional wireline services because wireless networks in rural areas had generally been less developed. Our service areas in Conroe and Katy, Texas and in Pennsylvania are exceptions to this general rule because they are close to major metropolitan areas. As a result, we continue to see increasing competition from wireless service providers in these markets. We have experienced a decline in local access lines by customers choosing to eliminate their wireline service altogether in favor of a wireless provider. We believe that wireless substitution will continue to be a competitive threat in the years to come.

Internet service

The Internet services market is highly competitive and there are few barriers to entry. Internet services meaning wired and wireless Internet access and online content services are provided by cable providers, ISP s, long-distance carriers and satellite-based companies. Many of these companies provide direct access to the Internet and a variety of supporting services. In addition, many companies offer access to closed, proprietary information networks.

Cable providers have substantial transmission capabilities, can carry large amounts of data to large numbers of customers with increasing speeds and have a billing system infrastructure that permits them to add new services. Industry sources expect, and we agree, that competition for Internet services will continue to be very competitive.

Long-distance service

The long-distance telecommunications market is highly competitive and faces intense competition from cable and wireless providers who generally provide unlimited long-distance with their service packages. As a result, the number of minutes of long-distance traffic we handle has declined as our customers have relied on and increased their use of wireless and other unlimited long-distance service packages.

Other competition

Our other lines of business are subject to substantial competition from local, regional and national competitors. In particular, our directory publishing and transport businesses operate in competitive markets. We expect that competition in all of our businesses will continue to intensify as new technologies and new services are offered. Customers in these businesses can and do change vendors frequently. Long-term contracts are unusual, and those that do exist have cancellation clauses that allow quick termination. Where long-term contracts are in place, customers are renewing them for shorter terms.

Regulatory Environment

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

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Overview

The telecommunications industry is subject to extensive federal, state and local regulation. Under the Telecommunications Act of 1996 (Telecommunications Act), federal and state regulators share responsibility for implementing and enforcing statutes and regulations designed to encourage competition and to preserve and advance widely available, quality telephone service at affordable prices.

At the federal level, the FCC generally exercises jurisdiction over facilities and services of local exchange carriers, such as our rural telephone companies, to the extent they are used to provide, originate, or terminate interstate or international communications. The FCC has the authority to condition, modify, cancel, terminate, or revoke our operating authority for failure to comply with applicable federal laws or FCC rules, regulations and policies. Fines or penalties also may be imposed for any of these violations.

State regulatory commissions, such as the ICC in Illinois, PAPUC in Pennsylvania, and the PUCT in Texas, generally exercise jurisdiction over carriers facilities and services to the extent they are used to provide, originate, or terminate intrastate communications. In particular, state regulatory agencies have substantial oversight over interconnection and network access by competitors of our rural telephone companies. In addition, municipalities and other local government agencies regulate the public rights-of-way necessary to install and operate networks. State regulators can sanction our rural telephone companies or revoke our certifications if we violate relevant laws or regulations.

Federal regulation

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

Removal of entry barriers

The central aim of the Telecommunications Act is to open local telecommunications markets to competition while enhancing universal service. Before the Telecommunications Act was enacted, many states limited the services that could be offered by a company competing with an incumbent telephone company. The Telecommunications Act preempts these state and local laws.

The Telecommunications Act imposes a number of interconnection and other requirements on all local communications providers. All telecommunications carriers have a duty to interconnect directly or indirectly with the facilities and equipment of other telecommunications carriers. Local exchange carriers, including our rural telephone companies, are required to:

- Allow other carriers to resell their services;
- Provide number portability where feasible;
- Ensure dialing parity, meaning that consumers can choose their default local or long-distance telephone company without having to dial additional digits;
- Ensure that competitors customers receive non-discriminatory access to telephone numbers, operator service, directory assistance and directory listings;
- Afford competitors access to telephone poles, ducts, conduits, and rights-of-way; and
- Establish reciprocal compensation arrangements with other carriers for the transport and termination of telecommunications traffic.

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Furthermore, the Telecommunications Act imposes on incumbent telephone companies (other than rural telephone companies that maintain their so-called rural exemption as our subsidiaries do) additional obligations to:

- Negotiate interconnection agreements with other carriers in good faith;
- Interconnect their facilities and equipment with any requesting telecommunications carrier, at any technically feasible point, at non-discriminatory rates and on non-discriminatory terms and conditions;
- Offer their retail services to other carriers for resale at discounted wholesale rates;
- Provide reasonable notice of changes in the information necessary for transmission and routing of services over the incumbent telephone company s facilities or in the information necessary for interoperability; and
- Provide, at rates, terms, and conditions that are just, reasonable, and non-discriminatory, for the physical collocation of other carriers equipment necessary for interconnection or access to UNEs at the premises of the incumbent telephone company.

Access charges

On November 18, 2011 the FCC released its comprehensive order on intercarrier compensation and universal service reform. See Part I - Item 1- Business Regulatory Environment FCC Access Charge and Universal Service Reform Order .

A significant portion of our rural telephone companies revenues come from network access charges paid by long-distance and other carriers for using our companies local telephone facilities for originating or terminating calls within our service areas. The amount of network access revenues our rural telephone companies receive is based on rates set or approved by federal and state regulatory commissions, and these rates are subject to change at any time.

Intrastate network access charges are regulated by state commissions. Network access charges in our Illinois market currently mirror interstate charges for everything but local switching. Illinois law requires that our intrastate access charges may not exceed our interstate access charges established by the ICC. Interstate and intrastate network access charges in our Pennsylvania market also are very similar. In contrast, as required by Texas regulators, our Texas rural telephone companies impose significantly higher network access charges for intrastate calls than for interstate calls.

The FCC regulates the prices we may charge for the use of our local telephone facilities to originate or terminate interstate and international calls. The FCC has structured these prices as a combination of flat monthly charges paid by customers and both usage-sensitive (per-minute) charges and flat monthly charges paid by long-distance or other carriers.

The FCC regulates interstate network access charges by imposing price caps on Regional Bell Operating Companies, referred to as RBOC s, and other large incumbent telephone companies. These price caps can be adjusted based on various formulas, such as inflation and productivity, and otherwise through regulatory proceedings. Incumbent telephone companies, such as our local telephone companies, may elect to base network access charges on price caps, but are not required to do so.

Historically, all of our rural telephone companies had elected not to apply federal price caps. Instead, they employed a rate-of-return regulation for their network interstate access charges, whereby they earned a fixed return on their investment over and above operating costs. In December 2007, we

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filed a petition with the FCC seeking to permit our Illinois and Texas companies to convert to price cap regulation. Our petition was approved on May 6, 2008, and became effective on July 1, 2008. This conversion gives us greater pricing flexibility for interstate services, especially the increasingly competitive special access segment. It also provides us with the potential to increase our net earnings by becoming more productive and introducing new services. On the other hand, we were required to reduce our interstate access charges in Illinois significantly, and because our Illinois intrastate access charges generally mirror interstate rates, this conversion also resulted in lower intrastate revenues in Illinois. In addition, we now receive somewhat reduced subsidies from the interstate Universal Service Fund program.

Our Pennsylvania rural telephone company is an average schedule rate-of-return company, which means its interstate access revenues are based upon a statistical formula developed by the National Exchange Carrier Association (NECA) and approved by the FCC, rather than upon its actual costs. In its 2006 and 2007 annual revisions of the average schedule formulas, NECA proposed and the FCC approved structural changes that were fully phased-in during 2008, reducing our Pennsylvania rural telephone company s annual interstate revenues by approximately $3.7 million compared to periods prior to the phase-in of the structural changes. The NECA and the FCC may make further changes to the formulas in future years, which could have an additional impact on our revenues. Our Pennsylvania rural telephone company has the option to become a cost company, meaning its rates would be subject to its own individual cost and demand data studies, but this option would be irrevocable if exercised. We cannot predict whether or when it would be advantageous to make this conversion.

Traditionally, regulators have allowed network access rates for rural areas to be set higher than the actual cost of terminating or originating long-distance calls as an implicit means of subsidizing the high cost of providing local service in rural areas. Following a series of federal court decisions ruling that subsidies must be explicit rather than implicit, the FCC adopted reforms in 2001 that reduced per-minute network access charges and shifted a portion of cost recovery, which historically was imposed on long-distance carriers, to flat-rate, monthly subscriber line charges imposed on end-user customers. While the FCC also increased explicit subsidies to rural telephone companies through the Universal Service Fund, the aggregate amount of interstate network access charges paid by long-distance carriers to access providers, such as our rural telephone companies, has decreased and may continue to decrease.

Unlike the federal system, Illinois does not provide an explicit subsidy in the form of a universal service fund. Therefore, while subsidies from the Federal Universal Service Fund offset the decrease in revenues resulting from the reduction in interstate network access rates in Illinois, there was no corresponding offset for the decrease in revenues from the reduction in intrastate network access rates. In Pennsylvania and Texas, the intrastate network access rate regime applicable to our rural telephone companies does not mirror the FCC regime, so the impact of the reforms was revenue neutral.

In recent years, carriers have become more aggressive in disputing the FCC s interstate access charge rates and the application of access charges to their telecommunications traffic. We believe these disputes have increased in part because advances in technology have made it more difficult to determine the identity and jurisdiction of traffic, giving carriers an increased opportunity to challenge access costs for their traffic. For example, in September 2003, Vonage Holdings Corporation filed a petition with the FCC to preempt an order of the Minnesota Public Utilities Commission asserting jurisdiction over Vonage. The FCC determined that it was impossible to divide Vonage s VOIP service into interstate and intrastate components without negating federal rules and policies. Accordingly, the FCC found it was an interstate service not subject to traditional state telephone regulation. While the FCC order did not specifically address whether intrastate access charges were applicable to Vonage s VOIP service, the fact that the service was found to be solely interstate raises that concern. We cannot predict what other actions other long-distance carriers may take before the FCC or with their local exchange carriers,

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including our rural telephone companies, to challenge the applicability of access charges. Due to the increasing deployment of VOIP services and other technological changes, we believe these types of disputes and claims are likely to increase.

Unbundled network element rules

The unbundling requirements have been some of the most controversial provisions of the Telecommunications Act. In its initial implementation of the law, the FCC generally required incumbent telephone companies to lease a wide range of UNE s to CLECs. Those rules were designed to enable competitors to deliver services to their customers in combination with their existing networks or as recombined service offerings on an unbundled network element platform, commonly known as UNE-P, which allowed competitors with no facilities of their own to purchase all the elements of local telephone service from the incumbent and resell them to customers. These unbundling requirements, and the duty to offer UNEs to competitors, imposed substantial costs on the incumbent telephone companies and made it easier for customers to shift their business to other carriers. After a court challenge and a decision vacating portions of the UNE rules, the FCC issued revised rules in February 2005 that reinstated some unbundling requirements for incumbent telephone companies that are not protected by the rural exemption, but eliminated the UNE-P option and certain other unbundling requirements.

Each of the subsidiaries through which we operate our local telephone businesses is an incumbent telephone company and provides service in rural areas. As discussed above, the Telecommunications Act exempts rural telephone companies from certain of the more burdensome interconnection requirements. However, the Telecommunications Act provides that the rural exemption will cease to apply as to competing cable companies if and when the rural carrier introduces video services in a service area. In that event, a competing cable operator providing video programming and seeking to provide telecommunications services in the area may interconnect. Since each of our subsidiaries now provides video services in their major service areas, the rural exemption no longer applies to cable company competitors in those service areas. Additionally, in Texas, the PUCT has removed the rural exemption for our Texas subsidiaries with respect to telecommunications services furnished by Sprint Communications, L.P. on behalf of cable companies. We believe the benefits of providing video services outweigh the loss of the rural exemptions to cable operators.

Under its current rules, the FCC has eliminated unbundling requirements for ILECs providing broadband services over fiber facilities, but continues to require unbundled access to mass-market narrowband loops. ILECs are no longer required to unbundle packet switching services. In addition, the FCC found that CLECs generally are not at a disadvantage at certain wire center locations in regard to high bandwidth (DS-1 and DS-3) loops, dark fiber loops and dedicated interoffice transport facilities. However, where a disadvantage persists, ILECs continue to be required to unbundle loops and transport facilities.

The FCC rules regarding the unbundling of network elements did not have an impact on our Illinois and Pennsylvania ILEC operations because these ILECs have rural exemptions. Our Pennsylvania CLEC operations were not significantly affected by the 2005 changes to the UNE rules because they use their own switching for business customers that are served by high capacity loops. In July 2011, our Pennsylvania CLEC renewed, for a three-year term, a commercial agreement with Verizon that sets the terms of the pricing and provisioning of lines previously served utilizing UNE-P, including Verizon switching service. Less than 5% of our Pennsylvania CLEC access lines are provisioned utilizing this commercial arrangement. Although the costs for this arrangement will increase over time pursuant to the terms of the agreement, our relatively low use of Verizon s switching and our ability to migrate some of the lines to alternative provisioning sources will limit the overall impact on our current cost structure. The CLEC has experienced moderate increases in the overall cost to provision high-

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capacity loops, interoffice transport facilities and dark fiber as a result of the FCC s changes to unbundling requirements for those facilities.

In 2006, Verizon filed a petition requesting that the FCC refrain from applying a number of regulations to the Verizon operations in six major metropolitan markets, including the Pittsburgh market area. Among other things, Verizon urged the FCC to forbear from applying loop and transport unbundling regulations, claiming there was sufficient competition in the Pittsburgh market to mitigate the need for these rules. The FCC denied Verizon s petition in December 2007, but a federal court of appeals remanded this decision to the FCC for further analysis in 2009. If the FCC grants this remanded petition or any similar forbearance petitions in markets in which our CLEC operates, our cost to obtain access to loop and transport facilities would increase substantially for the 5%, or less, of the lines provisioned under the commercial agreement discussed above.

Promotion of universal service

In general, telecommunications service in rural areas is more costly to provide than service in urban areas. The lower customer density means that switching and other facilities serve fewer customers and loops are typically longer, requiring greater expenditures per customer to build and maintain. By supporting the high cost of operations in rural markets, Federal Universal Service Fund subsidies promote widely available, quality telephone service at affordable prices in rural areas. In 2011, we received $45.4 million in aggregate payments from the Federal Universal Service Fund, the Pennsylvania Universal Service Fund and the Texas Universal Service Fund. In 2010, we received $48.7 million from the Federal Universal Service Fund, the Pennsylvania Universal Service Fund and the Texas Universal Service Fund.

Federal Universal Service Fund subsidies are paid only to carriers that are designated eligible telecommunications carriers, or ETCs, by a state commission. Each of our rural telephone companies have been designated an ETC. However, under FCC rules prior to 2008, competitors could obtain the same level of Federal Universal Service Fund subsidies as we do, per line served, if the applicable state regulator determined that granting such Federal Universal Service Fund subsidies to competitors would be in the public interest and the competitors offered and advertised certain services as required by the Telecommunications Act and the FCC. The ICC has granted several petitions for ETC designations, but to date no other ETCs are operating in our Illinois service area. We are not aware that any carriers have filed petitions to be designated an ETC in our Pennsylvania or Texas service areas. In May 2008, the FCC adopted an interim cap on payments to ETCs that are not incumbent telephone companies, based on the payments received by such companies in March 2008, which reduces (but does not eliminate) the incentive for ETCs to seek to compete against our rural telephone companies.

FCC Access Charge and Universal Service Reform Order

On November 18, 2011 the FCC released its comprehensive order on Access Charge and Universal Service Reform. The access charge portion of the order systematically reduces minute of use based interstate access, intrastate access and reciprocal compensation rates over a six to nine year period to an end state of Bill and Keep, in which each carrier recovers the costs of its network through charges to its own subscribers, not through intercarrier compensation. The reductions apply to terminating access rates and usage, while originating access will be addressed by the FCC in a later proceeding. To help with the transition to Bill and Keep, the FCC created two mechanisms. The first is an Access Recovery Mechanism (ARM) which is funded from the Connect America Fund, and the second is an Access Recovery Charge (ARC) which is recovered from the end users. The universal service portion of the order shifts the national policy goal from voice service to broadband and is now called the Connect America Fund (CAF). In order to receive CAF funding, carriers must agree to provide broadband capability to 100% of their customer base at a minimum speed of 4 Mbps downstream and 1Mbps

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upstream. The current high cost funding program is frozen at 2011 levels and will be eliminated upon development and implementation of a CAF census block model.

The order has already been appealed by state commissions and carriers including Consolidated. We filed our petition for review on January 18, 2012 and raised issues with the order pertaining to access rates, universal service and transition provisions. In addition, several other carriers and associations have filed petitions for reconsideration at the FCC. The timeframe and results of these appeals and petitions for reconsideration are not known at this time.

In the FCC order, holding companies with price cap study areas and rate of return study areas are mandated to move all their interstate rate of return study areas to price cap for universal service purposes only. The intercarrier compensation rules will keep rate of return study areas under the rate of return ICC transitions plan and the price cap study areas under the price cap ICC transition.

State regulation of CCI Illinois

Our Illinois Telephone Operations long-distance and payphone services subsidiary holds the necessary certifications in Illinois (and the other states in which it operates). This subsidiary is required to file tariffs with the ICC, but generally can change the prices, terms, and conditions stated in its tariffs on one day s notice, with prior notice of price increases to affected customers. Our Illinois Telephone Operations other services are not subject to any significant state regulations in Illinois, and our Other Illinois Operations are not subject to any significant state regulation outside of any specific contractually imposed obligations.

Our Illinois rural telephone company is certified by the ICC to provide local telephone services. This entity operates as a distinct company from a regulatory standpoint and is regulated under a rate of return system for intrastate revenues. Although, as explained above, the FCC has preempted certain state regulations pursuant to the Telecommunications Act, Illinois retains the authority to impose requirements on our Illinois rural telephone company to preserve universal service, protect public safety and welfare, ensure quality of service and protect consumers. For instance, our Illinois rural telephone company must file tariffs setting forth the terms, conditions, and prices for its intrastate services; these tariffs may be challenged by third parties. Our Illinois rural telephone company has not had a general rate proceeding before the ICC since 1983.

The ICC has broad authority to impose service quality and service offering requirements on our Illinois rural telephone company, including credit and collection policies and practices, and can require our Illinois rural telephone company to take actions to ensure that it meets its statutory obligation to provide reliable local exchange service. For example, as part of its approval of the reorganization we implemented in connection with our 2005 initial public offering, the ICC imposed various conditions, including (1) prohibitions on payment of dividends or other cash transfers from ICTC to us if ICTC fails to meet or exceed agreed benchmarks for a majority of seven service quality metrics, and (2) the requirement that ICTC have access to $5.0 million or its currently approved capital expenditure budget (whichever is higher) for each calendar year through a combination of available cash and credit facilities. During 2011, we satisfied each of the applicable Illinois regulatory requirements necessary to permit ICTC to pay dividends to us.

The Illinois General Assembly has made major revisions and added significant new provisions to the portions of the Illinois Public Utilities Act governing the regulation and obligations of telecommunications carriers on a number of occasions since 1985. In 2007, the Illinois legislature addressed competition for cable and video services and authorized statewide licensing by the ICC to replace the existing system of individual town franchises. This legislation also imposed substantial state-

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mandated consumer service and consumer protection requirements on providers of cable and video services. The requirements generally became applicable to us on January 1, 2008, and we are operating in compliance with the new law. Although we have franchise agreements for cable and video services in all the towns we serve, this statewide franchising authority will simplify the process in the future. In 2010, the Illinois General Assembly passed Public Act 96-0927, which updates the telecommunications statute, allowing ILECs, beginning January 1, 2011, to elect deregulation of local services. To date, ICTC has not made an election to deregulate its local services. Under this option, an ILECs rates for local services would become competitive and no longer subject to rate of return regulation, and certain other service quality obligations would be reduced. The electing ILECs would have obligations to make certain basic local exchange service packages available to customers. Public Act 96-0927 also specified that local exchange carriers may not charge intrastate access rates at levels higher than their interstate access rates. The Governor of Illinois signed the bill into law on June 15, 2010. The Illinois telecommunications statute is scheduled to sunset in 2013. In the past, such sunset dates in telecommunication legislation have led to further amendments to reflect changing industry technological and competitive conditions.

State regulation of CCI Texas

Our Texas rural telephone companies are each certified by the PUCT to provide local telephone services in their respective territories. In addition, our Texas long-distance and transport subsidiaries are registered with the PUCT as interexchange carriers. The transport subsidiary also has obtained a service provider certificate of operating authority (SPCOA) to better assist the transport subsidiary with its operations in municipal areas. Recently, to assist with expanding services offerings, Consolidated Communications Enterprise Services, Inc. also obtained a SPCOA from the PUCT. While our Texas rural telephone company services are extensively regulated, our other services, such as long-distance and transport services, are not subject to any significant state regulation.

Our Texas rural telephone companies operate as distinct companies from a regulatory standpoint. Each is separately regulated by the PUCT in order to preserve universal service, protect public safety and welfare, ensure quality of service and protect consumers. Each Texas rural telephone company must file and maintain tariffs setting forth the terms, conditions and prices for its intrastate services.

Currently, both of our Texas rural telephone companies have immunity from adjustments to their rates, including their intrastate network access rates, because they elected incentive regulation under the Texas Public Utilities Regulatory Act, or PURA. In order to qualify for incentive regulation, our rural telephone companies agreed to fulfill certain infrastructure requirements. In exchange, they are not subject to challenge by the PUCT regarding their rates, overall revenues, return on invested capital, or net income.

PURA prescribes two different forms of incentive regulation in Chapter 58 and Chapter 59. Under either election, the rates, including network access rates, an incumbent telephone company may charge for basic local services generally cannot be increased from the amount(s) on the date of election without PUCT approval. Even with PUCT approval, increases can only occur in very specific situations. Pricing flexibility under Chapter 59 is extremely limited. In contrast, Chapter 58 allows greater pricing flexibility on non-basic network services, customer-specific contracts and new services.

Initially, both of our Texas rural telephone companies elected incentive regulation under Chapter 59 and fulfilled the applicable infrastructure requirements, but they changed their election status to Chapter 58 in 2003, which gives them some pricing flexibility for basic services, subject to PUCT approval. The PUCT could impose additional infrastructure requirements or other restrictions in the future. Any requirements or restrictions could limit the amount of cash that is available to be transferred

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from our rural telephone companies to the parent entities, and could adversely affect our ability to meet our debt service requirements and repayment obligations.

In September 2005, the Texas legislature adopted significant additional telecommunications legislation. Among other things, this legislation created a statewide video franchise for telecommunications carriers, established a framework to deregulate the retail telecommunications services offered by incumbent local telecommunications carriers, imposed concurrent requirements to reduce intrastate access charges and directed the PUCT to initiate a study of the Texas Universal Service Fund. The PUCT study submitted to the legislature in 2007 recommended that the Small Company Area High-Cost Program, which covers our Texas telephone companies, should be reviewed by the PUCT from a policy perspective regarding basic local telephone service rates and lines eligible for support. The PUCT has only addressed the large company fund and has no immediate plans to conduct a small company review.

Texas universal service

The Texas Universal Service Fund is administered by NECA. PURA, the governing law, directs the PUCT to adopt and enforce rules requiring local exchange carriers to contribute to a state universal service fund that helps telecommunications providers offer basic local telecommunications service at reasonable rates in high cost rural areas. The Texas Universal Service Fund is also used to reimburse telecommunications providers for revenues lost by providing Tel-Assistance and to reimburse carriers for providing lifeline service. Our Texas rural telephone companies receive disbursements from this fund.

In 2011, the Texas legislature passed Senate Bill 985 which requires the PUCT to review the large and small company Texas Universal Service Funds in 2012 and report back to the legislature by January 2013. The PUCT began the large company fund proceeding in January 2012 and has announced that it will begin the small company fund proceeding in March 2012. We expect that the impact of these proceedings, if any, would occur in 2013.

State regulation of CCI Pennsylvania

The PAPUC regulates the rates, the system of financial accounts for reporting purposes, and certain aspects of service quality, billing procedures and universal service funding, among other things, related to our rural telephone company and CLEC s provision of intrastate services. In addition, the PAPUC sets the rates and terms for interconnection between carriers within the guidelines ordered by the FCC.

Price regulation in Pennsylvania

Pennsylvania intrastate rates are regulated under a statutory framework referred to as Act 183. Under this statute, rates for non-competitive intrastate services are allowed to increase based on an index that measures economy-wide price increases. In return, we committed to continue to upgrade our network to ensure that all our customers would have access to broadband services, and to deploy a ubiquitous broadband (defined as 1.544 mbps) network throughout our entire service area by December 31, 2008, which we did.

Pennsylvania universal service and access charges

On September 30, 1999, as part of a proceeding that resolved a number of pending issues, the PAPUC ordered ILECs, including our Pennsylvania property, to rebalance and reduce intrastate toll and switched access rates. In that same order, the PAPUC also created a Pennsylvania Universal Service

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Fund (PAUSF) to help offset the resulting loss of ILEC revenues. In 2003, the PAPUC ordered ILECs to further rebalance and reduce intrastate access charges and left the PAUSF in place pending further review. In 2008, our Pennsylvania ILECs annual receipts from and contributions to the PAUSF total $5.2 million and $0.3 million, respectively. Our Pennsylvania CLEC receives no funding from the PAUSF but currently contributes $0.2 million annually. Since Act 183 was adopted in 2004, the PAPUC may not require a local exchange carrier to reduce intrastate access rates except on a revenue neutral basis.

In 2011, the PAPUC issued an intrastate access reform order reducing intrastate access rates to interstate levels over a three step process beginning in March 2012. With the release of the FCC order in October, 2011 the PAPUC has temporarily issued a stay and will address in the first quarter of 2012 whether it will permanently stay the order, modify the implementation to coincide with the FCC order or implement as originally ordered. The PAPUC will address state universal funding in 2012 pending the implementation of its access reform order.

Local government authorizations

In Illinois, we historically have been required to obtain franchises from each incorporated municipality in which our rural telephone company operates. An Illinois state statute prescribes the fees that a municipality may impose for the privilege of originating and terminating messages and placing facilities within the municipality. Our Illinois Telephone Operations may also be required to obtain permits for street opening and construction, or for operating franchises to install and expand fiber optic facilities. These permits or other licenses or agreements typically require the payment of fees.

Similarly, Texas incumbent telephone companies had historically been required to obtain franchises from each incorporated municipality in which they operated. Texas law now provides that incumbent telephone companies do not need to obtain franchises or other licenses to use municipal rights-of-way for delivering services. Instead, payments to municipalities for rights-of-way are administered through the PUCT and through a reporting process by each telecommunications provider. Incumbent telephone companies are still required to obtain permits from municipal authorities for street opening and construction, but most burdens of obtaining municipal authorizations for access to rights-of-way have been streamlined or removed.

Our Texas rural telephone companies still operate pursuant to the terms of municipal franchise agreements in some territories served by Consolidated Communications of Fort Bend Company. As the franchises expire, they are not being renewed.

Like Illinois, Pennsylvania operates under a structure in which each municipality may impose various fees.

Broadband and Internet regulatory obligations

To date, the FCC has treated ISPs as enhanced service providers rather than common carriers. As a result, ISPs are exempt from most federal and state regulation, including the requirement to pay access charges or contribute to the Federal Universal Service Fund. Currently, there is a relatively limited body of law and regulation that governs access to, or commerce on, the Internet, including such matters as protection of children from exposure to indecent content, and protection of private consumer data. As Internet usage increases, government at all levels may adopt new rules and regulations or apply existing laws and regulations to the Internet. The FCC is reviewing the appropriate regulatory framework governing high speed access to the Internet through telephone and cable providers communications networks. We cannot predict the outcome of these proceedings, and they may affect our regulatory obligations and the form of competition for these services.

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In 2005, the FCC adopted a comprehensive regulatory framework for facilities-based providers of wireline broadband Internet access service after determining that such service is an information service. This decision places the federal regulatory treatment of DSL service in parity with the federal regulatory treatment of cable modem service. Facilities-based wireline carriers are permitted to offer broadband Internet access transmission arrangements for wireline broadband Internet access services on a common carrier basis or a non-common carrier basis. Revenues from wireline non-common carrier broadband Internet access service are not subject to assessment for the Federal Universal Service Fund.

VOIP can be used to carry voice communications over a broadband Internet connection. The FCC has ruled that some VOIP arrangements are not subject to regulation as telephone services. In particular, in 2004, the FCC ruled that certain VOIP services are jurisdictionally interstate, which means that states cannot regulate those applications or the service providers. A number of state regulators filed judicial challenges to that decision. Expanded use of VOIP technology could reduce the access revenues received by local exchange carriers like our ILECs and our CLEC. We cannot predict whether or when VOIP providers may be required to pay or be entitled to receive access charges, the extent to which users will substitute VOIP calls for traditional wireline communications, or the impact of the growth of VOIP on our revenues.

Video service over broadband is lightly regulated by the FCC and states. Such regulation is limited to company registration, broadcast signal call sign management, fee collection, service and billing requirements and administrative matters such as Equal Employment Opportunity reporting. IPTV rates are not regulated.

American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act of 2009 (ARRA) allowed for two major telecommunications activities to occur. The first is to create $4 billion in grants and loans to help build broadband infrastructure. This program will be administered by the Department of Agriculture s Rural Utilities Service (RUS) and the Commerce Department s National Telecommunications and Information Administration (NTIA). The second is to have the FCC develop a national broadband plan.

