VALOR COMMUNICATIONS GROUP INC
Form S-1/A
February 03, 2005

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As filed with the Securities and Exchange Commission on February 3, 2005

Registration No. 333-114298

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 6
to

Form S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Valor Communications Group, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**4813**	**20-0792300**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

201 E. John Carpenter Freeway, Suite 200

Irving, Texas 75062
(972) 373-1000
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

WILLIAM M. OJILE, JR., ESQ.

Senior Vice President,
Chief Legal Officer & Secretary
Valor Communications Group, Inc.
201 E. John Carpenter Freeway, Suite 200
Irving, Texas 75062
(972) 373-1000
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Joshua N. Korff, Esq. **Kirkland & Ellis LLP** **Citigroup Center** **153 East 53rd Street** **New York, New York 10022** **(212) 446-4800**	**Richard L. Muglia, Esq.** **Skadden, Arps, Slate, Meagher & Flom LLP** **Four Times Square** **New York, New York 10036** **(212) 735-3000**

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered(1)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee(3)
Common Stock, par value $0.0001 per share(4)	$608,062,500	$71,570

(1) This registration statement, as originally filed, applied to income deposit securities and senior subordinated notes as well as common stock. Pursuant to Amendment No. 3, the Registrant amended this registration statement to apply solely to common stock. The offering of income deposit securities and senior subordinated notes was thereby withdrawn and no income deposit securities or senior subordinated notes are to be registered under this registration statement.

(2) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(o) promulgated under the Securities Act of 1933, as amended.

(3) Previously paid.

(4) Includes 4,406,250 shares of common stock subject to the underwriter s overallotment option.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to such Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion
Preliminary Prospectus dated February 3, 2005

PROSPECTUS

29,375,000 Shares

Common Stock

This is Valor Communications Group, Inc. s initial public offering. Valor Communications Group, Inc. is selling all of the shares.

We expect the public offering price to be between $16.00 and $18.00 per share. Currently, no public market exists for the shares. We have applied for listing on the New York Stock Exchange under the symbol VCG.

Investing in the common stock involves risks that are described in the Risk Factors section beginning on page 11 of this prospectus.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to Valor Communications Group, Inc.	$	$

The underwriters may also purchase up to an additional 4,406,250 shares from the selling stockholders, at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover overallotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares will be ready for delivery on or about , 2005.

Merrill Lynch & Co. **Banc of America Securities LLC** **JPMorgan**

Lehman Brothers **Morgan Stanley** **Wachovia Securities**

Bear, Stearns & Co. Inc. **CIBC World Markets** **Legg Mason Wood Walker Incorporated**

Raymond James

The date of this prospectus is , 2005.

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You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospectus may have changed since that date.

For investors outside the United States: Neither we nor any of the underwriters have done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus.

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SUMMARY

The following is a summary of the principal features of this offering of common stock and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus.

Our Company

Overview

We are one of the largest providers of telecommunications services in rural communities in the southwestern United States and, based on the number of telephone lines we have in service, the seventh largest independent (non-Bell) local telephone company in the country. As of September 30, 2004, we operated approximately 548,000 telephone access lines in primarily rural areas of Texas, Oklahoma, New Mexico and Arkansas. We believe that in many of our markets we are the only service provider that offers customers an integrated package of local and long distance voice, high-speed data and Internet access, and enhanced services such as voicemail and caller identification. For the year ended December 31, 2003, we generated revenues of $497.3 million and net income of $58.2 million. In the nine months ended September 30, 2004, we generated revenues of $379.3 million and net income of $25.2 million.

We formed our company in 2000 in connection with the acquisition of select telephone assets from GTE Southwest Corporation, which is now part of Verizon, and have since acquired the local telephone company serving Kerrville, Texas. The rural telephone businesses that we own have been operating in the markets we serve for over 75 years. Since our inception, we have invested substantial resources to improve and expand our network infrastructure to provide high quality telecommunications services and superior customer care. This capital investment, in combination with a focused selling effort, has contributed to an increase in our revenue of $72.4 million, or 17.0%, from 2001 to 2003.

We operate our business through telephone company subsidiaries that qualify as rural local exchange carriers under the Telecommunications Act of 1996. Like many rural telephone companies, our business is characterized by stable operating results, revenue and cash flow and a relatively favorable regulatory environment, which includes support payments from the Texas and federal Universal Service Funds. In 2003, 24.1% of our revenues were attributable to such support payments.

We have historically experienced less competition than regional Bell operating companies because of the low customer density and high residential component of our customer base. Since our customer base is located in areas that are generally less densely populated than areas served by other rural telephone companies, we believe that we are more insulated from competitive pressures than many other local telecommunications providers. We are not, however, immune to such pressures. Our access line count decreased by approximately 8,800 lines, or 1.6%, during the nine months ended September 30, 2004, and, excluding the number of access lines we gained in the Kerrville acquisition, we experienced access line loss in each of the past two fiscal years.

We currently have a substantial amount of indebtedness. Following the consummation of this offering, we will have approximately $1.2 billion of outstanding indebtedness. Historically, we used our excess cash to pay down our long-term debt. This practice led to negative working capital balances. At December 31, 2003 and at September 30, 2004, we had a negative working capital balance of approximately $46.2 million and $71.0 million, respectively. After this offering, we will use a substantial portion of our excess cash to pay dividends on our common stock rather than prepay outstanding indebtedness. In addition, at September 30, 2004, we had an accumulated deficit of $28.2 million (or $460.7 million on a pro forma basis, after giving effect to this offering and to our reorganization, debt recapitalization and issuance of senior notes, each as described below).

Our Strengths

Ability to Generate Consistent Cash Flows. We have generated strong operating cash flow in each year since our inception by growing revenues and reducing expenses. Our net cash provided from operating activities was $100.3 million in 2001, $150.4 million in 2002, $166.1 million in 2003 and $158.3 million in the twelve months ended September 30, 2004.

Leading Market Position. We maintain our position as the leading provider of telecommunications services in the markets we serve by providing reliable customer service, offering a full range of voice and data services and maintaining a strong local presence in the communities we serve.

Scalable, State-of-the-Art Network Infrastructure. Our investment of more than $350 million since our inception in 2000 to improve and expand our network infrastructure has enabled us to provide additional services to our customers, improve the overall quality of our network and position our company for future cash flow growth.

Wide Array of Integrated Services. We believe that we are the only telecommunications service provider in many of the markets we serve that can provide an integrated package of local, long distance, high-speed data and Internet access as well as a variety of enhanced services such as voicemail and caller identification.

Experienced and Proven Management Team. Our highly experienced senior management team has an average of over 20 years of experience in the local telecommunications industry, including managing the expansion of public telecommunications companies through both internal growth and integration of acquisitions.

Business Strategy

Increase Penetration of Higher Margin Services. We intend to capitalize on our ability to cross-sell higher margin enhanced voice and data services as a bundled package which we believe represents a significant opportunity for us to continue to increase our revenue per customer. Our average revenues per access line per month increased from $64.11 for the year ended December 31, 2001, to $76.30 for the nine months ended September 30, 2004.

Provide Superior Service and Customer Care. We seek to build long-term customer relationships by providing personalized customer care through three call centers, while also automating many of our customer service functions to enable our customers to interact with our company 24 hours a day, 365 days a year.

Improve Operating Efficiency and Profitability. We strive for greater efficiencies and improved profit margins by consolidating corporate functions, negotiating favorable terms with our suppliers and contractors and focusing capital expenditures on projects that exceed our internal rate of return thresholds.

Pursue Selective Strategic Acquisitions. We believe that there are opportunities to acquire telecommunications assets that are accretive and that we possess the management team, network infrastructure and labor force that can identify, acquire, integrate and successfully support significant growth through acquisitions.

Our Reorganization

All the equity interests in Valor Telecommunications, LLC, or VTC, are currently held by affiliates of Welsh, Carson, Anderson & Stowe, affiliates of Vestar Capital Partners, and affiliates of Citicorp Venture Capital, to whom we refer to collectively as our equity sponsors, our management and employees, and a group of individuals. We refer to these persons and entities collectively throughout this prospectus as our existing equity holders. VTC, together with our equity sponsors, collectively hold substantially all of the outstanding equity interests of Valor Telecommunications Southwest, LLC, or VTS. VTC also currently holds all of the outstanding equity interests of Valor Telecommunications Southwest II, LLC, or VTS II.

As discussed in Detailed Transaction Steps, immediately prior to and in connection with this offering, we will consummate a reorganization pursuant to which our existing equity holders will contribute all their equity interests in VTC and VTS to Valor Communications Group, Inc., or Valor, in exchange for 41,458,333 shares of common stock in the aggregate. Following our reorganization, Valor will exist as a holding company with no direct operations and each of VTC, VTS and VTS II will be either a direct or

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an indirect wholly-owned subsidiary of Valor. Valor s principal assets will consist of the direct and indirect equity interests of its subsidiaries, all of which will be pledged to the creditors under our new credit facility.

Following our reorganization, our senior management will collectively hold an aggregate of 1,920,303 shares of our common stock, of which 391,059 shares will be fully vested upon the consummation of this offering. In addition, following this offering affiliates of Welsh, Carson, Anderson & Stowe, affiliates of Vestar Capital Partners and affiliates of Citicorp Venture Capital, or CVC, will beneficially own 32.4%, 13.5% and 8.0%, respectively, of our common stock. Therefore, Welsh Carson, Vestar and CVC together will be able to exert substantial influence over our company.

New Credit Facility

On November 10, 2004, we entered into a $1.3 billion senior secured credit facility, which we refer to as our existing credit facility, with a syndicate of financial institutions. The existing credit facility is comprised of a six-year $100 million senior secured revolving credit facility and a seven-year $1.2 billion senior secured term loan. Contemporaneously, we entered into a seven-year $265.0 million senior secured second lien loan and a seven and a half year $135.0 million senior subordinated loan. We used the proceeds of the existing credit facility, the second lien loan and the subordinated loan to (i) repay all amounts owed under our previous senior credit facilities; (ii) redeem $325.5 million of 10% senior subordinated notes due 2010 held primarily by our equity sponsors, including interest accrued thereon; (iii) redeem $134.1 million of preferred interests and $16.5 million of Class C common interests held by our existing equity investors, including our equity sponsors, in VTC, (iv) redeem $8.8 million of preferred minority interests our equity investors held in VTS, and (v) pay $30.7 million in associated transaction costs. Throughout this prospectus, we refer to our entry into the existing credit facility, second lien loan and senior subordinated loan, and the repayment of our then existing indebtedness with the proceeds thereof, as our debt recapitalization.

