BEFORE THE
PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Joint Application of CONSOLIDATED COMMUNICATIONS HOLDINGS, INC., CONSOLIDATED COMMUNICATIONS, INC. and WH ACQUISITION II CORP. AND SUREWEST COMMUNICATIONS, SUREWEST TELEPHONE (U 1015 C), SUREWEST LONG DISTANCE (U 5817 C), and SUREWEST TELEVIDEO (U 6324 C) To Authorize the Acquisition of Control of SUREWEST TELEPHONE (U 1015 C), SUREWEST LONG DISTANCE (U 5817 C), and SUREWEST TELEVIDEO (U 6324 C)	A1202011 A.12-____-____

EXHIBIT H

Consolidated Financial Statements of SureWest Communications (excerpts from SEC Forms 10 Q and 10-K)

SUREWEST COMMUNICATIONS (SURW)

10-Q

Quarterly report pursuant to sections 13 or 15(d)
Filed on 10/28/2011
Filed Period 09/30/2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2011

or

[   ] TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 000-29660

SureWest Communications
(Exact name of registrant as specified in its charter)

California (State or other jurisdiction of incorporation or organization)	68-0365195 (IRS Employer Identification No.)
8150 Industrial Avenue, Building A, Roseville, California (Address of principal executive offices)	95678 (Zip Code)

(916) 786-6141
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes _X_ No ____

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes _X_ No ____

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

Large accelerated filer ____ Accelerated filer _X_

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

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

Yes ____ No _X_

On October 18, 2011, the registrant had 14,090,693 shares of Common Stock outstanding.

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PART 1 – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

SUREWEST COMMUNICATIONS
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited; Amounts in thousands, except per share amounts)

	Quarter Ended September 30, 2011	Quarter Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Operating revenues:				
Broadband	$ 48,018	$ 43,861	$ 139,356	$ 129,514
Telecom	14,979	17,256	45,158	52,339
Total operating revenues	62,997	61,117	184,514	181,853
Operating expenses:				
Cost of services and products (exclusive of depreciation and amortization)	28,566	26,672	81,352	78,771
Customer operations and selling	7,771	7,028	22,146	22,542
General and administrative	6,879	6,720	22,819	24,296
Depreciation and amortization	15,810	15,680	47,942	46,048
Total operating expenses	59,026	56,100	174,259	171,657
Income from operations	3,971	5,017	10,255	10,196
Other income (expense):				
Interest income	4	16	36	62
Interest expense	(2,497)	(2,311)	(9,512)	(6,189)
Other, net	(546)	10	(249)	(323)
Total other income (expense), net	(3,039)	(2,285)	(9,725)	(6,450)
Income before income taxes	932	2,732	530	3,746
Income tax expense	289	1,328	211	2,342
Net income	$ 643	$ 1,404	$ 319	$ 1,404
Basic and diluted earnings per share	$ 0.05	$ 0.10	$ 0.02	$ 0.10
Shares of common stock used to calculate basic and diluted earnings per share:				
Basic	13,918	13,736	13,851	13,883
Diluted	14,023	13,736	13,944	13,883
Dividends declared per common share	$ 0.08	$ –	$ 0.16	$ –

See accompanying notes.

SUREWEST COMMUNICATIONS
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited; Amounts in thousands)

	September 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,932	$ 2,937
Short-term investments	-	771
Accounts receivable, net	19,896	20,298
Income tax receivable	177	1,782
Prepaid expenses	2,875	3,792
Deferred income taxes	2,052	2,284
Assets held for sale	5,743	6,009
Total current assets	39,675	37,873
Property, plant and equipment, net	517,751	514,639
Intangible and other assets:		
Customer relationships, net	1,721	2,632
Goodwill	45,814	45,814
Deferred charges and other assets	5,031	2,223
	52,566	50,669
	$ 609,992	$ 603,181
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 15,000	$ 15,636
Accounts payable	2,349	2,885
Other accrued liabilities	17,217	12,847
Advance billings and deferred revenues	8,148	8,035
Accrued compensation	8,192	6,998
Total current liabilities	50,906	46,401
Long-term debt	191,250	189,773
Deferred income taxes	55,311	56,661
Accrued pension and other post-retirement benefits	34,960	33,815
Other liabilities and deferred revenues	5,978	4,473
Commitments and contingencies		
Shareholders' equity:		
Common stock, without par value; 100,000 shares authorized, 14,091 and 13,866 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	146,177	143,309
Accumulated other comprehensive loss	(16,359)	(15,081)
Retained earnings	141,769	143,830
Total shareholders' equity	271,587	272,058
	$ 609,992	$ 603,181

See accompanying notes.

SUREWEST COMMUNICATIONS
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; Amounts in thousands)

	Nine Months Ended September 30, 2011	2010
Net cash provided by operating activities	$ 61,189	$ 46,509
Cash flows from investing activities:		
Capital expenditures for property, plant and equipment	(50,781)	(39,271)
Proceeds from sale of property and equipment	624	–
Proceeds from sale of available-for-sale securities	783	3,700
Purchases of available-for-sale securities	(10)	(28)
Proceeds from sale of discontinued operations	–	1,725
Net cash used in investing activities	(49,384)	(33,874)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	170,000	8,069
Principal payments on long-term debt	(169,159)	(22,069)
Payment of debt issuance costs	(3,565)	–
Dividends paid	(2,256)	–
Repurchases and surrenders of common stock	(830)	(2,909)
Net cash used in financing activities	(5,810)	(16,909)
Increase (decrease) in cash and cash equivalents	5,995	(4,274)
Cash and cash equivalents at beginning of period	2,937	7,489
Cash and cash equivalents at end of period	$ 8,932	$ 3,215

See accompanying notes.

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SUREWEST COMMUNICATIONS
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited; Amounts in thousands, except share and per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Basis of Accounting

SureWest Communications (the "Company", "we" or "our") is a holding company with operating subsidiaries that provide communications services in Northern California, primarily the greater Sacramento region ("Sacramento region"), and the greater Kansas City, Kansas and Missouri areas ("Kansas City area"). Our operating subsidiaries are SureWest Broadband, SureWest TeleVideo, SureWest Kansas, Inc., ("SureWest Kansas" or the "Kansas City operations"), SureWest Telephone and SureWest Long Distance.

We expect that the sources of our revenues and our cost structure may be different in future periods, both as a result of our entry into new communications markets and competitive forces in each of the markets in which we have operations.

In the opinion of management, the accompanying condensed consolidated balance sheets and related interim statements of income and cash flows include all adjustments, consisting only of normal recurring items, necessary for their fair presentation in conformity with accounting principles generally accepted in the United States ("U.S. GAAP" or "GAAP") for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such SEC rules and regulations and accounting principles applicable for interim periods. Events subsequent to the balance sheet date have been evaluated for inclusion in the accompanying condensed consolidated financial statements through the date of issuance. Management believes that the disclosures made are adequate to make the information presented not misleading. Interim results are not necessarily indicative of results for a full year. The information presented in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included in our 2010 Annual Report on Form 10-K filed with the SEC.

Other Adjustments

Our subsidiaries provide services to customers for which they are required to contribute to the universal service fund ("USF"). Each subsidiary collects USF fees from its customers and we remit these amounts to the Universal Service Administrative Company ("USAC"), the administrator of the Federal USF. SureWest Telephone provides wholesale transport services to SureWest Broadband, which SureWest Broadband resells to its own customers. The SureWest Broadband services are subject to USF fees. During the quarter ended June 30, 2011, we determined that SureWest Telephone remitted USF fees to USAC relating to the wholesale transport for voice services which it sells to SureWest Broadband for the year ended December 31, 2010 and the quarters ended March 31, 2011 and June 30, 2011. We also determined that SureWest Broadband had remitted USF fees to USAC relating to the voice services provided to its customers during the same time periods, including those services utilizing SureWest Telephone wholesale transport. Wholesale transport services provided by SureWest Telephone to SureWest Broadband for the resale as voice services are not subject to USF fees for SureWest Telephone generally because USF contributions are being collected from the end user customers of SureWest Broadband who use these resold wholesale services. Accordingly, in June 2011, SureWest Telephone filed an amended remittance form with USAC to recover $906 of the fees paid for the year ended December 31, 2010. During the quarter ended September 30, 2011, USAC approved our amended filing and the USF fees are being refunded to SureWest Telephone monthly through the first quarter of 2012. The USF fees of $303 and $329 for the quarters ended March 31, 2011 and June 30, 2011, respectively, will be refunded to SureWest Telephone based on its annual remittance form to be filed with USAC during the first quarter of 2012. In addition, SureWest Broadband recorded a $218 reduction to its USAC expense during the quarter ended June 30, 2011 relating to revised estimates to its interstate traffic that will be included in its annual remittance form to be filed with USAC in the first quarter of 2012. We expect to receive the refunds from the annual remittance filings during the third quarter of 2012. For the fees relating to 2010 and the quarter ended March 31, 2011, we recognized a reduction in operating expense (within costs of services and products) on the condensed consolidated statements of income of $1,427 for the nine-month period ended September 30, 2011. This resulted in an increase to consolidated net income by $856 ($0.06 per share) for the nine months ended September 30, 2011 and a corresponding receivable of $1,756 on the condensed consolidated balance sheets. We received repayment of $307 from USAC during the third quarter of 2011 for the fees related to 2010 and expect to receive the remaining short-term receivable balance of $1,449 by the end of the third quarter of 2012.

Recent Developments

Assets Held For Sale

Assets held for sale consist of certain real estate assets that we have committed to sell or are currently marketed for sale. These regulated assets, which are included in the Telecommunications ("Telecom") segment, include 21 acres of undeveloped land and two office buildings.

The following is the carrying value of the assets held for sale as of September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
Undeveloped land	$ 1,556	$ 1,556
Office buildings	4,187	4,453
	$ 5,743	$ 6,009

In May 2011, we entered into an agreement to sell office facilities, which included developed land, an office building and vehicle parking structure, for a purchase price of $1,900 and as a result, classified these assets as assets held for sale during the quarter ended June 30, 2011. In connection with the classification to assets held for sale, no impairment charge was recognized as the estimated fair value less selling costs exceeded the carrying value of the assets. The sale is expected to close by December 31, 2011. Upon the close of the sale, a gain of approximately $560 will be recorded against accumulated depreciation, in accordance with regulated telephone plant and equipment composite group remaining life methodology. For the non-depreciable assets included in the sale, a gain of approximately $235 will be recognized in the condensed consolidated statements of income upon the completion of the close of the sale.

In August 2011, we entered into an agreement to sell an office building included in assets held for sale for a purchase price of $3,500. The sale is expected to close by the end of the second quarter of 2012. During the quarter ended September 30, 2011, the carrying value of the office building was reduced to its fair value less estimated selling costs. As a result, an impairment charge of $1,210 was recorded against accumulated depreciation during the quarter ended September 30, 2011, in accordance with regulated telephone plant and equipment composite group remaining life methodology. For the non-depreciable assets included in the sale, an impairment loss of $43 was recognized in the condensed consolidated statements of income during the quarter ended September 30, 2011.

Recently Issued Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board ("FASB") issued the Accounting Standards Update ("ASU") to permit an entity the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the first step of the two-step goodwill impairment test. Accordingly, based on the option created by the amended guidance, the calculation of a reporting unit's fair value is not required unless, as a result of the qualitative assessment, it is more likely than not that fair value of the reporting unit is less than its carrying amount. The amended guidance, which should be applied prospectively, becomes effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. We are currently evaluating the impact this update will have on our condensed consolidated financial statements.

In May 2011, as part of ongoing efforts with the International Accounting Standards Board to achieve convergence, the FASB issued the ASU on fair value measurements and disclosures to (i) clarify the application of existing fair value measurement and disclosure requirements and (ii) change a particular principle or requirement for measuring fair value or disclosing information about fair value measurements. The amendments in this ASU are effective for public entities for interim and annual periods beginning after December 15, 2011 and should be applied prospectively, with early application not permitted. We are currently evaluating the impact this update will have on our condensed consolidated financial statements.

In June 2011, the financial statement presentation of comprehensive income was amended by an ASU issued by the FASB to (i) eliminate the option to present the components of other comprehensive income ("OCI") in the statement of changes in stockholder's equity, (ii) require presentation of net income and OCI and their respective components either in a single continuous statement or in two separate but consecutive statements and (iii) require presentation of reclassification adjustments on the face of the statement. The amendments in this ASU do not change (i) the items that must be reported in OCI or when an item of OCI must be reclassified to net income or (ii) the option for an entity to present components of OCI either net of related tax effects or before related tax effects. Amendments to comprehensive income should be applied retrospectively and become effective for public entities for interim and annual periods beginning after December 15, 2011 with early adoption permitted. We are currently evaluating the impact this update will have on our condensed consolidated financial statements.

Recently Adopted Accounting Pronouncements

On January 1, 2011, we adopted the ASU regarding business combinations. The updated guidance requires a public entity to disclose pro forma revenue and earnings for a business combination occurring in the current year as though the business combination occurred as of the beginning of the year or, if comparative statements are presented, pro forma amounts are required to be presented as though the business combination took place as of the beginning of the comparative year. In addition, it also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The provisions of this updated guidance will be applied prospectively to business combinations consummated subsequent to January 1, 2011. Our adoption of this guidance did not impact our condensed consolidated financial position or results of operations.

On January 1, 2011, we prospectively adopted the ASU that clarifies when the circumstances under which step 2 of the goodwill impairment test must be performed for reporting units with zero or negative carrying amounts and the qualitative factors to be taken into account when performing step 2 in determining whether it is more likely than not that an impairment exists. The adoption of this guidance did not impact our condensed consolidated financial position or results of operations.

On January 1, 2011, we prospectively adopted the ASU regarding revenue recognition for multiple-deliverable arrangements. The updated guidance provides for a new methodology for establishing the fair value for a deliverable in a multiple-element arrangement. When vendor specific objective or third-party evidence for deliverable in a multiple-element arrangement cannot be determined, an enterprise is required to develop a best estimate of the selling price of separate deliverables and to allocate the arrangement consideration using the relative selling price method. The adoption of this guidance did not have a material impact on our condensed consolidated financial position or results of operations.

Earnings and Dividends Per Share

Basic earnings (loss) per share is computed by dividing the net income (loss) applicable to common stockholders by the weighted average number of common shares outstanding during the period.

Diluted earnings (loss) per share ("diluted EPS") is computed based on the weighted average number of common shares plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include time and performance based stock awards and stock units. Diluted EPS excludes the impact of potential common shares related to our stock options in periods where the option exercise price is greater than the average market price of our common stock.

Diluted EPS for the three and nine-month periods ended September 30, 2010 exclude potential common shares because their inclusion would have had an anti-dilutive effect.

Cash dividends per share are based on the actual dividends per share, as declared by the Company's Board of Directors. On each date that the Company pays a cash dividend to the holders of the Company's common stock, the Company credits to the holders of restricted stock units and performance share units (collectively "stock units") an additional number of stock units equal to the total number of whole stock units and additional stock units previously credited to the holders, multiplied by the dollar amount of the cash dividend per share of common stock. Any fractional stock units resulting from such calculation are included in the additional stock units.

2. FAIR VALUE MEASUREMENTS & FINANCIAL INSTRUMENTS

Investments

The following is a summary of our short-term available-for-sale investments as of December 31, 2010:

	As of December 31, 2010			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
Equity securities	$ 727	$ 44	$ –	$ 771

During the quarter ended March 31, 2011, we sold our short-term available-for-sale investments and we recognized a gain of approximately $103 in other income (expense), other, net on the condensed consolidated statements of income.

