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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, 2010

OR

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

for the transition period from to .

Commission file number 000-51466

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 o 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 filer o (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, 2010 was approximately $422,375,319 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 3, 2011**
Common Stock, $0.01 par value	29,763,122 Shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the annual meeting of stockholders to be held on May 3, 2011 are incorporated by reference into Part III.

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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
IPO	Initial public offering
IPTV	Internet protocol digital television
ISP	Internet service provider
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.

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 provide communications services to geographic areas that are not heavily populated. This designation is important because rural telephone companies are 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, 2010, we had 237,141 local access lines, 106,387 DSL lines, 29,236 IPTV subscribers and an estimated 81,090 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. 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.

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.

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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:

	2010		2009		2008	
(in millions, except for percentages)	**$**	**% of Revenues**	**$**	**% of Revenues**	**$**	**% of Revenues**
Telephone operations:						
Local calling services	**91.9**	**24.0**	97.2	23.9	104.6	25.0
Network access services	**81.7**	**21.3**	86.3	21.3	95.3	22.8
Subsidies	**48.7**	**12.7**	56.0	13.8	55.2	13.2
Long-distance services	**18.0**	**4.7**	20.4	5.0	24.1	5.7
Data, Internet and video services	**75.2**	**19.6**	68.1	16.8	62.7	15.0
Other services	**34.1**	**8.9**	36.6	9.0	37.1	8.9
Total telephone operations	**349.6**	**91.2**	364.6	89.8	379.0	90.6
Other operations	**33.8**	**8.8**	41.6	10.2	39.4	9.4
Total operating revenue	**383.4**	**100.0**	406.2	100.0	418.4	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:

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	December 31, 2010	2009	2008
Residential access lines in service	140,660	146,766	162,067
Business access lines in service	96,481	100,469	102,256
Total local access lines in service	237,141	247,235	264,323
VOIP telephone subscribers	8,640	8,665	6,510
IPTV subscribers	29,236	23,127	16,666
ILEC DSL subscribers	106,387	100,122	91,817
Total broadband connections	144,263	131,914	114,993
CLEC access line equivalents (1)	81,090	72,681	74,687
Total connections	462,494	451,830	454,003
Long-distance lines (2)	172,856	165,714	165,953
Dial-up subscribers	1,354	2,371	3,957

(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 $115.4 million and $115.8 million of cash flows from operating activities for the years ended December 31, 2010 and 2009, respectively. As of December 31, 2010, our Telephone Operations had total assets of approximately $1.2 billion.

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 also offer a similar product to our residential customers in Texas, Pennsylvania and Illinois.

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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 or 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 that are subject to change at any time.

We record 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 Illinois, Texas and Pennsylvania are regulated and approved by the Illinois Commerce Commission (ICC), 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 to be no higher than interstate access rates. There is no effective regulation of the access rates by the 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 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 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 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 ShureTel distributor.

Our Other Operations segment used approximately $0.4 million of cash flows for operating activities for the year ended December 31, 2010 and generated approximately $0.5 million in cash flow from operations for the year ended December 31, 2009. As of December 31, 2010, Other Operations had total assets of approximately $8.0 million.

See 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. This includes our limited partnership interests in Boulevard Communications, a competitive access provider, and 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 on cash distributions paid to us up to our proportionate earnings in the partnership. We recognized income on cash distributions of $5.3 million from this partnership for the year ended December 31, 2010, and $5.7 million for the year ended December 31, 2009.

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 based on the proportion of the earnings generated by the partnership that would be allocated to us. Cash distributions are recorded as a

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reduction in our investment amount. For the years ended December 31, 2010 and 2009, we recognized income from this partnership of $4.9 million and $4.0 million, respectively and received cash distributions of $4.8 million and $2.0 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, 2010 and 2009, we recognized income on cash distributions from Pittsburgh SMSA of $6.5 million and $6.3 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, 2010 and 2009, we recognized income of $10.7 million and $9.1 million, respectively, and received cash distributions of $10.9 million and $8.3 million, respectively, from these partnerships.

Boulevard Communications, L.L.P. is a Pennsylvania limited liability partnership equally owned by us and a company in the Armstrong Holdings, Inc. group of companies. Boulevard provides point-to-point data services to businesses in western Pennsylvania, including access to Internet Service Provider s (ISP s), connections to inter-exchange carriers, and high-speed data transmission.

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 61,308 local access lines (averaging 22.9 lines per square mile) as of December 31, 2010. Approximately 56.1% 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.

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 124,548 local access lines (averaging 60.6 lines per square mile) as of December 31, 2010. Approximately 64.6% 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.

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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, 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 51,285 local access lines (averaging 179.9 lines per square mile) as of December 31, 2010. Approximately 50.3% 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:

- 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
- Leveraging our history and involvement with local communities and expanding Consolidated Communications and Consolidated brand recognition.