Broadband Stimulus (ARRA)

The ARRA program administered by NTIA is primarily a grant program, and the ARRA program administered by RUS is a grant and loan program. Both have specific target areas and directives and were required by Congress to complete the application and funding process by September 2010. Rounds one and two of these programs have been completed. Consolidated reviewed both program opportunities for rounds one and two and determined that neither made economic sense to pursue at this time. The outcomes of both rounds one and two resulted in very few applicants receiving money and those that did cover very little of our geographic areas.

National Broadband Plan

On April 8, 2009, the FCC began the process of developing a national broadband plan that will seek to ensure that every American has access to broadband capability. ARRA requires the plan to address four major areas of broadband deployment and use: (1) broadband access to all Americans effectively and efficiently, (2) affordability and utilization, (3) status of deployment and (4) broadband advancement on civic and public services. The plan, which was released on March 16, 2010, proposed changes to a number of FCC policies and regulations in an effort to promote these goals. The FCC issued the first of many notices of proposed rulemakings on the plan on February 8, 2011, addressing universal service, intercarrier compensation, VOIP calling and phantom traffic. On November 18, 2011 the FCC released its comprehensive order on intercarrier compensation and universal service reform. See Part I - Item 1- Business Regulatory Environment FCC Access Charge and Universal Service Reform Order .

Item 1A. Risk Factors

Our business is subject to certain risk factors that could have a material adverse effect our business, financial condition or results of operations in future periods. The risks described below are not the only risks our Company faces. Additional risks not presently known to us or that we currently consider immaterial may also materially adversely affect our business, financial condition, or results of operations in future periods.

Risks Relating to Current Economic Conditions

Unfavorable changes in financial markets could adversely affect pension plan investments resulting in material funding requirements to meet our pension obligations.

Our pension plans have investments in marketable securities, including marketable debt and equity securities, whose values are exposed to changes in the financial markets. We expect that we will continue to make future cash contributions to the plans, the amount and timing of which will depend on various factors including the finalization of funding regulations, future investment performance, changes in future discount rates and changes in demographics of the population participating in the Company s qualified pension plan. Returns generated on plan assets have historically funded a large portion of the benefits paid under these plans. Sustained returns below the estimated long-term rate of return could significantly increase our contribution requirements, which could adversely affect cash flows from operations.

Weak economic conditions in our service areas could cause us to lose subscriber connections and revenues.

Substantially all of our customers and operations are located in Illinois, Pennsylvania and Texas. Our customer base is small and geographically concentrated, particularly for residential customers. Because of our geographic focus, the successful operation and growth of our business depends primarily on economic conditions in the service areas of our rural telephone companies. The economies of these areas, in turn, are dependent upon many factors, including:

- Demographic trends;
- In Illinois, the strength of the agricultural markets and the light manufacturing and services industries, continued demand from universities and hospitals, and the level of government spending;
- In Pennsylvania, the strength of small- to medium-sized businesses, healthcare and education spending; and

- In Texas, the strength of the manufacturing, healthcare, waste management, and retail industries and continued demand from schools and hospitals.

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Downturns in the economic conditions in the markets we serve could cause our existing customers to reduce their purchases of our services and make it difficult for us to obtain new customers which could negatively impact local access lines and revenues.

Risks Relating to Dividends

This section discusses reasons why we may be unable to pay dividends at our historic levels, or at all.

Our Board of Directors could, in its discretion, depart from or change our dividend policy at any time.

We are not required to pay dividends and our stockholders do not have contractual or other rights to receive them. Our Board of Directors may decide at any time, in its discretion, to decrease the amount of dividends, change or revoke the dividend policy, or discontinue paying dividends entirely. If we do not pay dividends, for whatever reason, shares of our common stock could become less liquid and the market price of our common stock could decline.

Our ability to pay dividends, and our Board of Directors determination to maintain our dividend policy, will depend on numerous factors, including:

- The state of our business, the environment in which we operate, and the various risks we face, including competition, technological change, changes in our industry, and regulatory and other risks summarized in this Annual Report on Form 10-K;
- Changes in the factors, assumptions, and other considerations made by our Board of Directors in reviewing and adopting the dividend policy, as described under Dividend Policy and Restrictions in Part II - Item 5 of this Annual Report;
- Our results of operations, financial condition, liquidity needs and capital resources;
- Our expected cash needs, including for interest and any future principal payments on indebtedness, capital expenditures, taxes, and pension and other postretirement contributions; and
- Potential sources of liquidity, including borrowing under our revolving credit facility or possible asset sales.

We might not have sufficient cash to maintain current dividend levels.

While our estimated cash available to pay dividends for the year ended December 31, 2011 was sufficient to pay dividends in accordance with our dividend policy, if our future estimated cash available were to fall below our expectations, or if our assumptions as to estimated cash needs prove incorrect, we may need to:

- Reduce or eliminate dividends;

- Fund dividends by incurring additional debt (to the extent we are permitted to do so under the agreements governing our then-existing debt), which would increase our leverage, debt repayment obligations, and interest expense, decrease our interest coverage, and reduce our capacity to incur debt for other purposes, including to fund future dividend payments;

- Amend the terms of our credit agreement, if our lenders agree, to permit us to pay dividends or make other payments the agreement would otherwise restrict;

- Fund dividends by issuing equity securities, which could be dilutive to our stockholders and negatively affect the price of our common stock;

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- Fund dividends from other sources, such as by asset sales or working capital, which would leave us with less cash available for other purposes; and

- Reduce other expected uses of cash, such as capital expenditures.

Over time, our capital and other cash needs will invariably be subject to uncertainties, which could affect whether we pay dividends and at what level. In addition, if we seek to raise additional cash by incurring debt or issuing equity securities, we cannot assure that such financing will be available on reasonable terms or at all. Each of the possibilities listed above could negatively affect our results of operations, financial condition, liquidity and ability to maintain and expand our business.

Because we are a holding company with no operations, we can only pay dividends if our subsidiaries transfer funds to us.

As a holding company, we have no direct operations, and our principal assets are the equity interests we hold in our subsidiaries. However, our subsidiaries are legally distinct and have no obligation to transfer funds to us. As a result, we are dependent on our subsidiaries results of operations, existing and future debt agreements, governing state law and regulatory requirements, and the ability to transfer funds to us to meet our obligations and to pay dividends.

Restrictions in our debt agreements or applicable state legal and regulatory requirements may prevent us from paying dividends.

Our ability to pay dividends will be restricted by current and future agreements governing our debt, including our credit agreement, as well as the corporate law and regulatory requirements in several states.

Based on the results of operations from October 1, 2005, through December 31, 2011, we would have been able to pay a dividend of $183.4 million under the restricted payment covenants in our credit agreement. After giving effect to the dividend of $11.6 million, which was declared in November 2011 and paid in February 2012, we could pay a dividend of $171.8 million under the credit facility.

Under Delaware law, our Board of Directors may not authorize a dividend unless it is paid out of our surplus (calculated in accordance with the Delaware General Corporation law), or, if we do not have a surplus, it is paid out of our net profits for the fiscal year in which the dividend is declared and the preceding fiscal year. Statutes governing Illinois and Pennsylvania corporations impose similar limitations on the ability of our subsidiaries that are incorporated in those states to declare and pay dividends.

State regulators could require our rural telephone companies to make capital expenditures and could limit the amount of cash those entities may lawfully transfer to us. For example, the ICC imposed various conditions on its approval of the reorganization consummated in connection with our initial public offering. Those conditions prohibit our subsidiary, ICTC, from paying dividends or making other cash transfers to us if ICTC failed to meet or exceed agreed-upon benchmarks for a majority of seven service quality metrics for the prior reporting year. In addition, ICTC must have access to the higher of $5.0 million or its currently approved capital expenditure budget for each calendar year through a combination of available cash and amounts available under credit facilities. In addition, the Illinois Public Utilities Act prohibits ICTC from paying dividends, except out of earnings and earned surplus, if ICTC s capital is or would become impaired by the payment, or if payment of the dividend would impair ICTC s ability to render reasonable and adequate service at reasonable rates, unless the ICC otherwise finds that the public interest requires payment of the dividend, subject to any conditions that regulator may impose.

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The PAPUC has placed debt and transaction cost recovery restrictions for a three-year period that could have an impact to the payment of dividends.

If our goodwill or other intangible assets become impaired, we may be required to record a significant charge to earnings.

We carry significant amounts of goodwill and other intangible assets on our books as a result of previous acquisitions. Under U.S. Generally Accepted Accounting Principles (GAAP), we review our goodwill and other intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill and other intangible assets are required to be tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or other intangible assets that have infinite useful lives may not be recoverable include a decline in stock price and market capitalization, future cash flows and slower or declining growth rates. We may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or other intangible assets is determined, resulting in an impact to our results of operations and stockholders equity.

Our estimated tax payments related to our federal income tax liability will likely increase in 2012 and remain higher in the future as we have utilized the majority of our federal net operating losses and may not be allowed bonus depreciation in future years, which may reduce the amount of cash available to pay dividends.

Under the Internal Revenue Code (IRC), a corporation that incurs losses in excess of taxable income (known as a net operating loss, or NOL) generally may carry the loss back or forward and use it to offset taxable income in a different period. We have utilized the majority of our federal net operating losses (net of valuation allowances) and the $2.7 million balance that we have remaining is restricted by IRC to a utilization of $0.2 million a year through 2024. Since the majority of our NOLs have been used or have expired, we will be required to pay additional cash income taxes. Also, tax laws effect the cash payments for income taxes. The Internal Revenue Service has elected to allow accelerated or bonus depreciation of 100% in 2010 and 2011 and 50% bonus depreciation in 2012. With the reduction of bonus depreciation in 2012 and elimination of any bonus depreciation in future years we will be required to pay additional cash income taxes. The increase in our cash income tax liability may reduce the amount of cash available to pay dividends and could require us to reduce the amount of dividends we pay in the future.

Risks Relating to Our Common Stock

If we continue to pay dividends at the level currently anticipated under our dividend policy, our ability to pursue growth opportunities may be limited.

We believe that our dividend policy could limit, but not preclude, our ability to grow. If we continue paying dividends at the level currently anticipated, we may not retain a sufficient amount of cash to fund a material expansion of our business, including any acquisitions or growth opportunities requiring significant and unexpected capital expenditures. For that reason, our ability to pursue any material expansion of our business may depend on our ability to obtain third-party financing. We cannot guarantee that such financing will be available to us on reasonable terms or at all, particularly in the current economic environment.

Our organizational documents could limit or delay another party s ability to acquire us and, therefore, could deprive our investors of a possible takeover premium for their shares.

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A number of provisions in our amended and restated certificate of incorporation and bylaws will make it difficult for another company to acquire us. Among other things, these provisions:

- Divide our Board of Directors into three classes, which results in roughly one-third of our directors being elected each year;
- Provide that directors may only be removed for cause and then only upon the affirmative vote of holders of two-thirds or more of the voting power of our outstanding common stock;
- Require the affirmative vote of holders of two-thirds or more of the voting power of our outstanding common stock to amend, alter, change, or repeal specified provisions of our amended and restated certificate of incorporation and bylaws;
- Require stockholders to provide us with advance notice if they wish to nominate any candidates for election to our Board of Directors or if they intend to propose any matters for consideration at an annual stockholders meeting; and
- Authorize the issuance of so-called blank check preferred stock without stockholder approval upon such terms as the Board of Directors may determine.

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

Risks Relating to Our Indebtedness and Our Capital Structure

We have a substantial amount of debt outstanding and may incur additional indebtedness in the future, which could restrict our ability to pay dividends and fund working capital and planned capital expenditures.

As of December 31, 2011, we had $880.0 million of long-term debt and $4.7 million of capital leases outstanding along with $47.8 million of stockholders equity. This amount of leverage could have important consequences, including:

- We may be required to use a substantial portion of our cash flow from operations to make interest payments on our debt, which will reduce funds available for operations, future business opportunities and dividends;
- We may have limited flexibility to react to changes in our business and our industry;
- It may be more difficult for us to satisfy our other obligations;

- We may have a limited ability to borrow additional funds or to sell assets to raise funds if needed for working capital, capital expenditures, acquisitions, or other purposes;

- We may become more vulnerable to general adverse economic and industry conditions, including changes in interest rates; and

- We may be at a disadvantage compared to our competitors that have less debt.

We currently expect our cash interest expense to be approximately $44.0 million to $46.0 million in 2012. We cannot guarantee that we will generate sufficient revenues to service our debt and have

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adequate funds left over to achieve or sustain profitability in our operations, meet our working capital and capital expenditure needs, compete successfully in our markets, or pay dividends to our stockholders.

If we cannot generate sufficient cash from our operations to meet our debt service obligations, we may need to reduce or delay capital expenditures, the development of our business generally and any acquisitions. If we became unable to meet our debt service and repayment obligations, we would be in default under the terms of our credit agreement, which would allow our lenders to declare all outstanding borrowings to be due and payable. If the amounts outstanding under our credit facilities were to be accelerated, we cannot assure you that our assets would be sufficient to repay in full the money owed.

As of December 31, 2011, our credit agreement would have permitted us to incur approximately $133.2 million of additional debt. However, additional debt would exacerbate the risks described above.

Our credit agreement contains covenants that limit management s discretion in operating our business and could prevent us from capitalizing on opportunities and taking other corporate actions.

Among other things, our credit agreement limits or restricts our ability (and the ability of certain of our subsidiaries) to:

- Incur additional debt and issue preferred stock;
- Make restricted payments, including paying dividends on, redeeming, repurchasing, or retiring our capital stock;
- Make investments and prepay or redeem debt;
- Enter into agreements restricting our subsidiaries   ability to pay dividends, make loans, or transfer assets to us;
- Create liens;
- Sell or otherwise dispose of assets, including capital stock of subsidiaries;
- Engage in transactions with affiliates;
- Engage in sale and leaseback transactions;
- Make capital expenditures;
- Engage in a business other than telecommunications; and
- Consolidate or merge.

In addition, our credit agreement requires us to comply with specified financial ratios, including ratios regarding total leverage and interest coverage. Our ability to comply with these ratios may be affected by events beyond our control. These restrictions limit our ability to plan for or react to market conditions, meet capital needs, or otherwise constrain our activities or business plans. They also may adversely affect our ability to finance our operations, enter into acquisitions, or engage in other business activities that would be in our interest.

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

We may not be able to refinance our existing debt if necessary, or we may only be able to do so at a higher interest expense.

In 2011 we amended and extended $409.1 million or 46.5% of our credit facility. The new amended and extended balance of the credit facility matures in 2017. The remaining $470.9 million or 53.5% of the original credit facility matures in 2014. We do not expect earnings to be sufficient by 2014 to allow repayment of the maturing facility, and we may not be able to refinance those loans. Alternatively, any renewal or refinancing may occur on less favorable terms. If we are unable to refinance or renew our credit facilities, our failure to repay all amounts due on the maturity dates would cause a default under the credit agreement. If we refinance our credit facilities on terms that are less favorable to us than the terms of our existing debt, our interest expense may increase significantly, which could impair our ability to use our funds for other purposes, such as to pay dividends.

Effective February 17, 2012 in connection with the acquisition financing for the SureWest transaction, we amended our credit facility. The amendment provides us with the ability to escrow proceeds from a high-yield note offering prior to closing the acquisition and, until closing, excludes the debt from current leverage calculations. The amendment also permits us additional flexibility for future high yield notes issuances with the same subsidiary guarantees as the current credit facility. All other terms, coverage, and leverage ratios were unchanged. See Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Credit Facilities .

Risks Relating to Our Business

The telecommunications industry is constantly changing and competition is intense.

The telecommunications industry has been, and we believe will continue to be, characterized by several trends, including:

- Intense competition within established markets from providers that may offer competing or alternative services;

- The blurring of traditional dividing lines between, and the bundling of, different services, such as local dial tone, long-distance, wireless, cable, and data, Internet and video services; and

- A continuation of the trend for mergers and strategic alliances that allow one telecommunications provider to offer increased services or access to wider geographic markets.

We expect competition to remain intense as a result of existing and new competitors and the development of new technologies, products and services. Consequently, we may need to spend significantly more in capital expenditures than we currently anticipate to keep existing customers and to attract new ones.

Many of our voice and data competitors, such as cable providers, Internet access providers, wireless service providers, and long-distance carriers, have substantially larger operational and financial resources, own larger and more diverse networks, are subject to less regulation and have superior brand recognition. In addition, due to consolidation and strategic alliances within the industry, we cannot predict the number of competitors we will face at any given time. Competition could adversely affect us in several ways including the loss of customers and resulting revenue and market share, the possibility of customers reducing their usage of our services or shifting to less profitable services, our need to lower prices or increase marketing expenses to remain competitive and our inability to diversify by successfully offering new products or services.

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The use of new technologies by other companies may increase our costs and cause us to lose customers and revenues.

The telecommunications industry is subject to rapid and significant changes in technology, frequent new service introductions and evolving industry standards. Technological developments may make our services less competitive. We may need to respond by making unbudgeted upgrades or significant capital expenditures or by developing additional services, which could be expensive and time consuming. If we fail to respond successfully to technological changes or obsolescence, or fail to make use of important new technologies, we could lose customers and revenues and be limited in our ability to attract new customers. The successful development of new services, which is an element of our business strategy, is uncertain and dependent on many factors, and we may not generate anticipated revenues from such services, which would reduce our profitability. We cannot predict the effect of these changes on our competitive position, costs, or profitability.

In addition, we expect that an increasing amount of our revenues will come from providing DSL, VOIP and IPTV services. The market for high-speed Internet access is still developing, and we expect current competitors and new market entrants to introduce competing services and to develop new technologies. Likewise, the ability to deliver high-quality video service over traditional telephone lines is a recent advance that is still developing. The markets for these services could fail to develop, grow more slowly than anticipated, or become saturated with competitors with superior pricing or services. In addition, federal or state regulators may expand their control over DSL, VOIP service and IPTV offerings. We cannot predict the outcome of these regulatory developments or how they may affect our obligations or the form of competition for these services. As a result, we could have higher costs and capital expenditures, lower revenues, and greater competition than expected for DSL, VOIP and IPTV services.

A system failure could cause delays or interruptions of service, which could cause us to lose customers.

We have in the past experienced short, localized disruptions in our service due to factors such as cable damage, inclement weather and service failures by our third-party service providers. To be successful, we need to continue to provide our customers reliable service over our network. The principal risks to our network and infrastructure include physical damage to our central offices or local access lines, power surges or outages, software defects and other disruptions beyond our control.

Disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause us to lose customers and incur unexpected expenses.

We are dependent on third-party vendors for our information, billing, and network systems, as well as IPTV service.

Sophisticated information and billing systems are vital to our ability to monitor and control costs, bill customers, process orders, provide customer service and achieve operating efficiencies. We currently rely on internal systems and third-party vendors to provide all of our information and processing systems, as well as applications that support our IP services, including IPTV. Some of our billing, customer service and management information systems have been developed for us by third parties and may not perform as anticipated. In addition, our plans for developing and implementing our information systems, billing systems, network systems and IPTV service rely primarily on the delivery of products and services by third-party vendors. Our right to use these systems is dependent upon license agreements, some of which can be cancelled by the vendor. If a vendor cancels or refuses to renew one of these agreements, our operations may be impaired. If we need to switch vendors, the transition could be costly and affect operating efficiencies.

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The State of Illinois is a significant customer, and our contracts with the state are favorable to the government.

In 2011, 2010 and 2009, 73.1%, 63.0% and 45.4%, respectively, of our Other Operations revenues were derived from our relationships with various agencies of the State of Illinois principally the Department of Corrections through our Prison Services business (the sharp increase in the percentage of revenue generated from our relationship with the State of Illinois for our Other Operation segment in 2010 and 2011 is the result of the loss of other revenue previously included in this operating segment due to the sale of our CMR and Operator Services business units in 2010).

Our relationship with the Illinois Department of Corrections accounted for 90.7%, 91.8% and 91.2% of our Prison Services revenues during 2011, 2010 and 2009, respectively. Our relationship (initially through our predecessor) with the Illinois Department of Corrections has continued uninterrupted since 1990, despite changes in government administrations. Nevertheless, obtaining contracts from government agencies is challenging, and government contracts often include provisions that are favorable to the government in ways that are not standard in private commercial transactions. Specifically, each of our contracts with the State of Illinois:

- Permits the applicable state agency to terminate the contract without cause and without penalty under some circumstances;
- Has renewal provisions that require decisions of state agencies that are subject to political influence;
- Gives the State of Illinois the right to renew the contract at its option but does not give us the same right; and
- Could be cancelled if state funding becomes unavailable.

The failure of the State of Illinois to perform under the existing agreements for any reason, or to renew the agreements when they expire, could have a material adverse effect on our revenues.

We have employees who are covered by collective bargaining agreements and could be adversely affected by labor disputes.

At December 31, 2011, approximately 50% of our employees were covered by collective bargaining agreements. These employees are hourly workers located in all of our service territories and are represented by various unions and locals. Our collective bargaining agreement with CWA for our Pennsylvania ILEC expired on September 30, 2011. Employees continue to work without a contract and we remain in negotiations with the CWA on a new collective bargaining agreement. All the other existing collective bargaining agreements expire between 2012 through 2014. While we believe our relations with the unions representing these employees are good, any protracted labor disputes or labor disruptions by any of our employees could have a significant negative effect on our financial results and operations.

If we cannot obtain and maintain necessary rights-of-way for our network, our operations may be interrupted and we would likely face increased costs.

We need to obtain and maintain the necessary rights-of-way for our network from governmental and quasi-governmental entities and third parties, such as railroads, utilities, state highway authorities, local governments and transit authorities. We may not be successful in obtaining and maintaining these rights-of-way or obtaining them on acceptable terms. Some agreements relating to rights-of-way may be

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short-term or revocable at will, and we cannot be certain that we will continue to have access to existing rights-of-way after the governing agreements are terminated or expire. If any of our right-of-way agreements were terminated or could not be renewed, we may be forced to remove our network facilities from the affected areas, relocate or abandon our networks. This would interrupt our operations and force us to find alternative rights-of-way and make unexpected capital expenditures. In addition, our failure to maintain the necessary rights-of-way, franchises, easements, licenses and permits may result in an event of default under our credit agreement.

We depend on certain key management personnel, and need to continue to attract and retain highly qualified management and other personnel in the future.

Our success depends upon the talents and efforts of key management personnel, many of whom have been with our company and in our industry for decades. The loss of any of these individuals, due to retirement or otherwise, and the inability to attract and retain highly qualified technical and management personnel in the future, could have a material adverse effect on our business, financial condition and results of operations.

Future acquisitions could be expensive and may not be successful.

Our acquisition strategy entails numerous risks. The pursuit of acquisition candidates could be expensive and may not be successful. Our ability to complete future acquisitions will depend on whether we can identify suitable acquisition candidates, negotiate acceptable terms, and, if necessary, finance those acquisitions. We may be competing in these endeavors with other parties, some of which may have greater financial and other resources than we do. Whether any particular acquisition is closed successfully, the pursuit of an acquisition would likely require considerable time and effort from management, which would detract from their ability to run our current business. We may face unexpected challenges in receiving any required approvals from the applicable regulator(s), which could delay or prevent an acquisition.

If we are successful in closing an acquisition, we would face several risks in integrating the acquired business. For example, we may face unexpected difficulties entering markets in which we have little or no direct prior experience or generating expected revenue and cash flow from the acquired company or assets. We have in the past incurred significant integration and restructuring costs associated with acquisitions we have completed. Although we would expect to realize efficiencies from the integration of businesses that will offset the incremental transaction, integration and restructuring costs over time, there can be no assurances that we would achieve such efficiencies to offset any expenses.

Any of these potential problems could have a material adverse effect on our business and our ability to achieve sufficient cash flow, provide adequate working capital, service and repay our indebtedness, and pay dividends.

Risks Relating to Our Agreement to Acquire SureWest

The integration of the Company and SureWest following the merger may present significant challenges.

We may face significant challenges in combining SureWest s operations into our operations in a timely and efficient manner and in retaining key SureWest personnel. The failure to integrate successfully the Company and SureWest and to manage successfully the challenges presented by the integration process may result in our not achieving the anticipated benefits of the merger, including operational and financial synergies.

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We will have a substantial additional amount of debt outstanding after completing the merger, and may incur additional indebtedness in the future, which could restrict our ability to pay dividends and have other consequences.

We have a significant amount of debt outstanding, and the amount will be higher after consummation of the merger. The amount of our indebtedness could have important consequences, including those identified in this Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011 under the caption Risks Relating to Our Indebtedness and Our Capital Structure .

Obtaining required approvals and satisfying closing conditions may delay or prevent completion of the merger.

Obtaining required approvals and satisfying closing conditions may delay or prevent completion of the merger.

Completion of the merger is conditioned upon SureWest s shareholders approving, at a special meeting, the merger and our stockholders approving, at the annual meeting, the issuance of the common stock to SureWest shareholders in the merger. If the shareholders of SureWest or the stockholders of Consolidated do not approve these matters at their respective meetings to be held after the joint proxy statement/prospectus related to the merger is effective, the merger will not be consummated.

Completion of the merger is also conditioned upon the receipt of certain governmental consents and approvals, including approval by the Federal Communications Commission and the California Public Utilities Commission. These consents and approvals may impose conditions on us or SureWest. Such conditions may jeopardize or delay completion of the merger or may reduce the anticipated benefits of the merger. Further, no assurance can be given that the required consents and approvals will be obtained or that the required conditions to closing will be satisfied. Even if all such consents and approvals are obtained, no assurance can be given as to the terms, conditions and timing of the consents and approvals or that they will satisfy the terms of the Agreement and Plan of Merger.

Whether or not the merger is completed, we will incur transaction, integration and restructuring costs in connection with the proposed merger.

We have incurred and will continue to incur significant costs in connection with the proposed merger, including fees of our attorneys, accountants and financial advisors. If the merger is consummated, we and SureWest expect to incur additional costs associated with transaction fees and other costs related to the merger. We will incur integration and restructuring costs following the completion of the merger as we integrate the businesses of SureWest with those of the Company. Although we expect that the realization of efficiencies related to the integration of the businesses will offset incremental transaction, integration and restructuring costs over time, we cannot give any assurance that this net benefit will be achieved in the near term.

Whether or not the merger is completed, the pendency of the transaction could cause disruptions in our business, which could have an adverse effect on our business and financial results.

These disruptions could include the following:

- Current and prospective employees may experience uncertainty about their future roles with the combined company, which might adversely affect SureWest s and our ability to retain or attract key managers and other employees.

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- Current and prospective customers of SureWest or the Company may experience variations in levels of services as the companies prepare for integration and may, as a result, choose to discontinue their service with either company or choose another provider.

- The attention of management of each of SureWest and the Company may be diverted from the operation of the businesses toward the completion of the merger.

Regulatory Risks

The telecommunications industry is subject to extensive regulation that could change in a manner adverse to us.

Our main sources of revenues are our local telephone businesses in Illinois, Pennsylvania and Texas. The laws and regulations governing these businesses may be, and in some cases have been, challenged in the courts, and could be changed by Congress, state legislatures, or regulators. In addition, federal or state authorities could impose new regulations that increase our operating costs or capital requirements or that are otherwise adverse to us. We cannot predict future developments or changes to the regulatory environment or the impact such developments or changes may have on us.

Legislative or regulatory changes could reduce or eliminate the revenues our rural telephone companies receive from network access charges.

A significant portion of our ILECs revenues come from network access charges paid by long-distance and other carriers for using our local telephone facilities to originate or terminate long-distance calls in our service areas. The amount of network access charge revenues that our ILECs receive is based on interstate rates set by the FCC and intrastate rates set by state regulators. The FCC has reformed, and continues to reform, the federal network access system.

The FCC order released November 18, 2011 addresses comprehensive reform of all access charges, state and interstate, as well as a complete overhaul of the universal service high cost program. The full impact of the comprehensive order is not known at this time, and the FCC through various regulatory processes could have material changes to its initial order. In addition, there are several companies, state commissions and associations that have filed an appeal of the order, including Consolidated. It is unclear at this time what impact, if an, there would be from any of these processes.

Our Pennsylvania rural telephone company is an average schedule rate of return company, which means its interstate access revenues are based upon a statistical formula developed by NECA and approved by the FCC, rather than upon its actual costs. The formulas are reviewed by NECA and the FCC annually and there could be changes to the formulas in the future, which could have an impact on our revenues. Illinois law now prohibits our Illinois ILEC from charging intrastate access rates higher than its interstate access rates, regardless of our costs.

Legislative or regulatory changes could reduce or eliminate the government subsidies we receive.

The federal and state systems of subsidies, which constitute a significant portion of our revenues, may be modified. On November 18, 2011 the FCC released its comprehensive order on intercarrier compensation and universal service reform. See Part I - Item 1- Business Regulatory Environment FCC Access Charge and Universal Service Reform Order. The PUCT has initiated proceedings to review the state high cost funds for large and small carriers. The proceedings will take a comprehensive review of high cost funds and provide recommended changes to the legislature.