Cost Method Investments

Cost method investments are originally recorded at cost, and we record dividend income or patronage income when they are declared. Cost method investments are reported as other long-term assets in our condensed consolidated balance sheets. Dividend income is reported in other income (expense), interest income in our condensed consolidated statements of income and patronage income is reported against other income (expense), interest expense in our condensed consolidated statements of income. We held $1,430 and $1,115 in cost method investments which were included in other long-term assets in the condensed consolidated balance sheets as of September 30, 2011 and December 31, 2010, respectively. Our cost method investments primarily consist of our investment in CoBank, ACB ("CoBank") and are related to patronage distributions of restricted equity. Our investment in CoBank is required in accordance with the provisions of our Credit Agreement (see Note 3) held by CoBank. We review all of our cost method investments quarterly to determine if impairment indicators are present; however, we are not required to determine the fair value of these investments unless impairment indicators exist. We estimate that the fair value of our cost method investments approximates their carrying values as of September 30, 2011 and December 31, 2010.

Fair Value of Financial Instruments

We account for certain assets and liabilities at fair value. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. A financial asset or liability's classification within a three-tiered value hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The hierarchy prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Inputs that reflect quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets and inputs other than quoted prices that are directly or indirectly observable in the marketplace.

Level 3 – Unobservable inputs which are supported by little or no market activity.

The following tables summarize our financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2011 and December 31, 2010:

	As of September 30, 2011			
	Total	Level 1	Level 2	Level 3
Assets				
Interest rate caps	$ 62	$ –	$ 62	$ –
Liabilities				
Interest rate swap	$ 1,755	$ –	$ 1,755	$ –

	As of December 31, 2010			
	Total	Level 1	Level 2	Level 3
Money market funds	$ 84	$ 84	$ –	$ –
Equity securities	771	771	–	–
	$ 855	$ 855	$ –	$ –

Fair values for cash equivalents were determined by quoted market prices. Fair values for interest rate caps and interest rate swaps are valued using models based on readily observable market parameters for all substantial terms and are classified within Level 2. See Note 4 for further discussion regarding our interest rate caps and interest rate swap.

Fair Value of Debt

We had no short-term borrowings as of September 30, 2011 and December 31, 2010. The fair value of our long-term debt was estimated using discounted cash flow analyses based on incremental borrowing rates for similar types of borrowing arrangements.

	As of September 30, 2011		As of December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt (including current maturities)	$ 206,250	$ 204,301	$ 205,409	$ 203,459

3. CREDIT ARRANGEMENTS

A summary of our long-term debt is as follows:

	Weighted Average Interest Rates				
	September 30, 2011	December 31, 2010	Maturity Date	September 30, 2011	December 31, 2010
Secured Term Loan B credit facility	3.63%	–	March 2016	$ 206,250	$ -
Unsecured Series A Senior Notes	–	6.30%	–	–	10,909
Unsecured Series B Senior Notes	–	4.74%	–	–	36,000
Unsecured Revolving Loan credit facility	–	2.56%	–	–	8,500
Unsecured Term Loan A credit facility	–	3.97%	–	–	120,000
Unsecured Term Loan B credit facility	–	2.56%	–	–	30,000
Total long-term debt				206,250	205,409
Less current portion				15,000	15,636
Total long-term debt, net of current				$ 191,250	$ 189,773

In March 2011, we entered into a $264,000 five-year senior secured Credit Agreement ("Credit Agreement") to replace our unsecured Third Amended and Restated Credit Agreement ("Previous Agreement") from September 2008. The proceeds from the Credit Agreement were used to repay the Previous Agreement in its entirety and to repay the unsecured Series A and Series B Senior Notes issued in December 1998 and March 2003, respectively.

The Credit Agreement included (i) a $34,000 Revolving Loan Facility, which includes a $6,000 swingline loan commitment and a $5,000 commitment for the issuances of letters of credit, each as a subfacility to the Revolving Loan Facility, (ii) a fully drawn $40,000 Term A Loan Facility and (iii) a $190,000 Term Loan B Commitment. On May 31, 2011, the Term Loan A Facility matured and converted to a Term Loan B borrowing thus increasing the Term Loan B Commitment by $40,000 to $230,000. The Term Loan B Commitment includes a delayed draw amount which allows for one or more additional advances not to exceed $20,000. The delayed draw may be used solely for capital expenditures. All amounts outstanding on the Revolving Loan Facility and the Term Loan B Facility will be due on March 2, 2016. As of September 30, 2011, no amounts were outstanding under the Revolving Loan facility.

In connection with entering into the Credit Agreement, we incurred $3,565 in debt issuance costs of which $301 were recognized during the quarter ended March 31, 2011. The remaining deferred debt issuance costs will be amortized over the term of the Credit Agreement. In addition, we incurred early termination fees of $2,346 related to the repayment of our Series A and Series B Senior Notes during the quarter ended March 31, 2011. The early termination fees and the debt issuance costs expensed were recognized in other income (expense), interest expense in the condensed consolidated statements of income during the nine-month period ended September 30, 2011.

Commencing on September 30, 2011, and on the last day of each quarter thereafter, principal payments for the Term Loan B Facility are due in equal quarterly amounts of $3,750. In addition, we must make mandatory repayments under certain circumstances upon receipt of proceeds from insurance, asset dispositions, debt issuances and equity issuances.

At September 30, 2011, the aggregate maturities of long-term debt were (i) $3,750 in 2011, (ii) $15,000 annually in 2012 through 2015 and (iii) $142,500 in 2016 for a total of $206,250.

Borrowings under the Credit Agreement (other than the swingline loan) will bear interest based, at our election, on the London Interbank Offered Rate ("LIBOR") or the bank's base rate in either case, plus an applicable margin based on our leverage ratio. The swingline loan will accrue interest at the base rate, plus an applicable margin.

Our obligations under the Credit Agreement are secured by a first priority security interest in essentially all our current and future assets. Security includes the capital stock we own or should acquire in all of our subsidiaries.

The Credit Agreement includes financial and operating covenants that may limit the incurrence of additional indebtedness, investments, the payment of dividends, the making of certain other restricted payments, transactions with affiliates, liens, mergers, asset sales and material changes in our business. The Credit Agreement also requires us to maintain certain financial ratios and minimum levels of tangible net worth.

Our financial covenants as defined in the Credit Agreement, measured quarterly, are as follows:

Financial Covenant	Required Ratio Level	Actual Performance at September 30, 2011
Leverage ratio	Not more than 3.00	2.44
Interest coverage ratio	Not less than 3.50	7.24
Consolidated net worth	Not less than $200,000	$287,946

4. DERIVATIVES

We use derivative instruments to manage our interest rate exposure associated with our variable-rate debt and to achieve a desired proportion of fixed and variable-rate debt. At the inception of a hedge transaction, we formally document the relationship between the hedging instruments including our objective and strategy for establishing the hedge. In addition, the effectiveness of the derivative instrument is assessed at inception and on an ongoing basis. Counterparties to derivative instruments expose us to credit related losses in the event of nonperformance. We execute agreements only with financial institutions we believe to be creditworthy and regularly assess the creditworthiness of each of the counterparties. We do not use derivative instruments for trading or speculative purposes.

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All derivative instruments are recorded at fair value in the condensed consolidated balance sheet. For derivatives designated as a cash flow hedge, the effective portion of the change in the fair value is recognized as a component of accumulated other comprehensive loss. The change in fair value related to the ineffective portion of the hedge, if any, is immediately recognized as interest expense in the condensed consolidated statement of income. Amounts in accumulated other comprehensive loss will be reclassified to earnings when the related hedged items impact earnings. Cash flows from derivative instruments are classified in operating activities in the condensed consolidated statement of cash flows, which is consistent with the items being hedged.

In June 2011, we entered into an interest rate swap agreement and two interest rate cap agreements. These agreements have been designated as cash flow hedges. The swap agreement is on a notional amount of $75,000 with a fixed rate of 1.85%. This fixes the total interest expense on $75,000 of our outstanding long-term debt at 5.10%, which includes the fixed rate of 185 basis points plus our applicable interest margin of 325 basis points. The interest rate swap agreement is effective June 30, 2011 and ends March 2, 2016 with a cancellation provision on June 30, 2014. The interest rate swap agreement contains standard credit-risk-related contingent features which could result in the counterparty requesting termination and immediate settlement of the contract in the event of default.

The interest rate cap agreements each have a notional amount of $25,000 with a 2.00% strike price and are effective June 30, 2011 through June 30, 2014 and August 31, 2011 through March 2, 2014, respectively. In June 2011, we paid premiums of $333 to enter into the interest rate cap agreements. The premiums are being amortized to interest expense over the term of the agreement.

Fair values of derivative instruments in the condensed consolidated balance sheet at September 30, 2011 consisted of:

	Classification	Fair Value
Asset derivatives		
Interest rate caps	Deferred charges and other assets	$ 62
Liability derivatives		
Interest rate swap	Other liabilities and deferred revenues	$ 1,755

We did not have any derivative instruments at December 31, 2010.

The effect of derivative instruments on the condensed consolidated statements of income for the quarter and nine-month period ended September 30, 2011 consisted of:

	Classification	Quarter and Nine Months Ended September 30, 2011
Interest rate caps		
Loss recognized in other comprehensive income (effective portion)	Accumulated other comprehensive loss	$ (271)
Interest rate swap		
Loss recognized in other comprehensive income (effective portion)	Accumulated other comprehensive loss	$ (1,755)
Loss reclassified from accumulated other comprehensive income into income (effective portion)	Interest Expense	$ (307)

We expect to reclassify $1,125 of the net loss included in accumulated other comprehensive loss into earnings during the next 12 months.

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5. EQUITY

Share-Based Compensation

Stock Plan

Our Board of Directors may grant share-based awards from our shareholder approved Equity Incentive Plan, the 2000 Equity Incentive plan (the "Stock Plan"), to certain employees, outside directors and consultants. The Stock Plan permits issuance of awards in the form of restricted shares, stock units, performance shares, options or stock appreciation rights. Under the Stock Plan, approximately 2.2 million shares of our common stock are authorized for issuance, including those outstanding as of September 30, 2011.

Time Based Stock Awards and Units

We measure the fair value of time-based restricted stock awards ("RSAs") and restricted stock units ("RSUs") based upon the market price of the underlying common stock as of the date of the grant. RSAs and RSUs are amortized over their respective vesting periods, generally from immediate vest to a four-year vesting period using the straight-line method. We have estimated expected forfeitures based on historical experience and are recognizing compensation only for those RSAs and RSUs expected to vest.

The following table summarizes the grants of time-based RSAs and RSUs that occurred under the Stock Plan during the nine-month periods ended September 30, 2011 and 2010. No RSAs or RSUs were granted during the quarters ended September 30, 2011 and 2010.

	Nine Months Ended September 30,			
	2011	Grant Date FairValue	2010	Grant Date Fair Value
RSAs Granted	212,654	$ 12.00	217,575	$ 9.95
RSUs Granted	78,614	$ 10.78	92,709	$ 9.95
Total	291,268		310,284	

The following summarizes the time-based RSA and RSU stock activity during the nine-month period ended September 30, 2011:

	Shares	Weighted Average Grant Date Fair Value
Nonvested-January 1, 2011	396,343	$11.17
Granted	291,268	$11.67
Vested	(191,937)	$11.32
Forfeited	–	
Nonvested-September 30, 2011	495,674	$11.40

The total fair value of the RSAs and RSUs that vested during the nine-month period ended September 30, 2011 was $2,174.

Performance Share Awards and Units

We derive the fair value of performance share awards ("PSAs") and performance share units ("PSUs") (collectively "the awards") using the Monte Carlo Simulation ("MCS") valuation method. The MCS utilizes multiple input variables to determine the probability of the Company achieving the market condition and the derived fair value of the awards. PSAs and PSUs are generally granted in six vesting tranches over a vesting period ranging from thirty to thirty-five months. The awards vest based on the achievement of stock price appreciation and continuous employee service over the life of the award. As of each vesting date, each tranche vests if the average closing stock price of the SureWest common stock for the eleven trading day period, beginning five days before the corresponding target date and ending five days after the corresponding target date, is equal to or exceeds the respective target stock price. If the tranche does not meet the target stock price condition on its corresponding target date, then it may vest at a subsequent target date if the stock price condition is met. However, the tranche may not vest earlier than its corresponding target date. The fair values of the awards are amortized over the derived service period of each vesting tranche. We have estimated expected forfeitures based on historical experience and are recognizing compensation only for those PSAs and PSUs expected to vest.

The following table summarizes the grants of PSAs and PSUs that occurred under the Stock Plan during the nine-month period ended September 30, 2011. No PSAs or PSUs were granted during the quarter ended September 30, 2011 or the quarter and nine-month period ended September 30, 2010.

	Nine Months Ended September 30, 2011	
	Shares Granted	Fair Value
PSAs	73,012	$ 9.68
PSUs	19,712	$ 8.32
Total	92,724	

The following table summarizes the PSA and PSU activity during the nine-month period ended September 30, 2011:

	Shares	Weighted Average Grant Date Fair Value
Nonvested-January 1, 2011	–	
Granted	92,724	$ 9.39
Vested	(13,828)	$ 10.22
Forfeited	(6,764)	$ 8.06
Nonvested-September 30, 2011	72,132	$ 9.36

The total fair value of the PSAs and PSUs that vested during the nine-month period ended September 30, 2011 was $141.

Share Based Compensation Expense

The following table summarizes total compensation costs recognized for share-based payments during the quarters and nine-month periods ended September 30, 2011 and 2010:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
RSAs[(1)]	$ 438	$ 109	$ 2,377	$ 1,526
RSUs	$ 181	$ 158	$ 765	$ 685
PSAs	$ 108	$ –	$ 338	$ –
PSUs	$ 20	$ –	$ 94	$ –
Total	$ 747	$ 267	$ 3,574	$ 2,211

(1) Pursuant to a severance agreement entered into on March 31, 2011 between the Company and a retiring officer, share-based compensation expense recognized during the nine months ended September 30, 2011 included approximately $859 related to the acceleration of unvested, time-based RSAs.

As of September 30, 2011, total unrecognized compensation costs related to nonvested RSAs, RSUs, PSAs, and PSUs was $5,151 and will be recognized over a weighted-average period of approximately 2.33 years.

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Other Comprehensive Income

Significant components of our other comprehensive income are as follows:

	Quarter Ended September 30, 2011	Quarter Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Net income	$ 643	$ 1,404	$ 319	$ 1,404
Available-for-sale investments:				
Unrealized gain (loss) on available-for-sale investments, net of tax	–	56	(3)	(2)
Reclassification adjustment for gain included in net loss, net of tax	–	–	(57)	–
Derivative instruments designated as cash flow hedges:				
Unrealized loss on cash flow hedges, net of tax	(1,218)	–	(1,218)	–
Comprehensive income (loss)	$ (575)	$ 1,460	$ (959)	$ 1,402

6. PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS

We maintain a frozen noncontributory defined benefit pension plan (the "Pension Plan") which covers certain eligible employees. Benefits are based on years of service and the employee's average compensation during the five highest consecutive years of the last ten years of credited service. Our funding policy is to contribute annually an actuarially determined amount consistent with applicable federal income tax regulations. Contributions are intended to provide for benefits attributed to service to date. Pension Plan assets are primarily invested in domestic equity securities, fixed income and international equity securities.

We also maintain an unfunded Supplemental Executive Retirement Plan ("SERP"), which provides supplemental retirement benefits to certain of our retired executives. The SERP provides for incremental pension payments to partially offset the reduction in amounts that would have been payable under the Pension Plan if it were not for limitations imposed by federal income tax regulations.

In addition, we provide certain post-retirement benefits other than pensions ("Other Benefits Plan") to certain eligible employees of our California location, including life insurance benefits and a stated reimbursement for Medicare supplemental insurance.