As described in Use of Proceeds, we intend to repay in full our second lien loan and senior subordinated loan, and a portion of the indebtedness outstanding under our existing credit facility, with the proceeds of this offering. As of September 30, 2004, on a pro forma basis after giving effect to this offering, our debt recapitalization and such repayment, we would have had approximately $1.2 billion outstanding under our term loans (or $868.5 million if we issue the senior notes described below and use the proceeds thereof to repay a portion of the term loans).

Concurrently with the closing of this offering, we will amend our existing credit facility to permit us to, subject to certain conditions, pay dividends to holders of our common stock and use the proceeds from this offering in the manner set forth in Use of Proceeds. See Dividend Policy and Restrictions and Description of Certain Indebtedness New Credit Facility. The consummation of this offering is conditioned upon the completion of the amendment to our credit facility. Throughout this prospectus, we refer to our existing credit facility as so amended as the new credit facility.

Banc of America Securities LLC, a lead manager in this offering, is one of the senior lead arrangers and senior book managers and an affiliate of Banc of America Securities LLC is the administrative agent of the existing credit facility, the second lien loan and the subordinated loan. An affiliate of J.P. Morgan Securities Inc., a lead manager in this offering, is one of the senior syndication agents and Merrill Lynch, Pierce, Fenner & Smith Incorporated, a lead manager in this offering, is one of the documentation agents on the existing credit facility, the second lien loan and the subordinated loan. An affiliate of Wachovia Capital Markets, LLC, a co-manager in this offering, is a senior syndication agent on the existing credit facility and a lead arranger on the second lien loan and the senior subordinated loan. An affiliate of Banc of America Securities LLC will serve as a lender and the administrative agent of the new credit facility and Merrill Lynch, Pierce, Fenner & Smith Incorporated and an affiliate of J.P. Morgan Securities Inc. will serve as lenders and co-syndication agents of the new credit facility. CIBC World Markets Corp., a co-manager in this offering and Wachovia Bank National Association, an affiliate of Wachovia Capital

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Markets, LLC, a co-manager in this offering, will serve as lenders and co-documentation agents of the new credit facility.

Senior Notes

Concurrently with or following this offering, we expect that our subsidiary Valor Telecommunications Enterprises, LLC and its direct wholly-owned subsidiary, Valor Telecommunications Enterprises Finance Corp., as co-issuers, will issue $280 million aggregate principal amount of ten year senior notes in a private offering pursuant to Rule 144A of the Securities Act of 1933. We refer to these notes throughout this prospectus as our senior notes. If we offer these senior notes, we would use the net proceeds from such issuance to repay a portion of the term loan outstanding under our existing credit facility. This offering is not contingent upon our issuance of senior notes. The senior notes will contain restrictions on our ability to pay dividends that are no more restrictive than those contained in our new credit facility.

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Our Corporate Structure After This Offering

The following chart reflects our capital structure immediately after the offering:

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(1) Concurrently with this offering, we expect that Valor Telecommunications Enterprises, LLC, together with its direct, wholly-owned subsidiary, Valor Telecommunications Enterprises Finance Corp., as co-issuers, will issue $280.0 million of senior notes. Each entity shown above as a guarantor of the New Credit Facility would also guarantee the senior notes.

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THE OFFERING

Shares of common stock offered by Valor Communications Group, Inc	29,375,000 shares
Shares of common stock offered by existing equity holders	4,406,250 shares if the underwriters over-allotment option is exercised in full.
Shares of common stock to be outstanding following the offering	70,833,333 shares.
Dividends	Upon completion of this offering, our board of directors will adopt a dividend policy which reflects an intention to distribute a substantial portion of the cash generated by our business in excess of operating needs, interest and principal payments on our indebtedness and capital expenditures as regular quarterly dividends to our stockholders. In accordance with our dividend policy, we currently intend to pay an initial dividend of $ per share on or about , 2005 and to continue to pay quarterly dividends at an annual rate of $1.44 per share for the year following the closing of this offering, but only if and to the extent dividends are declared by our board of directors and are permitted by applicable law and by the terms of our new credit facility. Dividend payments are not guaranteed and our board of directors may decide, in its absolute discretion, at any time and for any reason, not to pay dividends. Dividends on our common stock are not cumulative. See Dividend Policy and Restrictions. The new credit facility will generally restrict the amount of dividends we may pay to the amount of our available cash, which will be defined as Adjusted EBITDA *minus* cash interest expense, capital expenditures (if in excess of a certain amount, unless funded by permitted debt), scheduled and mandatory repayments of our indebtedness, cash taxes and certain other permitted expenses. In addition, the new credit facility will suspend our ability to pay dividends if our total leverage ratio for the most recently ended four fiscal quarter period exceeds 5.0 to 1.00. See Description of Certain Indebtedness. Dividends paid by us, to the extent paid out of our current or accumulated earnings and profits, or E&P, as computed for United States federal income tax purposes, will be taxable as dividend income. Under current law, dividend income of United States individuals is generally taxable at long-term capital gains rates. Dividends paid by us in excess of our E&P will be treated first as a non-taxable return of capital and then as gain from the sale of common stock. For a more complete description, see Material United States Federal Income Tax Considerations.
Listing	We have applied to list our shares of common stock on the New York Stock Exchange under the trading symbol VCG.

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General Information About This Prospectus

Unless we specifically state otherwise, all information in this prospectus:

- assumes an initial public offering price of $17.00 per share of common stock, which represents the mid-point of the range set forth on the cover page of this prospectus;

- assumes no exercise by the underwriters of their over-allotment option; and

- excludes 647,436 shares of common stock that remain available for issuance under our 2004 Long-Term Incentive Plan.

Risk Factors

You should carefully consider the information under the heading Risk Factors and all other information in this prospectus before investing in our common stock.

Our Corporate Information

We incorporated in Delaware in March 2004. Our principal executive offices are located at 201 E. John Carpenter Freeway, Suite 200, Irving, Texas 75062 and our telephone number is (972) 373-1000. Our website address is www.valortelecom.com. Information included or referred to on our website is not a part of this prospectus.

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Summary Consolidated Financial Information

Valor is a holding company and has no direct operations. Valor was formed for the sole purpose of reorganizing our corporate structure and consummating this offering. Valor s principal assets are the direct and indirect equity interests of its subsidiaries. As a result, we have not provided separate historical financial results for Valor and present only the historical consolidated financial results of Valor Telecommunications, LLC. The following table sets forth our summary consolidated financial information derived from our audited consolidated financial statements for each of the years ended December 31, 2001 through December 31, 2003, and our unaudited consolidated financial information for the nine months ended September 30, 2003 and 2004, as restated. See Note 20 to the consolidated financial statements and Note 12 to the condensed consolidated financial statements. The summary historical consolidated financial information as of and for the nine months ended September 30, 2003 and 2004 is unaudited, has been prepared on the same basis as the audited statements, and in the opinion of management, contains all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of our operating results for such period and our financial condition at such date. The financial information for the nine months ended September 30, 2003 and 2004 is not necessarily indicative of the results to be expected for any other interim period or any future fiscal year.

The information in the table below is only a summary and should be read together with our audited consolidated financial statements for the years ended December 31, 2001, 2002 and 2003 and the related notes, our unaudited condensed consolidated financial statements as of September 30, 2004 and for the nine months ended September 30, 2003 and 2004 and Management s Discussion and Analysis of Financial Condition and Results of Operations, all as included elsewhere in this prospectus.

	Year Ended December 31,			Nine Months Ended September 30,	
	2001	2002(1)	2003	2003	2004
	(Dollars in thousands)				
Statement of operations data:					
Operating revenues	$ 424,916	$ 479,883	$497,334	$372,450	$379,279
Operating income	103,298	159,251	182,273	136,285	136,484
Net (loss) income(2)	(53,355)	16,302	58,233	36,975	25,171
Cash flow data from continuing operations:					
Net cash provided by operating activities	$ 100,301	$ 150,383	$166,065	$132,461	$124,660
Net cash used in investing activities	(106,614)	(216,773)	(66,299)	(50,551)	(51,362)
Net cash provided by (used in) financing activities	8,117	71,015	(99,465)	(81,971)	(74,054)
Other data:					
Capital expenditures	$ 107,869	$ 89,527	$ 69,850	$ 53,239	$ 51,520
Acquisition of Kerrville Communications Corporation(3)	$	$ 128,135	$	$	$
Depreciation and amortization(4)	$ 110,843	$ 73,273	$ 81,638	$ 61,039	$ 63,993
Adjusted EBITDA(5)	$ 215,141	$ 240,595	$262,707	$194,879	$206,506
Total access lines(6)	551,599	571,308	556,745	559,686	547,925

	September 30, 2004		
	Actual	Adjustments	Pro Forma As Adjusted(7)
	(Dollars in thousands)		
Balance sheet data:			
Cash and cash equivalents	$ 641	$ 410	$ 1,051
Net property, plant and equipment	$ 757,976	$	$ 757,976
Total assets	$2,012,865	$ (71,322)	$1,941,543
Long-term debt (including current maturities)	$1,419,237	$(264,441)	$1,154,796
Redeemable preferred interests	$ 370,231	$(370,231)	$

Redeemable preferred interests of subsidiary	$ 24,336	$ (24,336)	$
Total common owners equity	$ 75,033	$ 516,553	$ 591,586

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(1) We acquired all the outstanding common stock, preferred stock and common stock equivalents of Kerrville Communications Corporation (KCC) on January 31, 2002 and have included the assets, liabilities and results of operations of KCC from that date.

(2) Net (loss) income reported on the table above is after the effect of minority interest of $(25), $13 and $254 in 2001, 2002 and 2003, respectively, and $21 and $3,171 for the nine months ended September 30, 2003 and 2004, respectively, relating to individual investors interests in our subsidiaries.

(3) Reflects the purchase price for our acquisition of KCC, net of cash acquired.

(4) In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets , effective January 1, 2002, we discontinued the amortization of goodwill. Amortization expense associated with goodwill was $53,900 for the year ended December 31, 2001.