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During the last three years, the FCC has modified the Federal Universal Service Fund system to change the sources of support and the method for determining the level of support that will be distributed. The FCC is considering proposals for additional changes to the Federal Universal Service Fund. These issues may become the subject of legislative amendments to the Telecommunications Act. In addition, the Pennsylvania PUC has a proceeding to review its state universal service fund program. As part of the proceeding, the PAPUC could attempt to override the current Pennsylvania statute 183 which provides for revenue offsets for any reduction to intrastate access.

If our rural telephone companies do not continue to receive federal and state subsidies, or if these subsidies are reduced, these subsidiaries likely will have lower revenues and may not be able to operate as profitably as they have in the past.

Proposed access and universal service reforms could have an adverse impact on our revenues.

When the FCC issued its National Broadband Plan on March 16, 2010, it included proposals for comprehensive reform in the areas of access and universal service regimes, the treatment of VOIP traffic, broadband services and net neutrality, all of which could have an adverse impact on our revenues. The FCC issued an order on net neutrality on December 23, 2010 implementing three core principles: 1) Transparency - all broadband Internet providers must disclose network management practices, performance characteristics and commercial terms of service; 2) No Blocking - fixed broadband providers may not block lawful content, applications or services or the attachment of non-harmful devices; and 3) Nondiscrimination - fixed broadband providers may not engage in unreasonable discrimination in transmitting lawful network traffic. Verizon filed a lawsuit on January 20, 2011 to reverse the FCC decision. The court has not ruled on this lawsuit as of this date and there is no timeline on when the court will rule.

The high costs of regulatory compliance could make it more difficult for us to enter new markets, make acquisitions, or change our prices.

Regulatory compliance is a significant expense for us and diverts the time and effort of management and our officers away from running the business. In addition, because regulations differ from state to state, it would be expensive to introduce services in states where we do not currently operate and understand the regulatory requirements. Compliance costs and information barriers could make it difficult and time-consuming to enter new markets or to evaluate and compete to acquire local access lines or businesses as they arise.

Our intrastate services generally are subject to certification, tariff filing and other ongoing state regulatory requirements. Challenges to our tariffs by regulators or third parties, or delays in obtaining certifications and regulatory approvals, could cause us to incur substantial legal and administrative expenses. Moreover, successful challenges could adversely affect the rates that we are able to charge to customers, which would negatively affect our revenues. Some states also require advance regulatory approval of mergers, acquisitions, transfers of control, stock issuance, and certain types of debt financing, which can increase our costs and delay strategic transactions.

Legislative and regulatory changes in the telecommunications industry could raise our costs and reduce potential revenues.

Currently, there is only a small body of law and regulation applicable to access to, or commerce on, the Internet. As Internet usage continues to grow, governments at all levels may adopt new rules and regulations or find new ways to apply existing laws and regulations. The FCC currently is reviewing the appropriate regulatory framework governing broadband consumer protections for high-speed Internet access through telephone and cable providers communications networks. The outcome of these proceedings may affect our regulatory obligations and costs and competition for our services, which could have a material adverse effect on our revenues.

We are subject to extensive laws and regulations relating to the protection of the environment, natural resources, and worker health and safety.

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

- Hazardous materials may have been released at properties that we currently own or formerly owned (perhaps through our predecessors). Under certain environmental laws, we could be held liable, without regard to fault, for the costs of investigating and remediating any actual or threatened contamination at these properties and for contamination associated with disposal by us or our predecessors of hazardous materials at third-party disposal sites.

- We could incur substantial costs in the future if we acquire businesses or properties subject to environmental requirements or affected by environmental contamination. In particular, environmental laws regulating wetlands, endangered species, and other land use and natural resource issues may increase costs associated with future business or expansion opportunities or delay, alter, or interfere with such plans.

- The presence of contamination can adversely affect the value of our properties and make it difficult to sell any affected property or to use it as collateral.

- We could be held responsible for third-party property damage claims, personal injury claims, or natural resource damage claims relating to contamination found at any of our current or past properties.

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters and most of the administrative offices for our Telephone Operations are located in Mattoon, Illinois.

We lease properties pursuant to agreements that expire at various times between 2012 and 2030. The following chart summarizes the principal facilities owned or leased by us as of December 31, 2011.

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Location	Primary Use	Owned/ leased	Operating segment Telephone Operations	Other Operations	Approximate square footage
Gibsonia, PA	Office and switching	Owned	X	X	91,141
Conroe, TX	Regional office	Owned	X	X	51,900
Mattoon, IL	Corporate office	Leased	X	X	49,100
Mattoon, IL	Office	Owned	X	X	36,300
Mattoon, IL	Operations and distribution center	Leased	X	X	30,900
Lufkin, TX	Office and switching	Owned	X	X	28,707
Conroe, TX	Warehouse and plant	Owned	X	X	28,500
Lufkin, TX	Communications center and office	Owned	X	X	23,190
Katy, TX	Warehouse and office	Owned	X	X	19,716
Taylorville, IL	Communications center and office	Owned	X	X	15,900
Taylorville, IL	Operations and distribution center	Leased	X	X	14,700
Lufkin, TX	Warehouse	Owned	X	X	14,200
Cranberry Township, PA	Office and switching	Owned	X	X	13,110
Charleston, IL	Communications center and office	Owned	X	X	12,661
Litchfield, IL	Office and switching	Owned	X	X	12,190
Lufkin, TX	Office and data center	Owned	X	X	11,900
Conroe, TX	Office	Owned	X	X	10,650
Mattoon, IL	Office	Owned	X	X	10,100

In addition to the facilities listed above, we own or have the right to use approximately 731 additional properties consisting of equipment at point of presence sites, central offices, remote switching sites and buildings, tower sites, small offices, storage sites and parking lots. Some of the facilities listed above also serve as central office locations.

Item 3. Legal Proceedings

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. In the third quarter of 2008, we filed preliminary objections and responses to Salsgiver s complaint. However, the court ruled against our preliminary objections. On November 3, 2008, we responded to Salsgiver s amended complaint and filed a counter-claim for trespass, alleging that Salsgiver attached cables to our poles without an authorized agreement and in an unsafe manner. We are currently in the discovery and deposition stage. In addition, we have asked the 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

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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. We also intend to appeal any adverse decisions from the Board of Appeals involving CCPA or CCES to the Commonwealth s Board of Finance and Revenue. At the Board of Finance and Revenue, we anticipate that these matters will be continued pending the outcome of present litigation in 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.

Two putative class action lawsuits have been 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. Each of these actions was filed in the Superior Court of California, Placer County. The actions are called Needles v. SureWest Communications, et al., filed February 17, 2012, Case No. SCV0030665, and Errecart v. Oldham, et al., filed February 24, 2012, Case No. SCV0030703. 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 is unfair to the SureWest shareholders and agreeing 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 shareholder actions seek equitable relief, including an order to the defendants from consummating the merger on the agreed-upon terms, as well as unspecified money 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.

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

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

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

Market for our Common Stock and Holders of Record

Our common stock is quoted on the NASDAQ Global Select Market under the symbol CNSL . As of February 21, 2012, we had 1,503 stockholders of record. Because many of our outstanding shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders. The high and low reported sales prices per share of our common stock are set forth in the following table for the periods indicated:

	2011		2010	
Period	**High**	**Low**	**High**	**Low**
First quarter	**19.50**	**17.25**	19.07	16.27
Second quarter	**19.50**	**17.94**	19.50	16.64
Third quarter	**20.02**	**16.77**	18.67	16.61
Fourth quarter	**19.39**	**16.83**	19.30	18.37

Our Board of Directors declared (and we paid) dividends totaling $0.38738 per share in each of the periods listed above.

Dividend Policy and Restrictions

Our Board of Directors has adopted a dividend policy that reflects its judgment that our stockholders are better served if we distribute a substantial portion of the cash generated by our business in excess of our expected cash needs rather than retaining the cash or using it for investments, acquisitions, or other purposes. We expect to continue to pay quarterly dividends at an annual rate of $1.5495 per share during 2012 but only if and to the extent declared by our Board of Directors and subject to various restrictions on our ability to do so. Dividends on our common stock are not cumulative.

Please see Part I Item 1A Risk Factors of this report, which sets forth several factors that could prevent stockholders from receiving dividends in the future. The Risk Factors section also discusses how our dividend policy could inhibit future growth and acquisitions.

We expect to fund our expected cash needs, including dividends, with cash flow from operations. We also expect to have sufficient availability under our revolving credit facility for these purposes, but we do not intend to borrow to pay dividends.

Performance Graph

Set forth below is a graph comparing the cumulative five-year total return of holders of our common stock with the cumulative total returns of the S&P 500 index, the Dow Jones US Fixed-Line Telecommunications index and a customized peer group of four companies that includes: Alaska Communications Systems Group, Inc., Consolidated Communications Holdings, Inc., Otelco, Inc. and Shenandoah Telecommunications Company. The graph assumes that the value of the investment in the Company s common stock, in each index, and in the peer group (including reinvestment of dividends) was $100 on December 31, 2006 and tracks it through December 31, 2011.

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	At December 31,				
(In dollars)	**2011**	**2010**	**2009**	**2008**	**2007**
Consolidated Communications Holdings, Inc.	147.12	137.24	114.25	68.66	102.62
S&P 500	98.75	96.71	84.05	66.46	105.49
Dow Jones US Fixed-Line Telecommunications	116.39	108.80	91.70	84.40	116.25
Peer group	81.43	118.69	98.86	90.15	109.50

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

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Issuer Purchases of Common Stock During the Quarter Ended December 31, 2011

During the quarter ended December 31, 2011, we reacquired and cancelled 38,993 common shares surrendered by employees to pay taxes in connection with the vesting of restricted common shares issued under our stock-based compensation plan. The following table provides information about the shares reacquired:

Purchase period	Total number of shares purchased		Average price paid per share	Total number of shares purchased as part of publicly announced plans	Maximum number of shares that may yet be purchased under the plans
October 2011				n/a	n/a
November 2011	74	$	18.58	n/a	n/a
December 2011	38,919	$	18.62	n/a	n/a

Item 6. Selected Financial Data

The selected financial information set forth below has been derived from the audited consolidated financial statements of Consolidated as of and for the years ended December 31, 2011, 2010, 2009, 2008 and 2007. The following selected historical financial information should be read in conjunction with Part II - Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and our consolidated financial statements beginning on page F-1.

The balance sheet data presented below as of December 31, 2011 and 2010, and the statement of operations data presented below for each of the years in the three-year period ended December 31, 2011, 2010, and 2009 are derived from our audited consolidated financial statements beginning on page F-1. The other balance sheet data and statement of operations data is derived from our previously audited consolidated financial statements included in our prior Form 10-K filings.

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(In millions, except per share amounts)	Year ended December 31, 2011	2010	2009	2008	2007 (4)
Telephone operations revenues	**$ 342.6**	$ 349.6	$ 364.6	$ 379.0	$ 288.2
Other operations revenues	**31.7**	33.8	41.6	39.4	41.0
Total operating revenues	**374.3**	383.4	406.2	418.4	329.2
Cost of products and services (exclusive of depreciation and amortization shown separately below)	**139.3**	142.3	145.5	143.5	107.3
Selling, general and administrative expense	**81.1**	88.0	104.8	108.8	89.6
Debt refinancing costs	**2.6**				
Intangible asset impairment				6.1	
Depreciation and amortization	**88.7**	87.2	85.2	91.7	65.7
Income from operations	**62.6**	65.9	70.7	68.3	66.6
Interest expense, net (1)	**(49.4)**	(50.7)	(57.9)	(66.3)	(46.5)
Other income (loss), net	**28.6**	27.0	25.5	10.8	(3.4)
Income before income taxes and extraordinary item	**41.8**	42.2	38.3	12.8	16.7
Income tax expense	**14.8**	9.0	12.4	6.6	4.7
Income before extraordinary item	**27.0**	33.2	25.9	6.2	12.0
Extraordinary item, net of tax				7.2	
Net income	**27.0**	33.2	25.9	13.4	12.0
Net income of noncontrolling interest (2)	**0.6**	0.6	1.0	0.9	0.6
Net income attributable to common shareholders (2)	**$ 26.4**	$ 32.6	$ 24.9	$ 12.5	$ 11.4
Income per common share basic: (3)					
Income per common share before extraordinary item	**$ 0.88**	$ 1.09	$ 0.84	$ 0.18	$ 0.43
Extraordinary item per share				0.24	
Net income per common share basic	**$ 0.88**	$ 1.09	$ 0.84	$ 0.42	$ 0.43
Basic weighted-average number of shares	**29,600**	29,490	29,396	29,321	25,764
Income per common share diluted: (3)					
Income per common share before extraordinary item	**$ 0.88**	$ 1.09	$ 0.84	$ 0.18	$ 0.43
Extraordinary item per share				0.24	
Net income per common share diluted	**$ 0.88**	$ 1.09	$ 0.84	$ 0.42	$ 0.43
Diluted weighted-average number of common and common equivalent shares	**29,600**	29,490	29,396	29,321	25,764
Cash dividends per common share	**$ 1.55**	$ 1.55	$ 1.55	$ 1.55	$ 1.55
Consolidated cash flow data:					
Cash flows from operating activities	**$ 130.2**	$ 115.0	$ 116.3	$ 92.4	$ 82.1
Cash flows used for investing activities	**(41.5)**	(40.7)	(41.6)	(48.0)	(305.3)
Cash flows used for financing activities	**(50.7)**	(49.4)	(47.4)	(63.3)	230.9
Capital expenditures	**42.6**	41.8	42.4	48.0	33.5
Consolidated Balance Sheet:					
Cash and cash equivalents	**$ 105.7**	$ 67.7	$ 42.8	$ 15.5	$ 34.3
Total current assets	**168.3**	136.3	107.9	78.6	99.6
Net property, plant and equipment (5)	**332.0**	356.1	377.2	400.3	411.6
Total assets	**1,194.1**	1,209.5	1,226.6	1,241.6	1,304.6
Total debt (including current portion)	**884.7**	884.1	880.3	881.3	892.6

Stockholders equity	**47.8**	71.9	80.7	75.3	159.7
Other financial data (unaudited):					
Adjusted EBITDA (6)	**$ 189.5**	$ 185.6	$ 188.8	$ 189.8	$ 143.8
Other data (as of the end of the period) (Unaudited):					
Local access lines					
Residential	**137,179**	140,660	146,766	162,067	183,070
Business	**90,813**	96,481	100,469	102,256	103,116
Total local access lines	**227,992**	237,141	247,235	264,323	286,186
CLEC access line equivalents	**89,774**	81,090	72,681	74,687	70,063
VOIP subscribers	**9,199**	8,640	8,665	6,510	2,494
IPTV subscribers	**34,356**	29,236	23,127	16,666	12,241
ILEC DSL subscribers	**110,913**	106,387	100,122	91,817	81,337
Total connections	**472,234**	462,494	451,830	454,003	452,321

(1) Interest expense includes amortization of deferred financing costs totaling $1.4 million for the years ended December 31, 2011, $1.3 million for 2010 and 2009, $1.4 million for 2008 and $3.2 million for 2007.

(2) We adopted the Financial Accounting Standards Board s (FASB) authoritative guidance on the presentation of noncontrolling interests in consolidated financial statements effective January 1, 2009. This presentation has been retrospectively applied to all periods presented.

(3) We adopted the FASB s authoritative guidance on the treatment of participating securities in the calculation of earnings per share on January 1, 2009. This presentation has been retrospectively applied to all periods presented.

(4) We acquired North Pittsburgh on December 31, 2007. Balance sheet and other data as of that date include the accounts of North Pittsburgh. Our results of operations include North Pittsburgh beginning January 1, 2008.

(5) Property, plant and equipment are recorded at cost. The cost of additions, replacements, and major improvements is capitalized, while repairs and maintenance are charged to expenses. When property, plant and equipment are retired from our regulated subsidiaries, the original cost, net of salvage, is charged against

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accumulated depreciation, with no gain or loss recognized in accordance with composite group life remaining methodology used for regulated telephone plant assets.

(6) We present Adjusted EBITDA (which is a non-GAAP financial measure) for three reasons: we believe it is a useful indicator of our historical debt capacity and our ability to service debt and pay dividends; it provides a measure of consistency in our financial reporting; and covenants in our credit facilities contain ratios based on Adjusted EBITDA.

Adjusted EBITDA is defined in our current credit facility as:

Consolidated Net Income (as defined in our credit facility),

(a) ***plus*** the following, to the extent deducted in arriving at Consolidated Net Income:

(i) interest expense, amortization, or write-off of debt discount and non-cash expense incurred in connection with equity compensation plans;

(ii) foreign, federal, state and local income taxes;

(iii) depreciation and amortization;

(iv) all non-cash charges (excluding any non-cash charge to the extent that it represents an accrual of or reserve for cash charges in any future period or amortization of a prepaid cash expense that was paid in a prior period);

(v) transaction fees;

(b) ***minus*** (in the case of gains) or ***plus*** (in the case of losses) gain or loss on any disposition;

(c) ***plus*** extraordinary losses; and

(d) ***minus*** the sum of interest income, extraordinary income or gains as defined by GAAP and all non-cash items increasing net income.

Prior to 2011, our credit facility defined Adjusted EBITDA as:

Consolidated Net Income (as defined in our credit facility)

(a) ***plus*** the following, to the extent deducted in arriving at Consolidated Net Income:

(i) interest expense, amortization, or write-off of debt discount and non-cash expense incurred in connection with equity compensation plans;

(ii) provision for income taxes;

(iii) depreciation and amortization;

(iv) non-cash charges for asset impairment; all charges, expenses, and other extraordinary, non-recurring, and unusual integration costs or losses related to the acquisition of North Pittsburgh, including all severance payments in connection with the acquisition, so long as such costs or losses are incurred prior to December 31, 2009, and do not exceed $12.0 million in the aggregate;

(v) all non-recurring transaction fees, charges, and other amounts related to the acquisition of North Pittsburgh (excluding all amounts otherwise included in accordance with U.S. GAAP in determining Adjusted EBITDA), so long as such fees, charges, and other amounts do not exceed $18 million in the aggregate;

(b) ***minus*** (in the case of gains) or ***plus*** (in the case of losses) gain or loss on sale of assets;

(c) ***minus*** (in the case of gains) or ***plus*** (in the case of losses) non-cash income or charges relating to foreign currency gains or losses;

(d) ***plus*** (in the case of losses) or ***minus*** (in the case of income) non-cash minority interest income or loss;

(e) ***plus*** (in the case of items deducted in arriving at Consolidated Net Income) or ***minus*** (in the case of items added in arriving at Consolidated Net Income) non-cash charges resulting from changes in accounting principles;

(f) ***plus*** extraordinary losses and ***minus*** extraordinary gains as defined by GAAP;

(g) ***plus*** (in the case of any period ending on December 31, 2007, and any period ending during the seven immediately succeeding fiscal quarters of the Company, to the extent not otherwise included in Adjusted EBITDA) cost savings to be realized by the Company and its subsidiaries in connection with the acquisition of North Pittsburgh that are attributable to the integration of the Company s operations and businesses in Illinois and Texas with the acquired Pennsylvania operations, which cost savings are deemed to be the amounts set forth on a schedule to the credit agreement for each such fiscal quarter; and

(h) ***minus*** interest income.

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If our Adjusted EBITDA were to decline below certain levels, there may be violations of covenants in our credit facilities that are based on this measure, including our total net leverage and interest coverage ratios covenants. The consequences could include a default or mandatory prepayment of debt or a prohibition on dividends.

We believe that net cash provided by operating activities is the most directly comparable financial measure to Adjusted EBITDA under GAAP. Adjusted EBITDA should not be considered in isolation or as a substitute for consolidated statement of operations and cash flows data prepared in accordance with GAAP. Adjusted EBITDA is not a complete measure of profitability because it does not include costs and expenses identified above. Nor is Adjusted EBITDA a complete net cash flow measure because it does not include reductions for cash payments for an entity s obligation to service its debt, fund its working capital, make capital expenditures, make acquisitions, or pay its income taxes and dividends.

The following table sets forth a reconciliation of Cash Provided by Operating Activities to Adjusted EBITDA:

	Year ended December 31,				
(In millions, unaudited)	**2011**	**2010**	**2009**	**2008**	**2007**
Net cash provided by operating activities	**$ 130.2**	$ 115.0	$ 116.3	$ 92.4	$ 82.1
Non-cash, stock-based compensation	**(2.1)**	(2.4)	(1.9)	(1.9)	(4.0)
Other adjustments, net (a)	**(11.0)**	(0.9)	(1.0)	3.8	(9.5)
Changes in operating assets and liabilities	**(1.3)**	8.6	(2.2)	9.9	8.5
Interest expense, net	**49.4**	50.7	57.9	66.3	46.5
Income taxes	**14.8**	9.0	12.4	6.6	4.7
EBITDA (b)	**180.0**	180.0	181.5	177.1	128.3
Adjustments to EBITDA (c):					
Integration, restructuring and Sarbanes Oxley (d)			7.4	4.8	1.2
Debt amendment fees (e)	**2.6**				
Other, net (f)	**(23.6)**	(24.3)	(24.4)	(19.9)	(6.6)
Investment distributions (g)	**28.4**	27.5	22.4	17.8	6.6
Loss on extinguishment of debt (h)				9.2	10.3
Intangible asset impairment (a)				6.1	
Extraordinary item (i)				(7.2)	
Non-cash, stock-based compensation (j)	**2.1**	2.4	1.9	1.9	4.0
Adjusted EBITDA	**$ 189.5**	$ 185.6	$ 188.8	$ 189.8	$ 143.8

(a) Other adjustments, net includes $8.5 million of change in deferred income taxes for the year ended December 31, 2011. Also, other adjustments, net includes $6.1 million of intangible asset impairment charges for year ended December 31, 2008. During our annual impairment review for 2008, we determined that the projected future cash flows of CMR would not be sufficient to support the carrying value of the goodwill

(b) EBITDA is defined as net earnings before interest expense, income taxes, depreciation and amortization on an unadjusted basis.

(c) These adjustments reflect those required or permitted by the lenders under the credit facility in place at the end of each of the years included in the periods presented.

(d) In connection with our acquisition of North Pittsburgh, we incurred certain expenses associated with integrating and restructuring the businesses. These expenses include severance and employee relocation expenses, Sarbanes-Oxley maintenance costs, costs to integrate our technology, administrative and customer service functions and billing systems.

(e) Debt amendment fees include $2.6 million of debt refinancing fees for 2011.

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(f) Other, net includes the equity earnings from our investments, dividend income, and certain other miscellaneous non-operating items. Key man life insurance proceeds of $0.6 million received in 2011 and $0.3 million received in 2007 is not deducted to arrive at Adjusted EBITDA.

(g) For purposes of calculating Adjusted EBITDA, we include all cash dividends and other cash distributions received from our investments.

(h) Represents the redemption premium and write-off of unamortized debt issuance costs in connection with the redemption and retirement of our senior notes during 2008 and the write-off of debt issuance costs in connection with retiring the obligations under our former credit facility and entering into a new credit facility contemporaneously with the North Pittsburgh acquisition.

(i) Upon making the election to discontinue the applicable accounting guidance for regulated enterprises in accounting for the effects of certain types of regulation, we recognized an extraordinary non-cash gain and began to apply the authoritative guidance required for the discontinuance of the application of regulatory accounting.

(j) Represents compensation expenses in connection with our Restricted Share Plan. Because of their non-cash nature, these expenses are excluded from Adjusted EBITDA.

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

The following discussion of our consolidated operating results and financial condition for the three years ended December 31, 2011, should be read in conjunction with the consolidated financial statements and related notes beginning on page F-1.

Consolidated Communications or the Company refers to Consolidated Communications Holdings, Inc. alone or with its wholly owned subsidiaries as the context requires. When this report uses the words we, our, or us, they refer to the Company and its subsidiaries.

Overview

We are an established rural local exchange carrier that provides communications services to residential and business customers in Illinois, Texas and Pennsylvania. We offer a wide range of telecommunications services, including local and long-distance service, high-speed broadband Internet access, standard and high-definition digital television, VOIP, custom calling features, private line services, carrier access services, network capacity services over our regional fiber optic network, directory publishing and CLEC services. We also operate two non-core complementary businesses: telephone services to correctional facilities and equipment sales.

Executive Summary

We generated net income attributable to common stockholders in 2011 of $26.4 million, or $0.88 per diluted share, as compared to net income attributable to common stockholders of $32.6 million, or $1.09 per diluted share, in 2010. Net income in 2011 benefited from increased earnings from our wireless partnerships, lower interest expense, lower bad debt, and lower pension expense. We also used the departure of one of our senior executives as the occasion to conduct a company-wide reorganization. This reorganization created an annual cost savings of $2.3 million of which we started to recognize these benefits in the second quarter of 2011. These ongoing cost reductions have allowed us to mostly offset the declines in revenue. Operating expenses included $2.6 million for our debt refinancing fees, which in accordance with our credit agreement has been treated as an add back to adjusted EBITDA

Revenue in 2011 decreased $9.1 million, or 2.4%, to $374.3 million as compared to $383.4 million in 2010. The decrease in revenue is a result of declines in our traditional wireline businesses, caused primarily from a loss of access lines (which includes local calling services, network access services, subsidies and long-distance services). These declines were partially offset by growth in data, Internet and video revenues. Revenues from our Prison Services business and our wholesale carrier business also increased in 2011 versus 2010.

Subsequent to 2011, we entered into a definitive agreement with SureWest to acquire all of its outstanding shares in a cash and stock transaction for a total consideration valued at approximately $340.9 million, exclusive of debt, based on our February 3, 2012 closing price. See Part I Item 1 Business General .

General

The following general factors should be considered in analyzing our results of operations:

Revenues

Telephone Operations and Other Operations. Our revenues are derived primarily from the sale of voice and data communication services to residential and business customers in our rural telephone companies service areas. Because we operate primarily in rural service areas, we do not anticipate significant growth in revenues in our Telephone Operations segment except through acquisitions. However, we do expect relatively consistent cash flow from year to year because of stable customer demand, an efficient cost structure, and growing earnings from our wireless partnership investments.

Local access lines and bundled services. An access line is the telephone line connecting a home or business to the public switched telephone network. The number of local access lines in service directly affects the monthly recurring revenue we generate from end users, the amount of traffic on our network, the access charges we receive from other carriers, the federal and state subsidies we receive and most other revenue streams. We had 227,992, 237,141 and 247,235 local access lines, respectively, in service as of December 31, 2011, 2010 and 2009.

Most wireline telephone companies have experienced a loss of local access lines due to increased competition from wireless providers, competitive local exchange carriers, cable operators and challenging economic conditions. We have not been immune to these conditions (See Trends and Factors that May Affect Future Operating Results). Since 2008, our competitors have launched competing voice product in our area, which contributed to a spike in our line loss. We estimate that cable companies are now offering voice service to all of their addressable customers, covering 85% of our entire service territory.

In addition, we believe that our VOIP telephone additions are being substituted for our traditional access lines. We expect to continue to experience modest erosion in access lines both due to market forces and through our own cannibalization.

We have been able in some instances to offset the decline in local access lines with increased average revenue per access line by:

Aggressively promoting DSL service, including selling DSL as a stand-alone offering;

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- Value bundling services, such as DSL or IPTV, with a combination of local service and custom calling features;
- Maintaining excellent customer service standards; and
- Keeping a strong local presence in the communities we serve.

We have implemented a number of initiatives to gain new local access lines and retain existing lines by making bundled service packages more attractive (for example, by adding unlimited long-distance), through the use of local measured service with free incoming calls and by announcing special promotions, like discounted second lines. We also market a triple play bundle, which includes local telephone service, DSL and IPTV. As of December 31, 2011, IPTV was available to approximately 212,000 homes in our markets. Our IPTV subscriber base has grown substantially over the last three years and totaled 34,356, 29,236 and 23,127 subscribers at December 31, 2011, 2010 and 2009, respectively.

We also continue to experience substantial growth in the number of DSL subscribers we serve. We had 110,913, 106,387 and 100,122 DSL lines in service as of December 31, 2011, 2010 and 2009, respectively. Currently over 95% of our rural telephone companies local access lines are DSL capable.

In addition to our access line, DSL and video initiatives, we intend to continue to integrate best practices across our markets. We also continue to look for ways to enhance current products and introduce new services to ensure that we remain competitive and continue to meet our customers needs. These initiatives have included:

- Hosted VOIP service in all of our markets to meet the needs of small to medium-sized business customers that want robust functionality without having to purchase a traditional key or PBX phone system;
- VOIP service for residential customers, which is being offered to our customers as a growth opportunity and as an alternative to the traditional phone line for customers who are considering a switch to a cable competitor;
- DSL service even to users who do not have an access line which expands our customer base and creates additional revenue-generating opportunities;
- Metro Ethernet services delivered over our copper infrastructure with speeds of 25 mbps to 40 mbps;
- DSL product with speeds up to 20 mbps for those customers desiring greater Internet speed; and
- High definition video programming, video on demand and DVR recorders in all of our IPTV markets.

These efforts may mitigate the financial impact of any access line loss we experience.

Expenses

Our primary operating expenses consist of cost of services, selling, general and administrative expenses and depreciation and amortization expenses.

Cost of services and products. Our cost of services includes the following:

- Operating expenses relating to plant costs, including those related to the network and general support costs, central office switching and transmission costs, and cable and wire facilities;

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- General plant costs, such as testing, provisioning, network, administration, power and engineering;
- The cost of transport and termination of long-distance and private lines outside our rural telephone companies service area; and
- The cost of programming content used to deliver analog and digital television services.