Our consumer 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 residential and small business customers. We also have a group of commissioned sales people, called our Feet on the Street team, who focus on the consumer segment. 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 customers and new prospects. Individual sales representatives are responsible for the entire telecom

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product set, customize proposals to meet the customer needs (access lines, long-distance, Metro-Ethernet circuits, data connectivity, hosted VOIP and business systems) and in most cases are charged with retaining and growing the telecom services within their account base.

Our customers also can 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 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.

Our Transport Services business has a sales force of commissioned sales people specializing in wholesale transport products.

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. Our network operations center (NOC) in Mattoon, Illinois

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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 485 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.

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. As of December 31, 2010, IPTV was available to approximately 205,000 homes in our markets. Our IPTV subscriber base continues to grow and now totals 29,236 subscribers as of December 31, 2010. 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.

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Employees

At December 31 2010, we had 970 full-time and 21 part-time employees. Approximately 49% 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	203	IBEW	11/14/2012	
Lufkin/Conroe, Texas	180	CWA	10/15/2013	
Pennsylvania (ILEC)	52	CWA	09/30/2011	
Katy, Texas	38	CWA	02/28/2011	(2)
Pennsylvania (CLEC)	10	CWA	02/29/2012	
Totals	483			

(1) IBEW International Brotherhood of Electrical Workers

CWA Communication Workers of America

(2) On March 2, 2011, our employees belonging to the Communications Workers of America Local 6218 approved a new three-year contract with the Company, effective as of March 1, 2011 and expiring on February 28, 2014, which covers 38 bargained for employees at our Katy, Texas location.

As a whole, we believe our relations with our employees are good.

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 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, 2010, 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.

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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, 2010, 96,180, or 40.6%, 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, 2010, 89,676, or 37.8%, 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.

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, 2010, 51,285, or 21.6%, 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, that includes our triple play offering of voice, DSL and IPTV services. Our residential and business 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, 2010, we had 52,427 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.

Generally supportive regulatory environment

As a RLEC, we benefit from federal and Texas and Pennsylvania state subsidies designed to promote universal service , or widely available quality telephone service at affordable prices in rural areas. For the year ended December 31, 2010, we received $27.8 million in payments from the Federal Universal Service Fund, $15.7 million from the Texas Universal Service Fund and $5.2 million from the Pennsylvania Universal Service Fund. In the aggregate, these payments constituted 12.7% of our total revenues in 2010. For the year ended December 31, 2009, we received $34.6 million from the Federal Universal Service Fund, $16.2 million from the Texas Universal Service Fund and $5.2 million from the Pennsylvania Universal Service Fund. In the aggregate, these payments constituted 13.8% of our total revenues in 2009.

See Regulatory Environment and Item 1A Risk Factors Regulatory Risks .

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.

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, 2010, over 98% of our video customers have subscribed to our double or triple play offerings. At December 31, 2010, we had 29,236 video subscribers and the capability of offering the service to over 205,000 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. In particular, we have 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. During 2010, we 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.

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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.

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 2011 and beyond. See 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

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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. The FCC has yet to issue a decision on the matter. 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.

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.

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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 Risk Factors Regulatory Risks .

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

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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.

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

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. 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

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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 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. The FCC has been considering further changes to interstate network access charges since 2001, and has requested public comments on several different approaches to the issue, but has not yet taken action on any of these proposals. We continue to actively participate in shaping intercarrier compensation and universal service reforms through our own efforts as well as through industry associations and coalitions.

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

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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, 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

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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 2008, 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-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 could increase substantially.

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 2010, we received $48.7 million in aggregate payments from the Federal Universal Service Fund, the Pennsylvania Universal Service Fund and the Texas Universal Service Fund. In 2009, we received $56.0 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 has 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.

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The formula the FCC uses to calculate universal service fund subsidies is in flux. In November 2007, the Federal-State Joint Board on universal service offered some proposals to the FCC to address the long-term reform issues facing the high-cost universal service support system and to make fundamental revisions in the structure of existing universal service mechanisms. In November 2008, the FCC declined to adopt any of the Joint Board s proposals, but continues to study universal service reform. On March 16, 2010, the FCC issued its National Broadband Plan which included a proposal to reform universal service and intercarrier compensation. The FCC released a Notice of Proposed Rulemaking on February 8, 2011 on this portion of the National Broadband Plan.

We cannot predict the outcome of any FCC rulemaking or similar proceedings. The outcome of any proceeding or other legislative or regulatory changes could affect the amount of universal service support our rural telephone companies receive.

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 2010, 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. Most recently, 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

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substantial state-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 legislation, allowing ILECs, beginning January 1, 2011, to elect deregulation of 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. The Governor of Illinois signed the bill into law on June 15, 2010. The Illinois telecommunications legislation bill is scheduled to sunset in 2013. In the past, such sunset dates in telecommunication legislation has 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 from our rural telephone companies to the parent entities, and could adversely affect our ability to meet our debt service requirements and repayment obligations.