(5) Adjusted EBITDA will be defined in our new credit facility as: (1) consolidated adjusted net income, as defined therein; *plus* (2) the following items, to the extent deducted from consolidated adjusted net income: (a) interest expense; (b) provision for income taxes; (c) depreciation and amortization; (d) certain expenses related to this offering, our recent recapitalization and the other transactions described in Use of Proceeds ; (e) other nonrecurring or unusual costs or losses incurred after the closing date of our existing credit facility, to the extent not exceeding $10.0 million; (f) unrealized losses on financial derivatives recognized in accordance with SFAS No. 133; (g) losses on sales of assets other than in the ordinary course of business; and (h) all other non-cash charges that represent an accrual for which no cash is expected to be paid in a future period; *minus* (3) the following items, to the extent any of them increases consolidated adjusted net income; (v) income tax credits; (w) interest and dividend income (other than in respect of RTFC patronage distribution); (x) gains on asset disposals not in the ordinary course; (y) unrealized gains on financial derivatives recognized in accordance with SFAS No. 133; and (z) all other non-cash income.

We consider Adjusted EBITDA an important indicator to investors in common stock because it provides information related to our ability to provide cash flows to service debt, pay dividends and fund capital expenditures. We present this discussion of Adjusted EBITDA because covenants in our new credit facility will contain ratios based on this measure. If our Adjusted EBITDA were to decline below certain levels, covenants in our new credit facility that are based on Adjusted EBITDA, including our interest coverage ratio and total leverage ratio covenants, may be violated and could cause, among other things, a default or mandatory prepayment under our new credit facility, or result in our inability to pay dividends. As such, the summary historical financial information presented above includes our historical Adjusted EBITDA. Adjusted EBITDA is not a measure in accordance with GAAP, and should not be considered a substitute for, operating income (loss), net income (loss), or any other measure of financial performance reported in accordance with GAAP. In addition, Adjusted EBITDA should not be used as a substitute for our various cash flow measures (e.g., operating, investing and financing cash flows), which are discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations.

	Year Ended December 31,			Nine Months Ended September 30,	
	2001	**2002**	**2003**	**2003**	**2004**
			(Dollars in thousands)		
Calculation of Adjusted EBITDA:					
Net (loss) income	$ (53,355)	$ 16,302	$ 58,233	$ 36,975	$ 25,171
Adjustments:					
Income tax expense (benefit)(a)		1,649	2,478	2,193	(6,095)
Interest expense	133,156	127,365	119,185	95,300	83,384
Depreciation and amortization	110,843	73,273	81,638	61,039	63,993
Minority interest	(25)	13	254	21	3,171
Loss on interest rate hedging arrangements	14,292	12,348	2,113	2,199	122
Earnings from unconsolidated cellular partnerships		(2,757)	(3,258)	(2,687)	(1,007)
Management fees paid to equity sponsors	1,000	1,000	1,000	750	750
Other income and expense, net(b)	(3,928)	870	3,376	2,284	25,060
Loss (income) on discontinued operations	8,443	3,461	(108)		
Cumulative effect of change in accounting principle	4,715				
Impairment on investments in cellular partnerships					6,678
Non-recurring items(c)		7,071	(2,204)	(3,195)	5,279
Total adjustments	268,496	224,293	204,474	157,904	181,335
Adjusted EBITDA	$215,141	$240,595	$262,707	$194,879	$206,506

(a) Relates to the federal income tax expense of Valor Telecommunications Southwest II, LLC, the holding company of the operating entities relating to our KCC business, which has elected to be taxed as a corporation.

(b) Amount for the nine month period ended September 30, 2004 includes $18.0 million of expense recorded for the repurchase of shares held by individual investors in our minority-owned subsidiaries and $6.8 million of expense we recorded in connection with a previously withdrawn offering.

				Nine Months Ended	
	20Year En	ded2December 31,003		September	30,04
		(Dollars in thousands)			
(c) Non-recurring items, as defined in the new credit facility:					
Termination benefits associated with workforce reduction		1,768			279
MCI bankruptcy		4,998	(3,386)	(3,386)	
Transaction fees for acquisitions not consummated		305	1,182	191	
CEO transition payment					5,000
Total non-recurring items, as defined in the new credit facility		7,071	(2,204)	(3,195)	5,279

	Year Ended December 31,			Nine Months Ended September 30,	
	2001	2002(1)	2003	2003	2004
			(Dollars in thousands)		
Reconciliation of Net Cash Provided by Operating Activities to Adjusted EBITDA:					
Net cash provided by operating activities	$100,301	$150,383	$166,065	$132,461	$124,660
Adjustments:					
Interest expense	133,156	127,365	119,185	95,300	83,384
Amortization of debt issuance costs	(5,735)	(6,801)	(8,105)	(5,540)	(6,192)
Non-cash interest expense	(29,025)	(32,612)	(17,788)	(27,218)	
Provision for doubtful accounts receivable	(11,378)	(11,393)	(3,298)	(1,883)	(3,159)
Changes in working capital	29,923	(3,291)	(33)	(1,895)	(11,104)
Other, net	(2,743)	7,049	5,795	4,125	5,155
Income tax expense (benefit)		1,649	2,478	2,193	(6,095)
Deferred income taxes		(93)	(450)	(160)	6,756
Other income and expense, net(a)	(358)	268	62	(59)	25,060
Management fees paid to equity sponsors	1,000	1,000	1,000	750	750
Non-recurring items(b)		7,071	(2,204)	(3,195)	(12,709)
Adjusted EBITDA	$215,141	$240,595	$262,707	$194,879	$206,506

(a) Excludes redeemable preferred interests of subsidiary:	(3,570)	602	3,314	2,343	
(b) Non-recurring items, as defined in the new credit facility:					
Termination benefits associated with workforce reduction		1,768			279
MCI bankruptcy		4,998	(3,386)	(3,386)	

Transaction fees for acquisitions not consummated		305	1,182	191	
Costs related to reorganization transaction					(17,988)
CEO transition payment					5,000
Total non-recurring items, as defined in the new credit facility		7,071	(2,204)	(3,195)	(12,709)

(6) We calculate our access lines in service by counting the number of working communication facilities that provide local service that terminate in a central office or to a customer s premises. Non-revenue producing lines provisioned for company official use and for test purposes are included in our total access line counts. There were 11,305, 11,258 and 11,703 non-revenue producing lines included in our total access line count at December 31, 2001, 2002 and 2003, which represented 2.0%, 2.0% and 2.1% of our total access line counts, respectively, and 11,340 and 12,158 non-revenue producing lines included in our total access line count at September 30, 2003 and 2004, which represented 2.0% and 2.2% of our total access line count, respectively.

(7) The pro forma as adjusted balance sheet data have been prepared assuming the closing of this offering, the closing of our offering of senior notes, the debt recapitalization and the reorganization, including payment of related fees and expenses. The pro forma as adjusted balance sheet data give effect to those transactions as if they had occurred on September 30, 2004.

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RISK FACTORS

Before you invest in our common stock, you should carefully consider the various risks of the investment, including those described below, together with all of the other information included in this prospectus. If any of these risks actually occurs, our business, financial condition or operating results could be adversely affected.

Risks Relating to Our Common Stock and Our New Credit Facility

You may not receive any dividends.

We are not obligated to pay dividends. Dividend payments are not guaranteed and are within the absolute discretion of our board of directors. Future dividends with respect to shares of our common stock, if any, will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions, business opportunities, anticipated cash needs, provisions of applicable law and other factors that our board of directors may deem relevant. In addition, we have reported a loss from continuing operations in the past.

We might not generate sufficient cash from operations in the future to pay dividends on our common stock in the intended amounts or at all. Our board of directors may decide not to pay dividends at any time and for any reason. Our dividend policy is based upon our directors current assessment of our business and the environment in which we operate, and that assessment could change based on competitive or technological developments (which could, for example, increase our need for capital expenditures), new growth opportunities or other factors. If our cash flows from operations for future periods were to fall below our minimum expectations, we would need either to reduce or eliminate dividends or, to the extent permitted under the terms of our new credit facility, fund a portion of our dividends with borrowings or from other sources. If we were to use working capital or permanent borrowings to fund dividends, we would have less cash and/or borrowing capacity available for future dividends and other purposes, which could negatively affect our financial condition, our results of operations, our liquidity and our ability to maintain or expand our business. Our board is free to depart from or change our dividend policy at any time and could do so, for example, if it were to determine that we had insufficient cash to take advantage of growth opportunities. In addition, our new credit facility will contain, and any agreement we enter into in the future to refinance this indebtedness may contain, limitations on our ability to pay dividends. See Dividend Policy and Restrictions and Description of Certain Indebtedness. The reduction or elimination of dividends may negatively affect the market price of our common stock.

Our dividend policy may limit our ability to pursue growth opportunities.

Upon the completion of this offering, our board of directors will adopt a dividend policy that reflects an intention to distribute a substantial portion of the cash generated by our business in excess of operating needs, interest and principal payments on our indebtedness and capital expenditures as regular quarterly dividends to our stockholders. As a result, we may not retain a sufficient amount of cash to finance growth opportunities or to fund our operations in the event of a significant business downturn. In addition, because a significant portion of cash available to pay dividends will be distributed to holders of our common stock under our dividend policy, our ability to pursue any material expansion of our business, including through acquisitions, increased capital spending or other increases of our expenditures, will depend more than it otherwise would on our ability to obtain third party financing. We cannot assure you that such financing will be available to us at all, or at an acceptable cost. See Dividend Policy and Restrictions.

Our substantial indebtedness could restrict our ability to pay dividends and impact our financing options and liquidity position.

Upon the consummation of this offering, we will have approximately $1.2 billion of total debt outstanding. The degree to which we are leveraged on a consolidated basis could have important consequences to the holders of our common stock, including:

- it may be more difficult to pay dividends on our common stock;

- our ability to obtain additional financing in the future for working capital, capital expenditures or acquisitions may be limited;
- we may be unable to refinance our indebtedness on terms acceptable to us or at all;
- a significant portion of our cash flow from operations is likely to be dedicated to the payment of the principal of and interest on our indebtedness, thereby reducing funds available for other corporate purposes; for example, as described under Dividend Policy and Restrictions we expect that our interest expense for the year following the offering will be $78.7 million, which would have represented 28.7% of our Adjusted EBITDA for the twelve months ended September 30, 2004; and
- our substantial indebtedness may make us more vulnerable to economic downturns and limit our ability to withstand competitive pressures.

We are subject to restrictive debt covenants that impose operating and financial restrictions on our operations and could limit our ability to grow our business.

Covenants in our new credit facility will impose significant operating and financial restrictions on us. These restrictions prohibit or limit, among other things:

- the incurrence of additional indebtedness and the issuance of preferred stock and certain redeemable capital stock;
- the payment of dividends on, and the repurchase of, capital stock;
- a number of other restricted payments, including investments and acquisitions;
- specified sales of assets;
- specified transactions with affiliates;
- the creation of a number of liens;
- consolidations, mergers and transfers of all or substantially all of our assets; and
- our ability to change the nature of our business.