We have agreements with various carriers to provide long-distance transport and termination services. We believe we will meet all of our commitments in these agreements and will be able to procure services for periods after our current agreements expire. We do not expect any material adverse effects from any changes in any new service contract.

Selling, general and administrative expenses. Selling, general and administrative expenses include selling and marketing expenses; expenses associated with customer care; billing and other operating support systems; and corporate expenses, such as professional service fees and non-cash, stock-based compensation.

Our operating support and back-office systems enter, schedule, provision, and track customer orders; test services and interface with trouble management; and operate inventory, billing, collections, and customer care service systems for the local access lines in our operations. We have migrated most key business processes onto a single Company-wide system and platform. We hope to improve profitability by reducing individual Company costs through centralizing, standardizing, and sharing best practices. We did not incur any integration or restructuring expenses in 2011. Savings from integration and restructuring, along with other cost reduction efforts, have allowed us to offset some of the revenue declines.

Depreciation and amortization expenses.

The provision for depreciation on property and equipment is recorded using the straight-line method based upon the following useful lives:

Years	
Buildings	18 - 40
Network and outside plant facilities	3 - 50
Furniture, fixtures and equipment	3 - 15
Capital leases	11

Amortization expenses are recognized primarily for our intangible assets considered to have finite useful lives on a straight-line basis. In accordance with the applicable authoritative guidance, goodwill and intangible assets that have indefinite useful lives are not amortized but rather are tested at least annually for impairment. Because tradenames have been determined to have indefinite lives, they are not amortized. Customer relationships are amortized over their useful life. The net carrying value of customer lists at December 31, 2011, is being amortized at a weighted-average life of approximately 2.6 years.

Results of Operations

Segments

We have two reportable business segments, Telephone Operations and Other Operations. The results of operations discussed below reflect our consolidated results.

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For the year ended December 31, 2011, compared to December 31, 2010

The following summarizes our revenues and operating expenses on a consolidated basis for the years ended December 31, 2011 and 2010:

	For the years ended December 31,			
	2011		2010	
(in millions, except for percentages)	**$**	**%**	**$**	**%**
Revenue				
Telephone operations				
Local calling services	**86.9**	**23.2**	91.9	24.0
Network access services	**80.5**	**21.5**	81.7	21.3
Subsidies	**45.4**	**12.1**	48.7	12.7
Long-distance services	**15.9**	**4.2**	18.0	4.7
Data, Internet and video services	**80.3**	**21.5**	75.2	19.6
Other services	**33.6**	**9.0**	34.1	8.9
Total telephone operations	**342.6**	**91.5**	349.6	91.2
Other operations	**31.7**	**8.5**	33.8	8.8
Total operating revenue	**374.3**	**100.0**	383.4	100.0
Expenses				
Telephone operations	**194.6**	**52.0**	199.1	51.9
Other operations	**28.4**	**7.6**	31.2	8.2
Depreciation and amortization	**88.7**	**23.7**	87.2	22.7
Total operating expense	**311.7**	**83.3**	317.5	82.8
Income from operations	**62.6**	**16.7**	65.9	17.2
Interest expense, net	**49.4**	**13.2**	50.7	13.2
Other income, net	**28.6**	**7.6**	27.0	7.0
Income tax expense	**14.8**	**3.9**	9.0	2.3
Net income	**27.0**	**7.2**	33.2	8.7
Net income attributable to noncontrolling interest	**0.6**	**0.1**	0.6	0.2
Net income attributable to common stockholders	**26.4**	**7.1**	32.6	8.5

Revenue

Revenue in 2011 declined by $9.1 million, or 2.4%, to $374.3 million from $383.4 million in 2010. The decline in revenue was principally the result of declines in our traditional wireline businesses (which includes local calling services, network access services, subsidies and long-distance services) caused primarily by a loss of access lines. These declines were partially offset by a 6.8% growth in data, Internet and video revenues. DSL and IPTV connections increased significantly in 2011. Revenues from our Prison Services business also increased in 2011 versus 2010. Connections by type are as follows:

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	December 31,	
	2011	**2010**
Residential access lines in service	**137,179**	140,660
Business access lines in service	**90,813**	96,481
Total local access lines in service	**227,992**	237,141
VOIP subscribers	**9,199**	8,640
IPTV subscribers	**34,356**	29,236
ILEC DSL subscribers	**110,913**	106,387
Total broadband connections	**154,468**	144,263
CLEC access line equivalents (1)	**89,774**	81,090
Total connections	**472,234**	462,494
Long-distance lines (2)	**177,610**	172,856

(1) CLEC access line equivalents represent a combination of voice services and data circuits. The calculations represent a conversion of data circuits to an access line basis. Equivalents are calculated by converting data circuits (basic rate interface, primary rate interface, DSL, DS-1, DS-3 and Ethernet) and SONET-based (optical) services (OC-3 and OC-48) to the equivalent of an access line.

(2) Reflects the inclusion of long-distance service provided as part of our VOIP offering while excluding CLEC long-distance subscribers.

Telephone Operations Revenue

Local calling services revenue decreased by $5.0 million, or 5.4%, to $86.9 million in 2011 compared to $91.9 million in 2010. The decrease is primarily due to the decline in local access lines, as discussed under Trends and Factors that May Affect Future Operating Results .

Network access services revenue decreased by $1.2 million, or 1.5%, to $80.5 million in 2011 compared to $81.7 million in 2010. The decrease is primarily due to a decline in switched access revenue as a result of a decrease in minutes of use and lower subscriber line charge revenue due to access line loss. These factors were partially offset by an increase in special access revenue.

Subsidy revenue decreased by $3.3 million, or 6.8%, to $45.4 million in 2011 compared to $48.7 million in 2010. The decrease was principally the result of a reduction in the amount of Federal interstate high cost fund support we received, and, to a lesser extent, a decrease in Federal interstate common line revenue.

Long-distance services revenue decreased by $2.1 million, or 11.7%, to $15.9 million in 2011 as compared to $18.0 million in 2010. The decrease is primarily due to a decline in the number of access lines and billable minutes, as customers increasingly shift to our unlimited long distance calling plan.

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Data, Internet and video revenue increased by $5.1 million, or 6.8%, to $80.3 million in 2011 as compared to $75.2 million in 2010. The increase is primarily due to an increase in DSL, IPTV and Digital telephone subscribers.

Other services revenue decreased by $0.5 million, or 1.5%, to $33.6 million in 2011 as compared to $34.1 million in 2010. Directory revenues declined and were offset by increases in transport revenues.

Other Operations Revenue

Other Operations revenue decreased by $2.1 million, or 6.2%, to $31.7 million in 2011 as compared to $33.8 million in 2010. The sale of our CMR and Operator Services business units in 2010 accounted for $4.9 million of the year over year decline in revenue. A gain in revenue from our Prison Services business partially offset some of this decline.

Operating Expenses

Operating expenses decreased in 2011 by $7.3 million, or 3.2%, to $223.0 million as compared to $230.3 million in 2010. Reductions in operating expenses by segment are discussed below. Reductions in operating expenses have allowed us to mostly offset revenue declines.

Telephone Operations Operating Expenses

Operating expenses for Telephone Operations decreased by $4.5 million, or 2.3%, to $194.6 million in 2011 as compared to $199.1 million in 2010. The decrease in operating expenses was the result of lower pension, benefit, and bad debt expenses when compared to 2010 operating expenses, as well as decreased rent expense due to the renegotiated terms on our leases.

Other Operations Operating Expenses

Operating expenses for Other Operations decreased by $2.8 million, or 9.0%, to $28.4 million in 2011 as compared to $31.2 million in 2010. The decrease in Other Operations expenses was primarily the result of the reduced operating expenses related to the sale of our CMR and Operator Services business units in 2010. These decreases were partially offset by an increase in operating expenses related to revenue growth in our Prison Services business.

Depreciation and Amortization

Depreciation and amortization expenses increased by $1.5 million, or 1.7%, to $88.7 million in 2011 compared to $87.2 million in 2010. The increase in depreciation and amortization is principally due to increased amortization related to the capitalization of our leased buildings in 2010.

Interest Expense, Net of Interest Income

Interest expense, net of interest income, decreased by $1.3 million, or 2.6%, to $49.4 million in 2011 compared to $50.7 million in 2010. Interest expense in 2011 benefited from the September 30, 2011 expiration of $200 million of fixed interest rate swaps as the fixed rates paid on the swaps were at a significantly higher rate than the rates we received in return, as well as lower overall interest rates in general. Interest expense in 2010 benefited from the reversal of $1.4 million of interest expense related to uncertain tax positions for which the statute of limitations expired on September 15, 2010. Had this reversal in 2010 not occurred, our 2011 interest expense would have shown a larger decrease when comparing 2011 to 2010.

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Other Income (Expense)

Other income (expense) increased $1.6 million to $28.6 million in 2011 compared to $27.0 million in 2010. The 2011 increase was principally due to improved earnings from our wireless partnerships and $0.6 million of net proceeds from a key-man life insurance policy in September 2011 relating to the passing of a former North Pittsburgh employee.

Income Taxes

Our provision for income taxes increased by $5.8 million to $14.8 million in 2011 compared to $9.0 million in 2010. The effective tax rate was 35.5% for 2011 and 21.3% for 2010.

During 2011 and 2010, we recorded a decrease of $0.3 million and a net decrease of $4.6 million to our unrecognized tax benefits, respectively, which reduced our tax expense by a corresponding amount. The 2011 decrease related to the expiration of a federal statute of limitations and the 2010 net decrease included a $5.4 million decrease due to the expiration of a federal statute of limitations and an increase of $1.2 million related to 2009 state income tax filings with a corresponding $0.4 million of related federal deferred tax asset. We also recognized $69 thousand of tax expense in 2011 to adjust our 2010 provision to match our 2010 returns compared to $0.3 million of tax benefit in 2010 to adjust our 2009 provision to match our 2009 returns. In January 2011, Illinois Governor signed into law PA. 96-1496. Included as part of the law was an increase in the corporate income tax rate. This resulted in an increase to our net state deferred tax liabilities and a corresponding increase to our state tax provision of $0.3 million which we recognized in the first quarter of 2011. In addition, as a result of state tax planning and changes to our state tax reporting structure, we had a net decrease in our state deferred income tax rate. This change in the state deferred income tax rate resulted in a $0.6 million of tax benefit in 2010 due to applying a lower effective deferred income tax rate to previously recorded tax liabilities.

Exclusive of these adjustments, our effective tax rate would have been 35.2% for the year ended December 31, 2011, compared to 34.3% for the year ended December 31, 2010.

Net Income Attributable to Noncontrolling Interest

The net income attributable to noncontrolling interest remained flat at $0.6 million in 2011 and in 2010, respectively.

For the year ended December 31, 2010, compared to December 31, 2009

The following summarizes our revenues and operating expenses on a consolidated basis for the years ended December 31, 2010 and 2009:

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	For the years ended December 31,			
	2010		2009	
(in millions, except for percentages)	**$**	**%**	**$**	**%**
Revenue				
Telephone operations				
Local calling services	**91.9**	**24.0**	97.2	23.9
Network access services	**81.7**	**21.3**	86.3	21.3
Subsidies	**48.7**	**12.7**	56.0	13.8
Long-distance services	**18.0**	**4.7**	20.4	5.0
Data, Internet and video services	**75.2**	**19.6**	68.1	16.8
Other services	**34.1**	**8.9**	36.6	9.0
Total telephone operations	**349.6**	**91.2**	364.6	89.8
Other operations	**33.8**	**8.8**	41.6	10.2
Total operating revenue	**383.4**	**100.0**	406.2	100.0
Expenses				
Telephone operations	**199.1**	**51.9**	211.1	52.0
Other operations	**31.2**	**8.2**	39.2	9.6
Depreciation and amortization	**87.2**	**22.7**	85.2	21.0
Total operating expense	**317.5**	**82.8**	335.5	82.6
Income from operations	**65.9**	**17.2**	70.7	17.4
Interest expense, net	**50.7**	**13.2**	57.9	14.3
Other income, net	**27.0**	**7.0**	25.5	6.3
Income tax expense	**9.0**	**2.3**	12.4	3.0
Net income	**33.2**	**8.7**	25.9	6.4
Net income attributable to noncontrolling interest	**0.6**	**0.2**	1.0	0.3
Net income attributable to common stockholders	**32.6**	**8.5**	24.9	6.1

Revenue

Revenue in 2010 declined by $22.8 million, or 5.6%, to $383.4 million from $406.2 million in 2009. The decline in revenue was principally the result of the sale of our CMR and Operator Services businesses during 2010 and declines in our traditional wireline businesses (which includes local calling services, network access services, subsidies and long-distance services) caused primarily by a loss of access lines. The year over year decline in revenues as a result of the sale of CMR and Operator Services totaled $10.2 million. Excluding the impact on revenue from the sale of these business units, year-over-year revenues decreased by only 3.2%. These declines were partially offset by a double digit percentage growth in data, Internet and video revenues. DSL and IPTV connections increased significantly in 2010. Revenues from our Prison Services business also increased in 2010 versus 2009. Connections by type are as follows:

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	December 31, 2010	December 31, 2009
Residential access lines in service	**140,660**	146,766
Business access lines in service	**96,481**	100,469
Total local access lines in service	**237,141**	247,235
VOIP subscribers	**8,640**	8,665
IPTV subscribers	**29,236**	23,127
ILEC DSL subscribers	**106,387**	100,122
Total broadband connections	**144,263**	131,914
CLEC access line equivalents (1)	**81,090**	72,681
Total connections	**462,494**	451,830
Long-distance lines (2)	**172,856**	165,714

(1) CLEC access line equivalents represent a combination of voice services and data circuits. The calculations represent a conversion of data circuits to an access line basis. Equivalents are calculated by converting data circuits (basic rate interface, primary rate interface, DSL, DS-1, DS-3 and Ethernet) and SONET-based (optical) services (OC-3 and OC-48) to the equivalent of an access line.

(2) Reflects the inclusion of long-distance service provided as part of our VOIP offering while excluding CLEC long-distance subscribers.

Telephone Operations Revenue

Local calling services revenue decreased by $5.3 million, or 5.5%, to $91.9 million in 2010 compared to $97.2 million in 2009. The decrease is primarily due to the decline in local access lines, as discussed under Trends and Factors that May Affect Future Operating Results .

Network access services revenue decreased by $4.6 million, or 5.3%, to $81.7 million in 2010 compared to $86.3 million in 2009. The decrease is primarily due to a decline in switched access revenue as a result of a decline in minutes of use. In addition, we experienced a decrease in subscriber line charge revenue due to access line loss.

Subsidy revenue decreased by $7.3 million, or 13.0%, to $48.7 million in 2010 compared to $56.0 million in 2009. The decrease was principally the result of a reduction in the amount of interstate high cost fund support we received, and, to a lesser extent, access line loss for interstate common line revenue.

Long-distance services revenue decreased by $2.4 million, or 11.8%, to $18.0 million in 2010 as compared to $20.4 million in 2009. The decrease is primarily due to a decline in billable minutes as customers increase their use of wireless devices for long-distance calls and move to unlimited long-distance plans.

Data, Internet and video revenue increased by $7.1 million, or 10.4%, to $75.2 million in 2010 as compared to $68.1 million in 2009. The increase is primarily due to continued growth in the number of DSL and IPTV subscribers, along with higher fees related to the expansion of additional services such as video on demand and higher DSL speeds.

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Other services revenue decreased by $2.5 million, or 6.8%, to $34.1 million in 2010 as compared to $36.6 million in 2009. The decrease is primarily due to a reduction in revenue related to our transport business along with a decrease in other miscellaneous services such as inside wire maintenance, billing and collections and finance charges.

Other Operations Revenue

Other Operations revenue decreased by $7.8 million, or 18.8%, to $33.8 million in 2010 as compared to $41.6 million in 2009. The sale of our CMR and Operator Services business units negatively affected revenue by $10.2 million year over year. A gain in revenue from our Prison Services business partially offset some of this decline.

Operating Expenses

Operating expenses decreased in 2010 by $20.0 million, or 8.0%, to $230.3 million as compared to $250.3 million in 2009. Reductions in operating expenses by segment are discussed below. Reductions in operating expenses have allowed us to mostly offset revenue declines.

Telephone Operations Operating Expenses

Operating expenses for Telephone Operations decreased by $12.0 million, or 5.7%, to $199.1 million in 2010 as compared to $211.1 million in 2009. The overall decrease in operating expenses was principally the result of $7.4 million of integration expenses incurred in 2009 with no equivalent amounts incurred in 2010, along with lower pension, postretirement and professional fee expenses in 2010. These decreases in operating expense were partially offset by higher bad debt expense related to an increase in the number of IPTV subscribers and an increase in intercarrier access disputes. As our IPTV subscriber base increases, we expect to see corresponding increases in bad debt. Our cost structure continues to benefit from previous integration and cost reduction efforts from prior years.

Other Operations Operating Expenses

Operating expenses for Other Operations decreased by $8.0 million, or 20.4%, to $31.2 million in 2010 as compared to $39.2 million in 2009. The decrease in Other Operations expenses was primarily the result of the elimination of $11.0 million of operating expenses related to the sale of our CMR and Operator Services business units in 2010. These decreases were partially offset by an increase in operating expenses related to revenue growth in our Prison Services business.

Depreciation and Amortization

Depreciation and amortization expenses increased by $2.0 million, or 2.3%, to $87.2 million in 2010 compared to $85.2 million in 2009. The increase in depreciation and amortization is principally due to increased spending on video equipment which has a relatively shorter depreciation life.

Interest Expense, Net of Interest Income

Interest expense, net of interest income, decreased by $7.2 million, or 12.4%, to $50.7 million in 2010 compared to $57.9 million in 2009. Interest expense in 2010 benefited from the expiration during 2009 of $135 million of fixed interest rate swaps as the fixed rates paid on the swaps were at a significantly higher rate than the rates we received in return, as well as lower overall interest rates in general. Interest expense in 2010 also benefited from the reversal of $1.4 million of interest expense related to uncertain tax positions for which the statute of limitations expired on September 15, 2010.

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Other Income (Expense)

Other income (expense) increased $1.5 million to $27.0 million in 2010 compared to $25.5 million in 2009. The 2010 increase was principally due to improved earnings from our wireless partnerships. Other income (expense) in 2009 was positively affected by a gain of $1.8 million from the reversal of a previously established reserve in excess of the settlement amount of a dispute with Verizon.

Income Taxes

Our provision for income taxes decreased by $3.4 million to $9.0 million in 2010 compared to $12.4 million in 2009. The effective tax rate was 21.3% for 2010 and 32.3% for 2009.

The effective rate was lower in 2010 primarily due to changes in unrecognized tax benefits. During 2010, we recognized a net $4.2 million decrease in our liability for uncertain tax positions which reduced our tax expense for the year by a corresponding amount. The net decrease included a $5.4 million decrease due to the expiration of a federal statute of limitation and an increase of $1.2 million related to 2009 state income tax filings with a corresponding $0.4 million of related federal deferred tax asset. We also recognized $0.3 million of tax benefit in 2010 from adjusting our 2009 provision to match our 2009 returns versus $0.9 million of tax benefit in 2009 from adjusting our 2008 provision to match our 2008 returns. In addition, as a result of state tax planning and changes to our state tax reporting structure, we had a net decrease in our state deferred income tax rate. This change in the state deferred income tax rate resulted in a $0.6 million of tax benefit in 2010 compared to a $1.0 million tax benefit in 2009 due to applying a lower effective deferred income tax rate to previously recorded tax liabilities. In addition, various prior year returns were amended and filed in 2009, resulting in a $0.5 million state tax benefit.

Exclusive of these adjustments, our effective tax rate would have been 34.3% for the year ended December 31, 2010, compared to 36.2% for the year ended December 31, 2009.

Net Income Attributable to Noncontrolling Interest

The net income attributable to noncontrolling interest totaled $0.6 million in 2010 versus $1.0 million in 2009. The income for our ETFL subsidiary declined due to a reduction in revenue.

Trends and Factors that May Affect Future Operating Results

Growth of data, Internet and video services

We continue to expand the deployment of our broadband and IPTV services. Our business plan is focused on growing revenues by expanding the number of customers who subscribe to our Internet and IPTV services. As of December 31, 2011, we have passed approximately 212,000 homes with our IPTV service and over 96% of our connections are DSL capable at speeds of 3 mbps, 91% at 6 mbps, 82% at 10 mbps, and 51% at 20 mbps. We expect to continue increasing the percentage of households in our territories who subscribe to these services. We also expect to continue working with our vendors to improve the requisite hardware and software technology. If we are unable to continue to increase the penetration of our Internet and video services, our future revenues, cash flows and results of operations may suffer.

Although we expect revenues from data, Internet and video services to grow substantially, this business typically generates lower margins than our traditional wireline business (primarily due to the

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lack of subsidies for this revenue stream). As a result, as we replace traditional wireline revenue with revenue from data, Internet and video services, our margins may decline. See Results of Operations .

Loss of Access Lines

Most wireline telephone companies have experienced a loss of local access lines due to increased competition from wireless providers, cable television operators, competitive local exchange carriers and challenging economic conditions. We have not been immune to these conditions. In 2011 and 2010, our number of access lines decreased by 9,149 and 10,094, respectively. The number of local access lines in service directly affects the monthly recurring revenue we generate from end-users, the amount of traffic on our network, the access charges we receive from other carriers, the federal and state subsidies we receive, and most other revenue streams. We expect this trend to continue although on a declining scale. The continued decline in local access lines will have a negative impact on our future cash flow and results of operations.

Competition and Regulation

Technological, regulatory and market changes have provided us both new opportunities and challenges. These changes have allowed us to offer new types of services in an increasingly competitive market. At the same time, they have allowed other service providers to broaden the scope of their own competitive offerings. Current and potential competitors for network services include other telephone companies, cable companies, wireless service providers, satellite providers, Internet service providers, providers of VOIP services and other companies that offer network services using a variety of technologies. Many of these companies have a strong market presence, brand recognition and existing customer relationships, all of which contribute to intensifying competition and may affect our future revenue growth. Many of our competitors also remain subject to fewer regulatory constraints than us. We are unable to predict definitively the impact that the ongoing changes in the telecommunications industry will ultimately have on our business, results of operations or financial condition. The financial impact will depend on several factors, including the timing, extent and success of competition in our markets, the timing and outcome of various regulatory proceedings and any appeals, and the timing, extent and success of our pursuit of new opportunities.

As more fully discussed under the caption the Regulatory Overview, on November 18, 2011, the FCC released its comprehensive order on Access Charge and Universal Service Reform (see Part I Item 1 Business Regulatory Environment - FCC Access Charge and Universal Service Reform Order). The order is effective January 1, 2012 and will be phased in over a six and a half year period. For 2011, federal subsidies accounted for 6.5% and switched terminating access accounted for 3.5% of consolidated revenue, respectively. The Company is still evaluating the Order, but currently expects the impact to be neutral to slightly positive in 2012 to and dilutive in 2013 and beyond. However, even in 2013 and beyond, the Company expects the net impact, including lower access costs, will be slightly better than the historical rate of decline in regulated revenues. This assumes that the FCC does not change the order based on the appeals filed by the state commissions and carriers including Consolidated.

Summary of Critical Accounting Policies

We base this discussion and analysis of our results of operations, cash flow and financial condition on our consolidated financial statements, which have been prepared in accordance with U.S. GAAP.

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Goodwill and other intangible assets

Goodwill

The FASB accounting guidance related to goodwill and other intangible assets that have indefinite useful lives requires us to perform an assessment, no less than annually, of the carrying value of goodwill associated with each of our reporting units. The goodwill impairment analysis is a two-step process. The first step identifies potential impairment by comparing each reporting unit s estimated fair value to its carrying value, including goodwill. To calculate the reporting unit s fair value, we utilize both a discounted cash flow approach as well as a market approach. Significant management judgment is required in developing the assumptions used in the discounted cash flow model. These significant assumptions include increases or decreases in growth rates for revenues and expenses, expected amounts for future capital expenditures, working capital needs, and discount rates (weighted-average cost of capital (WACC)). If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is deemed not to be impaired. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and a second step is performed to measure the amount of any potential impairment.

The second step of the process involves the calculation of an implied fair value of goodwill for each reporting unit for which step one indicated potential impairment. The implied fair value of goodwill is determined by deducting the estimated fair value of all assets and liabilities of the reporting unit determined based on a hypothetical purchase price allocation from the fair value of the reporting unit determined in step one. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded to write down the carrying value of goodwill to the implied fair value.

Segment management evaluates the operations of the telephone operations segment on a consolidated basis rather than at a geographic level. In general, product managers and cost managers are responsible for managing costs and services across territories rather than treating the territories as separate business units. The operations of our Illinois, Texas and Pennsylvania properties share network operations monitoring, call routing, remittance, customer service, billing systems and research and development costs. In addition, the Pennsylvania territories receive their video programming from a video head-end located in the Illinois territory, and all of the networks provide redundancy. As a result the Telephone Operations of our Illinois, Texas and Pennsylvania territories and our Pennsylvania CLEC operations are included in a single reporting unit, Telephone Operations.

The only reporting units in the Other Operations segment which have a goodwill intangible balance are our Prison Services and Business Systems entities. The carrying value of the goodwill by reporting unit as of December 31, 2011 is:

Telephone operations	$	519.5 million
Prison Services	$	0.2 million
Business Systems	$	0.8 million

We perform our annual assessment of the carrying value of goodwill as of November 30 of each year, or more frequently if circumstances arise which would indicate a reduction in the fair value of a reporting unit below its carrying value. Each year, we determine the estimated fair value of each of our reporting units using a discounted cash flow model. Our 2011, 2010 and 2009 impairment testing did not result in any impairment of any reporting units.

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The discount rate, sales growth and profitability assumptions are material assumptions utilized in our discounted cash flow model. The discount rate is an after-tax WACC. The WACC is calculated based on observable market data. Some of this data (such as the risk free or treasury rate and the pretax cost of debt) are based on the market data at a point in time. Other data (such as beta and the equity risk premium) are based upon market data over time. Sales growth rates and profitability assumptions are aligned with our long-term strategic planning process and reflect the best estimate of future results based on all information available to us at the assessment date.

The WACC used in our discounted cash flow model was 7.87% at November 30, 2011. Holding all other inputs in our model constant, we could increase the WACC rate to approximately 9.61% without the reporting unit s calculated fair value falling below its carrying value. In addition, the calculated fair value of our reporting units could decrease by approximately 16% without falling below the carrying value.

Our discounted cash flow model assumes that our broadband (both Internet and IPTV), carrier wholesale businesses and wireless partnerships continue to grow, mostly offsetting projected continued declines in the wireline telephone business. We have assumed fairly flat operating expenses for the projection period. As a result, our model assumes moderate margin compression as higher margin revenues generated from local access lines are being replaced by lower margin revenues from DSL, IPTV, VOIP and other products. For the reporting units in our Other Operation segment, we assumed flat to slightly growing revenue and expenses. This mostly results in steady margins, which is consistent with the recent operations of these businesses. Despite these conservative assumptions, our analysis continues to conclude that there is no impairment of the carrying value of our goodwill in any of our reporting units.

We also evaluated the carrying value of our reporting units using a market approach. In applying this methodology, we looked at prior transactions involving other comparable RLECs and the market multiples which were paid relative to enterprise value. This approach confirmed the indicative fair values under the discounted cash flow approach.

In the course of operating the business, should our assumptions not be realized, we would generally attempt to offset any unexpected revenue declines with proportional reductions in our cost structure, including cost of services and products and selling, general and administrative expenses.

Other Intangible Assets

Intangible assets, other than goodwill, not being amortized are also reviewed for impairment as part of our annual business planning cycle in the fourth quarter or whenever events or circumstances make it more likely than not that an impairment may have occurred. Several factors could trigger an impairment review, including:

- A change in the use or perceived value of our tradenames;
- Significant underperformance relative to historical or projected future operating results;
- Significant regulatory changes that would impact future operating revenues;

- Significant changes in our customer base;
- Significant negative industry or economic trends; or
- Significant changes in the overall strategy we employ to operate our business.

We determine if impairment exists primarily based on a method that uses discounted cash flows. This requires management to make certain assumptions regarding future income, royalty rates, and

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discount rates, all of which would affect our impairment calculation. Our 2011 review did not result in any impairment.

Revenue recognition

Revenue is recognized when evidence of an arrangement exists, the earnings process is complete, and collectability is reasonably assured. Marketing incentives, including bundle discounts, are recognized as revenue reductions in the period the service is provided.

Local calling services, enhanced calling features, special access circuits, long-distance flat-rate calling plans and most data services (including DSL and IPTV) are billed to end-users in advance. Billed but unearned revenue is deferred and recorded in advance billings and customer deposits.

Revenues for usage-based services, such as per-minute long-distance service and access charges billed to other telephone carriers for originating and terminating long-distance calls on our network, are billed in arrears. We recognize revenue from these services in the period the services are rendered rather than billed. Earned but unbilled usage-based services are recorded in accounts receivable.

Subsidies, including universal service revenues, are government-sponsored support to subsidize services in mostly rural, high-cost areas. These revenues typically are based on information provided by the Company and are calculated by the administering government agency. Subsidies are recognized in the period the service is provided.