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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. The Texas legislature may address issues of importance to rural telecommunications carriers in Texas, including the Texas Universal Service Fund, in the 2011 legislative session.

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.

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 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.

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In 2004, PAPUC instituted a third review of access charges. This proceeding may affect access rates for both our Pennsylvania ILEC and CLEC properties, as well as the amount of funding that our ILEC receives from the PAUSF and the amounts that both companies contribute to that fund. Since 2004, the PAPUC has twice agreed to stay those proceedings while awaiting an FCC ruling in its Unified Compensation docket. The request for a third stay is now pending before the PAPUC and is opposed by several parties. Parties have filed testimony and the PAPUC held the first round of hearings beginning in February 2009. It is not known when the PAPUC will rule. During the period of the stay, the current PAUSF continues under the existing regulations.

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.

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

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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.

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Item 1A. Risk Factors

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.

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 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, 2010 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;
- 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

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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, 2010, we would have been able to pay a dividend of $136.4 million under the restricted payment covenants in our credit agreement. After giving effect to the dividend of $11.5 million, which was declared in November 2010 and paid in February 2011, we could pay a dividend of $124.9 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. 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.

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Our estimated tax payments related to our federal income tax liability increased in 2010 and will likely remain as high in the future as we have utilized all of our federal net operating losses, which may reduce the amount of cash available to pay dividends.

Under the Internal Revenue Code, 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 all our federal net operating losses (net of valuation allowances) that we can carry forward to future periods. Since our NOLs have been used or have expired, 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.

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;
- Require the affirmative vote of holders of 75% or more of the voting power of our outstanding common stock to approve any merger, consolidation, or sale of all or substantially all of our assets;
- 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

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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.

The concentration of the voting power of our common stock could limit a shareholder s ability to influence corporate matters.

On December 31, 2010, Central Illinois Telephone, which is controlled by our Chairman, Richard A. Lumpkin, owned approximately 10.4% of our common stock, and our executive management and directors (excluding Mr. Lumpkin) owned approximately 2.4%. As a result, these investors will be able to influence all matters requiring stockholder approval, including:

- The election of directors;
- Significant corporate transactions, such as a merger or other sale of our company or its assets;
- Acquisitions that increase our indebtedness or the sale of revenue-generating assets;
- Corporate and management policies;
- Amendments to our organizational documents; and
- Other matters submitted to our stockholders for approval.

This share ownership may limit the ability of other shareholders to influence corporate matters. We may take actions that many stockholders do not view as beneficial, which may adversely affect the market price of our common stock.

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, 2010, we had $880.0 million of long-term debt and $4.0 million of capital leases outstanding, excluding the current portion, along with $71.9 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 $45.0 million to $48.0 million in 2011. Interest expense rose significantly beginning in 2008 after the North Pittsburgh acquisition as a

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result of the additional indebtedness incurred. We cannot guarantee that we will generate sufficient revenues to service our debt and have 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, 2010, our credit agreement would have permitted us to incur approximately $76.2 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.

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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.

Our credit facilities mature in full in 2014, and we do not expect earnings to be sufficient to allow repayment from that source, 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 date 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.

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.

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

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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.

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

In 2010, 2009 and 2008, 63.0%, 45.4% and 47.4%, 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

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2010 is the result of the loss of other revenue previously included in this operating segment related to the sale of our CMR and Operator Services business units in 2010).

Our relationship with the Illinois Department of Corrections accounted for 91.8%, 91.2% and 91.6% of our Prison Services revenues during 2010, 2009 and 2008, 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, 2010, approximately 49% 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 existing collective bargaining agreements begin expiring in 2011 and continue to expire through 2013. 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 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.

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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.

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.

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The FCC is currently considering sweeping potential changes in network access charges including switched access, special access and broadband services. Depending on the FCC s decisions, our network access revenues could decline materially. We do not know whether increases in other revenues, such as subsidies and monthly line charges, will effectively offset any reductions in access charges. State regulators may also make changes in our intrastate network access charges that could reduce our revenues. To the extent regulators permit competitive telephone companies to increase their operations in the areas served by our rural telephone companies, a portion of long-distance and other carriers network access charges will be paid to those competitors rather than to our companies. Finally, the compensation our companies receive from network access charges could be reduced due to competition from wireless carriers. Illinois law now prohibits us from charging intrastate access rates higher than our interstate access rates, regardless of our costs.

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.

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. During the last two 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 Commission 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 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

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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

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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 2011 and 2030. The following chart summarizes the principal facilities owned or leased by us as of December 31, 2010.

			Operating segment		
Location	**Primary Use**	**Owned/ leased**	**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	Operator services and operations	Owned	X	X	36,300
Mattoon, IL	Operations and distribution center	Leased	X	X	30,900
Mattoon, IL	Sales and administration center	Leased	X	X	30,700
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 725 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

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utility poles. Salsgiver seeks compensatory and punitive damages as the result of alleged lost projected profits, damage to its business reputation and other costs. It claims to have sustained losses of approximately $125 million but does 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.