These restrictions could limit our ability to obtain future financing, make acquisitions, withstand downturns in our business or take advantage of business opportunities. Furthermore, the new credit facility will require us to maintain specified total leverage and interest coverage ratios and to satisfy specified financial condition tests, and under certain circumstances requires us to make quarterly mandatory prepayments with a portion of our available cash. See Description of Certain Indebtedness New Credit Facility. Our ability to comply with the ratios or tests may be affected by events beyond our control, including prevailing economic, financial and industry conditions.

If we fail to comply with the restrictive covenants in our new credit facility, our senior lenders may accelerate the payment of indebtedness outstanding under our new credit facility.

The terms of our new credit facility will include several restrictive covenants that prohibit us from prepaying our other indebtedness while indebtedness under our new credit facility is outstanding. Our new credit facility will also require us to maintain specified financial ratios and satisfy financial condition tests. Our ability to comply with the ratios or tests may be affected by events beyond our control, including prevailing economic, financial and industry conditions. See the information under Description of Certain Indebtedness for a fuller description of these restrictions and covenants.

A breach of any of these covenants, ratios or tests could result in a default under the new credit facility. Upon the occurrence of an event of default, the lenders could elect to declare all amounts outstanding under the new credit facility, together with accrued interest, to be immediately due and payable. If we were unable to repay or refinance those amounts, the lenders could proceed against the security granted to them to secure that indebtedness. If the lenders accelerate the payment of the indebtedness, our assets may not be sufficient to repay in full this indebtedness.

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We are a holding company with no operations, and unless we receive dividends and other payments or distributions, advances and transfers of funds from our subsidiaries, we will be unable to meet our debt service and other obligations.

We are a holding company and conduct all of our operations through our subsidiaries. We currently have no significant assets other than equity interests in our subsidiaries. As a result, we will rely on dividends and other payments or distributions from our subsidiaries to meet our debt service obligations and enable us to pay dividends. The ability of our subsidiaries to pay dividends or make other payments or distributions to us will depend on their respective operating results and may be restricted by, among other things, the laws of their jurisdiction of organization (which may limit the amount of funds available for the payment of dividends), agreements of those subsidiaries, the terms of the new credit facility (under which the equity interests of our subsidiaries will be pledged), and the covenants of any future outstanding indebtedness we or our subsidiaries incur.

If you purchase shares of our common stock, you will experience immediate and substantial dilution.

Investors purchasing common stock in the offering will experience immediate and substantial dilution in the net tangible book value of their shares. At an initial public offering price of $17.00 per share, the midpoint of the range shown on the cover of this prospectus, dilution to new investors is $23.57 per share. Additional dilution will occur upon exercise of any stock options that we issue in the future. If we seek additional capital in the future, the issuance of shares of common stock or securities convertible into shares of common stock in order to obtain such capital may lead to further dilution of your investment. See Dilution.

Our interest expense may increase significantly and could cause our net income and distributable cash to decline significantly.

The new credit facility is subject to periodic renewal or must otherwise be refinanced. We may not be able to renew or refinance the new credit facility, or if renewed or refinanced, the renewal or refinancing may occur on less favorable terms, including higher interest rates. Borrowings under the revolving facility and the term loans will be made at a floating rate of interest. In the event of an increase in the base reference interest rates, our interest expense will increase and could have a material adverse effect on our ability to make cash dividend payments to our stockholders. Our ability to continue to expand our business will, to a large extent, be dependent upon our ability to borrow funds under our new credit facility and to obtain other third party financing, including through the sale of common stock or other securities. We cannot assure you that such financing will be available to us on favorable terms or at all.

Before this offering, there was no public market for our common stock. This may cause volatility in the trading price of the common stock, which could negatively affect the value of your investment.

Prior to this offering, there was no public market for our common stock. The initial public offering price of the common stock will be determined by negotiations between us and the underwriters and may not be indicative of the market price for our common stock in the future. There can be no assurance that an active trading market for our common stock will develop or be sustained after the offering. If a trading market develops, the market price of our common stock may fluctuate widely as a result of various factors, such as period-to-period fluctuations in our operating results, sales of our common stock by principal stockholders, developments in the telecommunications industry, the failure of securities analysts to cover our common stock after this offering or changes in financial estimates by analysts, competitive factors, regulatory developments, economic and other external factors, general market conditions and market conditions affecting the stock of telecommunications companies in particular. Telecommunications companies have in the past experienced extreme volatility in the trading prices and volumes of their securities, which has often been unrelated to operating performance. Any such market volatility may have a significant adverse effect on the market price and marketability of our common stock.

Future sales or the possibility of future sales of a substantial amount of our common stock may depress the price of the shares of our common stock.

Future sales or the availability for sale of substantial amounts of our common stock in the public market could adversely affect the prevailing market price of our common stock and could impair our ability to raise capital through future sales of our equity securities.

Upon consummation of this offering, there will be 70,833,333 shares of common stock outstanding. The shares of common stock sold in this offering will be freely transferable without restriction or further registration under the Securities Act. The remaining 41,458,333 shares of common stock outstanding, including the shares owned by our existing equity investors, will be restricted securities within the meaning of Rule 144 under the Securities Act, but will be eligible for resale subject to applicable volume, manner of sale, holding period and other limitations of Rule 144. We and certain existing equity investors have agreed to a lock-up, meaning that neither we nor they will sell any shares without the prior consent of the representatives of the underwriters for 180 days after the date of this prospectus. Following the expiration of this 180-day lock-up period, all of the 41,108,342 shares of our common stock subject to the lock-up will be eligible for future sale, subject to the applicable volume, manner of sale, holding period and other limitations of Rule 144. See Shares Eligible for Future Sale for a discussion of the shares of common stock that may be sold into the public market in the future. In addition, our existing equity investors have registration rights with respect to the common stock that they will retain following this offering. See Related Party Transactions Securityholders Agreement.

We may issue shares of our common stock or other securities from time to time as consideration for future acquisitions and investments. In the event any such acquisition or investment is significant, the number of shares of our common stock or the number of other securities that we may issue may in turn be significant. In addition, we may also grant registration rights covering those shares of common stock or other securities in connection with any such acquisitions and investments. Any or all of these occurrences could depress the trading prices of our securities.

Limitations on use of our net operating losses may negatively affect our ability to pay dividends to you.

Because certain of our subsidiaries will have an ownership change for purposes of Section 382 of the Internal Revenue Code as a result of our reorganization immediately prior to the consummation of this offering, the use of our current net operating losses to offset our taxable income for taxable periods (or portions thereof) beginning after the ownership change will be limited pursuant to Section 382 of the Internal Revenue Code. In addition, we may have another ownership change for purposes of Section 382 of the Internal Revenue Code subsequent to this offering if, under certain circumstances, our existing equity holders were to sell within a three-year period all (or most) of our common stock that they received in our reorganization. If we do experience another ownership change, we may be further limited, pursuant to Section 382 of the Internal Revenue Code, in using our then-current net operating losses to offset taxable income for taxable periods (or portions thereof) beginning after the second ownership change. Consequently, in the future we may be required to pay increased cash income taxes because of the Section 382 limitations on our ability to use our net operating losses. Increased cash taxes would reduce our after-tax cash flow available for payment of dividends on our common stock.

Regulatory Risks

We received 24.1% of our 2003 revenues from the Texas and federal Universal Service Funds and any adverse regulatory developments with respect to these funds could curtail our profitability.

We receive Texas and federal Universal Service Fund, or USF, revenues to support the high cost of providing affordable telecommunications services in rural markets. Such support payments constituted 24.1% of our revenues for the year ended December 31, 2003 and 23.9% of our revenues for the nine months ended September 30, 2004. Of these support payments, in the year ended December 31, 2003, $103.1 million, or 20.7% of our revenues, and in the nine months ended September 30, 2004, $76.8 million, or 20.2% of our revenues, were received from the Texas USF. In addition, we are required to make contributions to the Texas USF and federal USF each year. Current state and federal regulations allow us to recover these costs by including a surcharge on our customers bills. Furthermore, we incur no incremental costs associated with the support payments we receive or the contributions we are required to make. Thus, if Texas and/or federal regulations changed and we were unable to receive support, such support was reduced, or we are unable to recover the amounts we contribute to the Texas USF and federal USF from our customers, our earnings and cash flow from operations would be directly and adversely affected. For a more detailed discussion of the regulations affecting our company, see Regulation.

The rules governing USF could be altered or amended as a result of regulatory, legislative or judicial action and impact the amount of USF support that we receive and our ability to recover our USF contributions by assessing surcharges on our customers bills. For example, the enabling statute for the Texas USF will become subject to review and renewal in late 2005 and may be modified. Similarly, in June 2004, the FCC asked the Federal-State Joint Board on Universal Service to review the federal rules relating to universal service support mechanisms for rural carriers, including addressing the relevant costs and the definition of rural telephone company. It is not possible to predict at this time whether state or federal regulators, Congress or state legislatures will order modification to those rules or statutes, or the ultimate impact any such modification might have on us.

In addition, the Texas USF rules provide that the Public Utility Commission of Texas must open an investigation within 90 days after any changes are made to the federal USF. Therefore, changes to the federal USF may prompt similar or conforming changes to the Texas USF. The outcome of any of these legislative or regulatory changes could affect the amount of Texas USF support that we receive, and could have an adverse effect on our business, revenue or profitability.

Reductions in the amount of network access revenue that we receive could negatively impact our results of operations.