Effective April 1, 2007, we amended our Pension Plan, SERP and Other Benefits Plan (collectively the "Plans") such that the Plans were frozen so that no person is eligible to become a new participant on or following that date and all future benefit accruals for existing participants under the Plans cease.

Components of Net Periodic Pension Cost

The following table summarizes the benefit costs related to our Pension and SERP Plans:

Quarter Ended September 30,	2011	2010
Interest cost on projected benefit obligation	$ 1,751	$ 1,792
Expected return on plan assets	(1,865)	(1,820)
Amortization of:		
Prior Service Cost	-	1
Net actuarial loss	623	543
Net periodic pension expense	$ 509	$ 516

Nine Months Ended September 30,	2011	2010
Interest cost on projected benefit obligation	$ 5,252	$ 5,376
Expected return on plan assets	(5,596)	(5,460)
Amortization of:		
Prior service cost	-	2
Net actuarial loss	1,870	1,630
Net periodic pension expense	$ 1,526	$ 1,548

Net periodic benefit costs related to the Other Benefits Plan were not significant to our condensed consolidated financial statements for the quarters or nine-month periods ended September 30, 2011 and 2010.

7. INCOME TAXES

Our effective federal income tax rates were 39.8% and 62.5% for the nine-month periods ended September 30, 2011 and 2010, respectively. For the nine-month period ended September 30, 2011, our actual tax expense differed from the federal statutory rate primarily due to state taxes, permanent differences resulting from favorable tax treatment of dividends both paid and received and the release of unrecognized tax benefits. These favorable differences were offset by a change to state deferred tax expense attributable to apportionment changes.

Our policy is to recognize interest and penalties related to uncertain tax positions as additional income tax expense. We did not accrue significant amounts of interest and penalties related to unrecognized tax benefits during the nine-month periods ended September 30, 2011 and 2010.

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $98 and $176 at September 30, 2011 and December 31, 2010, respectively. We recognized $110 of previously unrecognized tax benefits during the third quarter of 2011 as a result of the expiration of the statute of limitations.

As of September 30, 2011, the following tax years and related taxing jurisdictions were open:

Tax Year	Taxing Jurisdiction
2008 - 2010	Federal
2006 - 2010	California
2006 - 2010	Kansas and Missouri

8. BUSINESS SEGMENTS

We have two reportable business segments: Broadband and Telecom. We have aggregated certain of our operating segments within the Broadband and Telecom segments because we believe that such operating segments share similar economic characteristics. We measure and evaluate the performance of our segments based on income (loss) from operations. Corporate Operations are allocated to the appropriate segment, except for cash; investments; certain property, plant, and equipment; and miscellaneous other assets, which are not allocated to the segments. However, the interest income associated with cash and investments held by Corporate Operations is included in the results of the operations of our segments.

Our business segment information is as follows:

	Broadband	Telecom	Intercompany Eliminations	Cons
For the three months ended September 30, 2011:				
Operating revenues from external customers	$ 48,018	$ 14,979	$ –	$
Intersegment revenues	152	5,231	(5,383)	
Operating expenses				
Cost of services and products*	27,407	5,898	(4,739)	
Customer operations and selling	5,624	2,667	(520)	
General and administrative	4,148	2,855	(124)	
Depreciation and amortization	12,574	3,236	–	
Income (loss) from operations	(1,583)	5,554	–	
Net income (loss)	$ (2,801)	$ 3,444	$ –	$

*Exclusive of depreciation and amortization

For the three months ended September 30, 2010:	Broadband	Telecom	Intercompany Eliminations	Consolidated
Operating revenues from external customers	$ 43,861	$ 17,256	$ –	$ 61,117
Intersegment revenues	110	5,275	(5,385)	–
Operating expenses				
Cost of services and products*	25,719	5,677	(4,724)	26,672
Customer operations and selling	4,940	2,621	(533)	7,028
General and administrative	3,645	3,203	(128)	6,720
Depreciation and amortization	12,609	3,071	–	15,680
Income (loss) from operations	(2,942)	7,959	–	5,017
Net income (loss)	$ (3,082)	$ 4,486	$ –	$ 1,404

*Exclusive of depreciation and amortization

For the nine months ended September 30, 2011:	Broadband	Telecom	Intercompany Eliminations	Consolidated
Operating revenues from external customers	$ 139,356	$ 45,158	$ –	$ 184,514
Intersegment revenues	467	15,579	(16,046)	–
Operating expenses				
Cost of services and products*	79,741	15,716	(14,105)	81,352
Customer operations and selling	15,995	7,716	(1,565)	22,146
General and administrative	13,404	9,791	(376)	22,819
Depreciation and amortization	38,360	9,582	–	47,942
Income (loss) from operations	(7,677)	17,932	–	10,255
Net income (loss)	$ (10,212)	$ 10,531	$ –	$ 319

*Exclusive of depreciation and amortization

For the nine months ended September 30, 2010:	Broadband	Telecom	Intercompany Eliminations	Consolidated
Operating revenues from external customers	$ 129,514	$ 52,339	$ –	$ 181,853
Intersegment revenues	423	15,285	(15,708)	–
Operating expenses				
Cost of services and products*	75,008	17,407	(13,644)	78,771
Customer operations and selling	16,886	7,320	(1,664)	22,542
General and administrative	13,550	11,146	(400)	24,296
Depreciation and amortization	36,929	9,119	–	46,048
Income (loss) from operations	(12,436)	22,632	–	10,196
Net income (loss)	$ (11,071)	$ 12,475	$ –	$ 1,404

*Exclusive of depreciation and amortization

9. REGULATORY MATTERS

Certain of our interstate telecommunications service rates are subject to regulation by the Federal Communications Commission ("FCC"). Interstate switched and special access rates are established through a SureWest Telephone tariff filed with the FCC. For interstate common line ("CL") charges, SureWest Telephone concurs with tariffs filed by the National Exchange Carrier Association ("NECA"). Intrastate service rates are subject to regulation by state commissions. Prices for intrastate telecommunications services are established through tariffs or through other regulatory mechanisms, including service guides in California. Pending and future regulatory actions may have a material impact on our consolidated financial position and results of operations.

FCC Matters

Under current FCC rules governing rate making, SureWest Telephone is required to establish rates for its interstate telecommunications services based on projected demand usage for the various services. SureWest Telephone projects its earnings through the use of annual cost separation studies, which utilize estimated total cost information and projected demand usage. Carriers are required to follow FCC rules in the preparation of these annual studies. SureWest Telephone determines actual earnings from its interstate rates as actual volumes and costs become known. The FCC monitors SureWest Telephone's interstate earnings.

California Public Utility Commission ("CPUC") Matters

A CPUC decision in August 2005 allowed SureWest Telephone to continue receiving our $11,500 annual draw from the California High Cost Fund ("CHCF") on an interim basis pending further CPUC action. The CHCF was previously authorized by the CPUC to offset SureWest Telephone's intrastate regulated operating expenses on an interim basis. In August 2006, we requested permission from the CPUC to implement a graduated phase-down of our annual $11,500 interim draw. In September 2007, the CPUC issued Decision 07-09-002 which provides for SureWest Telephone to phase-down its interim annual CHCF draw over a five-year period. The phase-down of the interim draw began in January 2007, initially reducing the annual $11,500 interim draw to $10,200, and in each subsequent year will be incrementally reduced by $2,040. In 2010, our interim CHCF draw was $4,080 and for 2011 is $2,040.

In an ongoing proceeding relating to the New Regulatory Framework (under which SureWest Telephone has been regulated since 1996), the CPUC adopted Decision 06-08-030 in 2006, which grants carriers broader pricing freedom in the provision of telecommunications services, bundling of services, promotions and customer contracts. This decision adopted a new regulatory framework, the Uniform Regulatory Framework ("URF"), which among other things (i) eliminates price regulation and allows full pricing flexibility for all new and retail services except basic residential services, which limits increases to $3.25 per year during 2009 and 2010, (ii) allows new forms of bundles and promotional packages of telecommunication services, (iii) allocates all gains and losses from the sale of assets to shareholders and (iv) eliminates almost all elements of rate of return regulation, including the calculation of shareable earnings. Beginning January 1, 2011, each URF Incumbent Local Exchange Carrier ("ILEC") is allowed full pricing flexibility for the basic residential rate. On December 31, 2010, the CPUC issued a ruling to initiate a new proceeding to assess whether, or to what extent, the level of competition in the telecommunications industry is sufficient to control prices for the four largest ILECs in the state, including SureWest Telephone, however this proceeding has been placed on hold. The CPUC's actions in this and future proceedings could lead to new rules and an increase in government regulation.

In December 2007, the CPUC issued a final decision in a proceeding investigating the continued need for an intrastate access element called the transport interconnection charge ("TIC"). The final decision capped SureWest Telephone's intrastate access charges through 2010 and the TIC was eliminated effective January 1, 2011. As a result of the lost TIC revenue, during the quarter and nine month period ended September 30, 2011 intrastate access revenues decreased $489 and $1,574, respectively.

10. COMMITMENTS AND CONTINGENCIES

Litigation, Regulatory Proceedings and Other Contingencies

We are subject to a variety of legal proceedings, regulatory proceedings, income tax exposures and claims that arise from time to time in the ordinary course of our business. Although management currently believes that resolving these matters, individually or in the aggregate, will not have a material adverse impact on our financial statements. However, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. We believe that the most notable regulatory proceedings at the federal and state levels that could have a material impact on our operations are proceedings to alter the structure of intercarrier compensation and to implement universal service reform. It is not yet possible to determine fully the impact of the related FCC and state proceedings on our operations.

SUREWEST COMMUNICATIONS (SURW)

10-K

Annual report pursuant to section 13 and 15(d)
Filed on 02/25/2011
Filed Period 12/31/2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ 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

☐ TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 000-29660

SUREWEST COMMUNICATIONS

(Exact name of registrant as specified in its charter)

California	68-0365195
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
8150 Industrial Avenue, Building A, Roseville, California	95678
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (916) 786-6141

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

Title of each class	Name of each exchange on which registered
Common Stock–Without Par Value	The NASDAQ Stock Market LLC
Common Stock Purchase Rights	The NASDAQ Stock Market LLC

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 ☐ No ☒

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 ☐ No ☒

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 ☒ No ☐

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

Yes ☐ No ☐

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 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. ☐

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

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

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

Yes ☐ No ☒

As of June 30, 2010, the aggregate market value of the shares held by non-affiliates of the registrant's common stock was $79,101,169 based on the closing price as reported on the NASDAQ Stock Market LLC. The market value calculations exclude shares held on the stated date by registrant's employee benefit plans, directors and officers on the assumption such shares may be shares owned by affiliates. Exclusion from these public market value calculations does not necessarily conclude affiliate status for any other purpose.

On February 9, 2011, the registrant had 14,091,342 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held on May 25, 2011 are incorporated herein by reference in Part II and Part III of this Annual Report on Form 10-K. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the Registrant's fiscal year ended December 31, 2010.

Item 8. Financial Statements and Supplementary Data.

Management's Report on Internal Control Over Financial Reporting

To the Board of Directors and Shareholders of SureWest Communications

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Securities Exchange Act of 1934, as amended Rules 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control–Integrated Framework, we have concluded that the Company's internal control over financial reporting was effective as of December 31, 2010.

Ernst & Young LLP, an independent registered public accounting firm, has audited our consolidated financial statements included in this Annual Report on Form 10-K and, as part of its audit, has issued an attestation report dated February 25, 2011, on the effectiveness of our internal control over financial reporting.

February 25, 2011

/s/ STEVEN C. OLDHAM	/s/ DAN T. BESSEY
Steven C. Oldham President and Chief Executive Officer	Dan T. Bessey, Vice President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of SureWest Communications

We have audited SureWest Communications' internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). SureWest Communications' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, SureWest Communications maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of SureWest Communications as of December 31, 2010 and 2009, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2010 of SureWest Communications and our report dated February 25, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Sacramento, California
February 25, 2011

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of SureWest Communications

We have audited the accompanying consolidated balance sheets of SureWest Communications as of December 31, 2010 and 2009, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of SureWest Communications at December 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), SureWest Communications' internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Sacramento, California
February 25, 2011

SUREWEST COMMUNICATIONS
CONSOLIDATED STATEMENTS OF INCOME
(amounts in thousands, except per share amounts)

	Years Ended December 31,		
	2010	2009	2008
Operating revenues:			
Broadband	$ 174,546	$ 161,222	$ 135,341
Telecom	68,953	80,478	95,032
Total operating revenues	243,499	241,700	230,373
Operating expenses:			
Cost of services and products (exclusive of depreciation and amortization)	105,719	103,077	92,509
Customer operations and selling	29,637	30,317	30,108
General and administrative	31,124	35,009	37,588
Depreciation and amortization	61,825	59,724	55,027
Total operating expenses	228,305	228,127	215,232
Income from operations	15,194	13,573	15,141
Other income (expense):			
Investment income	77	121	676
Interest expense	(8,346)	(11,318)	(12,126)
Other, net	(216)	297	274
Total other income (expense), net	(8,485)	(10,900)	(11,176)
Income from continuing operations before income taxes	6,709	2,673	3,965
Income tax expense	3,354	2,006	3,139
Income from continuing operations	3,355	667	826
Discontinued operations, net of tax:			
Income (loss) from discontinued operations	–	(69)	103
Gain on sale of discontinued operations	–	2,568	18,004
Total discontinued operations	–	2,499	18,107
Net income	$ 3,355	$ 3,166	$ 18,933
Basic and diluted earnings per common share:			
Income from continuing operations	$ 0.24	$ 0.05	$ 0.06
Discontinued operations, net of tax	–	0.18	1.28
Net income per basic and diluted common share	$ 0.24	$ 0.23	$ 1.34
Dividends per share	$ –	$ –	$ 0.50
Shares of common stock used to calculate earnings per share:			
Basic	13,836	13,996	14,096
Diluted	13,836	13,996	14,099

See accompanying notes.

SUREWEST COMMUNICATIONS
CONSOLIDATED BALANCE SHEETS
(amounts in thousands)

	December 31, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,937	$ 7,489
Short-term investments	771	4,306
Accounts receivable (less allowances of $2,365 and $3,532 at December 31, 2010 and 2009, respectively)	20,298	19,734
Income tax receivable	1,782	2,221
Prepaid expenses	3,792	3,704
Deferred income taxes	2,284	3,373
Other current assets	–	1,760
Assets held for sale	6,009	6,009
Total current assets	37,873	48,596
Property, plant and equipment, net	514,639	522,493
Intangible and other assets:		
Customer relationships, net	2,632	3,847
Goodwill	45,814	45,814
Deferred charges and other assets	2,223	2,113
	50,669	51,774
	$603,181	$622,863
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 15,636	$ 15,636
Accounts payable	2,885	2,547
Other accrued liabilities	12,847	18,315
Advance billings and deferred revenues	8,035	8,580
Accrued compensation	6,998	9,172
Total current liabilities	46,401	54,250
Long-term debt	189,773	207,409
Deferred income taxes	56,661	54,856
Accrued pension and other post-retirement benefits	33,815	32,451
Other liabilities and deferred revenues	4,473	4,714
Commitments and contingencies		
Shareholders' equity:		
Common stock, without par value; 100,000 shares authorized, 13,866 and 14,148 shares issued and outstanding at December 31, 2010 and December 31, 2009, respectively	143,309	146,844
Accumulated other comprehensive loss	(15,081)	(15,280)
Retained earnings	143,830	137,619
Total shareholders' equity	272,058	269,183
	$603,181	$622,863

See accompanying notes.