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. [Removed and Reserved]

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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 23, 2011, we had 1,510 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:

	2010		2009	
Period	**High**	**Low**	**High**	**Low**
First quarter	**19.07**	**16.27**	12.48	7.90
Second quarter	**19.50**	**16.64**	12.12	10.24
Third quarter	**18.67**	**16.61**	16.01	11.17
Fourth quarter	**19.30**	**18.37**	17.48	13.60

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 2011 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, 2005 and tracks it through December 31, 2010.

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COMPARISON OF 5 YEAR CUMULATIVE RETURN*

Among Consolidated Communications Holdings, the S&P 500 Index,

the Dow Jones US Fixed-Line Telecommunications Index and a Peer Group

*$100 invested on 12/31/05 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

			At December 31,		
(In dollars)	**2010**	**2009**	**2008**	**2007**	**2006**
Consolidated Communications Holdings, Inc.	244.05	203.16	122.10	182.49	177.83
S&P 500	111.99	97.33	76.96	122.16	115.80
Dow Jones US Fixed-Line Telecommunications	162.43	136.90	126.00	173.55	149.30
Peer group	181.55	151.21	137.90	167.49	152.96

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, 2010

During the quarter ended December 31, 2010, we reacquired and cancelled 53,538 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 2010			n/a	n/a
November 2010			n/a	n/a
December 2010	53,538	$ 18.69	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, 2010, 2009, 2008, 2007 and 2006. The following selected historical financial information should be read in conjunction with 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, 2010 and 2009, and the statement of operations data presented below for each of the years in the three-year period ended December 31, 2010, 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, 2010	2009	2008	2007 (5)	2006
Telephone operations revenues	**$ 349.6**	$ 364.6	$ 379.0	$ 288.2	$ 280.4
Other operations revenues	**33.8**	41.6	39.4	41.0	40.4
Total operating revenues	**383.4**	406.2	418.4	329.2	320.8
Cost of products and services (exclusive of depreciation and amortization shown separately below)	**142.3**	145.5	143.5	107.3	98.1
Selling, general and administrative expense	**88.0**	104.8	108.8	89.6	94.7
Intangible asset impairment			6.1		11.3
Depreciation and amortization	**87.2**	85.2	91.7	65.7	67.4
Income from operations	**65.9**	70.7	68.3	66.6	49.3
Interest expense, net (1)	**(50.7)**	(57.9)	(66.3)	(46.5)	(42.9)
Other income (loss), net	**27.0**	25.5	10.8	(3.4)	8.0
Income before income taxes and extraordinary item	**42.2**	38.3	12.8	16.7	14.4
Income tax expense	**9.0**	12.4	6.6	4.7	0.4
Income before extraordinary item	**33.2**	25.9	6.2	12.0	14.0
Extraordinary item, net of tax			7.2		
Net income	**33.2**	25.9	13.4	12.0	14.0
Net income of noncontrolling interest (2)	**0.6**	1.0	0.9	0.6	0.7
Net income attributable to common shareholders (2)	**$ 32.6**	$ 24.9	$ 12.5	$ 11.4	$ 13.3
Income per common share basic: (3)					
Income per common share before extraordinary item	**$ 1.09**	$ 0.84	$ 0.18	$ 0.43	$ 0.48
Extraordinary item per share			0.24		
Net income per common share basic	**$ 1.09**	$ 0.84	$ 0.42	$ 0.43	$ 0.48
Basic weighted-average number of shares	**29,490**	29,396	29,321	25,764	27,740
Income per common share diluted: (3)					
Income per common share before extraordinary item	**$ 1.09**	$ 0.84	$ 0.18	$ 0.43	$ 0.48
Extraordinary item per share			0.24		
Net income per common share diluted	**$ 1.09**	$ 0.84	$ 0.42	$ 0.43	$ 0.48
Diluted weighted-average number of common and common equivalent shares	**29,490**	29,396	29,321	25,764	28,171
Cash dividends per common share	**$ 1.55**	$ 1.55	$ 1.55	$ 1.55	$ 1.55
Consolidated cash flow data:					
Cash flows from operating activities	**$ 115.0**	$ 116.3	$ 92.4	$ 82.1	$ 84.6
Cash flows used for investing activities	**(40.7)**	(41.6)	(48.0)	(305.3)	(26.7)
Cash flows used for financing activities	**(49.4)**	(47.4)	(63.3)	230.9	(62.7)
Capital expenditures	**41.8**	42.4	48.0	33.5	33.4
Consolidated Balance Sheet:					
Cash and cash equivalents	**$ 67.7**	$ 42.8	$ 15.5	$ 34.3	$ 26.7
Total current assets	**136.3**	107.9	78.6	99.6	74.2
Net property, plant and equipment (6)	**356.1**	377.2	400.3	411.6	314.4
Total assets	**1,209.5**	1,226.6	1,241.6	1,304.6	889.6
Total debt (including current portion) (4)	**884.1**	880.3	881.3	892.6	594.0
Stockholders equity	**71.9**	80.7	75.3	159.7	118.7
Other financial data (unaudited):					
Adjusted EBITDA (7)	**$ 183.2**	$ 188.8	$ 189.8	$ 143.8	$ 139.8