In the year ended December 31, 2003, we derived $132.0 million, or 26.6% of our revenues, and in the nine months ended September 30, 2004, we derived $96.3 million, or 25.4% of our revenues, from network access charges. Our network access revenue consists of (1) usage sensitive fees we charge to long distance companies for access to our network in connection with the completion of interstate and intrastate long distance calls, (2) fees charged for use of dedicated circuits and (3) end user fees, which are monthly flat-rate charges assessed on access lines. Federal and state regulatory commissions set these access charges, and they could change the amount of the charges or the manner in which they are charged at any time. The FCC is currently examining proposals to revise interstate access charges and other intercarrier compensation. The outcome of this proceeding is uncertain and could result in significant changes to the way in which we receive compensation from our customers. Also, as people in our markets decide to use Internet, wireless or cable television providers for their local or long distance calling needs, rather than using our wireline network, the reduction in the number of access lines or minutes of use over our network could reduce the amount of access revenue we collect. As penetration rates for these technologies increase in rural markets, our revenues could decline. In addition, if our customers take advantage of favorable calling plans offered by wireless carriers for their long distance calling needs, it could reduce the number of long distance calls made over our network, thereby decreasing our access revenue. Furthermore, the emerging technology application known as Voice over Internet Protocol, or VoIP, can be used to carry voice communications services over a broadband Internet connection. The FCC has ruled that some VoIP arrangements are not subject to regulation as telephone services. Recently, the FCC ruled that certain VoIP services are jurisdictionally interstate, and preempted the ability of the states to regulate such VoIP applications or providers. The FCC has pending a proceeding that will address the applicability of various regulatory requirements to VoIP providers, however, we cannot assure you that this proceeding will result in VoIP providers having to pay access charges. Expanded use of VoIP technology could reduce the access revenues received by local exchange carriers like us. We cannot predict whether or when VoIP may be required to pay or be entitled to receive access charges or universal service fund support, or the extent to which users will substitute VoIP calls for traditional wireline communications or the effect of the growth of VoIP on our revenues.

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The introduction of new competitors or the better positioning of existing competitors due to regulatory changes could cause us to lose customers and impede our ability to attract new customers.

Changes in regulations that open our markets to more competitors offering substitute services could impact our profitability because of increases in the costs of attracting and retaining customers and decreases in revenues due to lost customers and the need to offer competitive prices. We face competition from current and potential market entrants, including:

- domestic and international long distance providers seeking to enter, reenter or expand entry into the local telecommunications marketplace;
- other domestic and international competitive telecommunications providers, wireless carriers, resellers, cable television companies and electric utilities; and
- providers of broadband and Internet services.

Regulatory requirements designed to facilitate the introduction of competition, the applicability of different regulatory requirements between our competitors and us, or decisions by legislators or regulators to exempt certain providers or technologies from the same level of regulation that we face, could adversely impact our market position and our ability to offer competitive alternatives.

In November 2003, the FCC ordered us and other local exchange carriers to adopt wireline-to-wireless local number portability. This may help wireless carriers compete against us because if customers switch from traditional local telephone service to wireless service, they can now transfer their local telephone number to their wireless provider. In addition, federal and state regulators and courts are addressing many aspects of our obligations to provide unbundled network elements and discounted wholesale rates to competitors.

New regulations and changes in existing regulations may force us to incur significant expenses.

Our business may also be impacted by legislation and regulation that impose new or greater obligations related to assisting law enforcement, bolstering homeland security, minimizing environmental impacts or addressing other issues that impact our business. For example, existing provisions of the Communications Assistance for Law Enforcement Act, or CALEA, and FCC regulations implementing CALEA require telecommunications carriers to ensure that their equipment, facilities, and services are able to facilitate authorized electronic surveillance. On August 4, 2004, in response to a joint petition filed by the Department of Justice, Federal Bureau of Investigation, and the Drug Enforcement Administration, the FCC launched a Notice of Proposed Rulemaking proposing a thorough examination of the appropriate legal and policy framework of CALEA. In this proceeding, the FCC will examine issues relating to the scope of CALEA s applicability to services such as broadband Internet access, as well as implementation and enforcement issues. We cannot predict the eventual outcome of this proceeding or what compliance with any rules adopted by the FCC may cost. Similarly, we cannot predict whether or when federal or state legislators or regulators might impose new security, environmental or other obligations on our business.

For a more thorough discussion of the regulation of our company and how that regulation may affect our business, see Regulation.

A reduction by a state regulatory body or the FCC of the rates we charge our customers would reduce our revenues, earnings and cash flow from operations.

The prices, terms and conditions of the services that we offer to local telephone customers are subject to state regulatory approval. If a state regulatory body orders us to reduce a price, withdraws our approval to charge a certain price, changes material terms or conditions of a service we offer or refuses to approve or limits our ability to offer a new or existing service, our revenues, earnings and cash flow from operations may be reduced.

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FCC regulations also affect the rates that are charged to customers. The FCC regulates tariffs for interstate access and subscriber line charges, both of which are components of our revenues. The FCC currently is considering proposals to reduce interstate access charges for carriers like us. If the FCC lowers interstate access charges without adopting an adequate revenue replacement mechanism, we may be required to recover more revenue through subscriber line charges and Universal Service Funds or forego this revenue altogether. This could reduce our revenue or impair our competitive position.

Our business is subject to extensive regulation that could change in a manner adverse to us.

We operate in a heavily regulated industry, and most of our revenues come from providing services regulated by the Federal Communications Commission, or FCC, and the state public utility commissions. Federal and state communications laws may be amended in the future, and other laws may affect our business. The FCC and the state public utility commissions may add new rules, amend their rules or change the interpretation of their rules at any time. Laws and regulations applicable to us and our competitors may be, and have been, challenged in the courts, and could be changed at any time. We cannot predict future developments or changes to the regulatory environment, or the impact such developments or changes would have on us. See Regulation.

Risks Relating to Our Business

We provide services to our customers over access lines and if we continue to lose access lines our revenues, earnings and cash flow from operations may decrease.

Our business generates revenue by delivering voice and data services over access lines. We have experienced net access line loss over the past few years, and during the year ended December 31, 2003, the number of access lines we serve declined by 2.6% due to challenging economic conditions, increased competition and the introduction of digital subscriber lines, or DSL, and cable modems. Furthermore, our access line count decreased by approximately 8,800 lines, or 1.6%, during the nine months ended September 30, 2004. We may continue to experience net access line loss in our markets for an unforeseen period of time. In addition, in our largest market, in which we serve 74,000 access lines, Cox Communications, the local cable television operator, began offering an alternate local telephone service in November 2004. As a result, we have recently experienced, and expect to continue to experience, on average, a higher rate of access line loss during the initial launch of service by this competitor than we have experienced in the past. Our inability to retain access lines could adversely affect our revenues, earnings and cash flow from operations.

Rapid and significant changes in technology in the telecommunications industry could adversely affect our ability to compete effectively in the markets in which we operate.

The rapid introduction and development of enhanced or alternative services that are more cost effective, more efficient or more technologically advanced than the services we offer is a significant source of potential competition in the telecommunications industry. Technological developments may reduce the competitiveness of our networks, make our service offerings less attractive or require expensive and time-consuming capital improvements. If we fail to adapt successfully to technological changes or fail to obtain timely access to important new technologies, we could lose customers and have difficulty attracting new customers or selling new services to our existing customers.

We cannot predict the impact of technological changes on our competitive position, profitability or industry. Wireless and cable technologies that have emerged in recent years provide certain advantages over traditional wireline voice and data services. The mobility afforded by wireless voice services and its competitive pricing appeal to many customers. The ability of cable television providers to offer voice, video and data services as an integrated package provides an attractive alternative to traditional voice services from local exchange carriers. In addition, as the emerging VoIP services develop, some customers may be able to bypass network access charges. Increased penetration rates for these technologies in our markets could cause our revenues to decline.

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The competitive nature of the telecommunications industry could adversely affect our revenues, results of operations and profitability.

The telecommunications industry is very competitive. Increased competition could lead to price reductions, declining sales volumes, loss of market share, higher marketing costs and reduced operating margins. Significant and potentially larger competitors could enter our markets at any time. For example, wireless providers currently compete in most of our rural markets. We expect this competition to continue, and likely become more acute, in the future. We also compete, or may in the future compete, with companies that provide other close substitutes for the traditional telephone services we provide, like cable television, VoIP, high-speed fiber optic networks or satellite telecommunications services, and companies that might provide traditional telephone services over nontraditional network infrastructures, like electric utilities. In our largest market in which we serve 74,000 access lines, Cox Communications, the incumbent local cable television operator, began offering an alternative local telephone service in November 2004. As a result, we have recently experienced, and expect to continue to experience, on average, a higher rate of access line loss during the initial launch of service by this competitor than we have experienced in the past.

For a more thorough discussion of the competition that may affect our business, see Business Competition.

Weak economic conditions may decrease demand for our services.

We are sensitive to economic conditions and downturns in the economy. Downturns in the economies in the markets we serve could cause our existing customers to reduce their purchases of our basic and enhanced services and make it difficult for us to obtain new customers.

We depend on a few key vendors and suppliers to conduct our business and any disruption in our relationship with any one or more of them could adversely affect our results of operations.

We rely on vendors and suppliers to support many of our administrative functions and to enable us to provide long distance services. For example, we currently outsource much of our operational support services to ALLTEL, including our billing and customer care services. Transitioning these support services to another provider could take a significant period of time and involve substantial costs. In addition, we have resale agreements with MCI and Sprint to provide our long distance transmission services. Replacing these resale agreements could be difficult as there are a limited number of national long distance providers. Any disruptions in our relationship with these third party providers could have an adverse effect on our business and operations.

Disruption in our networks and infrastructure may cause us to lose customers and incur additional expenses.

To be successful, we will need to continue to provide our customers with reliable service over our networks. Some of the risks to our networks and infrastructure include: physical damage to access lines, breaches of security, capacity limitations, power surges or outages, software defects and disruptions beyond our control, such as natural disasters and acts of terrorism.

From time to time in the ordinary course of our business, we experience short disruptions in our service due to factors such as cable damage, inclement weather and service failures of our third party service providers. We cannot assure you that we will not experience more significant disruptions in the future. Disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause us to lose customers and incur expenses, and thereby adversely affect our business, revenue and cash flow.

Recent difficulties in the telecommunications industry could negatively impact our revenues and results of operations.

We originate and terminate long distance phone calls on our networks for other interexchange carriers, some of which are our largest customers in terms of revenues. In the year ended December 31, 2003 and

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the nine months ended September 30, 2004, we generated 17.5% and 16.6%, respectively, of our total revenues from originating and terminating phone calls for interexchange carriers. Several of these interexchange carriers have declared bankruptcy during the past two years or are experiencing substantial financial difficulties. MCI WorldCom (now MCI), which declared bankruptcy in 2002, is one of the major interexchange carriers with which we conduct business. We recorded a net $1.6 million charge due to MCI s failure to pay amounts owed to us. Further bankruptcies or disruptions in the businesses of these interexchange carriers could have an adverse effect on our financial results and cash flows.

Following the consummation of this offering, our equity sponsors will collectively be able to exercise substantial influence over matters requiring stockholder approval and their interests may diverge from the interests of the other holders of our common stock.