Telephone equipment revenues generated from retail channels are recorded at the point of sale. Telecommunications systems and structured cabling project revenues are recognized when the project is completed and billed. Maintenance services are provided on both a contract and time and material basis and are recorded when the service is provided. Print advertising and publishing revenues are recognized ratably over the life of the related directory, generally 12 months.

The Company reports taxes imposed by governmental authorities on revenue-producing transactions between the Company and its customers on a net basis.

Derivatives

We have designated derivative contracts as cash flow hedges which will convert a portion of future cash flows associated with the interest to be paid on our credit facility from a floating rate to a fixed rate. The change in the market value of these derivative contracts is highly effective at offsetting changes in interest rate movements of our hedged item. Gains and losses arising from the change in fair value of the hedging transactions are deferred in other comprehensive income, net of applicable income taxes, and recognized as a component of interest expense in the period in which the hedged item affects earnings. Any ineffectiveness is recognized immediately in earnings. If the derivative instruments used would no longer be effective at offsetting changes in the price of the hedged item, then the changes in the market value of these instruments would be recorded in the statement of operations as a component of interest expense.

Our interest rate swaps are measured using an internal valuation model which relies on an expected LIBOR-based yield curve and estimates of counterparty and our 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 considered these interest rate swaps to be within Level 2 in the fair value hierarchy.

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Income taxes

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

Subsidies revenues

We recognize revenues from universal service subsidies and charges to inter-exchange carriers for switched and special access services. In certain cases, our rural telephone companies participate in interstate revenue and cost-sharing arrangements, referred to as pools, with other telephone companies. Pools are funded by charges imposed by participating companies on their respective customers. The revenue we receive from our participation in pools is based on our actual cost of providing interstate services. These costs are not precisely known until special jurisdictional cost studies are completed generally during the second quarter of the following year.

Allowance for uncollectible accounts

We use estimates and assumptions when evaluating the collectability of our accounts receivable. When we are aware that a specific customer is unable to meet its financial obligations, such as following a bankruptcy filing or substantial downgrading of credit scores, we record a specific allowance against amounts due to set the net receivable to an amount we believe we can collect. For all other customers, we generally reserve an amount based upon a rolling four month average of actual write-offs. If circumstances change, we may review the adequacy of the allowance to determine if we should modify our estimates of the recoverability of amounts due us by a material amount. At December 31, 2011 and 2010, our total allowance for uncollectible accounts for all business segments was $2.5 million and $2.7 million, respectively.

Pension and postretirement benefits

The amounts recognized in our financial statements for pension and postretirement benefits are determined on an actuarial basis utilizing several critical assumptions.

We make significant assumptions in regards to our pension and postretirement plans, including the expected long-term rate of return on plan assets and the discount rate used to value the periodic pension expense and liabilities. Our pension investment strategy is to maximize long-term returns on invested plan assets while minimizing the risk of volatility. Accordingly, we target our allocation percentage at 60% in equity funds, with the remainder in fixed income and cash equivalents. Our assumed rate considers this investment mix as well as past trends. We used a weighted-average expected long-term rate of return of 7.5% in 2011 and 2010, respectively. In determining the appropriate discount rate, we consider the current yields on high-quality corporate fixed-income investments with maturities that correspond to the expected duration of our pension and postretirement benefit plan obligations. For our 2011 and 2010 projected benefit obligations, we used a weighted-average discount rate of 5.35% and

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5.86%, respectively, for our pension plans and 5.22% and 5.58%, respectively, for our other postretirement plans.

Net pension and postretirement costs were $4.0 million, $5.6 million and $8.5 million for the years ended December 31, 2011, 2010 and 2009, respectively. In 2011, we contributed $9.5 million to our qualified pension plan, $0.1 million to our non-qualified pension plan, $3.6 million to our other post retirement plans and $2.5 million to our 401(k) plan. In 2010, we did not make a contribution to our qualified pension plan but contributed $2.4 million to our 401(k) plan and $2.6 million to our other postretirement plans. In 2009, we contributed $10.5 million to our qualified pension plan and $2.8 million to our other postretirement plans. In 2012, we expect to make contributions totaling approximately $12.6 million to our qualified pension plan, $0.1 million to our non-qualified pension plan, $2.5 million to our 401(k) plan and $2.6 million to our other postretirement plans. Our contribution amounts meet the minimum funding requirements as set forth in employee benefit and tax laws.

Liquidity and Capital Resources

Outlook and Overview

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

	December 31,	
(In thousands)	**2011**	**2010**
Cash and cash equivalents	$ **105,704**	$ 67,654
Working capital	**83,040**	60,658
Total debt	**884,711**	884,125
Current ratio	**1.97**	1.80

Our operating requirements have historically been funded from cash flows generated from our business and borrowings under our credit facilities. We expect that our future operating requirements will continue to be funded from cash flows generated from our business and, if needed, from borrowings under our revolving credit facility.

As a general matter, we expect that our liquidity needs for 2012 will arise primarily from: (i) an expected dividend payment of $46.0 million to $47.0 million; (ii) interest payments on our indebtedness of approximately $44.0 million to $46.0 million; (iii) capital expenditures of $42.0 million to $44.0 million; (iv) cash income tax payments of $15.0 million to $18.0 million; (v) 401(k), pension and other postretirement plan contributions of approximately $17.8 million; and (vi) certain other costs. In addition we currently expect to use between $35.0 to $40.0 million in cash from the balance sheet to help fund our acquisition of SureWest which we expect to close in the third or fourth quarter of 2012. However, our ability to use cash may be limited by our other expected uses of cash, including our dividend policy, and our ability to incur additional debt will be limited by our existing and future debt agreements.

While we expect the SureWest acquisition to be de-levering, it will be necessary for us to take on additional debt to fund the transaction. See Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Credit Facilities . We believe that cash flows from operating activities, together with our existing cash and borrowings available under our revolving credit facility, and committed acquisition financing for SureWest, will be sufficient for at least the next 12 months to fund our currently anticipated uses of cash. After that, our ability to fund these expected uses of cash and to comply with the financial covenants under our debt agreements will depend on the results of future operations, performance and cash flow. Our ability to do so will be

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subject to prevailing economic conditions and to financial, business, regulatory, legislative and other factors, many of which are beyond our control.

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

To the extent that our business plans or projections change or prove to be inaccurate, we may require additional financing or require financing sooner than we currently anticipate. Sources of additional financing may include commercial bank borrowings, other strategic debt financing, sales of nonstrategic assets, vendor financing or the private or public sales of equity and debt securities. There can be no assurance that we will be able to generate sufficient cash flows from operations in the future, that anticipated revenue growth will be realized, or that future borrowings or equity issuances will be available in amounts sufficient to provide adequate sources of cash to fund our expected uses of cash. Failure to obtain adequate financing, if necessary, could require us to significantly reduce our operations or level of capital expenditures which could have a material adverse effect on our financial condition and the results of operations.

As discussed below, our term loan has been fully funded at a fixed spread above LIBOR, and we have $50 million available under our revolving credit facility. Based on our discussion with banks participating in the bank group, we expect that the funds will be available under the revolving credit facility if necessary.

Sources of Liquidity

Our current principal sources of liquidity are cash, cash equivalents, cash available under our secured revolving credit facility, cash provided by operations and working capital.

Cash and cash equivalents. Cash and cash equivalents in 2011 increased by $38.0 million to $105.7 million compared to $67.7 million in 2010. The increase for 2011 is primarily due to better collections on our customer receivables, lower interest payments, and higher cash distributions from our wireless partnerships. Also, in 2010 we made a cash distribution to a noncontrolling interest that is made on a discretionary basis.

Cash provided by operations. Net cash provided by operating activities in 2011 was $130.2 million, as compared to cash provided by operating activities of $115.0 million in 2010. Cash provided by operations in 2011 increased primarily as a result of better operating performance, including increase in cash provided from our wireless partnerships and lower operating expenses and lower interest expense.

Working capital. Our net working capital position increased by $22.4 million in 2011 versus 2010. Our improved working capital position in 2011 is principally the result of the increase in cash and cash equivalents as noted above.

Cash available under our secured revolving credit facility. At December 31, 2011 and 2010, we had no borrowings or letters of credit outstanding under our secured revolving credit facility and $50 million of availability (see a more detailed description of our secured revolving credit facility below).

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Uses of Liquidity

Our principal uses of liquidity are dividend payments, interest expense and other payments on our debt, capital expenditures and payments made to fund our pension and other postretirement obligations.

Dividend payments. During 2011, we used $46.3 million of cash to make dividend payments to shareholders. In 2010, we used $46.2 million of cash to make dividend payments to shareholders. The increase in dividend payments is the result of the issuance of restricted stock under our long-term incentive plan. Our current annual dividend rate is approximately $1.55 per share.

Interest and other payments related to outstanding debt. During 2011, we used $47.2 million of cash to make required interest payments on our outstanding debt, including payments to settle swap liabilities. We also used $0.1 million of cash during 2011 to reduce our capital lease obligations. During 2010, we used $50.2 million of cash to make required interest payments on our outstanding debt, including payments to settle swap liabilities. We also used $0.4 million of cash during 2010 to reduce our capital lease obligations.

Pension and postretirement obligations. During 2011, we used $15.5 million of cash to fund pension, 401(k) and other postretirement plans. During 2010, we used $5.0 million of cash to fund pension, 401(k) and other postretirement obligations. In 2012, we expect to make payments totaling $17.8 million in contributions for pension, 401(k) and other postretirement plans. The increase in contributions in 2011 relates primarily to minimum contribution requirements for our qualified pension plans and a higher level of estimated payments for other postretirement benefits.

Capital expenditures. During 2011, we spent approximately $42.6 million on capital projects. In 2010, we spent approximately $41.7 million on capital projects.

Debt

The following table summarizes our indebtedness as of December 31, 2011:

(in thousands)		**Balance**	**Maturity Date**	**Rate (1)**
Capital leases	$	4,711	May 31, 2021	5.5%
Revolving credit facility			June 8, 2016	LIBOR plus 3.25%
Term loan	$	470,948	December 31, 2014	LIBOR plus 2.50%
Term loan	$	409,052	December 31, 2017	LIBOR plus 3.75%

(1) As of December 31, 2011, the 1-month LIBOR in effect on our borrowings was 0.295%.

Credit Facilities

Borrowings under our credit facilities are our senior, secured obligations that are secured by substantially all of the assets of the borrower, Consolidated Communications, Inc., and the guarantors (the Company and each of the existing subsidiaries of Consolidated Communications, Inc. other than Illinois Consolidated Telephone Company). The credit agreement contains customary affirmative covenants, which require us and our subsidiaries to furnish specified financial information to the lenders, comply with applicable laws, maintain our properties and assets and maintain insurance on our properties, among others, and contains customary negative covenants which restrict our and our subsidiaries ability to incur additional debt and issue capital stock, create liens, repay other debt, sell assets, make investments, loans, guarantees or advances, pay dividends, repurchase equity interests or make other restricted payments,

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engage in affiliate transactions, make capital expenditures, engage in mergers, acquisitions or consolidations, enter into sale-leaseback transactions, amend specified documents, enter into agreements that restrict dividends from subsidiaries and change the business we conduct. In addition, the credit agreement requires us to comply with specified financial ratios that are summarized below under Covenant Compliance .

Our $880 million term loan credit facility is made up of two separate tranches, resulting in different maturity dates and interest rate margins for each term loan tranche. The first term loan tranche consists of $470.9 million aggregate principal amount, matures on December 31, 2014 and has an applicable margin (at our election) equal to either 2.50% for a LIBOR-based term loan or 1.50% for an alternative base rate loan. The second term loan tranche consists of $409.1 million aggregate principal amount, matures on December 31, 2017 and has an applicable margin (at our election) equal to either 3.75% for a LIBOR-based term loan or 2.75% for an alternative base rate term loan. The applicable margins for each of the term loan tranches are fixed for the duration of the loans.

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 of 4.55:1 at December 31, 2011, the borrowing margin for the next three month period ending March 31, 2012 will be at a weighted-average margin of 3.25% for a LIBOR-based loan or 2.25% for an alternative base rate loan.

For the year ended December 31, 2011, the weighted-average interest rate incurred on our credit facilities, including the effect of our interest rate swaps, was 5.37% per annum.

Effective February 17, 2012, in connection with the acquisition financing for the SureWest transaction, we amended our credit facility. The amendment provides us with the ability to escrow proceeds from a high-yield note offering prior to closing the acquisition and, until closing, excludes the debt from current leverage calculations. The amendment also permits us additional flexibility for future high yield notes issuances with the same subsidiary guarantees as the current credit facility. All other terms, coverage and leverage ratios were unchanged.

Derivative Instruments

The Company currently uses derivatives only to hedge the variable cash flows of future interest payments on long-term debt. To the extent a derivative qualifies as a cash flow hedge, the gain or loss associated with the effective portion is recorded as a component of Accumulated Other Comprehensive Income (Loss) and any ineffectiveness is recorded immediately in earnings. Changes in the fair value of derivatives that do not meet the criteria for hedge accounting are recognized in the consolidated statements of operations. Fair value is determined based on publicly available interest rate yield curves and an estimate of our nonperformance risk or our counterparty s nonperformance credit risk, as applicable. We do not anticipate any nonperformance by any counterparty. 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.

At December 31, 2011, we had $300 million notional amount of floating to fixed interest rate swap agreements outstanding and $230 million notional amount of basis swaps outstanding. The swaps are in place to hedge the change in overall cash flows related to our term loan, the driver of which is changes in the underlying variable interest rate.

The $230 million notional amount of floating to fixed swap agreements outstanding are setup whereby we receive 3-month LIBOR-based interest payments from the swap counterparties and pay a

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fixed rate. The basis swap agreements are structured so that we pay 3-month LIBOR-based payments less a fixed percentage to the basis swap counterparties, and receive 1-month LIBOR. Concurrent with the execution of the basis swaps, we began electing 1-month LIBOR resets on our credit facility.

The $300 million notional amount of floating to fixed interest rate swap agreements are setup whereby we make fixed payments to the swap counterparties and receive 1-month LIBOR. These swaps have staggered maturity dates.

In addition, we also currently have in place a $275 million notional amounts of forward floating to fixed interest rate swap agreement that become effective and mature on staggered dates. For these swap agreements, we will make fixed payments to the swap counterparty and receive 1-month LIBOR.

Covenant Compliance

In general, our credit agreement restricts our ability to pay dividends to the amount of our Available Cash accumulated after October 1, 2005, plus $23.7 million and minus the aggregate amount of dividends paid after July 27, 2005. Available Cash for any period is defined in our credit facility as Adjusted EBITDA (a) minus, to the extent not deducted in the determination of Adjusted EBITDA, (i) non-cash dividend income for such period; (ii) consolidated interest expense for such period, net of amortization of debt issuance costs incurred (A) in connection with or prior to the consummation of the Merger or (B) in connection with the Senior Note Redemption; (iii) capital expenditures from internally generated funds; (iv) cash income taxes for such period; (v) scheduled principal payments of Indebtedness, if any; (vi) voluntary repayments of indebtedness (other than in connection with the Merger, the Senior Note Redemption or any Permitted Refinancing) and net increases in outstanding Revolving Loans during such period; (vii) the cash costs of any extraordinary or unusual losses or charges during such period; (viii) all cash payments made during such period on account of losses or charges expensed prior to such period (to the extent not deducted in the determination of Consolidated EBITDA for such period) and (ix) all Transaction Fees added back for such period, (b) plus, to the extent not included in the determination of Consolidated EBITDA, (i) cash interest income for such period; (ii) the cash amount realized in respect of extraordinary or unusual gains during such period; and (iii) net decreases in Revolving Loans during such period. Based on the results of operations from October 1, 2005 through December 31, 2011, and after taking into consideration dividend payments (including the $11.6 million dividend declared in November 2011 and paid on February 1, 2012), we continue to have $171.8 million in dividend availability under the credit facility covenant.

Under our credit agreement, if our total net leverage ratio (as such term is 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 make mandatory prepayments of loans and not used to fund acquisitions, capital expenditures 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 (as such term is defined in our credit agreement) during such dividend suspension period, 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 interest coverage ratio as of the end of any fiscal quarter is below 2.25:1.00. As of December 31, 2011, our total net leverage ratio was 4.55:1.00, and our interest coverage ratio was 3.82:1.00.

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The description of the covenants above and of our credit agreement generally in this Report are summaries only. They do not contain a full description, including definitions, of the provisions summarized. As such, these summaries are qualified in their entirety by these documents, which are filed as exhibits to our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

Capital leases

The Company had previously leased from LATEL LLC (LATEL) five properties which have been used as office and warehouse space. These triple net operating leases required us to pay substantially all expenses associated with general maintenance and repair, utilities, insurance, and taxes. With the sale of our CMR business unit in early 2010, we assigned the lease for the building used by CMR to the purchaser of that business at closing.

On December 22, 2010, we entered into new lease agreements with LATEL for the occupancy of three buildings on a triple net lease basis, effective December 1, 2010. The Company vacated a fourth property on June 30, 2011.

The three new leases each have a maturity date of May 31, 2021 and each have two five-year options to extend the terms of the lease after the expiration date. The three leases require total rental payments to LATEL of approximately $7.9 million over the term of the leases. In accordance with Accounting Standards Codification Topic 840, *Leases*, we have treated each of the three leases as capital leases, and have capitalized the lower of the present value of the future minimum lease payments or their fair value. The carrying value of the capital leases at December 31, 2011 was approximately $4.0 million.

The Chairman of the Company, Richard A. Lumpkin, and his immediate family have a beneficial ownership interest of 70.7% in 2011 and 74.85% in 2010 of LATEL, directly or through Agracel, Inc. (Agracel). Agracel is a real estate investment company of which Mr. Lumpkin, together with his family, have a beneficial interest of 41.3% in 2011 and 49.7% in 2010. In addition, Mr. Lumpkin is a director of Agracel. Agracel is the sole managing member and 50% owner of LATEL.

On December 1, 2010, we entered into a lease agreement with Spruce Street Properties, LTD (Spruce) for the occupancy of an office building, effective November 1, 2010. The lease has a maturity date of February 28, 2021 and will require a total rental payment to Spruce of approximately $1.6 million over the term of the lease. In accordance with Account Standards Codification Topic 840, *Leases*, we have treated each of the four leases described above as capital leases, and have capitalized the lower of the present value of the future minimum lease payments or their fair value. The carrying value of the capital lease at December 31, 2011 was approximately $0.7 million.

Dividends

The cash required to fund dividend payments is in addition to our other expected cash needs, both of which we expect to be funded with cash flows from operations. We expect we will have sufficient availability under our revolving credit facility to fund dividend payments in addition to any expected fluctuations in working capital and other cash needs although we do not intend to borrow under this facility to pay dividends.

We believe that our dividend policy will limit, but not preclude, our ability to grow. If we continue paying dividends at the level currently anticipated under our dividend policy, we may not retain a sufficient amount of cash and may need to seek refinancing to fund a material expansion of our

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business, including any significant acquisitions or to pursue growth opportunities requiring capital expenditures significantly beyond our current expectations. In addition, because we expect a significant portion of cash available will be distributed to holders of common stock under our dividend policy, our ability to pursue any material expansion of our business will depend more than it otherwise would on our ability to obtain third-party financing.

Off-balance sheet arrangements

In the ordinary course of business, we enter into surety, performance and similar bonds. As of December 31, 2011, we had approximately $1.2 million of these bonds outstanding.

Table of contractual obligations and commitments

The following table provides a summary of our contractual obligations and commercial commitments as of December 31, 2011. Other non-current liabilities included in our Consolidated Balance Sheet that may not be fully disclosed below include accrued pension and postretirement costs. Refer to Notes 14 and 15 of the Notes to the Consolidated Financial Statements.

		Payments due or expiring by period			
(In thousands)	**Total**	**Less Than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Contractual obligations:					
Term loan and associated interest (a)	$ 1,065,361	$ 51,825	$ 559,171	$ 46,771	$ 407,594
Capital lease	8,608	828	1,718	1,805	4,257
Operating leases	4,734	1,917	1,798	397	622
Interest rate swaps (c)	15,981	13,035	3,126	(180)	
Other (b)	2,534	1,157	1,308	69	
Total Contractual obligations	$ 1,097,218	$ 68,762	$ 567,121	$ 48,862	$ 412,473

(a) These items consist of interest and principal payments under our credit facilities. Our $880.0 million term loan credit facility consists of two separate tranches. The first tranche consists of $470.9 million aggregate principal amount maturing on December 31, 2014. The second tranche consists of $409.1 million aggregate principal amount maturing on December 31, 2017. The term loan requires amortization of $8.8 million per year beginning in 2012. Our $50.0 million revolving credit facility is undrawn and matures June 8, 2016. We have assumed a weighted average effective interest rate of 4.92% throughout the entire term of the loan, which was the average rate in effect on January 1, 2012. The actual rate will vary depending on the LIBO rates in effect at the time of payment and the expiration dates of the swap agreements.

(b) Represents payments for four operational support systems obligations. Should we terminate any of the contracts prior to their expiration, we will be liable for minimum commitment payments as defined in the contracts for the remaining term of the contracts. In addition, we have a contractual obligation for network maintenance.

(c) Scheduled based on settlements estimated using yield curves in effect at December 31, 2011.

Market Risks

We are exposed to market risk from changes in interest rates. Market risk is the potential loss arising from adverse changes in market interest rates on our variable rate obligations. We calculate the potential change in interest expense caused by changes in market interest rates by determining the effect of the hypothetical rate increase on the portion of our variable rate debt that is not hedged through the interest rate swap agreements.

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At December 31, 2011, the interest rate on $350 million of our floating rate debt was not fixed through the use of interest rate swaps, thereby subjecting this portion of our debt to potential changes in interest rates. If market interest rates changed by 1.0% from the average rates that prevailed during 2011, interest expense would have increased or decreased by approximately $2.8 million for the year.

As of December 31, 2011, the fair value of interest rate swap agreements amounted to a liability of $16.0 million. The deferred loss, net of taxes, recognized in accumulated other comprehensive loss for our interest rate swaps totaled $10.2 million at December 31, 2011.

Impact of Recently Issued Accounting Standards

See Note 2, Summary of Significant Accounting Policies Adoption of Recent Accounting Pronouncements, of the Notes to Consolidated Financial Statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The information required by this item is contained in Part II - Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations and is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The following financial statements and supplementary data of the Company and its subsidiaries are included below on pages F-1 through F-43 of this report:

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

None

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2011. Based upon that evaluation and subject to the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

Based upon the evaluation performed by our management, which was conducted with the participation of our Chief Executive Officer and Chief Financial Officer, there has been no change in our internal control over financial reporting during the fourth quarter of 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Exchange Act Rule 13a 15(f). Management, with the participation of our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2011. In making this assessment, management used the framework set forth in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this assessment, our management concluded that, as of December 31, 2011, our internal control over financial reporting was effective to provide reasonable assurance that the desired control objectives were achieved.

The effectiveness of internal control on financial reporting has been audited by Ernst & Young LLP, independent registered public accounting firm, as stated in their report on page 77 included in this Annual Report on Form 10-K.

Inherent Limitation of the Effectiveness of Internal Control

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Consolidated Communications Holdings, Inc.

We have audited Consolidated Communications Holdings, Inc. and subsidiaries (the Company s) internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, Consolidated Communications Holdings, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Consolidated Communications Holdings, Inc. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in stockholders equity, and cash flows for each of the three years in the period ended December 31, 2011, and our report dated March 5, 2012, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

St. Louis, Missouri
March 5, 2012

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Item 9B. Other Information

Under our bylaws, the annual meeting of stockholders is held each year on the date and at the time designated by our Board of Directors. Our Board of Directors has not yet designated the date and time of the 2012 annual meeting of stockholders because of the pendency of the transactions contemplated under the Agreement and Plan of Merger, dated as of February 5, 2012, by and among the Company, SureWest, WH Acquisition Corp. and WH Acquisition II Corp. However, we expect that the 2012 annual meeting of stockholders will be held more than 30 days from the date of the 2011 annual meeting of stockholders. As a result, the due dates for the provision of any stockholder proposal under our 2011 proxy statement will no longer be applicable. In order for stockholder proposals intended to be presented at the 2012 annual meeting of stockholders to be eligible for inclusion in our proxy statement, they must be received by us at our principal executive offices, 121 South 17th Street, Mattoon, Illinois 61938-3987 (Attention: Secretary), no later than March 20, 2012. Also, when the Board of Directors determines it advisable to designate the date and time of the 2012 annual meeting of stockholders, we will notify stockholders of the meeting date and time.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

The Company has adopted a code of ethics that applies to all of its employees, officers, and directors, including its principal executive officer, principal financial officer, and principal accounting officer. The text of the Company s code of ethics is posted on its website at www.Consolidated.com (select Investor Relations, and then Corporate Governance).

Additional information required by this Item is incorporated herein by reference to our proxy statement to be issued in connection with the 2012 Annual Meeting of our Stockholders, which proxy statement is expected to be filed before April 29, 2012.

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to our proxy statement to be issued in connection with the 2012 Annual Meeting of our Stockholders, which proxy statement is expected to be filed before April 29, 2012.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this Item is incorporated herein by reference to our proxy statement to be issued in connection with the 2012 Annual Meeting of our Stockholders, which proxy statement is expected to be filed before April 29, 2012.

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

The information required by this Item is incorporated herein by reference to our proxy statement to be issued in connection with the 2012 Annual Meeting of our Stockholders, which proxy statement is expected to be filed before April 29, 2012.

Item 14. Principal Accountant Fees and Services

The information required by this Item is incorporated herein by reference to our proxy statement to be issued in connection with the 2012 Annual Meeting of our Stockholders, which proxy statement is expected to be filed before April 29, 2012.

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PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Index to exhibits, financial statements and schedules.

(1) The following consolidated financial statements and reports are included beginning on page F-1 hereof:

Reports of Independent Registered Public Accounting Firm.

Consolidated Statements of Operations For the years ended December 31, 2011, 2010, and 2009.

Consolidated Balance Sheets December 31, 2011 and 2010.

Consolidated Statements of Changes in Stockholders Equity For the years ended December 31, 2011, 2010, and 2009.

Consolidated Statements of Cash Flows For the years ended December 31, 2011, 2010, and 2009.

Notes to Consolidated Financial Statements.

(2) The following consolidated financial statement schedule of the Company is included on page F-43 hereof:

SCHEDULE II Valuation and Qualifying Accounts

All other financial statements and schedules not listed have been omitted since the required information is included in the consolidated financial statements or the notes thereto, or is not applicable or required.