Other data (as of the end of the period) (Unaudited):					
Local access lines					
Residential	**140,660**	146,766	162,067	183,070	155,354
Business	**96,481**	100,469	102,256	103,116	78,335
Total local access lines	**237,141**	247,235	264,323	286,186	233,689
CLEC access line equivalents	**81,090**	72,681	74,687	70,063	
VOIP subscribers	**8,640**	8,665	6,510	2,494	
IPTV subscribers	**29,236**	23,127	16,666	12,241	6,954
ILEC DSL subscribers	**106,387**	100,122	91,817	81,337	52,732
Total connections	**462,494**	451,830	454,003	452,321	293,375

(1) Interest expense includes amortization of deferred financing costs totaling $1.3 million for the years ended December 31, 2010 and 2009, $1.4 million for 2008, $3.2 million for 2007 and $3.3 million for 2006.

(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) In connection with the acquisition of North Pittsburgh on December 31, 2007, we incurred $296.0 million new term debt, net of the repayment of existing debt.

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

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

(7) 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 (also 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.

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 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.

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

	Year ended December 31,				
(In millions, unaudited)	2010	2009	2008	2007	2006
Net cash provided by operating activities	**$ 115.0**	$ 116.3	$ 92.4	$ 82.1	$ 84.6
Non-cash, stock-based compensation	**(2.4)**	(1.9)	(1.9)	(4.0)	(2.5)
Other adjustments, net (a)	**(0.9)**	(1.0)	3.8	(9.5)	(2.0)
Changes in operating assets and liabilities	**8.6**	(2.2)	9.9	8.5	0.6
Interest expense, net	**50.7**	57.9	66.3	46.5	42.9
Income taxes	**9.0**	12.4	6.6	4.7	0.4
EBITDA (b)	**180.0**	181.5	177.1	128.3	124.0
Adjustments to EBITDA (c):					
Integration, restructuring and Sarbanes Oxley (d)		7.4	4.8	1.2	3.7
Other, net (e)	**(26.7)**	(24.4)	(19.9)	(6.6)	(7.1)
Investment distributions (f)	**27.5**	22.4	17.8	6.6	5.5
Loss on extinguishment of debt (g)			9.2	10.3	
Intangible asset impairment (a)			6.1		11.2
Extraordinary item (h)			(7.2)		
Non-cash, stock-based compensation (i)	**2.4**	1.9	1.9	4.0	2.5
Adjusted EBITDA	**$ 183.2**	$ 188.8	$ 189.8	$ 143.8	$ 139.8

(a) Other adjustments, net includes $6.1 million and $11.2 million of intangible asset impairment charges for years ended December 31, 2008 and December 31, 2006, respectively. 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. In addition, based on a decline in estimated future cash flows of CMR and Operator Services business, our 2006 annual impairment review determined that the value of the customer lists associated with these businesses was impaired. Non-cash impairment charges are excluded in arriving at Adjusted EBITDA under our credit facility.

(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 TXUCV and North Pittsburgh, we incurred certain expenses associated with integrating and restructuring the businesses. These expenses include severance and employee relocation expenses, Sarbanes-Oxley start-up costs, costs to integrate our technology, administrative and customer service functions and billing systems.

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

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

(g) 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.

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(h) 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. See the financial statements and footnotes for additional information.

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

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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, 2010, 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 2010 of $32.6 million, or $1.09 per diluted share, as compared to net income attributable to common stockholders of $24.9 million, or $0.84 per diluted share, in 2009. Net income in 2010 benefited from significantly lower interest expense (including a net $1.0 million decrease in interest expense related to uncertain tax positions), significantly lower income tax expense (primarily related to a net $4.2 million decrease in expense for uncertain tax positions) and lower pension and professional fees. Net income also benefited from increased earnings from our wireless partnerships. We also continue to benefit from ongoing cost reductions from previous integration and cost reduction projects. These ongoing cost reductions have allowed us to mostly offset declines in revenue. Operating expenses were negatively impacted in 2010 by higher depreciation and an increase in bad debt expense. Operating expenses in 2009 were negatively impacted by higher pension and postretirement expense and $7.4 million of integration and restructuring expenses.

Revenue in 2010 decreased to $383.4 million as compared to $406.2 million in 2009. Revenue declines were principally the result of the sale of our CMR and Operator Services businesses during 2010. The year over year decline in revenues as a result of the sale of these businesses 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%. 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) were partially offset by a double digit percentage growth in data, Internet and video revenues. Revenues from our Prison Services business also increased in 2010 versus 2009.