Following the consummation of this offering, affiliates of Welsh, Carson, Anderson & Stowe, or WCAS, affiliates of Vestar Capital Partners, or Vestar, and affiliates of Citicorp Venture Capital, or CVC, will beneficially own 32.4%, 13.5% and 8.0%, respectively, of our outstanding shares of common stock. As a result, WCAS, Vestar and CVC collectively exercise substantial influence over matters requiring stockholder approval, including decisions about our capital structure. In addition, WCAS has two designees and Vestar has one designee serving on our board of directors. The interests of our equity sponsors may conflict with your interests as a holder of common stock.

Our restated certificate of incorporation and by-laws and several other factors could limit another party s ability to acquire us and deprive our investors of the opportunity to obtain a takeover premium for their securities.

A number of provisions in our restated certificate of incorporation and by-laws will make it difficult for another company to acquire us and for you to receive any related takeover premium on our securities. For example, our restated certificate of incorporation provides that stockholders may not act by written consent and that only our board of directors may call a special meeting. In addition, stockholders are required to provide us with advance notice if they wish to nominate any persons for election to our board of directors or if they intend to propose any matters for consideration at an annual stockholders meeting. Our restated certificate of incorporation authorizes the issuance of preferred stock without stockholder approval and upon such terms as the board of directors may determine. The rights of the holders of shares of our common stock will be subject to, and may be adversely affected by, the rights of holders of any class or series of preferred stock that may be issued in the future.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under Summary, Risk Factors, Dividend Policy and Restrictions, Management s Discussion and Analysis of Financial Condition and Results of Operations, Business, Regulation and elsewhere in this prospectus may include forward-looking statements which reflect our current views with respect to future events and financial performance. Statements which include the words may, will, should, could, would, predicts, potential, continue, future, estimates, expect, intend, plan, believe, project, anticipate and similar stater forward-looking nature identify forward-looking statements for purposes of the federal securities laws or otherwise.

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in these statements. We believe that these factors include the following:

- our high degree of leverage and significant debt service obligations;
- our ability to amend our new credit facility in ways that restrict our right to pay dividends on our common stock;
- any adverse changes in government regulation;
- the risk that we may not be able to retain existing customers or obtain new customers;
- the risk of technological innovations outpacing our ability to adapt or replace our equipment to offer comparable services;
- the risk of increased competition in the markets we serve;
- the risk of weaker economic conditions within the United States;
- changes in accounting policies or practices adopted voluntarily or as required by accounting principles generally accepted in the United States; and
- the matters described under Risk Factors .

We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

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USE OF PROCEEDS

Based on an assumed initial public offering price of $17.00 per share of common stock (the midpoint of the range shown on the cover of this prospectus), we estimate that we will receive net proceeds from this offering of approximately $465.1 million after deducting underwriting discounts and commissions and other estimated offering expenses payable by us. In addition, concurrently with this offering we expect to issue $280.0 million of senior notes, which we expect will result in net proceeds to us of $271.3 million, after deducting underwriting discounts and commissions and other estimated offering expenses payable by us. We will use the net proceeds from these offerings as follows:

Sources	Amounts
	(in thousands)
Net proceeds from this offering	$465,100
Net proceeds from issuance of senior notes	271,300
Total sources	$736,400
Uses	
Repayment of existing credit facility(1)(2)	$306,420
Repayment of second lien loan(2)	265,000
Repayment of senior subordinated loan(2)	135,000
Fees and expenses relating to our reorganization and new credit facility(3)	28,425
Payment of cash transaction bonuses to management	1,555
Total uses	$736,400

(1) This amount reflects repayment of $331.4 million of term loans under our existing credit facility, less $25.0 million of subordinated capital certificates previously issued to us by the Rural Telephone Finance Cooperative, or RTFC, which will be redeemed by RTFC upon such repayment.

(2) Does not include accrued interest, which will be paid out of cash on hand.

(3) Includes estimated prepayment fees of $21.0 million associated with the repayment of the second lien loan, senior subordinated loan and a portion of our term loans, and includes an estimated $7.4 million in fees and expenses related to the syndication of our new credit facility.

If the underwriters exercise their overallotment option in full, the underwriters will purchase an aggregate of 4,406,250 shares of common stock from our existing equity holders. We will not receive any of the proceeds from the sale of common stock by our existing equity holders.

Our existing credit facility consists of a $900.0 million term loan B, a $270.0 million term loan C and a $30.0 million term loan D. Each of these term loans matures on November 10, 2011. As of November 30, 2004, amounts outstanding under the term loan B bore interest at a weighted average annual rate of 5.68%, our term loan C bore interest at a weighted average annual rate of 6.94% and our term loan D bore interest at a weighted average annual rate of 6.38%. We used some of the proceeds from our term loan B to refinance our previous credit facilities. The second lien loan will mature on November 10, 2011, and the senior subordinated loan will mature on May 10, 2012. As of November 30, 2004, amounts outstanding under the second lien loan bore interest at a weighted average annual rate of 9.93%. Amounts outstanding under the senior subordinated loan bore interest at an annual rate of 12.88%. The proceeds from the second lien loan and the senior subordinated loan, together with the proceeds from our revolving facility and term loans, were used to refinance our then existing credit facilities.

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DIVIDEND POLICY AND RESTRICTIONS

General

Upon completion of this offering, our board of directors will adopt a dividend policy which reflects an intention to distribute a substantial portion of the cash generated by our business in excess of operating needs, interest and principal payments on our indebtedness and capital expenditures as regular quarterly dividends to our stockholders, rather than retaining all such cash for other purposes. This policy reflects our judgment that our stockholders would be better served if we distributed to them a substantial portion of the cash generated by our business.

We believe that our dividend policy will limit, but not preclude, our ability to pursue growth. If we continue paying dividends at the level currently anticipated under our dividend policy, we expect that we would need additional financing to fund significant acquisitions. However, we intend to retain sufficient cash after the distribution of dividends to permit the pursuit of growth opportunities that do not require material capital investment. For further discussion of the relationship of our dividend policy to our ability to pursue potential growth opportunities, see Assumptions and Considerations below.

In accordance with our dividend policy, we currently intend to pay an initial dividend of $ per share on or about , 2005 and to continue to pay quarterly dividends at an annual rate of $1.44 per share for the year following the closing of this offering.

In determining our expected initial dividend level, we reviewed and analyzed, among other things:

- our operating and financial results in recent years, including in particular the fact that our Adjusted EBITDA was $215.1 million in 2001; $240.6 million in 2002; $262.7 million in 2003; and $274.3 million in the twelve months ended September 30, 2004;
- our anticipated capital expenditure requirements;
- our expected other cash needs, primarily related to working capital requirements; and
- the terms of our debt instruments, including our new credit facility.

However, as described more fully below, you may not receive any dividends, as a result of the following factors:

- we may not have enough cash to pay dividends due to changes in our operating earnings, working capital requirements and anticipated cash needs;
- we are not required to pay dividends and while the dividend policy adopted by our board of directors contemplates the distribution of a substantial portion of our cash available to pay dividends, our board could modify or revoke this policy at any time;
- even if our dividend policy is not modified or revoked, the actual amount of dividends distributed under the policy and the decision to make any distribution will remain at all times entirely at the discretion of our board of directors;
- the amount of dividends that we may distribute will be limited by the covenants in our new credit facility and, potentially, the terms of any future indebtedness that we may incur;
- the amount of dividends that we may distribute is subject to restrictions under Delaware law; and
- our stockholders have no contractual or other legal right to dividends.

We have no history of paying dividends out of our cash flow. Dividends on our common stock are not cumulative.

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Minimum Adjusted EBITDA

We do not as a matter of course make public projections as to future sales, earnings, or other results. However, our management has prepared the estimated financial information set forth below to present the estimated cash available to pay dividends based on estimated minimum Adjusted EBITDA. The accompanying estimated financial information was not prepared with a view toward complying with the Public Company Accounting Oversight Board guidelines with respect to prospective financial information, but, in the view of our management, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best of management s knowledge and belief, our expected course of action and our expected future financial performance. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this prospectus are cautioned not to place undue reliance on the estimated financial information.

Neither our independent registered public accounting firm nor any other independent registered public accounting firm has compiled, examined, or performed any procedures with respect to the estimated financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the estimated financial information.

The assumptions and estimates underlying the estimated financial information below are inherently uncertain and, though considered reasonable by our management as of the date of its preparation, are subject to a wide variety of significant business, economic, and competitive risks and uncertainties, including those described under Risk Factors. Accordingly, there can be no assurance that the estimated financial information is indicative of our future performance or that the actual results will not differ materially from the estimated financial information presented below.

We believe that, in order to fund dividends on our common stock for the year following this offering at the level described above solely from cash generated by our business, our Adjusted EBITDA for the year following the offering would need to be at least $248.2 million. As described under Assumptions and Considerations below, we believe that our Adjusted EBITDA for the year following the closing of this offering will be at least $248.2 million and we have determined that our assumptions as to capital expenditures, cash interest expense, income taxes, working capital and availability of funds under our new revolving credit facility are reasonable. We have also determined that if our Adjusted EBITDA for such period is at or above this level, we would be permitted to pay dividends at the level described above under the restricted payment and total leverage covenants that will be contained in our new credit facility. We expect that the senior notes we plan to issue simultaneously with the closing of this offering will contain restrictions on our ability to pay dividends that are no more restrictive than those contained in our new credit facility.

The following table sets forth our calculation illustrating that $248.2 million of Adjusted EBITDA would be sufficient to fund dividends at the above level for the year following the closing of this offering and to permit us to pay dividends at our anticipated level under all relevant financial and restricted payment covenants and restrictions that will be contained in the new credit facility and any other agreement that governs any other indebtedness we incur. Adjusted EBITDA, as defined in our new credit facility and presented elsewhere in this prospectus, excludes certain expenses paid by us in cash. These cash expenses that are excluded from Adjusted EBITDA are, to a large degree, non-recurring in nature and difficult to predict. The minimum Adjusted EBITDA presented in this discussion is derived as the sum of estimated capital expenditures, estimated cash interest expense, estimated cash income taxes, and estimated cash dividends on our common stock. We have not estimated any unknown non-recurring cash expenses that would be excluded from Adjusted EBITDA in this presentation of minimum Adjusted EBITDA. To the extent that our definition of Adjusted EBITDA allows us to exclude certain other cash expenses from the calculation of Adjusted EBITDA in a future period, the amount of minimum Adjusted EBITDA that we would have to generate would increase by the amount of the cash expenses excluded from Adjusted EBITDA in that period. We excluded $7.1 million of cash expenses and $2.2 million of cash income from Adjusted EBITDA for the years ended December 31, 2002 and 2003 respectively and $3.2 million of cash income and $5.3 million of cash expenses from Adjusted EBITDA for the nine-month periods ended September 30, 2003 and 2004 respectively. In addition, in connection with this offering we will have

$28.4 million of non-recurring cash expenses related to our reorganization and our new credit facility and $1.6 million of non-recurring cash expenses related to transaction bonuses that will be paid upon the consummation of this offering. Each of these expenses, however, will be paid from the proceeds of this offering and therefore will not decrease our cash available to pay dividends on our common stock. See Use of Proceeds.