SUREWEST COMMUNICATIONS
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(amounts in thousands)

	Common Stock		Other Comprehensive Income (Loss)	Retained Earnings	Total
	Number of Shares	Amount			
Balance at December 31, 2007	14,514	$158,870	$ (3,530)	$115,663	$271,003
Issuance and amortization of restricted common stock, net of forfeitures and stock surrenders	121	671	–	84	755
Stock repurchases	(553)	(13,034)	–	6,530	(6,504)
Other comprehensive (loss)	–	–	(15,718)	–	(15,718)
Cash dividends	–	–	–	(7,124)	(7,124)
Restricted Stock Units dividends	–	51	–	(51)	–
Net Income	–	–	–	18,933	18,933
Balance at December 31, 2008	14,082	146,558	(19,248)	134,035	261,345
Issuance and amortization of restricted common stock, net of forfeitures and stock surrenders	174	1,533	–	93	1,626
Stock repurchases	(108)	(1,165)	–	243	(922)
Other comprehensive income	–	–	3,968	–	3,968
Restricted Stock Units dividends	–	(82)	–	82	–
Net Income	–	–	–	3,166	3,166
Balance at December 31, 2009	14,148	146,844	(15,280)	137,619	269,183
Issuance and amortization of restricted common stock, net of forfeitures and stock surrenders	148	1,788	–	571	2,359
Stock repurchases	(430)	(5,323)	–	2,285	(3,038)
Other comprehensive income	–	–	199	–	199
Net Income	–	–	–	3,355	3,355
Balance at December 31, 2010	13,866	$143,309	$ (15,081)	$143,830	$272,058

See accompanying notes.

SUREWEST COMMUNICATIONS
CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands)

	Years Ended December 31,		
	2010	2009	2008
Cash flows from operating activities:			
Net income	$ 3,355	$ 3,166	$ 18,933
Less income from discontinued operations, net of tax	–	(2,499)	(18,107)
Income from continuing operations	3,355	667	826
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	61,825	59,724	55,027
Loss (gain) on put option	621	762	(1,383)
(Gain) loss on auction rate security	(646)	(929)	1,575
Provision for deferred income taxes	2,699	7,161	4,708
Provision for doubtful accounts	1,479	2,944	2,772
Stock-based compensation	2,845	2,105	963
Other, net	(803)	(258)	(557)
Net changes in:			
Receivables	(2,043)	(1,263)	239
Refundable and accrued income taxes, net	439	843	(4,057)
Prepaid expenses and other current assets	180	1,566	395
Accounts payable	338	(251)	(2,101)
Accrued liabilities, other liabilities and deferred credits	(6,736)	(1,229)	(7,629)
Net cash provided by continuing operations	63,553	71,842	50,778
Net cash used in discontinued operations	–	(562)	(1,605)
Net cash provided by operating activities	63,553	71,280	49,173
Cash flows from investing activities:			
Business acquisition, net of cash acquired	–	–	(179,749)
Proceeds from sale of discontinued operations	1,725	10,947	66,296
Proceeds from sale of property and equipment	227	830	–
Capital expenditures for property, plant and equipment	(52,560)	(58,330)	(86,489)
Purchases of available-for-sale securities	(37)	(34)	–
Proceeds from sale of available-for-sale securities	3,700	–	16,650
Net cash used in continuing operations	(46,945)	(46,587)	(183,292)
Net cash used in discontinued operations	–	–	(176)
Net cash used in investing activities	(46,945)	(46,587)	(183,468)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	8,069	10,500	109,500
Proceeds from short-term borrowings	–	–	60,000
Repayment of short-term borrowings	–	–	(30,000)
Dividends paid	–	–	(7,124)
Principal payments of long-term debt and capital lease obligations	(25,705)	(29,143)	(19,643)
Repurchases and surrenders of common stock	(3,524)	(1,401)	(6,712)
Net cash provided by (used in) financing activities	(21,160)	(20,044)	106,021
Increase (decrease) in cash and cash equivalents	(4,552)	4,649	(28,274)
Cash and cash equivalents at beginning of year	7,489	2,840	31,114
Cash and cash equivalents at end of year	$ 2,937	$ 7,489	$ 2,840

See accompanying notes.

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Basis of Accounting

SureWest Communications (the "Company", "we" or "our") is a holding company with operating subsidiaries that provide communications services in Northern California, primarily the greater Sacramento region ("Sacramento region"), and the greater Kansas City, Kansas and Missouri areas ("Kansas City area"). Our operating subsidiaries are SureWest Broadband, SureWest TeleVideo, SureWest Kansas, Inc., formerly Everest Broadband, Inc. ("Everest", "SureWest Kansas" or the "Kansas City operations"), SureWest Telephone and SureWest Long Distance.

As discussed in Note 4, we acquired 100% of the issued and outstanding stock of Everest in February 2008. We sold the operating assets of our Wireless business, SureWest Wireless, in May 2008 and our communication tower assets in February 2009. Accordingly, the financial results of SureWest Wireless and our communication tower assets have been reported as discontinued operations for all periods presented in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 360, *Property, Plant and Equipment* (formerly Statement of Financial Accounting Standards ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets)*. The notes to consolidated financial statements ("Notes") reflect historical amounts exclusive of discontinued operations, unless otherwise noted.

We expect that the sources of our revenues and our cost structure may be different in future periods, both as a result of our entry into new communications markets and competitive forces in each of the markets in which we have operations.

Preparation of the financial statements in conformity with accounting principles generally accepted in the United States and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ materially from those estimates. Our critical accounting policies include (i) revenue recognition and accounts receivable allowances (Notes 1 and 2), (ii) impairment evaluations associated with property, plant and equipment and intangible assets (Note 1), (iii) the determination of deferred tax asset and liability balances (Notes 1 and 7) and (iv) pension plan and other post-retirement costs and obligations (Note 8). Events subsequent to the balance sheet date have been evaluated for inclusion in the accompanying consolidated financial statements through the date of issuance.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated.

The Telecom segment provides wholesale access services through the use of its network to the Broadband segment, which enables the Broadband segment to offer high-speed Internet, Voice-over-Internet-Protocol and video services to those customers within SureWest Telephone's service area. These wholesale services are included as intersegment revenues and expenses in each of the respective segments and are eliminated in the consolidated statements of income.

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit Risk

Financial instruments that potentially subject us to a concentration of credit risk consist primarily of accounts receivables, cash and cash equivalents and corporate equity securities. Our concentration of credit risk with respect to accounts receivable is limited due to our large number of customers. Cash and investments are deposited with financial institutions that management believes are of high credit quality.

Cash and Cash Equivalents

We invest our excess cash in money market mutual funds and in highly liquid investments. We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. As of December 31, 2010 and 2009, all of our cash equivalents consisted of money market mutual funds. The carrying amount of cash equivalents approximates its fair value due to their short maturities. We had the following cash and cash equivalents as of December 31, 2010 and 2009, respectively:

	2010	2009
Cash	$ 2,853	$ 2,143
Cash equivalents	84	5,346
	$ 2,937	$ 7,489

Investments

As of December 31, 2010 and 2009, our available-for-sale investments consisted of corporate equity securities (common stock), which are recorded at fair value and determined by quoted market prices. Unrealized gains and losses on our available-for-sale investments are recorded in accumulated other comprehensive income.

All of our available-for-sale investments are subject to a periodic impairment review. We recognize an impairment charge when a decline in the fair value of our investments below the cost basis is judged to be other-than-temporary. We consider various factors in determining whether to recognize an impairment charge, including the length of time and extent to which the fair value has been less than our cost basis, the financial condition and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in the market value.

During the year ended December 31, 2009, we held a tax exempt auction rate security ("ARS") which was classified as a trading security and recorded at fair value. We also held an offer ("Right" or "put option") entitling us to sell at par our ARS. The ARS and Right were classified as current assets in short-term investments on our consolidated balance sheet as a result of our Right. Fair values for the ARS and Right were determined based on discounted cash flow models. See Note 3 for detail regarding the ARS and Right.

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following is a summary of our short-term investments as of December 31, 2010 and 2009:

	2010	2009
Investment in common stock	$ 771	$ 631
Auction rate securities	–	3,054
Put option (Right)	–	621
	$ 771	$ 4,306

Fair Value of Financial Instruments

In accordance with ASC Topic 820, *Fair Value Measurements and Disclosures* ("ASC 820") (formerly SFAS No. 157, *Fair Value Measurements*), we measure our cash equivalents (money market funds) and short-term investments (equity securities, ARS and Right) at fair value. ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Inputs that reflect quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets and inputs other than quoted prices that are directly or indirectly observable in the marketplace.

Level 3 – Unobservable inputs which are supported by little or no market activity.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses, which result from the inability of our customers to make required payments. Such allowance is based on the likelihood of recoverability of accounts receivable based on past experience and management's best estimates of current bad debt exposures. We perform ongoing credit evaluations of our customers' financial condition and management believes that adequate allowances for doubtful accounts have been provided. Accounts are determined to be past due if customer payments have not been received in accordance with the payment terms. Uncollectible accounts are charged against the allowance for doubtful accounts and removed from the accounts receivable balances when internal collection efforts have been unsuccessful in collecting the amount due. In addition, certain revenues are subject to refund if the customer terminates services or returns equipment within a stipulated time period, or if certain performance criteria are not met. Accordingly, we maintain accounts receivable allowances and recognize certain customer refund liabilities, through charges to revenues, based on our best estimates of the resolution of these contingencies, which are based on historical experience. For the years ended December 31, 2010, 2009 and 2008, we wrote-off certain accounts receivable balances related to continuing operations aggregating $3,659, $3,171 and

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

$3,072, respectively. During the years ended December 31, 2010, 2009 and 2008, we recovered $663, $451 and $529, respectively, of accounts receivable balances previously written-off against such allowance.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost. Additions and substantial improvements are capitalized. Repairs and maintenance costs are charged to expense as incurred. Retirements and other reductions of property, plant and equipment were approximately $16,989, $24,492 and $7,106 in 2010, 2009 and 2008, respectively. Retirements or impairments of regulated telephone plant and equipment are charged against accumulated depreciation with no gain or loss recognized in accordance with the composite group remaining life methodology utilized for telephone plant assets. When property applicable to non-telephone operations is sold or retired, the asset and related accumulated depreciation are removed from the accounts and the associated gain or loss is recognized.

We capitalize the cost of internal-use network and non-network software which has a useful life in excess of one year. Subsequent additions, modifications or upgrades to internal-use network and non-network software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred. Also, we capitalize interest associated with the development of internal-use network and non-network software.

Property, plant and equipment consisted of the following as of December 31, 2010 and 2009:

	2010	2009	Estimated Useful Lives
Land	$ 2,824	$ 2,824	
Buildings	76,483	76,363	35 years
Central office equipment	336,168	312,338	3-12 years
Outside plant equipment	495,418	481,099	5-40 years
Internal-use software	59,807	58,714	5-7 years
Other	59,498	56,974	3-25 years
Total plant in service	1,030,198	988,312	
Less accumulated depreciation and amortization	525,427	481,639	
Plant in service	504,771	506,673	
Plant under construction	5,344	10,557	
Construction inventory	4,524	5,263	
Property, plant and equipment, net	$ 514,639	$ 522,493	

Construction inventory, which is stated at weighted average cost, consists primarily of network construction materials and supplies that when issued are predominately capitalized as part of new customer installations and the construction of the network.

During the first quarter of 2010, we completed our triennial review that evaluated the appropriateness of the estimated useful lives of our property, plant and equipment for all segments. The evaluation

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

considered our investment and business strategy, reliability and historical performance data of certain assets, as well as the impacts of competition and anticipated technological change. As a result of this evaluation, effective January 1, 2010, we increased the estimated useful lives of general purpose software, general purpose hardware and certain central office equipment. We decreased the lives of certain of our customer premise equipment and outside plant categories. During the year ended December 31, 2010, this change in estimate decreased consolidated depreciation expense by $1,241 and increased consolidated net income by $741 ($0.05 per share).

We record depreciation and amortization using the straight-line method over estimated useful lives. The useful lives are estimated at the time the assets are acquired and are based on historical experience with similar assets, anticipated technological changes and the expected impact of our strategic operating plan on our network infrastructure. Depreciation expense was $55,521, $52,843 and $46,478 and amortization expense was $6,304, $6,881 and $8,549 in 2010, 2009 and 2008, respectively. Average annual composite depreciation and amortization rates were 6.1%, 6.1% and 6.2% in 2010, 2009 and 2008, respectively.

As a result of our analysis related to ASC Topic 350, Intangibles–Goodwill and Other ("ASC 350"), as described in the Intangible Assets section below, we performed an analysis in accordance with the provision of ASC Topic 360, Property, Plant, and Equipment ("ASC 360") (formerly SFAS No. 144, Accounting for Disposal for Impairment or Disposal of Long-Lived Assets) as of November 30, 2010. In accordance with ASC 350, property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to estimated undiscounted future cash flows expected to be generated by the asset group. If the carrying amount of an asset group exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset group exceeds the fair value of the asset group.

Intangible Assets

Goodwill and intangible assets that are not subject to amortization are tested for impairment annually or more frequently when events or changes in circumstances indicate that the asset might be impaired. Goodwill is the excess of the acquisition cost of a business over the fair value of the identifiable net assets acquired.

Goodwill is not amortized but instead evaluated annually for impairment using a two-step process. In the first step of the impairment test, the fair value of each of our two reporting units is compared to its carrying amount, including goodwill. We determined that goodwill should be applied to the reporting units within the business segments that benefit from the assets whose fair value exceeds their carrying amount. As a result, goodwill has been allocated to the Kansas City operations reporting unit, within the Broadband segment, and the Telephone reporting unit, within the Telecommunications ("Telecom") segment. The recorded goodwill for the Telecom and Broadband segments was $2,171 and $43,643 as of December 31, 2010 and 2009, respectively.

The estimated fair value of the reporting unit is determined using a combination of a discounted cash flow ("DCF") model and a market based approach. The assumptions used in the estimate of fair value are based upon a combination of historical results and trends, new industry developments, future cash flow projections, as well as relevant comparable company earnings multiples for the market based approach.

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Such assumptions are subject to change as a result of changing economic and competitive conditions. We use a weighting of the results derived from the valuation approaches to estimate the fair value of the Kansas City operations reporting unit. We use a DCF model to estimate the fair value of the Telephone reporting unit. If the carrying value of the reporting unit exceeds its fair value, the second step of the impairment test is performed to measure the amount of impairment loss. In measuring the fair value of our reporting units as previously described, we consider the combined carrying and fair values of our reporting units in relation to our overall enterprise value, measured as the publicly traded stock price multiplied by the fully diluted shares outstanding plus the value of outstanding debt. Our reporting unit fair value models are consistent with a range in value indicated by both the preceding three month average stock price and the stock price on the valuation date, plus an estimated acquisition premium which is based on observable transactions of comparable companies, if applicable.

The second step compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. The implied fair value is determined by allocating the fair value of the reporting unit to all of the assets and liabilities other than goodwill in a manner similar to a purchase price allocation. The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. If the carrying amount of goodwill is greater than the implied fair value of that goodwill, then an impairment charge would be recorded equal to the difference between the implied fair value and the carrying value.

Our intangible assets that do not have indefinite lives (customer relationships) are amortized over their useful lives and are reviewed for impairment in accordance with ASC 360, whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If any indications were present, we would test for recoverability by comparing the carrying amount of the asset to the net undiscounted cash flows expected to be generated from the asset. If those net undiscounted cash flows do not exceed the carrying amount (i.e., the asset is not recoverable), we would perform the next step, which is to determine the fair value of the asset and record an impairment, if any. We reevaluate the useful life determinations for these intangible assets each reporting period to determine whether events and circumstances warrant a revision in their remaining useful lives.