(3) Exhibits required by Item 601 of Regulation S-K:

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EXHIBIT INDEX

Exhibit Number	Description
2.1*	Agreement and Plan of Merger, dated as of February 5, 2012, by and among the Company, SureWest Communications, WH Acquisition Corp. and WH Acquisition II Corp. (incorporated by reference to Exhibit 2.1 to Current Report on Form 8-K dated February 5, 2012)
3.1	Form of Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Amendment No. 7 to Form S-1 dated July 19, 2005, file no. 333-121086)
3.2	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of Consolidated Communications Holdings, Inc., as filed with the Secretary of State of the State of Delaware on May 3, 2011 (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K dated May 4, 2011)
3.3	Form of Amended and Restated Bylaws, as amended (incorporated by reference to Exhibit 3.1 to Form 10-Q for the period ended September 30, 2009)
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to Amendment No. 7 to Form S-1 dated July 19, 2005, file no. 333-121086)
10.1	Amendment Agreement dated June 8, 2011 among Consolidated Communications Holdings, Inc., the subsidiaries of Consolidated Communications Holdings, Inc. named therein, the lenders named therein, and Wells Fargo Bank, National Association, as administrative agent (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K dated June 13, 2011)
10.2	Amended and Restated Credit Agreement, dated June 8, 2011, among Consolidated Communications Holdings, Inc., as Parent Guarantor, Consolidated Communications, Inc., as Borrower (CCI), the lenders referred to therein, Wells Fargo Bank, National Association, as administrative agent, issuing bank and swingline lender, CoBank, ACB, as syndication agent, General Electric Capital Corporation, as documentation agent, The Royal Bank of Scotland PLC, as documentation agent, and Wells Fargo Securities, LLC, as sole lead arranger and sole bookrunner (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K dated June 13, 2011), as amended by the First Amendment to Amended and Restated Credit Agreement, dated as of February 17, 2012, by and among the Company, CCI, the Subsidiary Loan Parties identified therein, the lenders referred to therein and Wells Fargo Bank, National Association, as administrative agent (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K dated February 17, 2012)
10.3	Revolving Extension Agreement, dated July 7, 2011, among Consolidated Communications Holdings, Inc., Consolidated Communications, Inc., the Revolving-1 Lenders referred therein and Wells Fargo Bank, National Association (successor by merger to Wachovia Bank, National Association), as administrative agent (incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K dated August 4, 2011)
10.4	Form of Collateral Agreement, dated December 31, 2007, by and among Consolidated Communications Holdings, Inc., Consolidated Communications, Inc., Consolidated Communications Acquisition Texas, Inc., Fort Pitt Acquisition Sub Inc., certain subsidiaries of Consolidated Communications Holdings, Inc. identified on the signature pages thereto, in favor of Wells Fargo Bank, National Association (successor by merger to Wachovia Bank, National Association), as Administrative Agent (incorporated by reference to Exhibit 10.2 to Form 10-K for the period ended December 31, 2007)
10.5	Form of Guaranty Agreement, dated December 31, 2007, made by Consolidated Communications Holdings, Inc. and certain subsidiaries of Consolidated Communications Holdings, Inc. identified on the signature pages thereto, in favor of Wells Fargo Bank, National Association (successor by merger to Wachovia Bank, National Association), as

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	Administrative Agent (incorporated by reference to Exhibit 10.3 to Form 10-K for the period ended December 31, 2007)
10.6	Letter Agreement, dated March 31, 2008, by Wells Fargo Bank, National Association (successor by merger to Wachovia Bank, National Association), and agreed to and acknowledged by Consolidated Communications Holdings, Inc., Consolidated Communications, Inc., Consolidated Communications Acquisition Texas, Inc. and North Pittsburgh Systems, Inc. (formerly known as Fort Pitt Acquisition Sub Inc.) (incorporated by reference to Exhibit 10.1 to Form 8-K dated March 31, 2008)
10.7	Letter Agreement dated August 6, 2008 by Wells Fargo Bank, National Association (successor by merger to Wachovia Bank, National Association), and agreed to and acknowledged by Consolidated Communications Holdings, Inc., Consolidated Communications, Inc., Consolidated Communications Acquisition Texas, Inc. and North Pittsburgh Systems, Inc. (formerly known as Fort Pitt Acquisition Sub Inc.) (incorporated by reference to Exhibit 10.1 to Form 10-Q for the period ended June 30, 2008)
10.8	Lease Agreement, dated December 31, 2002, between LATEL, LLC and Illinois Consolidated Telephone Company (incorporated by reference to Exhibit 10.12 to Form S-4 dated October 26, 2004, file no. 333-119968)
10.9	Lease Agreement, dated December 22, 2010, between LATEL, LLC and Consolidated Communications Services Company (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K dated December 22, 2010)
10.10	Lease Agreement, dated December 22, 2010, between LATEL, LLC and Illinois Consolidated Telephone Company (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K dated December 22, 2010)
10.11	Lease Agreement, dated December 22, 2010, between LATEL, LLC and Illinois Consolidated Telephone Company (incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K dated December 22, 2010)
10.12	Master Lease Agreement, dated February 25, 2002, between General Electric Capital Corporation and TXU Communications Ventures Company (incorporated by reference to Exhibit 10.13 to Form S-4 dated October 26, 2004, file no. 333-119968)
10.13	Amendment No. 1 to Master Lease Agreement, dated February 25, 2002, between General Electric Capital Corporation and TXU Communications Ventures Company, dated March 18, 2002 (incorporated by reference to Exhibit 10.14 to Form S-4 dated October 26, 2004, file no. 333-119968)
10.14	Amended and Restated Consolidated Communications Holdings, Inc. Restricted Share Plan (incorporated by reference to Exhibit 10.11 to Amendment No. 7 to Form S-1 dated July 19, 2005, file no. 333-121086)
10.15**	Amended and Restated Consolidated Communications Holdings, Inc. 2005 Long-Term Incentive Plan (As Amended and Restated Effective May 4, 2010) (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K dated May 10, 2010)
10.16**	Form of Employment Security Agreement with Robert J. Currey (incorporated by reference to Exhibit 10.1 to Form 8-K dated December 4, 2009)
10.17**	Form of Employment Security Agreement with certain of the Company s other executive officers (incorporated by reference to Exhibit 10.2 to Form 8-K dated December 4, 2009)
10.18**	Form of Employment Security Agreement with the Company s and its subsidiaries vice president and director level employees (incorporated by reference to Exhibit 10.12 to Form 10-K for the period ended December 31, 2007)
10.19**	Executive Long-Term Incentive Program, as revised March 12, 2007 (incorporated by reference to Exhibit 10.1 to Form 8-K dated March 12, 2007)
10.20	Form of 2005 Long-Term Incentive Plan Performance Stock Grant Certificate (incorporated by reference to Exhibit 10.2 to Form 8-K dated March 12, 2007)
10.21	Form of 2005 Long-Term Incentive Plan Restricted Stock Grant Certificate (incorporated

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	by reference to Exhibit 10.3 to Form 8-K dated March 12, 2007)
10.22**	Form of 2005 Long-Term Incentive Plan Restricted Stock Grant Certificate for Directors (incorporated by reference to Exhibit 10.4 to Form 8-K dated March 12, 2007)
10.23**	Description of the Consolidated Communications Holdings, Inc. Bonus Plan (incorporated by reference to Exhibit 10.5 to Form 8-K dated March 12, 2007)
10.24**	Separation Agreement dated May 3, 2011 between Consolidated Communications Holdings, Inc. and Joseph R. Dively (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K dated May 4, 2011)
10.25	Commitment Letter, dated February 5, 2012, from Morgan Stanley Senior Funding, Inc. and agreed to and accepted by Consolidated Communications, Inc. (incorporated by reference to Exhibit 10.1 to Form 8-K dated February 5, 2012
21.1	List of subsidiaries of the Registrant
23.1	Consent of Ernst & Young LLP
31.1	Certificate of Chief Executive Officer of Consolidated Communications Holdings, Inc. pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
31.2	Certificate of Chief Financial Officer of Consolidated Communications Holdings, Inc. pursuant to Rule 13(a)-14(a) under the Securities Exchange Act of 1934
32.1	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101***	The following financial information from Consolidated Communications Holdings, Inc. Annual Report on Form 10-K for the year ended December 31, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Statements of Operations, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statements of Changes in Stockholders Equity, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) Notes to Unaudited Condensed Consolidated Financial Statements, tagged as blocks of text.

* Schedules and other attachments to the Agreement and Plan of Merger, which are listed in the exhibit, are omitted. The Company agrees to furnish a supplemental copy of any schedule or other attachment to the Securities and Exchange Commission upon request.

** Compensatory plan or arrangement.

*** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files in Exhibit 101 hereto are not deemed filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are not deemed filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Mattoon, State of Illinois, on the 5th day of March 2012.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.

By:	/s/ Robert J. Currey	
Name:		Robert J. Currey
Title:		President and Chief Executive Officer

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

	Signature	Title	Date
By:	/s/ Robert J. Currey Robert J. Currey	President and Chief Executive Officer and Director (Principal Executive Officer)	March 5, 2012
By:	/s/ Steven L. Childers Steven L. Childers	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 5, 2012
By:	/s/ Richard A. Lumpkin Richard A. Lumpkin	Chairman of the Board and Director	March 5, 2012
By:	/s/ Roger H. Moore Roger H. Moore	Director	March 5, 2012
By:	/s/ Maribeth S. Rahe Maribeth S. Rahe	Director	March 5, 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Consolidated Communications Holdings, Inc.

We have audited the accompanying consolidated balance sheets of Consolidated Communications Holdings, Inc. and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in stockholders equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Consolidated Communications Holdings, Inc. at December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Consolidated Communications Holdings, Inc. s internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework,* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 5, 2012, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

St. Louis, Missouri

March 5, 2012

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Consolidated Communications Holdings, Inc. and Subsidiaries

Consolidated Statements of Operations

(In thousands, except per share amounts)	Year ended December 31, 2011	2010	2009
Net revenues	**$ 374,263**	$ 383,366	$ 406,167
Operating expense:			
Cost of services and products (exclusive of depreciation and amortization shown separately below)	**139,264**	142,302	145,460
Selling, general and administrative expenses	**81,050**	88,025	104,774
Debt refinancing costs	**2,649**		
Depreciation and amortization	**88,745**	87,142	85,227
Operating income	**62,555**	65,897	70,706
Other income (expense):			
Interest expense, net of interest income	**(49,394)**	(50,740)	(57,935)
Investment income	**27,843**	27,744	25,770
Other, net	**823**	(758)	(207)
Income before income taxes	**41,827**	42,143	38,334
Income tax expense	**14,845**	8,991	12,399
Net income	**26,982**	33,152	25,935
Less: net income attributable to noncontrolling interest	**572**	557	1,030
Net income attributable to common stockholders	**$ 26,410**	$ 32,595	$ 24,905
Net income per common share basic	**$ 0.88**	$ 1.09	$ 0.84
Net income per common share diluted	**$ 0.88**	$ 1.09	$ 0.84
Cash dividends per common share	**$ 1.55**	$ 1.55	$ 1.55

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

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Consolidated Communications Holdings, Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except share and per share amounts)	**December 31, 2011**	**2010**
Assets		
Current assets:		
Cash and cash equivalents	**$ 105,704**	$ 67,654
Accounts receivable, net of allowance for doubtful accounts of $2,547 in 2011 and $2,694 in 2010	**35,492**	42,012
Inventories	**7,151**	7,972
Income tax receivable	**8,988**	6,490
Deferred income taxes	**4,825**	5,672
Prepaid expenses and other current assets	**6,170**	6,450
Total current assets	**168,330**	136,250
Property, plant and equipment, net	**332,046**	356,057
Investments	**98,069**	99,105
Goodwill	**520,562**	520,562
Customer lists, net	**57,811**	79,950
Tradenames	**12,347**	12,347
Deferred debt issuance costs, net and other assets	**4,904**	5,275
Total assets	**$ 1,194,069**	$ 1,209,546
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	**$ 13,673**	$ 9,972
Advance billings and customer deposits	**20,324**	22,088
Dividends payable	**11,571**	11,530
Accrued expense	**24,571**	22,649
Current portion of senior secured term debt	**8,800**	
Current portion of capital lease obligations	**192**	132
Current portion of derivative liability	**3,580**	6,374
Current portion of pension and postretirement benefit obligations	**2,579**	2,847
Total current liabilities	**85,290**	75,592
Long-term portion of capital lease obligation	**4,519**	3,993
Senior secured long-term debt	**871,200**	880,000
Deferred income taxes	**77,327**	73,628
Pension and other postretirement obligations	**93,754**	80,621
Other long-term liabilities	**14,167**	23,837
Total liabilities	**1,146,257**	1,137,671
Stockholders equity:		
Common stock, par value $0.01 per share; 100,000,000 shares authorized, 29,869,512 and 29,763,122, shares outstanding as of December 31, 2011 and 2010, respectively	**299**	298
Additional paid-in capital	**79,852**	98,126
Retained earnings		
Accumulated other comprehensive loss, net	**(37,833)**	(31,471)
Noncontrolling interest	**5,494**	4,922
Total stockholders equity	**47,812**	71,875
Total liabilities and stockholders equity	**$ 1,194,069**	$ 1,209,546

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

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Consolidated Communications Holdings, Inc. and Subsidiaries

Consolidated Statement of Changes in Stockholders Equity

(In thousands except share amounts)	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total
Balance, January 1, 2009	29,488,408	$ 295	$ 129,284	$	$ (59,479)	$ 5,185	$ 75,285
Dividends on common stock			(21,021)	(24,905)			(45,926)
Shares issued under employee plan, net of forfeitures	154,752	1					1
Non-cash, stock-based compensation			1,927				1,927
Purchase and retirement of common stock	(34,507)		(545)				(545)
Tax on restricted stock vesting			198				198
Pension tax adjustment			(97)				(97)
Comprehensive income (loss):							
Net income				24,905		1,030	25,935
Change in prior service cost and net loss, net of tax of $8,345					14,022		14,022
Change in fair value of cash flow hedges, net of tax of $5,707					9,917		9,917
Total comprehensive income							49,874
Balance, December 31, 2009	29,608,653	$ 296	$ 109,746	$	$ (35,540)	$ 6,215	$ 80,717
Dividends on common stock			(13,584)	(32,595)			(46,179)
Shares issued under employee plan, net of forfeitures	208,007	2					2
Non-cash, stock-based compensation			2,363				2,363
Purchase and retirement of common stock	(53,538)		(1,001)				(1,001)
Tax on restricted stock vesting			602				602
Distributions to non-controlling interests						(1,850)	(1,850)
Comprehensive income (loss):							
Net income				32,595		557	33,152
Change in prior service cost and net loss, net of tax of $948					1,572		1,572
Change in fair value of cash flow hedges, net of tax of $1,430					2,497		2,497
Total comprehensive income							37,221
Balance, December 31, 2010	29,763,122	$ 298	$ 98,126	$	$ (31,471)	$ 4,922	$ 71,875
Dividends on common stock			**(19,938)**	**(26,410)**			**(46,348)**
Shares issued under employee plan, net of forfeitures	**145,383**	**1**					**1**
Non-cash, stock-based compensation			**2,132**				**2,132**
Purchase and retirement of common stock	**(38,993)**		**(726)**				**(726)**
Tax on restricted stock vesting			**258**				**258**
Comprehensive income (loss):							

Net income				**26,410**		**572**	**26,982**
Change in prior service cost and net loss, net of tax of $8,434					**(13,959)**		**(13,959)**
Change in fair value of cash flow hedges, net of tax of $4,434					**7,597**		**7,597**
Total comprehensive income							**20,620**
Balance, December 31, 2011	**29,869,512**	**$ 299**	**$ 79,852**	**$**	**$ (37,833)**	**$ 5,494**	**$ 47,812**

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Consolidated Communications Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In thousands)	Year ended December 31, 2011	2010	2009
Operating Activities			
Net income	$ **26,982**	$ 33,152	$ 25,935
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**88,745**	87,142	85,227
Deferred income taxes	**8,546**	(2,390)	57
Decrease in uncertain tax positions	**(262)**	(5,169)	
Loss on disposal of assets	**370**	2,057	2,491
Cash distributions from wireless partnerships in excess of/(less than) current earnings	**945**	16	(3,091)
Stock-based compensation expense	**2,132**	2,363	1,927
Amortization of deferred financing costs	**1,411**	1,293	1,301
Changes in operating assets and liabilities:			
Accounts receivable, net	**6,520**	113	2,967
Income taxes receivable	**(2,498)**	(3,699)	775
Inventories	**821**	(1,084)	608
Other assets	**280**	273	363
Accounts payable	**3,701**	(3,510)	1,146
Accrued expenses and other liabilities	**(7,509)**	4,457	(3,399)
Net cash provided by operating activities	**130,184**	115,014	116,307
Investing Activities			
Additions to property, plant and equipment, net	**(42,593)**	(41,789)	(42,352)
Proceeds from the sale of assets	**840**	1,065	725
Other	**272**	35	
Net cash used for investing activities	**(41,481)**	(40,689)	(41,627)
Financing Activities			
Fees paid for the modification of debt	**(3,471)**		
Distributions to noncontrolling interest		(1,850)	
Payment of capital lease obligation	**(149)**	(399)	(922)
Repurchase and retirement of common stock	**(726)**	(1,001)	(545)
Dividends on common stock	**(46,307)**	(46,179)	(45,926)
Net cash used for financing activities	**(50,653)**	(49,429)	(47,393)
Net increase in cash and equivalents	**38,050**	24,896	27,287
Cash and cash equivalents at beginning of year	**67,654**	42,758	15,471
Cash and cash equivalents at end of year	$ **105,704**	$ 67,654	$ 42,758
Supplemental disclosure of cash flow:			
Interest paid	$ **47,215**	$ 50,205	$ 56,026
Income taxes paid	$ **8,788**	$ 18,706	$ 10,996

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Consolidated Communications Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

1. Nature of Operations

Consolidated Communications Holdings, Inc. and its wholly-owned subsidiaries, which are collectively referred to as Consolidated , the Company , we , our or us unless the context otherwise requires, operates its businesses under the name Consolidated Communications. We are a established rural local exchange carrier (RLEC) offering a wide range of telecommunications services to residential and business customers in Illinois, Texas and Pennsylvania including: local and long-distance service; high-speed broadband Internet access (DSL); standard and high-definition digital television (IPTV); digital telephone service (VOIP); custom calling features; private line services; carrier access services; network capacity services over our regional fiber optic network; directory publishing and Competitive Local Exchange Carrier (CLEC) services. At December 31, 2011, we had 227,992 local access lines, 110,913 DSL lines, 34,356 IPTV subscribers, 9,199 VOIP, and an estimated 89,774 CLEC access line equivalents.

We also operate two non-core complementary businesses: telephone services to correctional facilities and equipment sales.

Founded in 1894 as the Mattoon Telephone Company by the great-grandfather of our current Chairman, Richard A. Lumpkin, we began as one of the nation s first independent telephone companies. We are a Delaware corporation organized in 2002 and are the successor to businesses engaged in providing telecommunication services since 1894.

2. Summary of Significant Accounting Policies

Principles of consolidation

The consolidated financial statements include the accounts of Consolidated Communications Holdings, Inc. and its wholly-owned subsidiaries and subsidiaries in which it has a controlling financial interest. All significant intercompany transactions and accounts have been eliminated in consolidation.

Use of estimates

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 the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Industry Segments

We operate in two reportable segments: Telephone Operations and Other Operations.

Cash and cash equivalents

We consider all highly liquid short-term investments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents are carried at cost, which approximates fair value.

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Investments

If the Company can exercise significant influence over the operations and financial policies of an affiliated company, even without control, the investment in the affiliated company is accounted for using the equity method. If the Company does not have control and also cannot exercise significant influence, the investment in the affiliated company is accounted for using the cost method.

To determine whether an investment is impaired, the Company monitors and evaluates the financial performance of each business in which it invests and compares the carrying value of the investment to quoted market prices (if available) or the fair value of similar investments. In certain circumstances, fair value is based on traditional valuation models utilizing a multiple of cash flows. When circumstances indicate there has been an other-than-temporary decline in the fair value of the investment, the Company records the decline in value as a realized impairment loss and a reduction in the cost of the investment.

Accounts receivable and allowance for doubtful accounts

Accounts receivable consist primarily of amounts due to the Company from normal activities. A receivable is determined to be past due when the amount is overdue based on the payment terms with the customer. In certain circumstances, the Company requires deposits from customers to mitigate potential risk associated with receivables. The Company maintains an allowance for doubtful accounts to reflect management s best estimate of probable losses inherent in the accounts receivable balance. Management determines the allowance for doubtful accounts based on known troubled accounts, historical experience, and other currently available evidence. Accounts receivable are written off when management determines they will not be collected.

Inventories

Inventories consist mainly of copper and fiber cable that will be used for network expansion and upgrades, materials and equipment used to maintain and install telephone systems and equipment related to our IPTV service. Inventories are stated at the lower of cost or market using the average cost method.

Goodwill and other intangible assets

In accordance with the applicable guidance on accounting for goodwill and other intangible assets, goodwill and intangible assets that have indefinite useful lives are not amortized but rather are tested at least annually for impairment. Tradenames have been determined to have indefinite lives; thus they are not amortized but are tested annually for impairment using discounted cash flows based on a relief from royalty method. We evaluate the carrying value of goodwill as of November 30 of each year and compare the carrying value of each reporting unit to its fair value to determine whether or not a potential impairment exists. Our analysis conducted during the fourth quarters of 2011 and 2010 determined that there was no impairment of any of our assets.

The accounting guidance applicable to intangible assets also provides that assets that have finite lives should be amortized over their useful lives. Customer lists are amortized on a straight-line basis over their estimated useful lives (ranging from 5 to 13 years) based upon our historical experience with customer attrition. In accordance with the applicable guidance relating to the impairment or disposal of long-lived assets, we evaluate the potential impairment of finite-lived intangible assets when impairment indicators exist. If the carrying value is no longer recoverable based upon the undiscounted future cash flows of the asset, an impairment equal to the difference between the carrying amount and the fair value of the asset is recognized.

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Fair Values of Financial Instruments

We use the following methods in estimating fair value for financial instruments:

Cash and cash equivalents, short-term investments, accounts receivable and accounts payable: The carrying amounts reported in the consolidated balance sheets approximate fair value.

Derivatives: The fair value of derivatives (i.e., interest rate swaps) is determined using publicly available interest rate yield curves adjusted for non-performance.

Long-term debt: Because our long-term debt reprices monthly, the carrying amount of our borrowings under our secured credit facility approximates fair value.

Derivatives and Hedging Activities

Derivative instruments are accounted for in accordance with the FASB s applicable guidance on accounting for derivative instruments and hedging activity. This guidance provides comprehensive and consistent standards for the recognition and measurement of derivative and hedging activities. It also requires that derivatives be recorded on the consolidated balance sheet at fair value and establishes criteria for hedges of changes in fair values of assets, liabilities, or firm commitments; hedges of variable cash flows of forecasted transactions; and hedges of foreign currency exposures of net investments in foreign operations. The Company currently uses derivatives only to hedge the variable cash flows of future interest payments on long-term debt. To the extent a derivative qualifies as a cash flow hedge, the gain or loss associated with the effective portion is recorded as a component of Accumulated Other Comprehensive Income (Loss) and any ineffectiveness is recorded immediately in earnings. Changes in the fair value of derivatives that do not meet the criteria for hedge accounting are recognized in the consolidated statements of operations. Fair value is determined based on publicly available interest rate yield curves and an estimate of our nonperformance risk or our counterparty s nonperformance credit risk, as applicable. We do not anticipate any nonperformance by any counterparty. 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.

Property, plant and equipment

Property, plant and equipment are recorded at cost. The costs of additions, replacements, and major improvements are capitalized, while repairs and maintenance are charged to expense as incurred. Depreciation is determined based upon the assets estimated useful lives using either the group or unit method.

The group method is used for depreciable assets dedicated to providing regulated telecommunication services, including the majority of the network and outside plant facilities. A depreciation rate for each asset group is developed based on the group s average useful life. This method requires periodic revision of depreciation rates. When an individual asset is sold or retired, the difference between the proceeds, if any, and the cost of the asset is charged or credited to accumulated depreciation, without recognition of a gain or loss.

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

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Estimated useful lives are as follows:

	Years	
Buildings	18	40
Network and outside plant facilities	3	50
Furniture, fixtures and equipment	3	15
Capital leases	11	

Employment-Related Benefits

Employment-related benefits associated with pensions and postretirement healthcare are expensed as actuarially determined. The recognition of expense is impacted by estimates made by management, such as discount rates used to value certain liabilities, investment rates of return on plan assets, increases in future wage amounts and future healthcare costs. We use third-party specialists to assist us in appropriately measuring the expense and liabilities associated with employment-related benefits.

We determine our actuarial assumptions for the pension and postretirement plans, after consultation with our actuaries, on December 31 of each year to calculate liability information as of that date and pension and postretirement expense for the following year. The discount rate assumption is determined based on a spot yield curve that includes bonds that are rated Corporate AA- or higher with maturities that match expected benefit payments under the plan.

The expected long-term rate of return on plan assets reflects projected returns for the investment mix that have been determined to meet the plans investment objectives. The expected long-term rate of return on plan assets is selected by taking into account the expected weighted averages of the investments of the assets, the fact that the plan assets are actively managed to mitigate downside risks, the historical performance of the market in general and the historical performance of the retirement plan assets over the past ten years.

Revenue recognition

Revenue is recognized when evidence of an arrangement exists, the earnings process is complete, and collectability is reasonably assured. Marketing incentives, including bundle discounts, are recognized as revenue reductions in the period the service is provided.

Local calling services, enhanced calling features, special access circuits, long-distance flat-rate calling plans and most data services (including DSL and IPTV) are billed to end-users in advance. Billed but unearned revenue is deferred and recorded in advance billings and customer deposits.

Revenues for usage-based services, such as per-minute long-distance service and access charges billed to other telephone carriers for originating and terminating long-distance calls on our network, are billed in arrears. We recognize revenue from these services in the period the services are rendered rather than billed. Earned but unbilled usage-based services are recorded in accounts receivable.

Subsidies, including universal service revenues, are government-sponsored support to subsidize services in mostly rural, high-cost areas. These revenues typically are based on information provided by the Company and are calculated by the administering government agency. Subsidies are recognized in the period the service is provided. There is a reasonable possibility that out of period subsidy adjustments

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may be recorded in the future, but they are anticipated to be immaterial to our results of operation and financial position.

Telephone equipment revenues generated from retail channels are recorded at the point of sale. Telecommunications systems and structured cabling project revenues are recognized when the project is completed and billed. Maintenance services are provided on both a contract and time and material basis and are recorded when the service is provided. Print advertising and publishing revenues are recognized ratably over the life of the related directory, generally 12 months.

The Company reports taxes imposed by governmental authorities on revenue-producing transactions between the Company and its customers on a net basis.

Advertising costs

The costs of advertising are charged to expense as incurred. Advertising expenses totaled $2.4 million, $2.5 million and $1.7 million in 2011, 2010 and 2009, respectively.

Income taxes

We and our wholly owned subsidiaries file a consolidated federal income tax return. Our majority-owned subsidiary, East Texas Fiber Line Incorporated (ETFL), files a separate federal income tax return. Some state income tax returns are filed on a consolidated basis while others are filed on a separate legal entity basis. Federal and state income tax expense or benefit is allocated to each subsidiary based on separately determined taxable income or loss.

Amounts in the financial statements related to income taxes are calculated in accordance with the FASB s authoritative guidance on accounting for income taxes. We also apply the FASB s authoritative guidance on accounting for uncertainty in income taxes to account for uncertain tax positions recognized in our financial statements. For more information, please see Note 18.

Deferred income taxes are provided for the temporary differences between assets and liabilities recognized for financial reporting purposes and assets and liabilities recognized for tax purposes, as well as for operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company records a valuation allowance for deferred income tax assets when, in the opinion of management, it is more likely than not that deferred tax assets will not be realized.

Provisions for federal and state income taxes are calculated on reported pretax earnings based on current tax law and also may include, in the current period, the cumulative effect of any changes in tax rates from those used to determine deferred tax assets and liabilities. Such provisions may differ from the amounts currently receivable or payable because certain items of income and expense are recognized in one time period for financial reporting purposes and in another for income tax purposes. Significant judgment is required in determining income tax provisions and evaluating tax positions. Even if the Company believes its tax positions are fully supportable, it will establish reserves for income tax when it is more likely than not there remain income tax contingencies that will be challenged and possibly disallowed. The consolidated tax provision and related accruals include the impact of such reasonably estimated losses. To the extent the probable tax outcomes of these matters change, those changes will alter the income tax provision in the period in which such determination is made.

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Stock-based compensation

We maintain one stock-based compensation plan. The plan provides for the grant of awards in the form of stock options, stock appreciation rights, stock grants, stock unit grants and other equity-based awards to eligible directors and employees. We account for stock-based compensation under the applicable accounting guidance which requires all stock-based awards to employees, including grants of employee stock options, to be recognized as compensation expense in the financial statements based on their grant date fair values. We recognized stock-based compensation expense of $2.1 million, $2.4 million and $1.9 million in 2011, 2010 and 2009, respectively.

Earnings per Common Share

We apply the FASB s authoritative guidance on the treatment of participating securities in the calculation of earnings per share and use the two-class method to compute basic and diluted earnings per share. To the extent that stock-based compensation is anti-dilutive, it is excluded from the calculation of diluted earnings per share.

Noncontrolling Interest

ETFL is a joint venture owned 63% by the Company and 37% by Eastex Telecom Investments, LLC. ETFL provides connectivity to certain customers within Texas over a fiber optic transport network.

Subsequent Events

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 (See Note 25).

Adoption of Recent Accounting Pronouncements Applicable to the Company

In January 2010, the 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 ASU No. 2010-06 were effective in the first quarter of 2011. Adoption of this guidance on January 1, 2011 required only additional disclosures concerning fair value measurements, and did not affect the Company s financial condition, results of operations or cash flows.

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-04 (ASU 2011-04), *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS).* This pronouncement was issued to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and IFRS. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of ASU 2011-04 is not expected to have a significant impact to the Company s consolidated financial position or results of operations.

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In June 2011, the FASB issued Accounting Standards Update No. 2011-05 (ASU 2011-05), *Presentation of Income*. ASU 2011-05 eliminates the option to report other comprehensive income and its components in the statement of changes in stockholder s equity and requires an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement or in two separate but consecutive statements. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Adoption of this provision will impact the presentation of the Company s consolidated financial statements.

3. Affiliated Transactions

Richard A. Lumpkin, Chairman of the Board, together with his family, beneficially owned 41.3% and 49.7% of Agracel, Inc. (Agracel), a real estate investment company, at December 31, 2011 and 2010, respectively. Mr. Lumpkin also is a director of Agracel.

Agracel is the sole managing member and 50% owner of LATEL LLC (LATEL). Mr. Lumpkin and his immediate family had beneficial ownership of 70.7% and 74.85% of LATEL at December 31, 2011 and 2010, respectively. On December 22, 2010, the Company entered into new lease agreements with LATEL for the occupancy of three buildings on a triple net lease basis which became effective on December 1, 2010. Prior to the new lease agreements signed on December 22, 2010, the Company had leased five properties from LATEL which were used as office and warehouse space. In 2010, the Company assigned one of the five leased buildings to the purchaser of its CMR business at closing. On July 21, 2010, the Company gave notice to LATEL of its intent to vacate the remaining four leases, in accordance with the terms of the lease agreements. On December 22, 2010, the Company signed new lease agreements on three of the four leases. The Company vacated the fourth leased building at the end of the lease term on June 30, 2011. In accordance with the Company s related person transactions policy, the new leases were approved by the Company s Audit Committee and Board of Directors.