	Amount
	(Dollars in thousands)
Estimated Cash Available to Pay Dividends on Common Stock Based On Minimum Adjusted EBITDA	
Minimum Adjusted EBITDA(1)	$ 248,160
Less:	
Estimated capital expenditures(2)	58,800
Estimated cash interest expense(3)	78,700
Estimated cash income taxes(4)	1,200
Estimated cash transaction bonus(5)	960
Estimated cash pension contributions in excess of estimated expense(6)	6,500
Estimated cash available to pay dividends on outstanding common stock(7)	$ 102,000
Estimated total leverage ratio derived from the above(8)	4.65x
Estimated interest coverage ratio derived from the above(9)	3.15x

(1) In comparing our estimated minimum Adjusted EBITDA to our historical Adjusted EBITDA, our historical Adjusted EBITDA does not include approximately $2.5 million in incremental ongoing expenses associated with being a public issuer, including estimated incremental audit fees, director and officer liability insurance premiums, expenses relating to stockholders meetings, printing expenses, investor relations expenses, additional filing fees, registrar and transfer agent fees, directors fees, additional legal fees, listing fees and miscellaneous fees. In addition, under our new credit facility, we may incur up to $10 million in transaction costs related to permitted acquisitions and other nonrecurring costs in any four consecutive fiscal quarter period. If we spend the $10 million permitted under the new credit facility in the first year following the offering, our minimum Adjusted EBITDA would need to be $258.2 million.

(2) The majority of our capital expenditures relate to our telecommunications network. For the twelve months ended September 30, 2004, our capital expenditures were approximately $68.1 million. We expect capital expenditures for fiscal 2004 to be approximately $68.8 million and then to decline to approximately $58.8 million in 2005. Our anticipated decrease in capital spending for the year ending December 31, 2005 is attributable to the fact that, since the beginning of 2001, we have invested approximately $318.8 million to replace and upgrade many facets of our infrastructure, including the following areas:

modernizing our networks with the latest technology to allow us to offer new and innovative products;

replacing outside plant in areas that generated abnormally high routine maintenance costs;

implementing operational support systems to enhance our productivity in the areas of customer service and network monitoring;

upgrading our fleet with newer and more reliable vehicles; and

implementing financial systems.

The initiatives outlined above have all been completed, and we believe that they have provided us with an infrastructure that can support growth and be maintained with less capital spending than in the past.

(3) Reflects our anticipated cash interest expense under our new credit facility and the senior notes. Accordingly, assumes interest at a weighted average rate of 6.4% on $868.5 million outstanding borrowings under the new term facility, a 0.50% commitment fee on an unused balance of $100 million under the new revolving credit facility, a rate of 8.0% per annum on the $280.0 million of senior notes, and that the net proceeds of the senior notes are used to repay term loans outstanding under our existing credit facility.

(4) Reflects estimated cash taxes we will pay on our taxable income at an assumed rate of 38%.

(5) Consists of the portion of the initial public offering cash transaction bonuses that will vest on January 1, 2006. See Management Transaction Bonuses Initial Public Offering Cash Bonuses.

(6) Reflects our $6.5 million accelerated funding requirement to our pension plan in 2005. In addition to our 2004 cash pension contribution of $6.5 million that we will make in September 2005, we will be required to make our estimated 2005 cash pension contribution of $6.5 million that we historically would not have made until September 2006. This accelerated funding requirement will consist of $1.6 million contributions in each of April, July, and October of 2005 and January of 2006. This results in us making our entire 2004 cash pension contribution and our estimated 2005 cash contribution in the year following the offering. In future years, we expect our cash contributions to our pension plan to only reflect one year s cash funding requirement.

(7) The table below sets forth the assumed number of outstanding shares of common stock upon the closing of this offering and the estimated per share and aggregate dividend amounts payable on such shares during the year following the closing of this offering.

	Number of Shares	Dividends Per Share	Dividends Aggregate
			(In thousands)
Estimated dividends on our outstanding common stock	70,833,333	$1.44	$102,000

(8) The total leverage ratio will be calculated under our new credit facility as the ratio of total debt *minus* the sum of debt incurred to maintain our investment in RTFC subordinated capital certificates, and *minus*, to the extent we have no amounts outstanding under our revolving facility, cash and cash equivalents, to Adjusted EBITDA. The new credit facility will also provide that under the restricted payments covenant, we may only pay dividends if our total leverage ratio as of the end of the most recently ended four fiscal quarter period is equal to or less than 5.0 to 1.00. In addition, it will be an event of default under the new credit facility if our total leverage ratio exceeds 5.25 to 1.00. We will be prohibited from paying dividends under the new credit facility if an event of default has occurred and is continuing.

(9) The interest coverage ratio will be calculated under our new credit facility as the ratio of Adjusted EBITDA to net interest expense. It is an event of default under the new credit facility if our interest coverage ratio for the four-quarter period ended on the last day of any fiscal quarter on or prior to March 31, 2006 is less than 2.50 to 1.00 and thereafter 2.75 to 1.00.

The following table illustrates, for our fiscal year ended December 31, 2003 and for the twelve months ended September 30, 2004, the amount of cash that would have been available for distribution to our common stockholders, assuming, in each case, that the debt recapitalization, our reorganization and this offering had been consummated at the beginning of such period, subject to the assumptions described in the table.

	Year Ended December 31, 2003	Twelve Months Ended September 30, 2004
	(In thousands)	
PRO FORMA CASH AVAILABLE TO PAY DIVIDENDS		
Net cash provided by operating activities	166,065	158,264
Adjustments:		
Interest expense	119,185	107,269
Amortization of debt issuance costs	(8,105)	(8,757)
Non-cash interest expense	(17,788)	9,430
Provision for doubtful accounts receivable	(3,298)	(4,574)
Changes in working capital	(33)	(9,242)
Other, net	5,795	6,825
Income tax expense (benefit)	2,478	(5,810)
Deferred income taxes	(450)	6,466
Other income and expense, net(1)	62	25,181
Management fee paid to equity sponsors	1,000	1,000
Non-recurring items(2)	(2,204)	(11,718)
ADJUSTED EBITDA	262,707	274,334
Cash income (expenses) excluded from Adjusted EBITDA(3)	1,142	(14,463)
Estimated cash interest expense(4)	(78,658)	(78,658)
Capital expenditures(5)	(69,850)	(68,131)
Estimated additional public company costs(6)	(2,500)	(2,500)
Cash income taxes	(1,200)	(1,200)
CASH AVAILABLE TO PAY DIVIDENDS	$111,641	$109,382

(1) Excludes redeemable preferred interests of subsidiary:	3,314	971
(2) Non-recurring items are comprised of the following:		
Termination benefits associated with workforce reduction		279
MCI bankruptcy	(3,386)	
Transaction fees for acquisitions not consummated	1,182	991
Costs related to reorganization transaction		(17,988)
CEO transition payment		5,000
Total non-recurring items, as defined in the new credit facility	(2,204)	(11,718)

(3) Represents cash income (expenses) reflected above under Other income and expense, net, Management fee paid to equity sponsors and Non-recurring items, that were excluded from the calculation of Adjusted EBITDA. These items were received or (paid) by us in cash and would have impacted the amount of cash that would have been available to pay dividends.

(4) Reflects our anticipated cash interest expense under our new credit facility and the senior notes. Accordingly, assumes interest at a weighted average rate of 6.4% on $868.5 million outstanding borrowings under the new term facility, a 0.50% commitment fee on an unused balance of $100 million under the new revolving credit facility, a rate of 8.0% per annum on the $280.0 million of senior notes and that the net proceeds of the senior notes are used to repay term loans outstanding under our existing credit facility.

(5) Consists of capital expenditures of $69.9 million and $68.1 million for the year ended December 31, 2003 and the twelve months ended September 30, 2004, respectively. The majority of our capital expenditures relate to our telecommunications network. For a more detailed discussion of our capital expenditures, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Cash Used in Investing Activities.

(6) Consists of estimated incremental audit fees, director and officer liability insurance premiums, expenses relating to stockholders meetings, printing expenses, investor relations expenses, additional filing fees, registrar and transfer agent fees, directors fees, additional legal fees, listing fees and miscellaneous fees.

Assumptions and Considerations

Based on a review and analysis conducted by our management and our board of directors, we believe that our minimum Adjusted EBITDA for the first full year following the closing of this offering will be at least $248.2 million, and we have determined that the assumptions in the above tables as to capital expenditures, cash interest expense, income taxes, working capital and availability of funds under our new revolving credit facility are reasonable. We considered numerous factors in establishing our belief concerning the minimum Adjusted EBITDA required to support our dividend policy and our belief that our minimum Adjusted EBITDA for the first full year following the offering will be $248.2 million, including the following factors:

Our Adjusted EBITDA for the twelve-month period ended September 30, 2004 was $274.3 million.

For fiscal years 2001, 2002 and 2003, our Adjusted EBITDA was $215.1 million, $240.6 million and $262.7 million, respectively.

For fiscal years 2002 and 2003 and for the twelve months ended September 30, 2004, we incurred $89.5 million, $69.9 million and $68.1 million, respectively, in capital expenditures. We expect capital expenditures for fiscal 2004 to be approximately $68.8 million and then decline to approximately $58.8 million in the year following this offering.

While our working capital balances varied over the past three years, there has not been a trend toward material working capital growth over that period.

We have analyzed the impact of our intention to pay dividends at the level described above on our operations and performance in prior years and have determined that our new revolving credit facility would have had sufficient capacity to finance any fluctuations in working capital and other cash needs, including the payment of dividends at the levels described above. We currently do not intend to borrow under our new revolving credit facility to pay dividends.