The gross carrying amount, accumulated amortization and net carrying value of our acquisition-related intangible assets (customer relationships) were $6,240, $3,608 and $2,632, respectively, as of December 31, 2010. Customer relationships are definite-life assets and have a weighted average useful life from the date of purchase of 5 years. The expected amortization expense for customer relationships is $1,215 for 2011 and 2012 and $202 in 2013, for a total of $2,632.

Income Taxes

We account for income taxes using the liability method. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. As we operate in more than one state, changes in our state apportionment factors, based on operational results, may affect our future effective tax rates and the value of our deferred tax assets and liabilities.

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pension Plan and Other Post-Retirement Benefits

We maintain a frozen noncontributory defined benefit pension plan ("the Pension Plan") and provide certain post-retirement benefits other than pensions ("Other Benefits" Plan") to certain eligible employees. We also maintain an unfunded Supplemental Executive Retirement Plan ("SERP") to provide incremental pension payments to certain of our retired executives.

We recognize pension expense during the current period in the consolidated income statement using certain assumptions, including the expected long-term rate of return on plan assets, interest cost implied by the discount rate and the amortization of unrecognized gains and losses. Refer to Note 8 for further details regarding the determination of these assumptions.

We recognize the overfunded or underfunded status of our defined benefit post-retirement plan as either an asset or liability in the consolidated balance sheet. We recognize changes in that funded status in the year in which the changes occur through comprehensive income, net of applicable income taxes, including unrecognized actuarial gains and losses and prior service costs and credits.

Share-based Compensation

Our share-based compensation consists of the issuance of restricted stock awards ("RSAs"), restricted stock units ("RSUs"), performance shares, stock options and stock appreciation rights. Associated costs are based on an award's estimated fair value at the date of the grant and are recognized over a period in which any related services are provided. Our policy is to recognize the costs on a straight-line basis over the requisite service period using the straight line method, generally from immediate vest to a four-year vesting period. See Note 10 for further details regarding share-based compensation.

Earnings Per Share

Shares used in the computation of basic earnings (loss) per share are based on the weighted average number of common shares and RSUs outstanding, excluding RSAs and unvested RSUs. Shares used in the computation of diluted earnings per share are based on the weighted average number of common shares, RSAs and RSUs outstanding, along with other potentially dilutive securities outstanding in each period.

The following table presents a reconciliation of the denominators used in the earnings per share calculations:

	Years Ended December 31,		
	2010	2009	2008
Weighted average common shares	13,836	13,996	14,096
Potentially dilutive common equivalent shares:			
Unvested RSAs and RSUs	–	–	3
Weighted average common shares and RSUs outstanding and potentially dilutive common equivalent shares	13,836	13,996	14,099

Unvested RSAs and unvested RSUs, in the aggregate of 373 and 309 were excluded from the computation of diluted earnings per share for the years ended December 31, 2010 and 2009, respectively. The per share value of the unvested RSAs and RSUs, including the amount of compensation cost not yet recognized, was

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

greater than the average market price of the shares which would have resulted in an anti-dilutive effect to diluted earnings per share.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was $4,878, $6,548 and $7,411 in 2010, 2009 and 2008, respectively.

Statements of Cash Flows Information

During 2010, 2009 and 2008, we made payments for interest and income taxes as follows:

	2010	2009	2008
Interest, net of amounts capitalized ($106, $393 and $727 in 2010, 2009 and 2008, respectively)	$9,117	$12,309	$11,752
Income taxes (received) paid, net	$ 153	$ (5,860)	$ 3,627

Other Comprehensive Income

Significant components of our other comprehensive income are as follows:

	Years Ended December 31,		
	2010	2009	2008
Net income	$3,355	$3,166	$ 18,933
Minimum pension and post-retirement benefit (liability) net of income taxes (benefit) of $168, $2,691 and $(10,579) in 2010, 2009 and 2008, respectively	158	3,960	(15,602)
Unrealized (loss) gain on available-for-sale investments, net of income taxes (benefit) of $27, $(4) and $(77) in 2010, 2009 and 2008, respectively	41	(8)	(116)
Reclassification adjustment for losses included in net income, net of income taxes of $11 in 2009	–	16	–
Comprehensive income	$3,554	$7,134	$ 3,215

As of December 31, 2010 and 2009, accumulated other comprehensive loss, net of tax, consisted of the following:

	2010	2009
Minimum pension and post-retirement liability, net of tax	$ (15,141)	$ (15,299)
Unrealized gain on available-for-sale investments, net of tax	60	19
	$ (15,081)	$ (15,280)

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Severance and Termination Costs

In an effort to improve operating efficiencies and align operating costs, during the quarter ended June 30, 2010 we implemented a workforce reduction initiative in which approximately 60 positions were eliminated. Affected employees were provided a range of benefits and resources, including severance payments and the acceleration of unvested stock awards (collectively "severance costs"). During 2010 severance costs of $1,428 were recorded to the statements of income, primarily to general and administrative expense. Severance costs of approximately $613 and $815 were recorded to the Broadband and Telecom segments, respectively. As of December 31, 2010, our obligations related to the severance costs were concluded.

Recently Issued Accounting Pronouncements

In December 2010, the FASB issued Accounting Standards Update ("ASU") No. 2010-29, *Business Combinations (Topic 805)–Disclosure of Supplementary Pro Forma Information for Business Combinations–a consensus of the FASB Emerging Issues Task Force* ("ASU 2010-29"). ASU 2010-29 requires a public entity to disclose pro forma revenue and earnings for a business combination occurring in the current year as though the business combination occurred as of the beginning of the year or, if comparative statements are presented, pro forma amounts are required to be presented as though the business combination took place as of the beginning of the comparative year. ASU 2010-29 also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. We will apply ASU 2010-29 prospectively to business combinations consummated subsequent to January 1, 2011. We are currently evaluating the impact this update will have on our consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-28, *Intangibles–Goodwill and Other (Topic 350)–When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying amounts–a consensus of the FASB Emerging Issues Task Force*("ASU 2010-28"). ASU 2010-28 provides guidance on (i) the circumstances under which step 2 of the goodwill impairment test must be performed for reporting units with zero or negative carrying amounts and (ii) the qualitative factors to be taken into account when performing step 2 in determining whether it is more likely than not that an impairment exists. For public entities, the provisions of ASU 2010-28 will be effective for fiscal years and interim periods within those years beginning after December 15, 2010. We are currently evaluating the impact this update will have on our consolidated financial statements.

In October 2009, the FASB issued ASU No. 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements–a consensus of the FASB Emerging Issues Task Force* ("ASU 2009-13"). ASU 2009-13 addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services separately rather than as a combined unit and modifies the manner in which the transaction consideration is allocated across the separately identified deliverables. ASU 2009-13 significantly expands the disclosure requirements for multiple-deliverable revenue arrangements. ASU 2009-13 will be effective for the first annual reporting period beginning on or after June 15, 2010, and may be applied retrospectively for all periods presented or prospectively to arrangements entered into or materially modified after the adoption date. We are currently evaluating the impact this update will have on our condensed consolidated financial statements.

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncements

In July 2010, the FASB issued ASU No. 2010-20, *Receivables (Topic 310)–Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* ("ASU 2010-20"). ASU 2010-20 requires entities to provide additional disclosures concerning financing receivables and allowance for credit losses. Specifically, the new disclosures include (i) the nature of credit risk inherent in the entity's portfolio of financing receivables, (ii) the factors considered in analyzing such risk in arriving at the allowance for credit losses and (iii) the changes and reasons for those changes in the allowance for credit losses. Public entities are required to adopt the provisions of ASU 2010-20 related to disclosures of financing receivables as of the end of a reporting period for interim or annual reporting periods ending on or after December 15, 2010. The financing receivables disclosures related to activity that occurs during a reporting period are effective for interim or annual reporting periods beginning on or after December 15, 2010. Our adoption of this guidance had no impact on our consolidated financial statements.

In February 2010, the FASB issued ASU No. 2010-09, *Subsequent Events (Topic 855)–Amendments to Certain Recognition and Disclosure Requirements* ("ASU2010-09"). ASU 2010-09 amends ASC Topic 855 to remove the requirement for an SEC filer to disclose the date through which subsequent events have been evaluated both in issued and revised financial statements. ASU 2010-09 was effective immediately. Our adoption of this guidance had no impact on our condensed consolidated financial position and results of operations.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820)–Improving Disclosures about Fair Value Measurements* ("ASU 2010-06"). ASU 2010-06 amends ASC 820 to require additional disclosures regarding fair value measurements. Specifically, ASU 2010-06 requires entities to disclose additional information regarding (i) the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis, (ii) the amounts of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for these transfers and (iii) the reasons for any transfers in or out of Level 3. In addition to these new disclosure requirements, ASU 2010-06 also amends ASC 820 to further clarify existing guidance pertaining to the level of disaggregation at which fair value disclosures should be made and the requirements to disclose information about the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. Our adoption of this guidance on January 1, 2010, except for the requirement to separately disclose information about purchases, sales, issuances, and settlements in the reconciliation of recurring Level 3 measurements on a gross basis which becomes effective for fiscal years (and interim periods within those fiscal years) beginning after December 15, 2010, did not have a material impact on our consolidated financial position or results of operations.

Reclassifications

Certain amounts in our 2009 and 2008 consolidated financial statements have been reclassified to conform to the presentation of our 2010 consolidated financial statements. The reclassifications consist of the following:

Inventories have been reclassified from current assets to property, plant and equipment on the consolidated balance sheets. Inventories consist primarily of network construction materials and supplies that when issued are capitalized as part of new customer installations and the construction of the network.

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SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The proportion of the items included in inventories that are capitalized to property, plant and equipment has increased as a result of the growth in the Broadband business.

Operating expenses on the consolidated statements of income have been reclassified for a change in the classification during the third quarter of 2010 of customer technical support costs from customer operations and selling to cost of services and products. Prior period costs have been reclassified to conform to the current year presentation.

2. REVENUE RECOGNITION

We recognize revenue when (i) persuasive evidence of an arrangement exists between us and the customer, (ii) delivery of the product to the customer has occurred or service has been provided to the customer, (iii) the price to the customer is fixed or determinable and (iv) collectability of the sales price is reasonably assured. Revenues based on a flat fee, derived principally from local telephone, dedicated network access, data communications, Internet access service and residential/business broadband service are billed in advance and recognized in subsequent periods when the services are provided. Revenues based on usage, derived primarily from network access and long distance services, are recognized monthly as services are provided.

When required as part of providing service, revenues related to nonrefundable, upfront service activation and setup fees are deferred and recognized over the estimated customer life.

Incremental direct costs of telecommunications service activation are charged to expense in the period in which they are incurred, except when we maintain ownership of wiring installed during the activation process. In such cases the cost is capitalized and charged to expense over the estimated useful life of the asset.

We collect and remit Federal Universal Service contributions on a gross basis, which resulted in recorded revenue of $4,476, $3,692 and $3,048 for the years ended December 31, 2010, 2009 and 2008, respectively. We account for all other taxes collected from customers and remitted to the respective government agencies on a flow through basis.

3. FAIR VALUE MEASUREMENTS

Investments

The following is a summary of our short-term available-for-sale investments:

	As of December 31, 2010				As of December 31, 2009			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
Equity securities	$ 727	$ 44	$ –	$ 771	$ 654	$ –	$ (23)	$ 631

Cost Method Investments

We held $1,115 and $772 in cost method investments which were included in other long-term assets in the consolidated balance sheets as of December 31, 2010 and 2009, respectively. Our cost method investments

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

3. FAIR VALUE MEASUREMENTS (Continued)

primarily consist of our investment in CoBank, ACB ("CoBank") and are related to patronage distributions of restricted equity. Our investment in CoBank is required in accordance with the provisions of our Credit Agreement (see Note 5) held by CoBank. We periodically monitor our investments for impairment and will record reductions in carrying values if and when necessary. We did not estimate the fair value of the cost method investments as no events or changes in circumstances that may have a significant adverse effect on the fair value of the investment were identified during the year ended December 31, 2010. We determined that it was not practicable to estimate the fair value of the investments.

Fair Value of Financial Instruments

The following table summarizes our financial assets (cash equivalents and short-term investments) measured at fair value on a recurring basis:

	As of December 31, 2010			
	Total	Level 1	Level 2	Level 3
Money market funds	$ 84	$ 84	$ –	$ –
Equity securities	771	771	–	–
	$ 855	$ 855	$ –	$ –

	As of December 31, 2009			
	Total	Level 1	Level 2	Level 3
Money market funds	$ 5,346	$ 5,346	$ –	$ –
Equity securities	631	631	–	–
Auction rate securities	3,054	–	–	3,054
Put option (Right)	621	–	–	621
	$ 9,652	$ 5,977	$ –	$ 3,675

The following table provides a reconciliation of the beginning and ending balances for the assets measured at fair value using significant unobservable inputs (Level 3):

	2010		2009	
	Put Option	Auction Rate Securities	Put Option	Auction Rate Securities
Beginning balance at January 1st	$ 621	$ 3,054	$ 1,383	$ 2,125
Sale of auction rate security	–	(3,700)	–	–
Gains (losses) included in earnings	(621)	646	(762)	929
Ending balance at December 31st	$ –	$ –	$ 621	$ 3,054

As of December 31, 2009, we held one $3,700 par value ARS purchased from UBS Financial Services, Inc., a subsidiary of UBS AG ("UBS") with an estimated fair value of $3,054, which was measured using Level 3 inputs. This ARS was collateralized by student loans that are guaranteed primarily by a monoline

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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3. FAIR VALUE MEASUREMENTS (Continued)

insurance company and partially by the Federal Family Education Loan Program ("FFELP"). As of December 31, 2009, we also held a Right entitling us to sell at par our ARS anytime during a two-year period from June 30, 2010 through July 2, 2012.

As of December 31, 2009, the ARS and Right were classified as current assets in short-term investments on our consolidated balance sheet, as a result of our put option period under the Right. We continued to earn and receive interest on our ARS, as specified in the terms of the prospectus, during 2009.

On January 6, 2010, UBS exercised their rights under the Right to purchase our ARS at par of $3,700 and we recorded a gain of $646 on the ARS to other income (expense), other, net in the condensed consolidated statements of income during the quarter ended March 31, 2010. The gain was largely offset by a loss of $621 recorded on the Right resulting from the cancellation of our put option under the Right.

Fair Value of Debt

We had no short-term borrowings as of December 31, 2010 and 2009. The fair value of our long-term debt and capital leases was estimated using a DCF analyses based on incremental borrowing rates for similar types of borrowing arrangements.

	As of December 31, 2010		As of December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt and capital leases (including current maturities)	$ 205,409	$ 203,459	$ 223,045	$ 221,323

4. ACQUISITION & DIVESTITURES

Acquisition

Everest Broadband, Inc.

In February 2008, we acquired 100% of the issued and outstanding stock of Everest for a total purchase price of $181,459, including transaction costs. Subsequent to the acquisition, the Kansas City operations have been included in our Broadband segment. SureWest Kansas is a competitive provider of high-speed data, video and voice services in the Kansas City area. The addition of our Kansas City operations accelerates our growth strategy and has positioned us as a premier provider of network services to residential and business customers in the markets we serve.

The acquisition has been accounted for using the purchase method in accordance with ASC Topic 805, *Business Combinations*. Accordingly, the net assets acquired were recorded at their estimated fair values and Everest's operating results are included in our consolidated financial statements from the date of acquisition.