The three new leases each have a maturity date of May 31, 2021 and each have two five-year options to extend the terms of the lease after the expiration date. The three leases require total rental payments to LATEL of approximately $7.9 million over the terms of the leases. In accordance with Accounting Standards Codification (ASC) Topic 840, *Leases*, we have treated each of the three leases as capital leases, and have capitalized the lower of the present value of the future minimum lease payments or their fair value. The carrying value of the capital leases at December 31, 2011 was approximately $4.0 million and at December 31, 2010 was approximately $4.1 million.

These triple net leases required us to pay substantially all expenses associated with general maintenance and repair, utilities, insurance, and taxes. We recognized rent expense of $0.2 million in 2011, $1.2 million in 2010 and $1.4 million in 2009 with regard to these leases. In 2011, we amortized $0.5 million in interest expense and $0.1 million in amortization expense related to the capitalized leases.

Agracel is the sole managing member and 66.7% owner of MACC, LLC (MACC). Mr. Lumpkin, together with his family, owns the remainder of MACC. The Company had leased certain office space from MACC which was used by CMR. With the sale of our CMR business unit in early 2010, we assigned the lease associated with this office space to the purchaser of that business at closing. We recognized rent expense in the amount of $32 thousand in 2010 and $0.2 million in 2009 in connection with this lease.

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Mr. Lumpkin, together with members of his family, beneficially owns 100% of SKL Investment Group, LLC (SKL). The Company charged SKL $56 thousand in 2011, 2010 and 2009, respectively, for use of office space, computers, telephone service and other office-related services.

Mr. Lumpkin also has a minority ownership interest in First Mid-Illinois Bancshares, Inc. (First Mid-Illinois), which provides the Company with general banking services, including depository, disbursement, and payroll accounts and retirement plan administrative services. The Company provides telecommunications products and services to First Mid-Illinois at pricing which is similar to other strategic business customers. Following is a summary of the transactions between us and First Mid-Illinois for the years ended December 31:

(In thousands)	**2011**	**2010**	**2009**
Fees charged from First Mid-Illinois for:			
Banking services	**$ 4**	$ 8	$ 10
401(k) plan administration	**14**	14	11
Interest income earned on deposits at First Mid-Illinois	**8**	8	6
Fees charged to first Mid-Illinois for telecommunication services	**532**	455	456

4. Prepaid and other current assets

Prepaid and other current assets at December 31 are as follows:

(In thousands)	**2011**	**2010**
Prepaid maintenance	**$ 1,980**	$ 2,242
Prepaid taxes	**440**	182
Deferred charges	**784**	961
Prepaid insurance	**313**	392
Prepaid expense - other	**2,607**	2,603
Other current assets	**46**	70
Total	**$ 6,170**	$ 6,450

5. Property, plant and equipment

Property, plant and equipment at December 31 are as follows:

(In thousands)	**2011**	**2010**
Land and buildings	**$ 66,704**	$ 66,499
Network and outside plant facilities	**897,140**	869,565
Furniture, fixtures and equipment	**73,185**	81,920

Assets under capital lease		**10,014**		9,279
Less: accumulated depreciation		**(721,527)**		(675,390)
		325,516		351,873
Construction in progress		**6,530**		4,184
Totals	**$**	**332,046**	$	356,057

Depreciation expense totaled $66.6 million, $65.0 million and $63.1 million in 2011, 2010 and 2009, respectively. Amortizations of assets under capital lease are included in depreciation expense.

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6. 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. It is not practicable to estimated fair value of these investments. We did not evaluate any of the investments for impairment as no factors indicating impairment existed during the year. In 2011 and 2010, we received cash distributions from these partnerships totaling $11.1 million and $11.7 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 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) provides cellular service in and around our Pennsylvania service territory. Because we have some influence over the operating and financial policies of these entities, we account for the investments using the equity method. In 2011 and 2010, we received cash distributions from these partnerships totaling $17.2 million and $15.6 million, respectively. The carrying value of the investments exceeds the underlying equity in net assets of the partnerships by $28.5 million. In 2011 we disposed of our 50% ownership interest in Boulevard Communications, LLP, a competitive access provider in western Pennsylvania and recorded a loss of $22 thousand.

Investments at December 31 are as follows:

(In thousands)		**2011**		**2010**
Cash surrender value of life insurance policies	**$**	**1,978**	$	1,960
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		**3,394**		3,148
Other		**15**		25
Equity method investments:				
GTE Mobilnet of Texas RSA #17 Limited Partnership (17.02% interest)		**19, 422**		19,253
Pennsylvania RSA 6(I) Limited Partnership (16.6725% interest)		**7,063**		7,191
Pennsylvania RSA 6(II) Limited Partnership (23.67% interest)		**21,797**		22,971
Boulevard Communications, LLP (50% interest)				157
Total	**$**	**98,069**	$	99,105

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.

Selective summarized financial information for the equity method investments at December 31 was as follows:

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(In thousands)		2011		2010		2009
Total revenues	**$**	**305,965**	$	258,249	$	236,835
Income from operations		**84,803**		77,830		65,565
Income before taxes		**84,844**		79,473		66,832
Net income		**84,483**		78,973		66,501
Current assets		**44,739**		48,802		47,894
Non-current assets		**79,432**		78,262		76,906
Current liabilities		**14,523**		12,916		11,035
Non-current liabilities		**1,096**		874		623
Partnership equity		**108,552**		113,293		113,260

7. Fair Value Measurements

ASC Topic 820 (ASC 820), *Fair Value Measurement*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 - Inputs to the valuation methodology include
- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

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 the Company 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 net liabilities measured at fair value on a recurring basis subject to disclosure requirements at December 31, 2011, were as follows:

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(In thousands) Description	December 31, 2011	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 liabilities	(3,580)		(3,580)	
Long-term interest rate swap liabilities	(12,401)		(12,401)	
Totals	$ (15,981)	$	$ (15,981)	$

The Company s net liabilities measured at fair value on a recurring basis subject to disclosure requirements at December 31, 2010, were as follows:

(In thousands) Description	December 31, 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	$ 20	$	$ 20	$
Current interest rate swap liabilities	(6,374)		(6,374)	
Long-term interest rate swap liabilities	(21,751)		(21,751)	
Totals	$ (28,105)	$	$ (28,105)	$

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. Our long-term debt reprices monthly, therefore carrying amount of our borrowings under our secured credit facility approximates fair value. The following table presents the other financial instruments that are not carried at fair value but which require fair value disclosure as of December 31, 2011 and 2010.

	As of December 31, 2011		As of December 31, 2010	
(In thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Investments, equity basis	**$ 48,282**	**n/a**	$ 49,572	n/a
Investments, at cost	**$ 47,809**	**n/a**	$ 47,573	n/a
Long-term debt	**$ 880,000**	**$ 880,000**	$ 880,000	$ 880,000

The Company s investments at December 31, 2011 and 2010 accounted for under both the equity and cost methods consist of minority positions in various cellular telephone limited partnerships. It is not practicable to estimate fair value of these investments.

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

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8. Goodwill and Other Intangible Assets

In accordance with the applicable accounting guidance, goodwill and indefinite life tradenames are not amortized but are subject to impairment testing at least annually or more frequently if circumstances indicate potential impairment. Our reporting units consist of Telephone Operations and Other Operations.

We completed our 2011 annual impairment test relying on both a discounted cash flow valuation technique, and to a lesser extent, a market approach. The discount rate, sales growth and profitability assumptions are material assumptions utilized in our discounted cash flow model. The discount rate is an after-tax, weighted-average cost of capital (WACC). The WACC is calculated based on observable market data. Some of this data (such as the risk free or treasury rate and the pretax cost of debt) are based on the market data at a point in time. Other data (such as beta and the equity risk premium) are based upon market data over time. Sales growth rates and profitability assumptions are aligned with our long-term strategic planning process and reflect the best estimate of future results based on all information available to us at the assessment date.

We also evaluated the carrying value of our reporting units using a market-based approach. In applying this methodology, we looked at recent transactions involving other comparable RLECs and the market multiples being paid relative to enterprise value. This approach confirmed the indicative fair values under the discounted cash flow approach.

The impairment testing in 2011 and 2010 indicated no impairment of goodwill.

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

(In thousands)		Telephone Operations		Other Operations		Total
Balance at December 31, 2009	$	519,542	$	1,020	$	520,562
Balance at December 31, 2010	$	519,542	$	1,020	$	520,562
Balance at December 31, 2011	**$**	**519,542**	**$**	**1,020**	**$**	**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 Company s business units and several of our products and services incorporate the CONSOLIDATED name. These tradenames are indefinite lived intangibles. The carrying value of the tradenames was $12.3 million at December 31, 2011 and 2010, respectively. For the years ended December 31, 2011 and 2010, we completed our annual impairment test using a discounted cash flow methodology based on a relief from royalty method and determined that there was no impairment of our tradenames. However, in 2010, as part of the sale of our Operator Services business unit, we agreed to allow the buyer to use the name Consolidated Operator Services. As a result, we reduced the value of the tradenames by $1.1 million which had previously been allocated to our Operator Services business unit. In 2009, as part of the sale of our CMR business unit, we agreed to allow the buyer to use the name Consolidated Marketing Response. As a result, we reduced the value of the tradenames in 2009 by $0.8 million which was the amount that had previously been allocated to our CMR business unit.

The Company s customer lists consist of an established base of customers that subscribe to its services. We eliminated approximately $7.3 million from both the gross customer list carrying amount

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and the accumulated amortization on November 30, 2010 as a result of the sale of our Operator Services business unit. The carrying amount of customer lists at December 31 is as follows:

	Telephone Operations		Other Operations	
(In thousands)	**2011**	**2010**	**2011**	**2010**
Gross carrying amount	**$ 193,124**	$ 193,124	**$ 4,405**	$ 4,405
Less: accumulated amortization	**(135,754)**	(114,055)	**(3,964)**	(3,524)
Net carrying amount	**$ 57,370**	$ 79,069	**$ 441**	$ 881

Amortization associated with customer lists totaled approximately $22.1 million in 2011, $22.1 million in 2010 and $22.2 million in 2009. The weighted-average remaining period over which customer lists are being amortized is 2.6 years. The estimated future amortization expense is as follows:

(In thousands)	
2012	$ 22,139
2013	8,323
2014	8,323
2015	8,323
2016	8,323
2017	2,380
Total	$ 57,811

9. Deferred Debt Issuance Costs, Net and Other Assets

Deferred financing costs, net and other assets at December 31 are as follows:

(In thousands)	**2011**	**2010**
Deferred debt issuance costs, net	**$ 4,833**	$ 5,171
Other assets	**71**	104
Total	**$ 4,904**	$ 5,275

During 2011, we have capitalized an additional $1.1 million in deferred debt issuance costs related to our credit agreement amendment (see Note 11 for a more in depth description of this transaction). As of December 31, 2011, the remaining deferred debt issuance costs of $4.8 million related to our secured credit facility will be amortized over the period of the maturity dates of the corresponding tranches.

10. Accrued Expenses

Accrued expenses at December 31 are as follows:

(In thousands)	2011	2010
Accrued salaries	**$ 5,851**	$ 4,998
Accrued employee benefits	**4,384**	4,440
Taxes payable	**4,599**	5,035
Accrued interest	**237**	104
Accrued site commissions	**3,559**	2,338
Other accrued expenses	**5,941**	5,734
Totals	**$ 24,571**	$ 22,649

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11. Debt

Long-term debt at December 31 consist of the following:

(In thousands)	2011	2010
Senior secured credit facility - revolving loan	**$**	$
Senior secured credit facility - term loan	**880,000**	880,000
	880,000	880,000
Less: current portion	**(8,800)**	
Total long-term debt	**$ 871,200**	$ 880,000

Future maturities of long-term debt as of December 31, 2011, are as follows:

(In thousands)	
2012	$ 8,800
2013	8,800
2014	465,619
2015	4,091
2016	4,091
Thereafter	388,599
	$ 880,000

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 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 facility are secured by substantially all of the assets of the Company with the exception of Illinois Consolidated Telephone Company.

The terms of the credit agreement were amended on June 8, 2011. Prior to the amendment, the credit facility was made up of only one tranche of $880 million and has an applicable margin (at our election) equal to either 2.50% for a LIBOR-based term loan or 1.50% for an alternative base rate loan. The June 8, 2011 amendment of the term loan credit facility split the one tranche into two separate tranches, resulting in different maturity dates and interest rate margins for each term loan tranche of debt. The first term loan tranche consists of $470.9 million aggregate principal amount matures on December 31, 2014 and has an applicable margin (at our election) equal to either 2.50% for a LIBOR-based term loan or 1.50% for an alternative base rate loan. The second term loan tranche of $409.1 million aggregate principal amount matures on December 31, 2017 and has an applicable margin (at our election) equal to either 3.75% for a LIBOR-based term loan or 2.75% for an alternative base rate term loan. The applicable margins for each of the term loan tranches are fixed for the duration of the loans. The amended term loan facility also requires $2.2 million in quarterly principal payments beginning March 31, 2012.

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 of 4.55:1 at December 31, 2011, the borrowing margin for the next three month period ending March 31, 2012 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. There were no borrowings or letters of credit outstanding under the revolving credit facility as of December 31, 2011 or December 31, 2010.

In connection with amending our credit agreement in June 2011, fees totaling $2.6 million were recognized as expense and recorded in debt refinancing costs in the Consolidated Statements of Operations while $1.1 million in fees were capitalized as deferred debt issuance costs in the Consolidated Balance Sheets.

The weighted-average interest rate incurred on our credit facilities for the years ended December 31, 2011 and 2010, including amounts paid on our interest rate swap agreements and the applicable margin, was 5.37% and 5.71% per annum, respectively.

Our 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, as defined in the amended credit agreement. As of December 31, 2011, we were in compliance with the credit agreement covenants.

Covenant Compliance

In general, our credit agreement restricts our ability to pay dividends to the amount of our Available Cash accumulated after October 1, 2005, plus $23.7 million and minus the aggregate amount of dividends paid after July 27, 2005. Available Cash for any period is defined in our credit facility as Adjusted EBITDA (a) minus, to the extent not deducted in the determination of Adjusted EBITDA, (i) non-cash dividend income for such period; (ii) consolidated interest expense for such period, net of amortization of debt issuance costs incurred (A) in connection with or prior to the consummation of the acquisition of North Pittsburgh or (B) in connection with the Senior Note Redemption; (iii) capital expenditures from internally generated funds; (iv) cash income taxes for such period; (v) scheduled principal payments of Indebtedness, if any; (vi) voluntary repayments of indebtedness (other than in connection with the Merger, the Senior Note Redemption or any Permitted Refinancing) and net increases in outstanding Revolving Loans during such period; (vii) the cash costs of any extraordinary or unusual losses or charges during such period; (viii) all cash payments made during such period on account of losses or charges expensed prior to such period (to the extent not deducted in the determination of Consolidated EBITDA for such prior period) and (ix) all Transaction Fees added back for such period, (b) plus, to the extent not included in the determination of Consolidated EBITDA (i) cash interest income for such period; (ii) the cash amount realized in respect of extraordinary or unusual gains during such period; and (iii) net decreases in Revolving Loans during such period. Based on the results of operations from October 1, 2005 through December 31, 2011, and after taking into consideration dividend payments (including the $11.6 million dividend declared in November 2011 and paid on February 1, 2012), we continue to have $171.9 million in dividend availability under the credit facility covenant.

Under our credit agreement, if our total net leverage ratio (as such term is 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 make mandatory prepayments of loans and not used to fund acquisitions, capital expenditures 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 (as such term is defined in our credit agreement), 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 interest coverage ratio as of the end

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of any fiscal quarter is below 2.25:1.00. As of December 31, 2011, our total net leverage ratio was 4.55:1.00, and our interest coverage ratio was 3.82:1.00.

12. 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 ASC Topic 815 (ASC 815), *Derivatives and Hedging*. The swaps are designated as cash flow 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 income (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.

Our credit agreement requires that no less than 50% of our term loan debt be fixed through the use of interest rate swaps. At December 31, 2011 and December 31, 2010, the interest rate on approximately 60% and 72%, respectively, of our outstanding debt was fixed through the use of interest rate swaps.

The following interest rate swaps, all designated as cash flow hedges, were outstanding at December 31, 2011:

(In thousands)	Notional Amount	2011 Balance Sheet Location	Fair Value
Fixed to 3-month floating LIBOR	**$ 100,000**	**Current portion of long-term liabilities**	**$ (3,401)**
Fixed to 3-month floating LIBOR	**130,000**	**Other Long-term liabilities**	**(6,053)**
3-month floating LIBOR minus spread to 1-month floating LIBOR	**100,000**	**Current portion of Long-term liabilities**	**(179)**
3-month floating LIBOR minus spread to 1-month floating LIBOR	**130,000**	**Other long-term liabilities**	**(269)**
Fixed to 1-month floating LIBOR	**300,000**	**Other long-term liabilities**	**(5,343)**
Forward starting fixed to 1-month floating LIBOR	**200,000**	**Other long-term liabilities**	**(736)**
Total Fair Values			**$ (15,981)**

The following interest rate swaps, all designated as cash flow hedges, were outstanding at December 31, 2010:

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(In thousands)	**Notional Amount**	**2010 Balance Sheet Location**	**Fair Value**
Fixed to 3-month floating LIBOR	$ 200,000	Current portion of long-term liabilities	$ (6,374)
Fixed to 3-month floating LIBOR	230,000	Other Long-term liabilities	(16,581)
3-month floating LIBOR minus spread to 1-month floating LIBOR	200,000	Prepaid and other current assets	20
3-month floating LIBOR minus spread to 1-month floating LIBOR	230,000	Other long-term liabilities	(73)
Fixed to 1-month floating LIBOR	200,000	Other long-term liabilities	(4,474)
Forward starting fixed to 1-month floating LIBOR	100,000	Other long-term liabilities	(623)
Total Fair Values			$ (28,105)

The counterparties to our various swaps are six 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.

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 income (loss) and is subsequently reclassified into earnings during the same period in which the hedged item affects earnings. At December 31, 2011 and 2010, the pretax deferred losses related to our interest rate swap agreements included in other comprehensive income totaled $15.9 million and $28.0 million, respectively. The change in fair value of any ineffective portion of the hedging derivative is recognized immediately in earnings.

Information regarding our cash flow hedge transactions are as follows:

(In thousands)	**2011**	**2010**	**2009**
Gain recognized in accumulated other comprehensive loss AOCI (pretax)	**$ (12,032)**	$ (3,927)	$ (15,624)
Gain arising from ineffectiveness reducing interest expense	**$ (93)**	$ (146)	$ (107)
Deferred losses reclassed from AOCI to interest expense	**$ 1,250**	$ 4,742	$ 11,050

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(In thousands, except months)	December 31, 2011		December 31, 2010	
Aggregate notional value of current derivatives outstanding	**$**	**530,000**	$	630,000
Aggregate notional value of forward derivatives outstanding	**$**	**200,000**	$	100,000
Period through which derivative positions currently exist		**June 2015**		September 2013
Fair value of derivatives	**$**	**15,981**	$	28,105
Deferred losses included in AOCI (pretax)	**$**	**15,932**	$	27,963
Losses included in AOCI to be recognized in the next 12 months	**$**	**65**	$	1,250
Number of months over which loss in OCI is to be recognized		**15**		27

13. Interest Expense, Net of Interest Income

The following table summarizes interest expense:

(in thousands)	Year Ended December 31, 2011		2010		2009	
Interest expense credit facility	**$**	**27,349**	$	24,782	$	25,443
Payments on swap liabilities, net		**19,649**		25,070		29,918
Other interest		**629**		848		1,023
Amortization of deferred financing fees		**1,411**		1,293		1,273
Uncertain tax position interest accrual		**46**		357		452
Interest expense capital leases		**647**		45		
Reversal of uncertain tax position interest accrual		**(51)**		(1,363)		
Capitalized interest		**(144)**		(173)		(118)
Total interest expense		**49,536**		50,859		57,991
Less: interest income		**(142)**		(119)		(56)
Interest expense, net of interest income	**$**	**49,394**	$	50,740	$	57,935

For the years ended December 31, 2011 and 2010, we reversed $0.1 million and $1.4 million, respectively, of accrued interest previously recorded as a result of a change in our uncertain tax liabilities for which the statute of limitations had expired.

14. Retirement and Pension Plans

We offer defined contribution 401(k) plans to substantially all of our employees. Contributions made under the defined contribution plans include a match, at the Company s discretion, of employee contributions to the plans. We recorded expense with respect to these plans of $2.5 million in 2011, $2.4 million in 2010 and $2.6 million in 2009.

Qualified Retirement Plan

We sponsor a defined benefit pension plan (Retirement Plan) that is non-contributory covering substantially all 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. We contribute amounts necessary to meet the minimum funding requirements as set forth in employee benefit and tax laws.

On October 21, 2010, members of the Communications Workers of America Local 6218 (Conroe and Lufkin, Texas bargaining unit employees) approved changes to their pension benefit plan. Benefits earned under the current final-average-pay pension formula were frozen effective December 31, 2010 and

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future benefits accruals will be replaced by a Cash Balance Plan benefit. This plan change reduced the projected benefit obligation by $1.5 million at December 31, 2010.

Under the Cash Balance Plan benefit, cash balance participant accounts will be credited with pay credits at the end of each month equal to four percent of their base wages earned in that month, so long as the participant is employed in the Conroe/Lufkin bargaining unit and meets the current eligibility requirements on the last day of the month. Each participant s cash balance account will also be credited with interest credits at the end of each month until the balance has been paid out. The interest credits will be based on the beginning-of-month cash balance on the first day of the month and the current 30-year U.S. Treasury bond yield applicable to the current plan year.

Upon termination or retirement, the participant will receive both a cash balance pension benefit earned after January 1, 2011 as well as his/her frozen benefit under the final-average-pay pension benefit formula earned through December 31, 2010.

The asset allocations for our Retirement Plan at December 31 are as follows:

	2011	**2010**
Equity securities	**63.1%**	64.3%
Debt securities	**34.8**	34.0
Cash and equivalents	**2.1**	1.7
Total	**100.0%**	100.0%

We have established a Pension Committee that is responsible for overseeing the investments of the pension plan assets. The Pension Committee is responsible for determining and monitoring the appropriate asset allocations and for selecting or replacing investment managers, trustees and custodians. The investment portfolio contains a diversified blend of common stocks, bonds, cash equivalents, and other investments, which may reflect varying rates of return. The investments are further diversified within each asset classification. The portfolio diversification provides protection against a single security or class of securities having a disproportionate impact on aggregate performance. The Retirement Plan s current investment target allocations are 55% - 65% equities, with the remainder in fixed income funds and cash equivalents. The Pension Committee reviews the actual asset allocation in light of these targets periodically and rebalances investments as necessary. They also evaluate the performance of investment managers as compared to the performance of specified benchmarks and peers, and monitor the investment managers to ensure adherence to their stated investment style and to the Retirement Plan s investment guidelines.

The following is a description of the valuation methodologies for assets measured at fair value utilizing the fair value hierarchy discussed in Note 7. There have been no changes in the methodologies used at December 31, 2011 and 2010.

Common and International Stocks (Level 1): Includes domestic and international common and preferred stocks and are valued at the closing price as of the measurement date as reported on the active market on which the individual securities are traded multiplied by the number of shares owned.

Stock Mutual Funds (Level 1): Valued at the closing net asset value as of the measurement date as reported on the active market on which the funds are traded multiplied by the number of shares owned or the percentage of ownership in the fund.

Fixed Income Funds (Level 1): Includes Government agency and U.S. corporate bonds and are

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valued at the closing net asset value as of the measurement date as reported on the active market on which the funds are traded multiplied by the number of shares owned or the percentage of ownership in the fund.

Common Collective Trust (Level 2): Valued as determined by the fund manager based on the underlying net asset values multiplied by the ownership percentage and supported by the value of the underlying securities as of the financial statement date.

The fair values of the Company s pension plan assets at December 31, 2011 are as follows:

			Fair Value Measurements at Reporting Date Using				
(in thousands)		**December 31, 2011**		**Quoted Prices In Active Markets for Identical Assets (Level 1)**		**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash equivalents:							
Short-term investments (A)	$	**2,991**	$	**191**	$	**2,800**	$
Equities:							
U.S. common stocks		**22,090**		**22,090**			
International stocks		**9,245**		**9,245**			
Mutual funds		**42,999**		**42,999**			
Common Collective Trust		**15,695**				**15,695**	
Fixed Income:							
Mutual funds		**49,716**		**49,716**			
Total	$	**142,736**	$	**124,241**	$	**18,495**	$

(A) Short-term investments includes cash and cash equivalents and an investment in a common collective trust which is principally comprised of certificates of deposit, commercial paper and U.S. Treasury bills with maturities less than a year.

The fair values of the Company s pension plan assets at December 31, 2010 are as follows:

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(in thousands)		December 31, 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)
Cash equivalents:								
Short Term Investments (A)	$	2,534	$	171	$	2,363	$	
Equities:								
U.S. common stocks		14,576		14,576				
International stocks		9,743		9,743				
Mutual funds		45,444		45,444				
Common Collective Trust		24,705				24,705		
Fixed Income:								
Mutual funds		49,963		49,963				
Total	$	146,965	$	119,897	$	27,068	$	

(A) Short-term investments includes cash and cash equivalents and an investment in a common collective trust which is principally comprised of certificates of deposit, commercial paper and U.S. Treasury bills with maturities less than a year.

On December 31, 2011, the annual measurement date, our Retirement Plan had a projected benefit obligation of $202.3 million, while the fair value of the Retirement Plan s assets were $142.7 million. In accordance with the applicable accounting guidance, we recognized the unfunded status of the plan by recording an accrued pension liability of $59.6 million.

Items not yet recognized as a component of net periodic pension cost and amounts recognized in the Consolidated Balance Sheets are as follows at December 31:

(In thousands)		2011		2010
Unfunded status	**$**	**(59,558)**	$	(46,131)
Amounts recognized in:				
Long-term liabilities		**(59,558)**		(46,131)
Deferred taxes		**(18,185)**		(10,268)
Accumulated other comprehensive loss:				
Unamortized prior service credit, net of deferred tax		**(1,050)**		(1,155)
Unamortized net actuarial loss, net of deferred tax		**31,234**		18,249

The amount of unamortized prior service credit that will be recognized as a reduction to net periodic pension cost in 2012 is expected to be approximately $0.2 million. The amount of unamortized net actuarial losses that will be recognized as a component of net periodic pension cost in 2012 is expected to be approximately $2.4 million.

A summary of the components of net periodic pension cost for the Retirement Plan for the years ended December 31 is as follows:

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(In thousands)	2011	2010	2009
Service cost	**$ 1,277**	$ 1,900	$ 2,109
Interest cost	**10,902**	11,197	11,099
Expected return on plan assets	**(10,893)**	(10,178)	(9,422)
Net amortization loss	**751**	845	2,673
Prior service credit amortization	**(166)**	(43)	(43)
Net periodic pension cost	**$ 1,871**	$ 3,721	$ 6,416

Assumptions utilized for the years ended December 31 are as follows:

	2011	2010	2009
Discount rate net periodic benefit cost	**5.86%**	6.23%	6.12%
Discount rate benefit obligation	**5.35%**	5.86%	6.23%
Expected long-term rate of return on plan assets	**7.50%**	7.50%	7.70%
Rate of compensation/salary increase	**3.06%**	3.06%	3.16%

The change in the discount rate from 5.86% in 2010 to 5.35% in 2011 resulted in a change in the pension liability of $11.1 million.

The following table sets forth a reconciliation of the projected benefit obligation for the years ended December 31:

(In thousands)	2011	2010
Benefit obligation at the beginning of the year	**$ 193,095**	$ 184,904
Service costs	**1,277**	1,900
Interest costs	**10,902**	11,197
Actuarial loss	**9,475**	8,904
Benefits paid	**(12,455)**	(12,331)
Plan amendments		(1,479)
Benefit obligation at the end of the year	**$ 202,294**	$ 193,095

At December 31, 2011 and 2010, the projected benefit obligation exceeded the accumulated benefit obligation by $4.3 million and $4.5 million, respectively.

The actuarial loss for the year ended December 31, 2011 and December 31, 2010 results primarily from a change in the benefit obligation discount rate and a change in the demographic experience (including assumption changes).

The following table sets forth a reconciliation of the plan assets for the years ended December 31:

(In thousands)	2011	2010
Fair value of plan assets at the beginning of the year	**$ 146,965**	$ 141,981
Employer contributions	**9,450**	
Actual return on plan assets	**(1,224)**	17,315
Benefits paid	**(12,455)**	(12,331)
Fair value of plan assets at the end of the year	**$ 142,736**	$ 146,965

We expect to contribute approximately $12.6 million to our qualified pension plan in 2012.

The expected future benefits payments for the plan are as follows:

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(in thousands)		
2012	$	12,924
2013		13,017
2014		13,084
2015		13,237
2016		13,338
2017 2021		68,069

Non-qualified Pension Plan

The Company also provides a non-qualified supplemental pension plan (Restoration Plan), which it acquired as part of its North Pittsburgh and TXUCV acquisitions. The Restoration Plan covers certain former employees of our Pennsylvania and Texas operations. The Restoration Plan restores benefits that were precluded under the Retirement Plan by Internal Revenue Service limits on compensation and benefits applicable to qualified pension plans, and by the exclusion of bonus compensation from the Retirement Plan s definition of earnings. One participant is a former North Pittsburgh employee while the remaining participants are all former employees of our Texas properties.