Redemption of senior notes

On April 1, 2008, we redeemed all of the then-outstanding 9.75% senior notes using $120.0 million borrowed under a delayed draw term loan and cash on hand. The total amount of the redemption was $136.3 million, including a redemption premium of 4.875%, or $6.3 million. We recognized a $9.2 million loss on the redemption of the notes. As a result of the transaction, annualized cash interest expense was reduced by $4 million.

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Discontinuance of Accounting for the Effects of Certain Types of Regulation

Historically, our Illinois and Texas ILEC operations followed the Financial Accounting Standards Board s (FASB) authoritative guidance for regulated enterprises in accounting for the effects of certain types of regulation. This authoritative guidance required the recognition of the economic effects of rate regulation by recording costs and a return on investment as such amounts are recovered through rates authorized by regulatory authorities. Changes to our business, however, have impacted the dynamics of our operating environment. In the last half of 2008, we experienced a significant increase in competition in our Illinois and Texas markets primarily due to traditional cable competitors offering voice services. Also, effective July 1, 2008, we made an election to transition from rate of return to price cap regulation at the interstate level for our regulated Illinois and Texas operations. The conversion to price caps provides for greater pricing flexibility, especially in the increasingly competitive special access segment and in launching new products. Additionally, in response to customer demand, we launched our own VOIP service product offering as an alternative to our traditional wireline services. While there have been no material changes in our bundling strategy or in our end-user pricing, the pricing structure is transitioning from being based on the recovery of costs to a pricing structure based on market conditions.

Based on these and other factors impacting our business, we determined in late 2008 that the applicability of the authoritative guidance for regulated enterprises was no longer appropriate in the reporting of our financial results. As a result, we began to apply the authoritative guidance required for the discontinuance of application of regulatory accounting. This authoritative guidance requires the elimination of the effects of any actions of regulators that had previously been recognized in accordance with the authoritative guidance for regulated enterprises but that would not have been recognized by nonregulated enterprises. Depreciation rates of certain assets established by regulatory authorities for our telephone operations subject to the authoritative guidance for regulated enterprises have historically included a systematic charge for removal costs in excess of the related estimated salvage value on those assets, resulting in a net over-depreciation of those assets over their useful lives. Costs of removal were then appropriately applied against this reserve. Upon discontinuance of the authoritative guidance for regulated enterprises, we reversed the impact of recognizing removal costs in excess of the related estimated salvage value, which resulted in recording a non-cash extraordinary gain of approximately $7.2 million, net of taxes of approximately $4.2 million, in the three months ended December 31, 2008. Our Pennsylvania ILEC previously discontinued the application of the authoritative guidance for regulated enterprises prior to our acquisition of North Pittsburgh, and, as a result, was not affected by the change in 2008.

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, and a generally supportive regulatory environment.

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,

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the access charges we receive from other carriers, the federal and state subsidies we receive and most other revenue streams. We had 237,141, 247,235 and 264,323 local access lines, respectively, in service as of December 31, 2010, 2009 and 2008.

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). In 2008, both Suddenlink and Comcast, cable competitors in Texas, as well as NewWave Communications in Illinois, launched a competing voice product, 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;
- 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, 2010, IPTV was available to approximately 205,000 homes in our markets. Our IPTV subscriber base has grown substantially over the last three years and totaled 29,236, 23,127 and 16,666 subscribers at December 31, 2010, 2009 and 2008, respectively.

We also continue to experience substantial growth in the number of DSL subscribers we serve. We had 106,387, 100,122 and 91,817 DSL lines in service as of December 31, 2010, 2009 and 2008, 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;

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- 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;
- 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 2010. For the years ended December 31, 2009 and 2008, we incurred integration and restructuring expenses of $7.4 million and $4.8 million, respectively. Savings from integration and restructuring, along with other cost reduction efforts, have allowed us to mostly offset revenue declines.

Depreciation and amortization expenses. Prior to our discontinuance of the application of the authoritative guidance on accounting for the effects of certain types of regulation on December 31, 2008 as noted above, we recognized depreciation expenses for our regulated telephone operations using rates and lives approved by the state regulators for regulatory reporting purposes. Upon the discontinuance of

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the application of this authoritative guidance, we revised the useful lives on a prospective basis to be similar to a non-regulated entity.

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, 2010, is being amortized at a weighted-average life of approximately 2.9 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.

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:

	December 31,	
	2010	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
Dial-up subscribers	**1,354**	2,371

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(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.

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.

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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.

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

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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.