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

4. ACQUISITION & DIVESTITURES (Continued)

The purchase accounting relating to the Everest acquisition was complete as of December 31, 2008, as follows:

	February 13, 2008	
Current assets	$	12,952
Property, plant and equipment		149,793
Intangible assets		6,240
Goodwill		43,643
Other long-term assets		2,244
Total assets acquired		214,872
Current liabilities		9,603
Long-term liabilities		1,257
Deferred income taxes		22,553
Total liabilities acquired		33,413
Net assets acquired	$	181,459

The acquired intangible assets of $6,240 were derived from the associated value of a significant number of residential and business customers. The intangible assets are being amortized over the estimated useful life of 5 years. During the years ended December 31, 2010, 2009 and 2008, we recorded amortization expense of approximately $1,215, $1,215 and $1,178, respectively, relating to the customer relationships. Goodwill of $43,643 has been accounted for as an indefinite lived asset and will be tested annually for impairment at November 30 or at interim dates if potential impairment indicators arise. Goodwill is not deductible for income tax purposes. For further discussion regarding the goodwill impairment testing, see the Intangible Assets section in Note 1 above.

Our purchase accounting included an accrued liability of $1,255 relating primarily to the termination (the "Severance Plan") of certain members of Everest's management. The Severance Plan required payments to be made over a course of nine to eighteen months. During the year ended December 31, 2008, we paid $468 relating to the Severance Plan and in January 2009 we elected to pay the final severance payments early in the amount of $681, which concluded our obligations under the Severance Plan.

Unaudited Pro Forma Results

The following unaudited pro forma information presents our results of operations as if the acquisition of Everest occurred at the beginning of the fiscal periods presented. The pro forma information below does

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SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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4. ACQUISITION & DIVESTITURES (Continued)

not purport to present what the actual results would have been if the acquisition had in fact occurred at the beginning of the fiscal periods presented, nor does the information project results for any future period.

		2008
Operating revenues	$	237,930
Income from operations		16,787
Income from continuing operations		1,180
Net income		19,287
Basic earnings per common share:		
Income from continuing operations	$	0.08
Net income	$	1.37
Diluted earnings per common share:		
Income from continuing operations	$	0.08
Net income	$	1.37

Discontinued Operations

SureWest Wireless

In May 2008, we completed the sale of the operating assets of our Wireless business, SureWest Wireless, to Verizon Wireless ("Verizon") for an aggregate cash purchase price of $69,746, resulting in a gain of $18,864, net of tax. A portion of the purchase price equal to $3,450 was placed in escrow, half of which was received during the quarter ended June 30, 2009 and the balance of which was received during the quarter ended June 30, 2010. As part of the sale, Verizon acquired the spectrum licenses and operating assets of SureWest Wireless, excluding our owned communication towers. See the Communication Tower Assets section below for further discussion regarding our owned communication towers. SureWest Wireless was previously reported as a separate reportable segment.

The results of SureWest Wireless are reported as a discontinued operation in our consolidated financial statements for all periods presented.

The following table summarizes the financial information for SureWest Wireless' operations:

	2009	2008
Operating revenues	$ –	$10,055
Operating expenses including depreciation and amortization	–	9,962
Income from operations	–	93
Other income (expense)	–	(7)
Income tax expense	–	66
Income from discontinued operations	$ –	$ 20
Gain on sale of discontinued operations, net of taxes of $30 and $13,088 in 2009 and 2008, respectively	$43	$18,821

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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4. ACQUISITION & DIVESTITURES (Continued)

In connection with the sale, we entered into a short-term Transition Services Agreement ("TSA") with Verizon to provide certain operating services during the transition of the Wireless business to Verizon. The TSA concluded during the third quarter of 2008. During the transition period, our Telecom and Broadband segments provided certain services including long distance and interconnect services to Verizon. Such services, which were provided to SureWest Wireless prior to the sale and eliminated in our consolidated financial statements, were $1,869 for the year ended December 31, 2008.

Communication Tower Assets

In February 2009, we sold fifty-two wireless communications towers ("Tower Assets") owned by our subsidiary West Coast PCS, LLC ("West Coast PCS") to Global Tower Partners. West Coast PCS was a component of our Broadband segment. The sale was completed for an aggregate cash purchase price of $9,222, resulting in a gain of $2,525, net of tax.

The results of the Tower Assets have been reported as a discontinued operation in our consolidated financial statements for all periods presented.

The following table summarizes the financial information for the operations of the Tower Assets:

	Years Ended December 31,	
	2009	2008
Operating revenues	$ 249	$ 1,616
Operating expenses including depreciation and amortization	365	1,476
Income (loss) from operations	(116)	140
Income tax expense (benefit)	(47)	57
Income (loss) from discontinued operations	$ (69)	$ 83
Gain on sale of discontinued operations, net of taxes of $1,684 in 2009	$ 2,525	$ –

SureWest Directories

In 2007, we sold 100% of the stock of SureWest Directories, our directory publishing business, to GateHouse Media, Inc. for an aggregate cash purchase price of $110,123, resulting in a gain of $59,339, net of tax. SureWest Directories was previously included in the Telecom segment. During the quarter ended September 30, 2008, the gain on sale of discontinued operations was reduced by $817, net of tax of $548, related to disputed claims owed to us under a transitional service agreement for billing services performed after the sale date.

Assets Held For Sale

In connection with our efforts to evaluate and potentially monetize excess assets, during 2009 we identified and began to actively market for sale certain of our real estate assets. These regulated assets, which are included in the Telecom segment, include 21 acres of undeveloped land and an office building. During the quarter ended December 31, 2009, we completed our plan to sell these assets and as a result they were

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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4. ACQUISITION & DIVESTITURES (Continued)

classified as assets held for sale. As of December 31, 2010, these assets continue to be actively marketed for sale and classified as assets held for sale.

The following is the carrying value of the assets held for sale as of December 31, 2010 and 2009:

Undeveloped land	$	1,556
Office building		4,453
	$	6,009

We expect that the land will sell in the range of $3,000 to $5,000. In connection with the classification to assets held for sale, the carrying value of the office building was reduced to its estimated fair value less selling costs as determined based on the current market conditions and listed selling price. As a result, an impairment charge of $1,199 was recorded against accumulated depreciation in 2009, in accordance with regulated telephone plant and equipment composite group remaining life methodology. We evaluated the estimated fair value of the assets held for sale as of December 31, 2010 and determined there was not a significant change. Therefore, no additional impairment charge was recorded during the year ended December 31, 2010.

5. CREDIT AGREEMENTS

Long-term debt outstanding as of December 31, 2010 and 2009 consisted of the following:

	Weighted Average Interest Rates at December 31,				
	2010	2009	Maturities	2010	2009
Unsecured Series A Senior Notes	6.30%	6.30%	December 2013	$ 10,909	$ 14,545
Unsecured Series B Senior Notes	4.74%	4.74%	March 2013	36,000	48,000
Unsecured Term Loan A credit facility	3.97%	5.39%	May 2012	120,000	120,000
Unsecured Term Loan B credit facility	2.56%	3.66%	May 2012	30,000	30,000
Unsecured Revolving Loan credit facility	2.56%	4.81%	May 2012	8,500	10,500
Total long-term debt				205,409	223,045
Less current portion				15,636	15,636
Total long-term debt, net of current				$ 189,773	$ 207,409

At December 31, 2010, the aggregate maturities of long-term debt were (i) $15,636 in 2011, (ii) $174,137 in 2012 and (iii) $15,636 in 2013, for a total of $205,409. We had no short-term borrowings as of December 31, 2010 and 2009.

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

5. CREDIT AGREEMENTS (Continued)

Our long-term debt consists of unsecured Senior Notes and an unsecured Third Amended and Restated Credit Agreement ("Credit Agreement") with CoBank. The Senior Notes have interest payable semi-annually at their respective fixed interest rates. Principal payments on the Senior Notes are due in equal annual installments. The Credit Agreement includes term and revolving loan facilities. The Credit Agreement's interest payments are due at, the shorter of, their interest rate reset date or quarterly. All principal payments due on the Credit Agreement are due on the maturity date.

On January 29, 2010, we entered into a letter agreement with CoBank amending certain terms of the Credit Agreement. The Credit Agreement included a provision which required permanent reductions of the Revolving Loan facility of $7,500 at December 31, 2009 and 2010. The letter agreement amended those provisions and included (i) an increase in the total Revolving Loan facility of $7,500, (ii) a permanent reduction in CoBank's share of the Revolving Loan facility of $5,000 (rather than $7,500) on December 31, 2010 and (iii) setting the total Revolving Loan facility at $57,500. As a result of this letter agreement, our combined revolving commitment balance on our Revolving Loan and Swingline Loan facilities was $60,000.

As of December 31, 2010, our combined revolving commitment balance was $55,000 ($60,000 less $5,000 permanent reduction on December 31, 2010). The available balance on the revolving commitments, as of December 31, 2010 was approximately $46,500.

Our Series A and Series B Senior Notes and the Credit Agreement contain financial and operating covenants that may restrict, among other things, the repurchase of the Company's common stock, the payment of dividends, the making of certain other restricted payments and the incurrence of additional indebtedness. The covenants also require us to maintain certain financial ratios and minimum levels of tangible net worth. If we fail to comply with the covenants and other restrictions, such as making timely interest or principal payments, it could lead to an event of default and the acceleration of our obligations under those agreements. As of December 31, 2010, we were in compliance with all of our debt covenants.

Our financial covenants as defined in the Series A and Series B Senior Notes and the Credit Agreement, measured quarterly, are as follows:

Financial Covenant	Required Ratio Level	Actual Performance at December 31, 2010
Leverage ratio	Not more than 3.75	2.58
Interest coverage ratio	Not less than 3.00	9.55
Consolidated net worth	Not less than $160,000	$272,058
Debt to capitalization	Not more than 0.55	0.43

At December 31, 2010 and 2009, retained earnings of $112,058 and $109,183, respectively, were available for the payments described above.

6. REGULATORY MATTERS

Certain of our interstate telecommunications service rates are subject to regulation by the Federal Communications Commission ("FCC"). Interstate switched and special access rates are established through a SureWest Telephone tariff filed with the FCC. For interstate common line ("CL") charges, SureWest Telephone concurs with tariffs filed by the National Exchange Carrier Association ("NECA"). Intrastate service rates are subject to regulation by state commissions. Prices for intrastate

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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6. REGULATORY MATTERS (Continued)

telecommunications services are established through tariffs or through other regulatory mechanisms, including, in California, service guides. Pending and future regulatory actions may have a material impact on our consolidated financial position and results of operations.

FCC Matters

Under current FCC rules governing rate making, SureWest Telephone is required to establish rates for its interstate telecommunications services based on projected demand usage for the various services. SureWest Telephone projects its earnings through the use of annual cost separation studies, which utilize estimated total cost information and projected demand usage. Carriers are required to follow FCC rules in the preparation of these annual studies.

SureWest Telephone determines actual earnings from its interstate rates as actual volumes and costs become known. The FCC monitors SureWest Telephone's interstate earnings.

The FCC requires SureWest Telephone to prepare and submit periodic cost separation studies related to certain NECA CL accounts receivable balances. As a result of the cost separation filings, SureWest Telephone may change its estimates for certain NECA CL accounts receivable balances related to the prior year monitoring periods. During the years ended December 31, 2010 and 2009 we did not record any significant changes in estimates related to prior year monitoring periods.

California Public Utility Commission ("CPUC") Matters

A CPUC decision in August 2005 allowed SureWest Telephone to continue receiving our $11,500 annual interim draw from the California High Cost Fund ("CHCF"). The CHCF was previously authorized by the CPUC to offset SureWest Telephone's intrastate regulated operating expenses on an interim basis. In August 2006, we requested permission from the CPUC to implement a graduated phase-down of our annual $11,500 interim draw. In September 2007, the CPUC issued Decision 07-09-002 which provides for SureWest Telephone to phase-down its interim annual CHCF draw over a five-year period. The phase-down of the interim draw began in January 2007, initially reducing the annual $11,500 interim draw to $10,200, and in each subsequent year will be incrementally reduced by $2,040. In 2010 our interim CHCF draw was $4,080.

In an ongoing proceeding relating to the New Regulatory Framework (under which SureWest Telephone has been regulated since 1996), the CPUC adopted Decision 06-08-030 in 2006, which grants carriers broader pricing freedom in the provision of telecommunications services, bundling of services, promotions and customer contracts. This decision adopted a new regulatory framework, the Uniform Regulatory Framework ("URF"), which among other things (i) eliminates price regulation and allows full pricing flexibility for all new and retail services except basic residential services, which limits increases to $3.25 per year during 2009 and 2010, (ii) allows new forms of bundles and promotional packages of telecommunication services, (iii) allocates all gains and losses from the sale of assets to shareholders and (iv) eliminates almost all elements of rate of return regulation, including the calculation of shareable earnings. Beginning January 1, 2011, the URF Incumbent Local Exchange Carriers ("ILECs") are allowed full pricing flexibility for the basic residential rate. On December 31, 2010, the CPUC issued a ruling to initiate a new phase to assess whether, or to what extent, the level of competition in the telecommunications industry is sufficient to control prices for the four largest ILECs in the state, including

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

6. REGULATORY MATTERS (Continued)

SureWest Telephone. The CPUC's actions in this and future proceedings could lead to new rules and an increase in government regulation.

7. INCOME TAXES

We account for income taxes in accordance with ASC Topic 740, *Income Taxes* ("ASC 740") (formerly FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*) which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements. Specifically, this guidance prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition of uncertain tax positions.

We had a liability for uncertain tax positions of $267, $203 and $257 at December 31, 2010, 2009 and 2008, respectively. Included in our liability for uncertain tax positions at December 31, 2010 was $167 of accrued interest and penalties. Our policy is to recognize interest and penalties related to uncertain tax positions in income tax expense. We did not accrue significant amounts of interest and penalties related to unrecognized tax benefits during 2010, 2009 or 2008.

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $176 and $129 at December 31, 2010 and 2009, respectively. We anticipate the release of up to $109 of the unrecognized tax benefits within the next twelve months as a result of the expiration of the statute of limitations.

As of December 31, 2010, the following tax years and related taxing jurisdictions were open:

Tax Year	Taxing Jurisdiction
2002, 2004, 2007 - 2010	Federal
2004, 2006 - 2010	California
2006 - 2010	Kansas and Missouri

Income tax expense (benefit) consists of the following components:

	2010	2009	2008
Current expense (benefit):			
Federal	$ 777	$ (5,359)	$ (1,588)
State	(122)	204	19
Total current expense (benefit)	655	(5,155)	(1,569)
Deferred expense:			
Federal	1,609	6,492	2,760
State	1,090	669	1,948
Total deferred expense	2,699	7,161	4,708
Total income tax expense	$ 3,354	$ 2,006	$ 3,139

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

7. INCOME TAXES (Continued)

Income tax expense (benefit) differs from the amounts computed by using the statutory federal tax rate (35% in all years presented) due to the following:

	2010	2009	2008
Computed at statutory rates	$2,348	$ 936	$1,388
Increase (decrease):			
State taxes, net of federal benefit	322	209	415
State taxes attributable to change to multi-state apportionment	249	325	863
Tax exempt interest	–	(14)	(160)
Interest and penalties	64	–	549
KSOP dividends	–	–	(127)
Deferred compensation	217	482	123
Other, net	154	68	88
Income tax expense	$3,354	$2,006	$3,139
Effective federal and state tax rate	50.0%	75.0%	79.2%

The significant components of our deferred income tax assets and liabilities were as follows at December 31, 2010 and 2009:

	Deferred Income Taxes			
	2010		2009	
	Assets	Liabilities	Assets	Liabilities
Property, plant and equipment-primarily due to timing of recognition of depreciation expense	$ –	$85,601	$ –	$74,277
Differences in the timing of recognition of revenues	2,429	–	3,183	488
Net operating losses	13,595	–	5,999	–
Post-retirement and post-employment benefits	13,215	–	12,872	–
Accrued compensation	1,292	–	1,367	–
Other, net	2,288	394	1,701	648
Total deferred income taxes	32,819	85,995	25,122	75,413
Valuation allowance	(1,201)	–	(1,192)	–
Total deferred income taxes, net of valuation allowance	$31,618	$85,995	$23,930	$75,413
Net deferred income tax liability		$54,377		$51,483

We have federal net operating loss carryforwards of approximately $37,701 ($1,528 of which is subject to additional limitations), which will begin to expire in 2026, if not used. We have state net operating loss carryforwards of approximately $36,820 which will begin to expire in 2016, if not used. We also have approximately $1,847 and $1,834 of state income tax hiring credit carryforwards as of December 31, 2010 and 2009, respectively, which do not expire. Management believes that the future utilization of these credits is uncertain and has placed a full valuation allowance on these credits. The valuation allowance increased $9 and $77 during 2010 and 2009, respectively.