On December 31, 2011, the annual measurement date, our Restoration Plan had a projected benefit obligation of $1.1 million. The Restoration Plan is unfunded and has no assets, and the benefits paid under the Restoration Plan come from the general operating funds of the Company.

In accordance with the applicable accounting guidance, we recognized the underfunded status of the plan by recording an accrued pension liability of $1.1 million.

Items not yet recognized as a component of net periodic pension cost and amounts recognized in the Consolidated Balance Sheets are as follows at December 31:

(In thousands)		2011		2010
Unfunded status	**$**	**(1,119)**	$	(1,006)
Amounts recognized in:				
Current liabilities		**(52)**		(52)
Long-term liabilities		**(1,066)**		(954)
Deferred taxes		**(184)**		(157)
Accumulated other comprehensive loss:				
Unamortized net actuarial loss, net of deferred tax		**320**		273

The amount of unamortized net actuarial losses that will be recognized as a component of net periodic pension cost in 2012 is expected to be $44 thousand.

A summary of the components of net periodic pension cost for the Restoration Plan for the years ended December 31 is as follows:

(In thousands)	2011	2010	2009
Service cost	$	$	$
Interest cost	**58**	58	57
Net amortization loss	**35**	30	33
Net periodic pension cost	**$ 93**	$ 88	$ 90

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Discount rate assumptions utilized for the years ended December 31 are as follows:

	2011	2010	2009
Net periodic benefit cost	**5.86%**	6.23%	6.08%
Benefit obligation	**5.35%**	5.86%	6.23%

The following table sets forth a reconciliation of the projected benefit obligation for the years ended December 31:

(In thousands)	2011	2010
Benefit obligation at the beginning of the year	**$ 1,006**	$ 954
Service costs		
Interest costs	**58**	58
Actuarial (gain) loss	**108**	47
Benefits paid	**(53)**	(53)
Benefit obligation at the end of the year	**$ 1,119**	$ 1,006

At December 31, 2011 and 2010, the projected benefit obligation equaled the accumulated benefit obligation.

The actuarial loss for the years ended December 31, 2011 and 2010 results primarily from changes in demographic experience, including assumption changes.

The following table sets forth a reconciliation of the plan assets for the years ended December 31:

(In thousands)	2011	2010
Fair value of plan assets at the beginning of the year	**$**	$
Employer contributions	**53**	53
Benefits paid	**(53)**	(53)
Fair value of plan assets at the end of the year	**$**	$

In 2012, we anticipate making contributions to our non-qualified pension plans totaling approximately $0.1 million.

The expected future benefits payments for the plan are as follows:

(in thousands)		
2012	$	52
2013		53
2014		53
2015		53
2016		53
2017 2021		286

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

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compensation agreements totaled approximately $0.6 million in 2011 and in 2010, respectively. The net present value of the remaining obligations was approximately $2.5 million and $2.9 million as of December 31, 2011 and 2010, respectively, and is included in pension and postretirement benefit obligations in the accompanying consolidated balance sheets.

We also maintain 40 life insurance policies on certain of the participating former directors and employees. We recognized $0.6 million in other income due to the receipt of life insurance proceeds in 2011. We did not receive or recognize any proceeds in 2010. 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 $2.0 million at December 31, 2011 and 2010, respectively. These amounts are included in investments in the accompanying consolidated balance sheets. Cash principal payments for the policies and any proceeds from the policies are classified as operating activities in the statements of cash flows. The aggregate death benefit payable under these policies totaled $7.8 million and $8.3 million as of December 31, 2011 and 2010, respectively.

15. Postretirement Benefit Obligation

We sponsor a healthcare plan and life insurance plan (Postretirement Plan) that provides postretirement 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. We generally pay the covered expenses for retiree health benefits as they are incurred. Postretirement life insurance benefits are fully insured.

On December 31, 2011, the annual measurement date, our Postretirement Plan had a projected benefit obligation of $33.2 million, which is less than the projected benefit obligation at December 31, 2010 of $33.5 million. The Postretirement Plan is unfunded and has no assets, and benefits under the Postretirement Plan are paid from the general operating funds of the Company.

Items not yet recognized as a component of net periodic pension cost and amounts recognized in the consolidated balance sheets are as follows at December 31:

(In thousands)	**2011**	**2010**
Unfunded status	**$ (33,184)**	$ (33,476)
Amounts recognized in:		
Current liabilities	**(2,527)**	(2,795)
Long-term liabilities	**(30,657)**	(30,681)
Deferred taxes	**1,919**	2,408
Accumulated other comprehensive (income) loss:		
Unamortized prior service credit, net of deferred tax	**977**	1,101
Unamortized net actuarial gain, net of deferred tax	**1,875**	2,574

The amount of unamortized prior service credit that will be recognized as a reduction to net periodic postretirement cost in 2012 is expected to be approximately $0.2 million. In 2012, there is not an expected unamortized net actuarial gain to reduce the net periodic postretirement cost.

Net periodic postretirement benefit cost for the years ended December 31 includes the following components:

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(In thousands)		2011		2010		2009
Service cost	**$**	**749**	$	668	$	813
Interest cost		**1,690**		1,835		2,146
Net prior service cost amortization		**(189)**		(447)		(963)
Net gain amortization		**(212)**		(234)		(22)
Net periodic postretirement benefit cost	**$**	**2,038**	$	1,822	$	1,974

The change in benefit obligation for the years ended December 31 includes the following components:

(In thousands)		2011		2010
Benefit obligation at the beginning of the year	**$**	**33,476**	$	36,214
Service cost		**749**		668
Interest cost		**1,690**		1,835
Plan participant contributions		**480**		586
Actuarial loss (gain)		**911**		(2,705)
Benefits paid		**(4,122)**		(3,122)
Benefit obligation at the end of the year	**$**	**33,184**	$	33,476

Discount rate assumptions utilized for the years ended December 31 are as follows:

	2011	2010	2009
Net periodic benefit cost	**5.58%**	6.10%	6.15%
Benefit obligation	**5.22%**	5.58%	6.10%

The expected future benefits payments for the plan are as follows:

(in thousands)		
2012	$	2,595
2013		2,524
2014		2,583
2015		2,613
2016		2,647
2017 2021		12,445

For purposes of determining the cost and obligation for pre-Medicare postretirement medical benefits, a 9% annual rate of increase in the per capita cost of covered benefits (i.e., healthcare trend rate) was assumed for the plan in 2012, declining to a rate of 5.00% in 2018. Assumed healthcare cost trend rates have a significant effect on the amounts reported for healthcare plans. A one percent change in the assumed healthcare cost trend rate would have had the following effects:

(In thousands)		1% Increase		1% Decrease
Effect on total of service and interest cost components	$	252	$	(215)
Effect on postretirement benefit obligation	$	2,794	$	(2,432)

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16. Other Long-term Liabilities

Other long-term liabilities are as follows:

(In thousands)	December 31, 2011		2010
Long-term derivative liabilities	$ **12,401**	$	21,751
Uncertain tax positions	**1,224**		1,475
Accrued interest on uncertain tax positions	**50**		56
Other long-term liabilities	**492**		555
Total	$ **14,167**	$	23,837

17. Stock-based Compensation Plans

As of December 31, 2011, we maintained one stock-based compensation plan, the Amended and Restated Consolidated Communications Holdings, Inc. 2005 Long-term Incentive Plan (the Plan). The Plan was initially approved by stockholders effective July 21, 2005, and was subsequently amended on May 5, 2009 and May 4, 2010. The Plan provides for the grant of awards in the form of stock options, stock appreciation rights, stock grants, stock unit grants and other equity-based awards to eligible directors and employees at the discretion of the Compensation Committee of the Board of Directors. The term of the awards granted under the Plan is determined by the Compensation Committee of the Board of Directors and cannot exceed 10 years from the date of grant. Restricted stock grants generally vest at the rate of 25% per year in December of each year. The maximum number of shares of common stock that may be issued under the Plan is limited to 1,650,000 provided that no more than 300,000 shares may be granted in the form of stock options or stock appreciation rights to any eligible employee or director in any calendar year. Unless terminated sooner, the Plan will continue in effect until May 5, 2019.

The Company has implemented an ongoing performance-based incentive program under the Plan. The performance-based incentive program provides for regular annual grants of performance shares. Performance shares are restricted stock that are issued, to the extent earned, at the end of each performance cycle. Under the performance-based incentive program, each participant is given a target award expressed as a number of shares, with a payout opportunity ranging from 0% to 120% of the target, depending on performance relative to predetermined goals. In accordance with the applicable accounting guidance, an accounting estimate of the number of these shares that are expected to vest is made, and these shares are then expensed utilizing the grant-date fair value of the shares from the grant date through the end of the vesting period.

Pretax stock-based compensation expense for the years ended December 31, 2011, 2010 and 2009 was as follows:

(in millions)	Year Ended December 31, 2011		2010		2009
Restricted stock	$ **1.3**	$	1.4	$	1.1
Performance shares	**0.8**		1.0		0.8
Total	$ **2.1**	$	2.4	$	1.9

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

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As of December 31, 2011, we had not yet recognized the following expected compensation expense for non-vested awards.

(in millions)		Non-recognized Compensation	Average Remaining Recognition Period (years)
Restricted stock	$	2.3	1.0
Performance shares		0.9	0.8
Total	$	3.2	0.9

The following table presents restricted stock activity by year:

	2011			2010			2009		
	# of Shares		Price(1)	# of Shares		Price(1)	# of Shares		Price(1)
Non-vested restricted shares outstanding January 1	**101,435**	**$**	**17.40**	82,375	$	12.08	74,391	$	16.62
Shares granted	**127,377**		**17.92**	115,949		18.65	96,447		9.05
Shares vested	**(58,008)**		**17.25**	(65,855)		14.67	(64,499)		12.65
Shares forfeited, cancelled or retired	**(41,601)**		**17.99**	(31,034)		13.77	(23,964)		12.44
Non-vested restricted shares outstanding December 31	**129,203**	**$**	**17.79**	101,435	$	17.40	82,375	$	12.08

(1) Represents the weighted average fair value on date of grant.

The following table presents performance-based share activity by year:

	2011			2010			2009		
	# of Shares		Price(1)	# of Shares		Price(1)	# of Shares		Price(1)
Non-vested performance shares outstanding January 1	**68,880**	**$**	**15.74**	46,578	$	11.72	31,137	$	15.68
Shares granted	**50,440**		**17.92**	98,002		18.65	61,544		9.05
Shares vested	**(38,610)**		**16.19**	(47,252)		16.93	(32,321)		10.89
Shares forfeited, cancelled or retired	**(29,831)**		**16.63**	(28,448)		17.21	(13,782)		10.67
Non-vested performance shares outstanding December 31	**50,879**	**$**	**17.04**	68,880	$	15.74	46,578	$	11.72

(1) Represents the weighted average fair value on date of grant.

18. Income Taxes

The components of the income tax provision for the years ended December 31 are as follows:

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(In thousands)	For the Year Ended 2011	2010	2009
Current:			
Federal	**$ 5,657**	$ 9,904	$ 9,778
State	**642**	2,251	2,564
Deferred:			
Federal	**8,209**	(1,796)	2,266
State	**337**	(1,368)	(2,209)
Total Income tax expense	**$ 14,845**	$ 8,991	$ 12,399

The following is a reconciliation between the statutory federal income tax rate and the Company s overall effective tax rate for the years ended December 31:

(In percentages)	Year ended December 31, 2011	2010	2009
Statutory federal income tax rate	**35.0**	35.0	35.0
State income taxes, net of federal benefit	**0.8**	(0.1)	2.9
Other permanent differences	**(0.8)**	(0.3)	0.1
Change in tax reserves	**(0.6)**	(10.9)	
Change in deferred tax rate	**0.9**	(1.4)	(2.7)
Other	**0.2**	(1.0)	(2.9)
	35.5	21.3	32.4

Cash paid for federal and state income taxes was $8.8 million during 2011, $18.7 million during 2010, and $11.0 million during 2009.

Deferred Taxes

Net deferred taxes consist of the following components at December 31:

(In thousands)	Year ended December 31, 2011	2010
Current deferred tax assets:		
Reserve for uncollectible accounts	**$ 964**	$ 1,062
Accrued vacation pay deducted when paid	**1,153**	1,077
Accrued expenses and deferred revenue	**2,708**	3,533
	4,825	5,672
Non-current deferred tax assets:		
Net operating loss carryforwards	**2,216**	1,453
Pension and postretirement obligations	**34,303**	29,559
Stock-based compensation	**427**	465
Derivative instruments	**5,872**	10,183
State tax credit carryforwards	**2,216**	2,272

Other		**427**		450
		45,461		44,382
Non-current deferred tax liabilities:				
Goodwill and other intangibles		**(31,106)**		(34,963)
Partnership investments		**(26,985)**		(22,251)
Property, plant and equipment		**(64,697)**		(60,796)
		(122,788)		(118,010)
Net non-current deferred taxes		**(77,327)**		(73,628)
Net deferred income tax liabilities	**$**	**(72,502)**	$	(67,956)

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

Based upon historical taxable income, tax planning strategies and projections for future taxable income over the periods that the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these temporary differences. However, management may reduce the amount of deferred tax assets it considers realizable in the near term if estimates of future taxable income during the carryforward period are reduced. The amount of projected future taxable income is expected to allow for the full utilization of the net operating loss (NOL) carryforwards as described below.

ETFL, a nonconsolidated subsidiary for federal income tax return purposes, estimates it has available NOL carryforwards at December 31, 2011, of $2.7 million and related deferred tax assets of $0.9 million. ETFL s federal NOL carryforwards expire from 2019 to 2024.

We estimate that we have available state NOL carryforwards at December 31, 2011, of $20.2 million and related deferred tax assets of $1.3 million. The state NOL carryforwards expire from 2020 to 2031.

We estimate that we have available state tax credit carryforwards at December 31, 2011, of $3.4 million and related deferred tax assets of $2.2 million. During 2011, $0.1 million of the state tax credit carryforward was utilized. The state tax credit carryforward is limited annually and expires in 2027.

On January 13, 2011, Illinois Governor Pat Quinn signed PA. 96-1496 into law. Included in the law was an increase in the corporate income tax rate. This resulted in an increase to our net state deferred tax liabilities and a corresponding increase to our state tax provision of $0.3 million which we recognized in the first quarter of 2011.

Unrecognized Tax Benefits

We adopted the accounting guidance applicable to uncertainty in income taxes effective January 1, 2007 with no impact on its results of operations or financial condition, and have analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns as well as all open tax years in these jurisdictions. This accounting guidance clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements; prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax

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position taken or expected to be taken in a tax return; and provides guidance on description, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

As of December 31, 2011 and 2010, the amount of unrecognized tax benefits was $1.2 million and $1.5 million, respectively. The net amount of unrecognized benefits that, if recognized, would result in an impact to the effective tax rate is $0.8 million and $1.0 million, respectively.

For the year ended December 31, 2011, we recognized a net decrease of $0.3 million to our unrecognized tax benefits, which reduced our tax expense by a corresponding amount, due to the expiration of a federal statute of limitations.

Our practice is to recognize interest and penalties related to income tax matters in interest expense and general and administrative expense, respectively. We had no material interest or penalty expense in 2011. For the year ending December 31, 2010, we recorded a net decrease to interest expense of $1.0 million and had no material remaining liability for interest or penalties.

The only periods subject to examination for our federal return are years 2008 through 2010. The periods subject to examination for our state returns are years 2005 through 2010. We are not currently under examination by federal taxing authorities. We are currently under examination by 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.

We do not expect that the total unrecognized tax benefits and related accrued interest will significantly change due to the settlement of audits or the expiration of statute of limitations in the next twelve months. There were changes to these amounts during 2011 that were not material and that did not have a significant effect on the Company s effective tax rate.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Liability for Unrecognized Tax Benefits	
(In thousands)	**2011**	**2010**
Balance at January 1	**$ 1,496**	$ 5,659
Additions for tax positions in the current year		
Additions for tax positions of prior years		1,224
Settlements with taxing authorities		
Reduction for lapse of federal statute of limitations	**(272)**	(5,387)
Reductions for lapse of state statute of limitations		
Balance at December 31	**$ 1,224**	$ 1,496

19. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) at December 31 is comprised of the following components:

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(In thousands)	2011	2010
Fair value of cash flow hedges	**$ (15,932)**	$ (27,963)
Prior service credits and net losses on postretirement plans	**(44,102)**	(21,709)
	(60,034)	(49,672)
Deferred taxes	**22,201**	18,201
Totals	**$ (37,833)**	$ (31,471)

The components of comprehensive income (loss) are as follows:

(In thousands)	2011	2010	2009
Net income attributable to common stockholders	**$ 26,410**	$ 32,595	$ 24,905
Other comprehensive income (loss):			
Change in prior service cost and net loss, net of tax	**(13,959)**	1,572	14,022
Change in fair value of cash flow hedges, net of tax	**7,597**	2,497	9,917
Comprehensive income attributable to common stockholders	**20,048**	36,664	48,844
Add: net income attributable to noncontrolling interest	**572**	557	1,030
Total comprehensive income	**$ 20,620**	$ 37,221	$ 49,874

20. Environmental Remediation Liabilities

Environmental remediation liabilities were $0.3 million at both December 31, 2011 and 2010 and are included in other liabilities. These liabilities relate to anticipated remediation and monitoring costs with respect to two small vacant sites and are undiscounted. The Company believes the amount accrued is adequate to cover the remaining anticipated costs of remediation.

21. Commitments and Contingencies

Legal proceedings

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. In the third quarter of 2008, we filed preliminary objections and responses to Salsgiver s complaint. However, the court ruled against our preliminary objections. On November 3, 2008, we responded to Salsgiver s amended complaint and filed a counter-claim for trespass, alleging that Salsgiver attached cables to our poles without an authorized agreement and in an unsafe manner. We are currently in the discovery and deposition stage. In addition, we have asked the 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

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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. We also intend to appeal any adverse decisions from the Board of Appeals involving CCPA or CCES to the Commonwealth s Board of Finance and Revenue. At the Board of Finance and Revenue, we anticipate that these matters will be continued pending the outcome of present litigation in 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.

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

Operating leases

The Company has entered into several operating leases covering buildings, office space and equipment. Rent expense totaled $2.1 million in 2011, $3.4 million in 2010 and $4.2 million in 2009. Future minimum lease payments under existing agreements are as follows: 2012 $1.9 million, 2013 $1.2 million, 2014 $0.6 million, 2015 $0.3 million, 2016 $0.1 million, and thereafter $0.6 million.

Capital leases

The Company has four capital leases, all of which expire in 2021, for the lease of office, warehouse space and tech center needs. As of December 31, 2011, the present value of the minimum remaining lease commitments was approximately $4.7 million, of which $0.2 million is due and payable within the next 12 months. The leases will require total rental payments to LATEL of approximately $7.9 million and total rental payments to Spruce of approximately $1.6 million over the term of the leases.

Future minimum lease payments under capital leases as of December 31, 2011, are as follows:

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(In thousands)		
2012	$	828
2013		848
2014		870
2015		891
2016		914
Thereafter		4,257
Gross minimum lease payments		8,608
Less: imputed interest		3,897
Capital lease obligation		4,711

Other commitments

The Company has entered into two operational support systems contracts. Should we terminate any of the contracts prior to their expiration, we would be liable for minimum commitment payments as defined in the contracts for the remaining term of the contracts. In addition, we have a contractual obligation for network maintenance. The total of the Company s other commitments are due as follows: 2012 $1.2 million, 2013 $0.8 million, 2014 $0.5 million, and 2015 $0.1 million.

22. Net Income per Common Share

We adopted the FASB s authoritative guidance on the treatment of participating securities in the calculation of earnings per share on January 1, 2009, and began using the two-class method to compute basic and diluted earnings per share for all periods presented. The following illustrates the earnings allocation method utilized in the calculation of basic and diluted earnings per share for the years ended December 31:

(In thousands, except per share amounts)		2011		2010		2009
Basic Earnings Per Share Using Two-class Method:						
Net income	**$**	**26,982**	$	33,152	$	25,935
Less: net income attributable to noncontrolling interest		**572**		557		1,030
Net income attributable to common shareholders before allocation of earnings to participating securities		**26,410**		32,595		24,905
Less: earnings allocated to participating securities		**429**		439		309
Net income attributable to common stockholders	**$**	**25,981**	$	32,156	$	24,596
Weighted-average number of common shares outstanding		**29,600**		29,490		29,396
Net income per common share attributable to common stockholders - basic	**$**	**0.88**	$	1.09	$	0.84
Diluted Earnings Per Share Using Two-class Method:						
Net income	**$**	**26,982**	$	33,152	$	25,935
Less: net income attributable to noncontrolling interest		**572**		557		1,030
Net income attributable to common shareholders before allocation of earnings to participating securities		**26,410**		32,595		24,905
Less: earnings allocated to participating securities		**429**		439		309
Net income attributable to common stockholders	**$**	**25,981**	$	32,156	$	24,596

Weighted-average number of common shares outstanding (1)		**29,600**		29,490		29,396
Net income per common share attributable to common stockholders - diluted	**$**	**0.88**	$	1.09	$	0.84

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(1) to the extent that restricted shares are anti-dilutive, they have been excluded from the calculation of diluted earnings per share in accordance with the applicable accounting guidance.

An additional 0.3 million shares were not included in the computation of potentially dilutive securities at December 31, 2011 and 2010, because they were anti-dilutive.

23. Business Segments

The Company is viewed and managed as two separate, but highly integrated, reportable business segments: Telephone Operations and Other Operations. Telephone Operations consists of a wide range of telecommunications services, including local and long-distance service, DSL Internet access, IPTV, VOIP service, custom calling features, private line services, carrier access services, network capacity services over a regional fiber optic network, mobile services and directory publishing. The Company also operates two complementary non-core businesses that comprise Other Operations, including telephone services to correctional facilities and equipment sales. Management evaluates the performance of these business segments based upon net revenue, operating income, and income before extraordinary items.

(In thousands)	**2011**	**2010**	**2009**
Telephone operations	**$ 342,598**	$ 349,612	$ 364,548
Other operations	**31,665**	33,754	41,619
Total net revenue	**374,263**	383,366	406,167
Operating expense telephone operations	**194,580**	199,077	211,068
Operating expense other operations	**28,383**	31,250	39,166
Total operating expense	**222,963**	230,327	250,234
Depreciation and amortization expense telephone operations	**87,907**	86,270	84,018
Depreciation and amortization expense other operations	**838**	872	1,209
Total depreciation expense	**88,745**	87,142	85,227
Operating income telephone operations	**60,111**	64,265	69,462
Operating income - other operations	**2,444**	1,632	1,244
Total operating income	**62,555**	65,897	70,706
Interest expense, net of interest income	**(49,394)**	(50,740)	(57,935)
Investment income	**27,843**	27,744	25,770
Other, net	**823**	(758)	(207)
Income before taxes	**$ 41,827**	$ 42,143	$ 38,334
Capital expenditures:			
Telephone operations	**$ 42,377**	$ 41,620	$ 41,853
Other operations	**216**	169	499
Total	**$ 42,593**	$ 41,789	$ 42,352
Goodwill:			
Telephone operations	**$ 519,542**	$ 519,542	$ 519,542
Other operations	**1,020**	1,020	1,020

Total	**$ 520,562**	$ 520,562	$ 520,562
Total assets:			
Telephone operations (1)	**$ 1,187,708**	$ 1,201,545	$ 1,214,329
Other operations	**6,361**	8,001	12,278
Total	**$ 1,194,069**	$ 1,209,546	$ 1,226,607

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(1) Included within the telephone operations segment assets are our equity method investments totaling $48.3 million at December 31, 2011, $49.6 million at December 31, 2010, and December 31, 2009, respectively.

24. Quarterly Financial Information (unaudited)

(In thousands, except per share amounts)	March 31	June 30	September 30	December 31
2011:				
Net revenues	**$ 95,441**	**$ 92,623**	**$ 92,548**	**$ 93,651**
Operating expenses:				
Cost of services and products	**35,684**	**34,267**	**33,913**	**35,400**
Selling, general and administrative expenses	**20,699**	**19,147**	**21,148**	**20,056**
Debt refinancing costs		**2,540**	**109**	
Depreciation and amortization	**22,158**	**21,987**	**22,161**	**22,439**
Total operating expense	**78,541**	**77,941**	**77,331**	**77,895**
Operating income	**16,900**	**14,682**	**15,217**	**15,756**
Other expenses, net	**4,795**	**6,090**	**6,528**	**3,315**
Income before income taxes	**12,105**	**8,592**	**8,689**	**12,441**
Income tax expense	**4,608**	**3,079**	**2,723**	**4,435**
Net income	**7,497**	**5,513**	**5,966**	**8,006**
Less: Income attributable to noncontrolling interest	**132**	**162**	**148**	**130**
Net income attributable to common stockholders	**$ 7,365**	**$ 5,351**	**$ 5,818**	**$ 7,876**
Net income per share attributable to Consolidated Communications Holdings, Inc. common stockholders:				
Basic	**$ 0.25**	**$ 0.18**	**$ 0.19**	**$ 0.26**
Diluted	**$ 0.25**	**$ 0.18**	**$ 0.19**	**$ 0.26**
2010:				
Net revenues	$ 98,302	$ 95,737	$ 95,576	$ 93,751
Operating expenses:				
Cost of services and products	35,940	35,649	36,371	34,342
Selling, general and administrative expenses	22,803	21,390	21,686	22,146
Depreciation and amortization	21,542	21,460	21,918	22,222
Total operating expense	80,285	78,499	79,975	78,710
Operating income	18,017	17,238	15,601	15,041
Other expenses, net	6,539	6,427	4,683	6,105
Income before income taxes	11,478	10,811	10,918	8,936
Income tax expense/(benefit)	4,427	3,638	(1,049)	1,975
Net income	7,051	7,173	11,967	6,961
Less: Income attributable to noncontrolling interest	131	124	130	172
Net income attributable to common stockholders	$ 6,920	$ 7,049	$ 11,837	$ 6,789
Net income per share attributable to Consolidated Communications Holdings, Inc. common stockholders:				
Basic	$ 0.23	$ 0.24	$ 0.40	$ 0.23
Diluted	$ 0.23	$ 0.24	$ 0.40	$ 0.23

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25. Subsequent Events

Agreement and Plan of Merger with SureWest Communications

On February 5, 2012, we entered into a definitive agreement to acquire all the outstanding shares of SureWest Communications (SureWest) for $23.00 per share in a cash and stock transaction with a total consideration of approximately $340.9 million, exclusive of debt, based on our February 3, 2012 closing price. SureWest s shareholders may elect to exchange each share of SureWest common stock for either $23.00 in cash or shares of Consolidated common stock having an equivalent value based on average trading prices for the 20-day period ending two days before the closing of the acquisition, subject to a collar so that there will be a maximum exchange ratio of 1.40565 shares of Consolidated common stock for each share of SureWest common stock and a minimum of 1.03896 shares of Consolidated common stock for each share of SureWest common stock. Overall elections are subject to proration so that 50% of the SureWest shares will be exchanged for cash and 50% for stock.

In connection with the acquisition of SureWest, the Company received committed financing for a total of $350.0 million to fund the cash portion of transaction, to refinance SureWest s debt and to pay for certain transaction costs. The financing package includes a $350.0 million Senior Unsecured Bridge Loan Facility, with a one year maturity and a seven year rollover to Senior Unsecured Notes

Effective February 17, 2012, in connection with the acquisition financing for the SureWest transaction, we amended our credit facility. The amendment provides us with the ability to escrow proceeds from a high-yield note offering prior to closing the acquisition and, until closing, excludes the debt from current leverage calculations. The amendment also permits us additional flexibility for future high yield notes issuances with the same subsidiary guarantees as the current credit facility. All other terms, coverage and leverage ratios were unchanged.

SureWest currently serves residential subscribers and commercial businesses in the greater Kansas City, Kansas and Missouri and Sacramento, California regions.

Two putative class action lawsuits have been filed by alleged SureWest shareholders challenging the Company s proposed merger with SureWest in which the Company, SureWest and members of the SureWest board of directors have been named as defendants. The actions were filed on February 17, 2012and on February 24, 2012. These actions were filed in the Superior Court of California, Placer County and 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 is unfair to the SureWest shareholders and agreeing 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 lawsuits seek equitable relief, including an order to the defendants from consummating the merger on the agreed-upon terms, as well as unspecified money 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.

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Schedule II Valuation Reserves is set forth below.

(In thousands)	2011	2010	2009
Allowance for doubtful accounts:			
Balance at beginning of year	**$ 2,694**	$ 1,796	$ 1,908
Provision charged to expense	**4,104**	5,963	4,812
Write-offs, less recoveries	**(4,251)**	(5,065)	(4,924)
Balance at end of year	**$ 2,547**	$ 2,694	$ 1,796
Inventory reserve:			
Balance at beginning of year	**$ 395**	$ 701	$ 878
Provision charged to expense	**672**	163	542
Write-offs, less recoveries	**(606)**	(469)	(719)
Balance at end of year	**$ 461**	$ 395	$ 701