For the year ended December 31, 2009, compared to December 31, 2008

The following summarizes our revenues and operating expenses on a consolidated basis for the years ended December 31, 2009 and 2008:

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	For the years ended December 31,			
	2009		2008	
(in million, except for percentages)	$	%	$	%
Revenue				
Telephone operations				
Local calling services	**97.2**	**23.9**	104.6	25.0
Network access services	**86.3**	**21.3**	95.3	22.8
Subsidies	**56.0**	**13.8**	55.2	13.2
Long-distance services	**20.4**	**5.0**	24.1	5.7
Data, Internet and video services	**68.1**	**16.8**	62.7	15.0
Other services	**36.6**	**9.0**	37.1	8.9
Total telephone operations	**364.6**	**89.8**	379.0	90.6
Other operations	**41.6**	**10.2**	39.4	9.4
Total operating revenue	**406.2**	**100.0**	418.4	100.0
Expenses				
Telephone operations	**211.1**	**52.0**	214.5	51.2
Other operations	**39.2**	**9.6**	43.8	10.5
Depreciation and amortization	**85.2**	**21.0**	91.7	21.9
Total operating expense	**335.5**	**82.6**	350.0	83.6
Income from operations	**70.7**	**17.4**	68.4	16.4
Interest expense, net	**57.9**	**14.3**	66.3	15.9
Other income, net	**25.5**	**6.3**	10.7	2.6
Income tax expense	**12.4**	**3.0**	6.6	1.6
Income before extraordinary item	**25.9**	**6.4**	6.2	1.5
Extraordinary item, net of tax			7.2	1.7
Net income	**25.9**	**6.4**	13.4	3.2
Net income attributable to noncontrolling interest	**1.0**	**0.3**	0.9	0.2
Net income attributable to common stockholders	**24.9**	**6.1**	12.5	3.0

Revenue

Revenue in 2009 declined by $12.2 million, or 2.9%, to $406.2 million from $418.4 million in 2008. Overall, the decline in revenue was principally the result of year-over-year declines in the number of access lines, which impacted revenue for local calling services, network access services and long-distance services. This access line loss was partially offset by an increase in broadband connections. VOIP, DSL and IPTV connections all increased significantly in 2009. Connections by type are as follows:

	December 31,	
	2009	2008
Residential access lines in service	**146,766**	162,067
Business access lines in service	**100,469**	102,256

Total local access lines in service	**247,235**	264,323
VOIP subscribers	**8,665**	6,510
IPTV subscribers	**23,127**	16,666
ILEC DSL subscribers	**100,122**	91,817
Total broadband connections	**131,914**	114,993
CLEC access line equivalents (1)	**72,681**	74,687
Total connections	**451,830**	454,003
Long-distance lines (2)	**165,714**	165,953
Dial-up subscribers	**2,371**	3,957

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(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 $7.4 million, or 7.1%, to $97.2 million in 2009 compared to $104.6 million in 2008. 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 $9.0 million, or 9.4%, to $86.3 million in 2009 compared to $95.3 million in 2008. 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 was basically flat, totaling $56.0 million in 2009 versus $55.2 million in 2008, a $0.8 million increase, or 1.4%. Increases in the amount of federal high cost fund support received was offset somewhat by a decline in the amount of state high cost fund support received.

Long-distance services revenue decreased by $3.7 million, or 15.4%, to $20.4 million in 2009 as compared to $24.1 million in 2008. The decrease is primarily due to a decline in billable minutes as customers move to our unlimited long-distance plan.

Data, Internet and video revenue increased by $5.4 million, or 8.6%, to $68.1 million in 2009 as compared to $62.7 million in 2008. The increase is primarily due to an increase in DSL and IPTV subscribers.

Other services revenue decreased by $0.5 million, or 1.3%, to $36.6 million in 2009 as compared to $37.1 million in 2008. The decrease is primarily due to a reduction in revenue related to our transport business.

Other Operations Revenue

Other Operations revenue increased by $2.2 million, or 5.6%, to $41.6 million in 2009 as compared to $39.4 million in 2008. Decreased incoming calls in our operator services business was offset by increases in our telemarketing and prison services businesses.

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Operating Expenses

Operating expenses decreased in 2009 by $1.9 million, or 0.8%, to $250.3 million as compared to $252.2 million in 2008. Reductions in operating expenses by segment are discussed below.

Telephone Operations Operating Expenses

Operating expenses for Telephone Operations decreased by $3.4 million, or 1.6%, to $211.1 million in 2009 as compared to $214.5 million in 2008. The overall decrease in operating expenses was principally driven from a reduction in workforce implemented in early 2009, lower costs paid for access services as a result of lower minutes of usage and from cost reductions resulting from our integration projects. In 2009, we successfully migrated our customer billing platform in Pennsylvania to the same billing system used by our ILECs in Texas and Illinois. We also consolidated most of our corporate accounting functions into our Illinois corporate office and completed our consolidation into one network operations center based in Mattoon, Illinois. 2009 operating expenses were negatively affected by significantly higher pension and other postretirement costs and to a lesser extent from increased personal property and real estate taxes. 2008 operating expenses were negatively affected by costs incurred as a result of Hurricane Ike, which caused severe power outages in both Texas and Pennsylvania.