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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8. PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS

We maintain a Pension Plan which covers certain eligible employees. Benefits are based on years of service and the employee's average compensation during the five highest consecutive years of the last ten years of credited service. Our funding policy is to contribute annually an actuarially determined amount consistent with applicable federal income tax regulations. Contributions are intended to provide for benefits attributed to service to date. Pension Plan assets are primarily invested in domestic equity securities, fixed income and international equity securities.

We also maintain an unfunded SERP, which provides supplemental retirement benefits to certain of our retired executives. The SERP provides for incremental pension payments to partially offset the reduction in amounts that would have been payable under the Pension Plan if it were not for limitations imposed by federal income tax regulations.

In addition, we provide an Other Benefits Plan to certain eligible employees of our California location, including life insurance benefits and a stated reimbursement for Medicare supplemental insurance.

Effective April 1, 2007, we amended our Pension Plan, SERP and Other Benefits Plan (collectively the "Plans") such that the Plans were frozen so that no person is eligible to become a new participant on or following that date and all future benefit accruals for existing participants under the Plans cease.

The following tables set forth the change in benefit obligation, change in plan assets and funded status of the Plans as of December 31, 2010 and 2009:

	Pension Plan and SERP		Other Benefits Plan	
	2010	2009	2010	2009
Change in benefit obligation				
Benefit obligation at beginning of the year	$ 123,417	$ 118,636	$ 7,712	$ 8,481
Service cost	–	–	62	90
Interest cost on projected benefit obligation	7,169	7,234	319	442
Plan participant's contributions	–	–	375	412
Actuarial loss (gain)	5,378	5,073	(390)	(808)
Benefits paid	(7,762)	(7,526)	(816)	(905)
Benefit obligation at end of the year	$ 128,202	$ 123,417	$ 7,262	$ 7,712

	Pension Plan and SERP		Other Benefits Plan	
	2010	2009	2010	2009
Change in plan assets				
Fair value of plan assets at beginning of year	$ 94,610	$ 87,126	$ 3,853	$ 3,731
Actual return on plan assets	10,554	14,787	416	602
Employer contribution	212	223	8	13
Plan participant's contributions	–	–	375	412
Benefits paid	(7,762)	(7,526)	(816)	(905)
Fair value of plan assets at end of year	$ 97,614	$ 94,610	$ 3,836	$ 3,853
Funded status at year end	$ (30,588)	$ (28,807)	$ (3,426)	$ (3,859)

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

8. PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS (Continued)

Amounts recognized in the consolidated balance sheets at December 31, 2010 and 2009 consist of:

	Pension Plan and SERP		Other Benefits Plan	
	2010	2009	2010	2009
Current liabilities	$ 199	$ 216	$ –	$ –
Noncurrent liabilities	$ 30,389	$ 28,591	$ 3,426	$ 3,859

Amounts recognized in accumulated other comprehensive income for the years ended December 31, 2010 and 2009 consist of:

	Pension Plan and SERP		Other Benefits Plan	
	2010	2009	2010	2009
Net actuarial loss (gain)	$ 28,172	$ 28,242	$ (2,344)	$ (1,997)
Prior service cost	–	2	(452)	(544)
	$ 28,172	$ 28,244	$ (2,796)	$ (2,541)

Net periodic pension (income) cost recognized in the consolidated statements of income for the years ended December 31, 2010, 2009 and 2008 under the Plans included the following components:

	Pension Plan and SERP			Other Benefits Plan		
	2010	2009	2008	2010	2009	2008
Service cost-benefits earned during the year	$ –	$ –	$ –	$ 62	$ 90	$ 107
Interest cost on projected benefit obligation	7,169	7,234	7,153	319	441	438
Expected return on plan assets	(7,280)	(6,685)	(9,065)	(269)	(245)	(360)
Amortization of:						
Prior service cost	2	2	2	(92)	(92)	(92)
Net actuarial gain (loss)	2,173	2,593	23	(190)	(45)	(107)
Net pension and other benefits (income) cost during the year	$ 2,064	$ 3,144	$ (1,887)	$ (170)	$ 149	$ (14)

The following table summarizes other changes in plan assets and benefit obligations recognized in other comprehensive income, before tax effects, during 2010 and 2009:

	Pension Plan and SERP		Other Benefits Plan	
	2010	2009	2010	2009
Actuarial loss (gain), net	$ 2,104	$ (3,029)	$ (537)	$ (1,164)
Recognized actuarial (loss) gain	(2,173)	(2,593)	190	45
Recognized prior service (cost) credit	(2)	(2)	92	92
Total amount recognized in other comprehensive income, before tax effects	$ (71)	$ (5,624)	$ (255)	$ (1,027)

The estimated net loss, net prior service cost and transition obligation for the defined benefit pension plans that will be amortized from accumulated other comprehensive income in net periodic benefit cost over the

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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8. PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS (Continued)

next fiscal year are $2,311, $0 and $0, respectively. The estimated net gain, net prior service credit and transition obligation for the other defined benefit post-retirement plans that will be amortized from accumulated other comprehensive income in net periodic benefit cost over the next fiscal year are $172, $92 and $0, respectively.

The weighted-average assumptions used to determine projected benefit obligations as of December 31, 2010 and 2009 were as follows:

	Pension Plan and SERP		Other Benefits Plan	
	2010	2009	2010	2009
Discount rate	5.60%	6.00%	4.22%	4.80%

The weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31, 2010, 2009 and 2008 were as follows:

	Pension Plan and SERP			Other Benefits Plan		
	2010	2009	2008	2010	2009	2008
Discount rate	6.00%	6.25%	6.00%	4.80%	6.00%	5.50%
Expected long-term return on plan assets	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Rate of compensation increase	NA	NA	NA	NA	NA	NA

The expected rate of return on plan assets is the weighted average of expected long-term asset return assumptions.

Assumed health care cost trend rates at December 31, 2010 and 2009 were as follows:

	2010	2009
Health care cost trend assumed for the next year	10.50%	9.00%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2018	2013

Assumed health care cost trend rates have a significant effect on the amounts reported for the Other Benefits Plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost	$ 1	$ (2)
Effect on post-retirement benefit obligation as of January 1, 2010	$ 33	$ (43)

Plan Assets

Our investment strategy is designed to provide a stable environment to earn a rate of return over time to satisfy the benefit obligations and minimize the reliance on contributions as a source of benefit security. The objectives are based on a long-term (5 to 15 year) investment horizon, so that interim fluctuations

SUREWEST COMMUNICATIONS
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8. PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS (Continued)

should be viewed with appropriate perspective. The assets of the fund are to be invested to achieve the greatest return for the Pension Plan consistent with a prudent level of risk.

The asset return objective is to achieve, as a minimum over time, the passively managed return earned by managed index funds, weighted in the proportions outlined by the asset class exposures identified in the Pension Plan's strategic allocation. We update our long-term, strategic asset allocations every few years to ensure they are in line with our fund objectives. The target allocation of the Pension Plan assets is approximately 33% U.S. large cap equities, 17% international equities, 7% U.S. small cap equities and 43% domestic fixed income. Domestic fixed income is in the form of corporate and municipal bonds, U.S. Treasury and Government Agency securities and mortgage-backed securities. Currently, we believe that there are no significant concentrations of risk associated with the Pension Plan assets.

Refer to Note 3, *Fair Value Measurements*, for more detail regarding the three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value. The fair value measurements used to value our Pension Plan and Other Benefits Plan assets as of December 31, 2010 were generated by using market transactions involving identical or comparable assets. There were no changes in the valuation techniques used during 2010.

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

8. PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS (Continued)

The fair values of our Pension Plan assets at December 31, 2010 and 2009, by asset category were as follows:

	December 31, 2010			
Asset Category	Total	Level 1	Level 2	Level 3
Short-term investment fund(1)	$ 1,437	$ 1,437	$ –	$ –
Equity securities:				
United States large-cap(2)	31,445	31,445	–	–
United States small-cap(4)	7,833	–	7,833	–
International value(5)	8,513	–	8,513	–
International growth funds(5)	7,987	7,987	–	–
Domestic fixed income:				
United States treasury and government agency securities	11,093	11,093	–	–
Corporate and municipal bonds	9,410	–	9,410	–
Mortgage/asset-backed securities	19,896	–	19,896	–
Total	$ 97,614	$ 51,962	$ 45,652	$ –

	December 31, 2009			
Asset Category	Total	Level 1	Level 2	Level 3
Short-term investment fund(1)	$ 2,449	$ 2,449	$ –	$ –
Equity securities:				
United States large-cap(3)	32,467	–	32,467	–
United States small-cap(4)	7,160	–	7,160	–
International value(5)	7,967	–	7,967	–
International growth funds(5)	7,789	7,789	–	–
Domestic fixed income:				
United States treasury and government agency securities	6,669	6,669	–	–
Corporate commercial paper	1,302	–	1,302	–
Corporate and municipal bonds	10,523	–	10,523	–
Mortgage/asset-backed securities	18,284	–	18,284	–
Total	$ 94,610	$ 16,907	$ 77,703	$ –

(1) This category represents a sweep fund that is used for daily Plan operations.

(2) This category comprises low-cost equity index funds and investments in common stock of domestic corporations in a industry sectors with a benchmark of the Russell 1000 Index.

(3) This category comprises low-cost equity index funds with a benchmark of the Russell 1000 Index.

(4) This category comprises low-cost equity index funds with a benchmark of the Russell 2000 Index.

(5) These categories compromise equity funds with a benchmark of the Morgan Stanley Capital International Europe, Asia, Australia, Far East Stock index, net of withholding taxes to United States investors.

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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8. PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS (Continued)

The fair values of our Other Benefits Plan assets at December 31, 2010 and 2009, by asset category were as follows:

	December 31, 2010			
Asset Category	Total	Level 1	Level 2	Level 3
Short-term investment fund[1]	$ 57	$ 57	$ –	$ –
Equity securities:				
United States large-cap[2]	1,238	1,238	–	–
United States small-cap[4]	308	–	308	–
International value[5]	335	–	335	–
International growth funds[5]	314	314	–	–
Domestic fixed income:				
United States treasury and government agency securities	437	437	–	–
Corporate and municipal bonds	370	–	370	–
Mortgage/asset-backed securities	783	–	783	–
Total	$ 3,842	$ 2,046	$ 1,796	$ –

	December 31, 2009			
Asset Category	Total	Level 1	Level 2	Level 3
Short-term investment fund[1]	$ 100	$ 100	$ –	$ –
Equity securities:				
United States large-cap[3]	1,322	–	1,322	–
United States small-cap[4]	291	–	291	–
International value[5]	324	–	324	–
International growth funds[5]	317	317	–	–
Domestic fixed income:				
United States treasury and government agency securities	272	272	–	–
Corporate commercial paper	53	–	53	–
Corporate and municipal bonds	429	–	429	–
Mortgage/asset-backed securities	745	–	745	–
Total	$ 3,853	$ 689	$ 3,164	$ –

(1) This category represents a sweep fund that is used for daily Plan operations.

(2) This category comprises low-cost equity index funds and investments in common stock of domestic corporations in a industry sectors with a benchmark of the Russell 1000 Index.

(3) This category comprises low-cost equity index funds with a benchmark of the Russell 1000 Index.

(4) This category comprises low-cost equity index funds with a benchmark of the Russell 2000 Index.

(5) These categories compromise equity funds with a benchmark of the Morgan Stanley Capital International Europe, Asia, Australia, Far East Stock index, net of withholding taxes to United States investors.

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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8. PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS (Continued)

Cash Flows

Contributions

Our minimum funding requirement for 2011 related to the Pension Plan is expected to be approximately $5,800. However, due to a carryover balance of approximately $2,000 and the timing of the quarterly installments we are not required to make a cash contribution until January 2012. We will continue to evaluate the future funding requirements of the Plans and fund them as necessary.

Estimated Future Benefit Payments

As of December 31, 2010, benefit payments expected to be paid over the next ten years from the Plans are outlined in the following table:

	Pension Plan & SERP	Other Benefits Plan
Expected benefit payments:		
2011	$ 7,780	$ 1,084
2012	8,043	998
2013	8,316	987
2014	8,646	956
2015	8,856	774
2016-2020	46,521	1,882

We maintain a defined contribution retirement plan, the SureWest KSOP (the "KSOP"). We have retained a financial advisor and an investment management company to serve as the record keeper and fund manager for certain funds of the KSOP. The KSOP allows its participants an opportunity to diversify their retirement holdings by offering a choice of twenty-two investment options, including the Company's common stock. The KSOP has a retirement and savings feature. The retirement feature allows for qualified tax deferred contributions by employees under Section 401(k) of the Internal Revenue Code. We match an employee's contributions dollar-for-dollar up to six percent of an employee's salary. Our matching contribution vests when the employee completes one year of service. The KSOP provides for voting rights as to the participant's share of the Company's common stock held by the KSOP and for certain diversification rights of the participant's account balances. Our earnings (loss) per share calculations include the issued and outstanding shares held by the KSOP.

The following table summarizes matching KSOP contributions we expensed, the number of shares of the Company's common stock held by the KSOP and dividends received from the shares of the Company's common stock held by the KSOP for the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
Aggregate matching KSOP contributions expensed by the Company	$ 2,871	$ 3,015	$ 3,138
Number of the Company's shares held by the KSOP at December 31,	656,000	751,000	766,000
Dividends received from the Company's shares held by the KSOP	$ –	$ –	$ 364

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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9. COMMITMENTS AND CONTINGENCIES

We have certain other obligations for various contractual agreements that secure future rights to goods and services to be used in the normal course of operations. These include purchase commitments for planned capital expenditures, agreements securing dedicated access and transport services, programming license agreements and support agreements. Additionally, SureWest Long Distance has procured transport resale arrangements with several interexchange carriers. These resale arrangements are on a month-to-month basis with no long-term obligations.

We lease certain facilities and equipment used in our operations under arrangements accounted for as operating leases. The facility leases generally require us to pay operating costs; including property taxes, insurance and maintenance, and certain of them contain scheduled rent increases and renewal options. Leasehold improvements are amortized over their estimated useful lives or lease period, whichever is shorter. We recognize rent expense on a straight-line basis over the term of each lease.

The following table summarizes our minimum annual contractual obligations as of December 31, 2010 and the estimated timing and effect the obligations will have on our liquidity and cash flows in future periods:

	2011	2012	2013	2014	2015	Thereafter	Total
Operating lease agreements(1)	$1,118	928	823	852	850	1,067	$ 5,638
Capital expenditures(2)	2,114	–	–	–	–	–	2,114
Service and support agreements(3)	804	527	18	–	–	–	1,349
Programming content agreements(4)	477	360	26	2	–	–	865
High-speed data connectivity(5)	300	125	–	–	–	–	425
Total	$4,813	$1,940	$867	$854	$850	$ 1,067	$10,391

(1) We have entered into various non-cancelable operating leases for certain facilities and equipment with terms greater than one year.