Other Operations Operating Expenses

Operating expenses for Other Operations (excluding a goodwill impairment charge of $6.1 million in 2008) increased by $1.5 million, or 4.0%, to $39.2 million in 2009 as compared to $37.7 million in 2008.

Depreciation and Amortization

Depreciation and amortization expenses decreased by $6.5 million, or 7.1%, to $85.2 million in 2009 compared to $91.7 million in 2008. The decrease in depreciation and amortization is principally the result of the discontinuance of the accounting for the effects of certain types of regulation at December 31, 2008.

Interest Expense, Net of Interest Income

Interest expense, net of interest income, decreased by $8.4 million, or 12.7%, to $57.9 million in 2009 compared to $66.3 million in 2008. Interest expense in 2009 benefited from the expiration in 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. Interest expense also benefited in 2009 from significantly lower interest rates in general, as well as the repayment on April 1, 2008, of our senior notes which paid interest at 9.375%.

Other Income (Expense)

Other income (expense) increased $14.8 million to $25.5 million in 2009 compared to $10.7 million in 2008. The increase was principally due to the $9.2 million loss on early extinguishment of debt recognized in 2008 related to the early redemption of our then outstanding senior notes and the related write-off of unamortized debt financing costs. Other income (expense) in 2009 was positively affected by improved earnings from our wireless partnership interests and from a $1.8 million gain from the reversal of a previously established reserve in excess of the settlement amount of a dispute with Verizon.

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Extraordinary Item

In the fourth quarter of 2008, we determined it was no longer appropriate to continue the application of the FASB s authoritative guidance on the accounting for the effect of certain types of regulation for certain wholly owned subsidiaries Illinois Consolidated Telephone Company, Consolidated Communications of Texas Company and Consolidated Communications of Fort Bend Company.

The decision to discontinue the application of this authoritative accounting guidance was based on recent changes to our operations which have impacted the dynamics of the Company s business environment. In the last half of 2008, we experienced a significant increase in competition in our Illinois and Texas markets as, primarily, our traditional cable competitors started offering voice services. Also, effective July 1, 2008, we made an election to transition from rate of return to price cap regulation at the interstate level for our Illinois and Texas operations. The conversion to price caps gives us greater pricing flexibility, especially in the increasingly competitive special access segment and in launching new products. Additionally, in response to customer demand we have also launched our own VOIP product offering as an alternative to our traditional wireline services. While there has been no material changes in our bundling strategy or in end-user pricing, our pricing structure is transitioning from being based on the recovery of costs to a pricing structure based on market conditions. As required by the provisions of the applicable accounting guidance for regulated enterprises, we recorded a non-cash extraordinary gain of $7.2 million, net of tax of $4.2 million, from the write off of asset removal costs in excess of the salvage value of regulatory fixed assets which had previously been charged to depreciation over the assets useful life.

Income Taxes

Our provision for income taxes increased by $5.8 million to $12.4 million in 2009 compared to $6.6 million in 2008. The effective tax rate was 32.3% for 2009 and 52.0% for 2008.

We adopted the applicable accounting guidance related to noncontrolling interest on January 1, 2009. The presentation and disclosure requirements were applied retrospectively. However, the income tax provision was not adjusted. The result is a lower effective income tax rate due to the inclusion of income attributable to noncontrolling interest in income before the provision for income taxes. The effective rate prior to adoption was 55.8% for 2008.

The effective rate was lower in 2009 due to state tax planning and the changes to our state tax reporting structure resulting from the completion of the internal restructuring effective December 31, 2008. This change resulted in an additional net decrease in our state deferred income tax rate. This change in the state deferred income tax rate resulted in a $1.0 million of tax benefit in 2009 due to applying a lower effective deferred income tax rate to previously recorded tax liabilities. In addition, various prior-year state returns were amended and filed resulting in a $0.5 million state tax benefit.

Taxes were higher during 2008 due to state income taxes owed in certain states where we were required to file on a separate legal entity basis and the rate impact of the extraordinary gain presented net of tax. In addition, we completed a tax free legal entity reorganization project resulting in changes to our state reporting structure. The change resulted in a net decrease in our state deferred income tax rate. The change in the state deferred income tax rate resulted in a $1.2 million tax benefit in 2008 due to applying a lower effective deferred income tax rate to previously recorded deferred tax liabilities. Also, during 2008, the state of Texas completed an audit of two Texas subsidiaries resulting in additional tax expense of $0.8 million.

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Exclusive of these adjustments, our effective tax rate would have been 36.2% for the year ended December 31, 2009, compared to 48.1% for the year ended December 31, 2008.

Net Income Attributable to Noncontrolling Interest

The net income attributable to noncontrolling interest totaled $1.0 million in 2009 versus $0.9 million in 2008. The income for our ETFL subsidiary was relatively stable year over year.

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, 2010, over 96% of our connections are DSL capable at speeds up to 6 mbps, and we have passed approximately 205,000 homes with our IPTV service. 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.