(2) We have binding commitments with numerous suppliers for future capital expenditures.

(3) We have entered into service and maintenance agreements to support various computer hardware and software applications and certain equipment.

(4) Programming content represents contracts with cable television networks and broadcast stations to provide programming services to our subscribers. The amounts included in the above schedule represent estimated future payments for contracts with guaranteed minimum commitment levels and other factors, including the number of subscribers receiving the programming.

(5) High-speed data connectivity represents contracts with guaranteed dedicated Internet access at designated bandwidth levels.

The table below summarizes payments we made for operating leases, long distances transport, and high-speed data connectivity services for the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
Operating lease agreements	$ 3,369	$ 3,561	$ 3,614
Long distance transport services	1,716	2,112	2,201
High-speed data connectivity	853	1,546	783
	$ 5,938	$ 7,219	$ 6,598

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

9. COMMITMENTS AND CONTINGENCIES (Continued)

Litigation, Regulatory Proceedings and Other Contingencies

We are subject to certain legal and regulatory proceedings, Internal Revenue Service examinations and other income tax exposures, and other claims arising in the ordinary course of our business. In the opinion of management, the ultimate outcome of these matters will not materially affect our consolidated financial position, results of operations or cash flows.

10. SHARE-BASED COMPENSATION

Stock Plan

Our Board of Directors may grant share-based awards from our shareholder approved Equity Incentive Plan, the 2000 Equity Incentive Plan (the "Stock Plan"), to certain employees, outside directors and consultants. The Stock Plan permits issuance of awards in the form of RSAs, RSUs, performance shares, stock options and stock appreciation rights. Under the Stock Plan, approximately 2.1 million shares of our common stock were authorized for issuance, including those outstanding as of December 31, 2010.

Restricted Common Stock Awards and Units

We measure the fair value of the RSAs and RSUs based upon the market price of the underlying common stock as of the date of the grant. RSAs and RSUs are amortized over their respective vesting periods, generally from immediate vest to a four-year vesting period using the straight-line method. We have estimated expected forfeitures based on historical experience and are recognizing compensation expense only for those RSAs and RSUs expected to vest.

The following table summarizes the grants that occurred under the Stock Plan during the years 2010, 2009 and 2008:

	Years Ended December 31,					
	2010	Grant Date Fair Value	2009	Grant Date Fair Value	2008	Grant Date Fair Value
RSAs Granted	217,575	$ 9.95	166,506	$ 11.56	143,340	$ 12.34-15.59
RSUs Granted	92,709	$ 9.95	72,443	$ 11.56	66,810	$ 8.43-12.34
RSU Dividends	–	$ –	8,470	$ 9.79	802	$ 8.88
Total	310,284		247,419		210,952	

RSU Dividends consist of dividends that were previously granted to the holders of RSUs, which have fully vested and were released during the years presented in accordance with the underlying award agreement. Stock-based compensation expense for both RSAs and RSUs of $2,845 (which included the costs to accelerate certain RSAs in accordance with the workforce reduction initiative as described below), $2,010 and $879 was recorded during the years ended December 31, 2010, 2009 and 2008, respectively. Income tax benefits related to stock-based compensation of approximately $1,147, $813 and $356 were recorded for the years ended December 31, 2010, 2009 and 2008, respectively.

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

10. SHARE-BASED COMPENSATION (Continued)

During the year ended December 31, 2010, the following summarizes the restricted common stock activity:

Nonvested Shares	Shares	Weighted Average Grant Date Fair Value	
Nonvested-January 1, 2010	349,916	$	12.90
Granted	310,284	$	9.95
Vested	(259,044)	$	12.05
Forfeited	(4,813)	$	11.03
Nonvested-December 31, 2010	396,343	$	11.17

As of December 31, 2010, total unrecognized compensation costs related to nonvested restricted stock was $4,336 and will be recognized over a weighted-average period of approximately 2.31 years. The total fair value of RSAs and RSUs vested during the years ended December 31, 2010, 2009 and 2008 was $3,123, $2,305 and $1,222, respectively.

Stock Options

In 2003, we ceased granting stock options and have since granted RSAs and RSUs as part of our equity compensation plan. We issue new shares of common stock upon exercise of stock options. The exercise price per share of the Company's common stock to be purchased under any incentive stock option shall not be less than 100% of the fair market value of a share of the Company's common stock on the date of the grant, and the exercise price under a non-qualified stock option shall not be less than 85% of the fair market value of the Company's common stock at the date of the grant. The term of any stock option shall not exceed ten years. There were no stock options granted or exercised during the year ended December 31, 2010. The aggregate intrinsic value is calculated as the difference between the exercise price of the stock options and the quoted price of our common stock. There were no options that were in-the-money as of December 31, 2010.

The following table summarizes stock option activity for the year ended December 31, 2010, along with options exercisable at the end of the year:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding-January 1, 2010	318,389	$ 40.45	
Expired	(222,007)		
Outstanding-December 31, 2010	96,382	$ 41.85	1.00
Vested and exercisable at December 31, 2010	96,382	$ 41.85	1.00

11. STOCK REPURCHASE

In September 2010, our Board of Directors authorized the repurchase of up to an additional 1 million shares of our common stock, supplementing the previously authorized share repurchase program. The share repurchase program was originally approved in February 2000, and expanded in June 2002 and

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

11. STOCK REPURCHASE (Continued)

November 2006. This additional authorization increases the total number of shares available for repurchase under the program to 3.5 million. Shares are purchased from time to time in the open market or through privately negotiated transactions, subject to overall financial and market conditions. As of December 31, 2010, under the share repurchase program approximately 2.3 million shares of common stock have been repurchased and approximately 1.2 million additional outstanding shares remain authorized for repurchase by the Board of Directors.

We repurchased approximately 430 thousand shares, 108 thousand shares and 553 thousand shares during 2010, 2009 and 2008, respectively. The purchase of common shares did not have a substantive effect on the average number of common shares outstanding or the calculation of basic and diluted earnings per share for the years ended December 31, 2010, 2009 or 2008.

12. BUSINESS SEGMENTS

We have two reportable business segments: Broadband and Telecom. We have aggregated certain of our operating segments within the Broadband and Telecom segments because we believe that such operating segments share similar economic characteristics. We measure and evaluate the performance of our segments based on income (loss) from operations. Corporate Operations are allocated to the appropriate segment, except for cash; investments; certain property, plant, and equipment; and miscellaneous other assets, which are not allocated to the segments. However, the interest income associated with cash and investments held by Corporate Operations is included in the results of the operations of our segments.

The Broadband segment utilizes fiber-to-the-home and fiber-to-the-node networks to offer many of its bundled residential and commercial services that include Internet Protocol-based digital and high-definition television, high-speed Internet, Voice over Internet Protocol ("VoIP") and local and long distance telephone in the Sacramento region and Kansas City area. The Broadband segment continues to expand its use of optical fiber in its networks.

The Telecom segment, which operates only in the Sacramento region, offers a broad selection of telecommunications services including traditional circuit-switched voice services, domestic and international long distance services and a number of lightly-regulated or non-regulated services. Customers in the Telecom segment can select individual services or bundled packages that may include unlimited local calling or unlimited local and domestic long distance calling plans. Our voice products also include value-added services such as voicemail, call waiting, caller identification and many other calling feature options. Most long distance services are offered by our subsidiary SureWest Long Distance, which is a reseller of long distance services.

The Telecom segment also provides wholesale access services through the use of its network to the Broadband segment, which enables the Broadband segment to offer high-speed Internet, VoIP and video services to those customers within SureWest Telephone's service area. These wholesale services are included as intersegment revenues and expenses in each of the respective segments and eliminated in the consolidated statements of income.

These segments are strategic business units that offer different products and services. The accounting policies of these segments are the same as those described in Note 1. We account for intersegment revenues and expenses at prevailing market rates.

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

12. BUSINESS SEGMENTS (Continued)

Our business segment information is as follows:

2010	Broadband	Telecom	Corporate Operations	Discontinued Operations	Intercompany Eliminations	Consolidated
Operating revenues from external customers	$ 174,546	$ 68,953	$ –	$ –	$ –	$ 243,499
Intersegment revenues	564	20,637	–	–	(21,201)	–
Operating expenses*	140,282	47,399	–	–	(21,201)	166,480
Depreciation and amortization	49,621	12,204	–	–	–	61,825
Income (loss) from operations	(14,793)	29,987	–	–	–	15,194
Investment income	21	56	–	–	–	77
Interest expense, net of capitalized interest	(8,089)	(257)	–	–	–	(8,346)
Income tax expense (benefit)	(9,893)	13,247	–	–	–	3,354
Income (loss) from continuing operations	$ (12,873)	$ 16,228	$ –	$ –	$ –	$ 3,355
Total assets	$1,004,739	$1,308,367	$997,012	$ –	$(2,706,937)	$ 603,181
Capital expenditures	$ 43,944	$ 7,286	$ 1,330	$ –	$ –	$ 52,560

*Exclusive of depreciation and amortization

2009	Broadband	Telecom	Corporate Operations	Discontinued Operations	Intercompany Eliminations	Consolidated
Operating revenues from external customers	$ 161,222	$ 80,478	$ –	$ –	$ –	$ 241,700
Intersegment revenues	438	19,897	–	–	(20,335)	–
Operating expenses*	137,851	50,887	–	–	(20,335)	168,403
Depreciation and amortization	47,359	12,365	–	–	–	59,724
Income (loss) from operations	(23,550)	37,123	–	–	–	13,573
Investment income	28	93	–	–	–	121
Interest expense, net of capitalized interest	(10,856)	(462)	–	–	–	(11,318)
Income tax expense (benefit)	(13,453)	15,459	–	–	–	2,006

Income (loss) from continuing operations	$ (20,782)	$ 21,449	$ –	$ –	$ –	$ 667
Total assets	$914,026	$1,186,441	$827,566	$ –	$(2,305,170)	$ 622,863
Capital expenditures	$ 47,975	$ 9,355	$ 1,000	$ –	$ –	$ 58,330

*Exclusive of depreciation and amortization

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

12. BUSINESS SEGMENTS (Continued)

2008	Broadband	Telecom	Corporate Operations	Discontinued Operations	Intercompany Eliminations	Consolidated
Operating revenues from external customers	$135,341	$ 95,032	$ –	$ –	$ –	$ 230,373
Intersegment revenues	539	18,455	–	–	(18,994)	–
Operating expenses*	122,650	56,549	–	–	(18,994)	160,205
Depreciation and amortization	40,491	14,536	–	–	–	55,027
Income (loss) from operations	(27,261)	42,402	–	–	–	15,141
Investment income	95	581	–	–	–	676
Interest expense, net of capitalized interest	(11,798)	(328)	–	–	–	(12,126)
Income tax expense (benefit)	(15,157)	18,296	–	–	–	3,139
Income (loss) from continuing operations	$ (23,684)	$ 24,510	$ –	$ –	$ –	$ 826
Total assets	$858,899	$1,087,032	$682,712	$ 5,002	$(1,999,836)	$ 633,809
Capital expenditures	$ 66,737	$ 18,519	$ 1,233	$ –	$ –	$ 86,489

*Exclusive of depreciation and amortization

13. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

2010	March 31	June 30	September 30	December 31
Operating revenues	$ 60,188	$ 60,548	$ 61,117	$ 61,646
Income from operations	$ 3,142	$ 2,037	$ 5,017	$ 4,998
Net income (loss)	$ 527	$ (527)	$ 1,404	$ 1,951
Net income (loss) per basic and diluted common share	$ 0.04	$ (0.04)	$ 0.10	$ 0.14

2009	March 31	June 30	September 30	December 31
Operating revenues	$ 60,942	$ 60,930	$ 59,529	$ 60,299
Income from operations	$ 3,320	$ 4,615	$ 2,616	$ 3,022
Income (loss) from continuing operations	$ 79	$ 899	$ (211)	$ (100)
Loss from discontinued operations	(69)	–	–	–
Gain on discontinued operations	2,508	60	–	–
Net income (loss)	$ 2,518	$ 959	$ (211)	$ (100)
Basic and diluted earnings (loss) per share:				
Income (loss) from continuing operations	$ 0.01	$ 0.06	$ (0.02)	$ –
Discontinued operations, net of tax	0.17	0.01	–	–
Net income (loss) per basic and diluted common share	$ 0.18	$ 0.07	$ (0.02)	$ –

SUREWEST COMMUNICATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

13. QUARTERLY FINANCIAL INFORMATION (UNAUDITED) (Continued)

As described in Note 1, we incurred estimated severance costs of $1,640 as a result of the workforce reduction initiative implemented during the quarter ended June 30, 2010. During the quarter ended September 30, 2010, severance costs decreased $212 as a result of a reduction in estimated stock compensation expense.

In February 2009, we sold our Tower Assets for an aggregate cash purchase price of $9,222, resulting in a gain of $2,525, net of tax. The operating results of our Tower Assets are included in loss from discontinued operations for the quarter ended March 31, 2009.

As a result of periodic cost separation studies required by the FCC, SureWest Telephone changed its estimates for certain NECA CL accounts receivable balances related to current and prior year monitoring periods. These changes in accounting estimates decreased consolidated revenues and net income by $583 and $335 ($0.02 per share) and $361 and $210 ($0.02 per share) during the third and fourth quarters of 2009, respectively. We did not record any significant changes in accounting estimates related to current or prior year monitoring periods during 2010 or the first or second quarters of 2009.

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

Not applicable.

Item 9A. Controls and Procedures.

Evaluation of disclosure controls and procedures

In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), as of the end of the period covered by this Annual Report on Form 10-K, we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon, and as of the date of this evaluation, the chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Annual Report on Form 10-K, to ensure that information required to be disclosed by the Company in reports we file or submit under the Exchange Act is authorized, recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and to ensure that information required to be disclosed by the Company in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our president and chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding disclosure.

In the second quarter of 2010, we reduced our workforce by approximately 60 positions, including open and unfilled positions. The affected positions were comprised of a range of levels across the Company, including Bill M. DeMuth, Senior Vice President and Chief Technology Officer, who left the Company on June 30, 2010 pursuant to a Severance Agreement. The responsibilities of the affected employees were assumed by remaining employees and management, as deemed necessary. Based on our control testing and management's assessment of our internal control environment, the changes to our employee base and management team did not adversely impact our internal controls or control environment.

Management's Report on Internal Control over Financial Reporting

The report of management required under Item 9A is contained in Item 8 of Part II of this Annual Report on Form 10-K under the heading "Management's Report on Internal Control over Financial Reporting."

Attestation Report of Independent Registered Public Accounting Firm

The attestation report required under Item 9A is contained in Item 8 of Part II of this Annual Report on Form 10-K under the heading "Report of Independent Registered Public Accounting Firm."

Change in internal control over financial reporting

Beginning in the second quarter of 2010, we commenced certain strategic projects to move our cash management services from our existing financial institutions to two new financial institutions. The movement of these services was substantially completed in 2010, with the remaining likely to be completed in the first quarter of 2011. As part of these projects, management continues to evaluate our internal controls over financial reporting and will do so until after the completion of all of the cash management changes. Except for the items discussed above, there has been no change in our internal control over financial reporting during the quarter ended December 31, 2010.

Limitations on the effectiveness of controls

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to our management, Board of Directors and Audit Committee regarding the reliability of financial reporting and the preparation of published financial statements in accordance with generally accepted accounting principles.

Item 9B. Other Information.

Not applicable.