We have also assumed:

- that our general business climate, including such factors as consumer demand for our services, the level of competition we experience and our regulatory environment, will remain consistent with previous periods; and

- the absence of extraordinary business events, such as new industry-altering technological developments or adverse regulatory developments, that may adversely affect our business, results of operations or anticipated capital expenditures.

If our Adjusted EBITDA for the first year following the closing of this offering were to fall below the $248.2 million level (or if our assumptions as to capital expenditures or interest expense are too low, or if our assumptions as to the sufficiency of our new revolving credit facility to finance our working capital needs prove incorrect, or if other assumptions stated above were to prove incorrect), we may need to either reduce or eliminate dividends or, to the extent we were permitted to do so under the new credit facility, to fund a portion of our dividends with borrowings or from other sources. If we were to use working capital or permanent borrowings to fund dividends, we would have less cash and/or borrowing capacity available for future dividends and other purposes, which could negatively impact our financial condition, our results of operations, our liquidity and our ability to maintain or expand our business. In addition, to the extent we finance capital expenditures with indebtedness, we will begin to incur incremental debt service obligations.

We cannot assure you that our Adjusted EBITDA will in fact equal or exceed the minimum level set forth above, and our belief that it will equal or exceed such level is subject to all of the risks, considerations and factors identified in other sections of this prospectus, including those identified in the section entitled Risk Factors.

As noted above, we have estimated our initial dividend level and the minimum Adjusted EBITDA required to pay dividends at that level only for the first full year following the closing. Moreover, we cannot assure you that we will pay dividends during or following such period at the level estimated above, or at all. Dividend payments are within the absolute discretion of our board of directors and will be dependent upon many factors and future developments that could differ materially from our current expectations. Over time, our capital and other cash needs will invariably be subject to uncertainties, which could affect the level of any dividends we pay in the future.

In accordance with our dividend policy, we intend to distribute, as dividends to our stockholders, a substantial portion of the cash generated by our business in excess of operating needs, interest and principal payments on indebtedness and capital expenditures. We believe that our dividend policy will limit, but not preclude, our ability to pursue growth. If we continue paying dividends at the level currently anticipated under our dividend policy, we expect that we would need additional financing to fund significant acquisitions. Such additional financing could include, among other transactions, the issuance of additional shares of common stock. However, we intend to retain sufficient cash after the distribution of dividends to permit the pursuit of growth opportunities that do not require material capital investments. Management currently has no specific plans to make a significant acquisition or to increase capital spending to expand our business materially. However, management will evaluate potential growth opportunities as they arise and, if our board of directors determines that it is in our best interest to use cash that would otherwise be available for distribution as dividends to pursue an acquisition opportunity, to increase capital spending materially or for some other purpose, the board would be free to depart from or change our dividend policy at any time. Management currently does not anticipate pursuing growth opportunities, including acquisitions, unless they are expected to be at least neutral or accretive to our ability to pay dividends to the holders of our common stock.

Our intended policy to distribute rather than retain a significant portion of the cash generated by our business as regular quarterly dividends is based upon our current assessment of our financial performance, our cash needs and our investment opportunities. If these factors were to change based on, for example, regulatory, competitive or technological developments (which could increase our need for capital expenditures) or new investment opportunities, we would need to reassess that policy.

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Restrictions on Payment of Dividends

Delaware Law

Under Delaware law, our board of directors may declare and pay dividends either out of surplus or, if there is no surplus, out of net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Surplus is defined as the excess, if any, at any given time, of the total assets of a corporation over its total liabilities and statutory capital. The value of a corporation s assets can be measured in a number of ways and may not necessarily equal their book value. The value of our capital may be adjusted from time to time by our board. Our board may base this determination on our financial statements, a fair valuation of our assets or another reasonable method. Although we believe we will pay dividends at the anticipated levels during the first year following this offering in compliance with Delaware law, our board will periodically seek to assure itself that the statutory requirements will be met before actually declaring dividends. In future years, the board may seek opinions from outside valuation firms to the effect that our net profits or capital surplus is sufficient to allow payment of dividends, and such opinions may not be forthcoming. If we sought and were not able to obtain such an opinion, we likely would not be able to pay dividends.

New Credit Facility

Under the new credit facility, dividends will be restricted as follows:

Under the restricted payments covenant, we may use all of our available cash for the period (taken as one accounting period) from the first full fiscal quarter that starts after the date of the closing of the new credit facility to the end of our most recently ended fiscal quarter for which internal financial statements are available at the time of such payment, plus certain incremental amounts described in the new credit facility, for the payment of dividends, but we may not in general pay dividends in excess of such amounts. Available cash will be defined in the new credit facility as, on any date of determination, for the period commencing on the first day of the first full fiscal quarter that starts after the date of the closing of the new credit facility and ending on the last day of the fiscal quarter most recently ended for which a compliance certificate has been delivered, an amount equal to the sum (as calculated for us and our subsidiaries on a consolidated basis) of: (a) Adjusted EBITDA for such period minus (b) to the extent not deducted in the determination of Adjusted EBITDA, the sum of the following: (i) interest paid or accrued in such period (but not including amortization of deferred transaction costs or other non-cash interest expense); (ii) capital expenditures during such period (other than, if in excess of a certain amount, any thereof financed with the proceeds of permitted debt, and any thereof financed with equity or from the proceeds of permitted asset sales or casualty events); (iii) payments made for permitted acquisitions (other than any thereof financed with the proceeds of permitted debt or equity); (iv) certain other permitted investments; (v) scheduled principal payments, if any, during such period; (vi) mandatory prepayments required under the new credit facility made during such period, other than mandatory prepayments of swing line loans and prepayments made to finance our investment in RTFC subordinated capital certificates; (vii) cash taxes paid during such period; (viii) costs and expenses associated with any permitted securities offering, investment, acquisition or debt offering (in each case, whether or not successful); and (ix) the cash cost of any extraordinary or unusual losses during such period; plus (c) to the extent not included in the determination of Adjusted EBITDA, interest and dividends received in cash.

Under the new credit facility, we may only pay dividends if our total leverage ratio for the most recently ended fiscal quarter is equal to or less than 5.0 to 1.0.

We will be prohibited from paying dividends if an event of default under the new credit facility has occurred and is continuing. In particular, it will be an event of default if:

our total leverage ratio, as defined above, exceeds 5.25 to 1.0; or

our interest coverage ratio for the four-quarter period ended on the last day of any fiscal quarter on or prior to March 31, 2006, is less than 2.50 to 1.0, and thereafter 2.75 to 1.0.

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See Description of Certain Indebtedness New Credit Facility for a more complete description of the dividend restrictions contained in our new credit facility.

Senior Notes

The indenture that will govern the senior notes we plan to issue simultaneously with the closing of this offering will contain restrictions on the payment of dividends that are no more restrictive than those contained in our new credit facility.

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CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of September 30, 2004:

on an actual basis, as restated (see footnote 12 to the condensed consolidated financial statements);

on a pro forma as adjusted basis as if our debt recapitalization and our reorganization had occurred on that date; and

on a pro forma as adjusted basis as if in addition to our debt recapitalization and our reorganization, this offering, including the use of proceeds from this offering, and our issuance of senior notes, including the use of proceeds thereof, had occurred on that date and that we had entered into the new credit facility on that date.

	As of September 30, 2004		
	Actual	Pro Forma as Adjusted for the Reorganization and the Debt Recapitalization	Pro Forma as Adjusted for the Offering and the Issuance of Senior Notes
		(Dollars in thousands)	
Cash and cash equivalents	$ 641	$ 1,051	$ 1,051
Long-term debt, including current portion			
Current maturities of long-term debt	43,031	13,360	2,085
Notes payable	13,765	2,265	2,265
Old credit facilities (long-term portion)	1,045,893		
Existing senior subordinated notes	314,257		
Capital leases	2,291	2,291	2,291
New credit facility		1,188,300	868,155
Second lien loan		265,000	
Senior subordinated loan		135,000	
Senior Notes			280,000
Total long-term debt, including current portion	1,419,237	1,606,216	1,154,796
Redeemable preferred interests	370,231		
Redeemable preferred interests of subsidiary	24,336		
Stockholders equity			
Limited liability company interests, no par or stated value	110,633		
Common stock, $0.0001 par value per share		3	6
Preferred stock, $0.0001 par value per share			
Additional paid-in capital		588,645	1,059,667
Accumulated deficit(1)	(28,195)	(421,419)	(460,716)
Accumulated other comprehensive loss	(7,371)	(7,371)	(7,371)
Treasury stock	(34)		
Total common owners equity	75,033	159,858	591,586
Total capitalization	$ 1,888,837	$ 1,766,074	$ 1,746,382

(1) Reflects one-time charges we will incur in connection with the reorganization, debt recapitalization, this offering and the issuance of senior notes, in which we will (a) terminate the Valor Telecom Executive Incentive Plan resulting in an expense of $1.8 million, (b) issue restricted stock and pay cash bonuses to certain members of our management, resulting in an aggregate compensation expense to us of approximately $12.6 million, (c) incur costs relating to prepayment of indebtedness of approximately $32.4 million, (d) write-off existing debt issuance costs of approximately $62.4 million and (e) the fair value of shares issued in excess of the carrying value of the redeemable preferred interests and redeemable preferred interests in subsidiary of $323.2 million.

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DILUTION

Dilution is the amount by which the portion of the offering price paid by the purchasers of the common stock to be sold in the offering exceeds the net tangible book value or deficiency per share of our common stock after the offering. Net tangible book value or deficiency per share of our common stock is determined at any date by subtracting our total liabilities from our total assets less our intangible assets and dividing the difference by the number of shares of common stock deemed to be outstanding at that date.

Our net tangible book deficiency as of September 30, 2004 was approximately $(982.0) million, or $(23.69) per share of common stock. After giving effect to our receipt and intended use of approximately $465.1 million of estimated net proceeds (after deducting estimated underwriting discounts and commissions and offering expenses) from our sale of common stock in this offering based on an assumed initial public offering price of $17.00 per share of common stock (the midpoint of the range set forth on the cover page of this prospectus) our pro forma as adjusted net tangible book deficiency as of September 30, 2004 would have been approximately $(465.4) million, or $(6.57) per share of common stock. This represents an immediate increase in net tangible book value of $17.12 per share of our common stock to existing stockholders and an immediate dilution of $23.57 per share of our common stock to new investors purchasing shares of common stock in this offering.

The following table illustrates this substantial and immediate dilution to new investors:

	Per Share of Common Stock
Initial public offering price per share of common stock	$ 17.00
Net tangible book deficiency per share as of September 30, 2004	(23.69)
Increase per share attributable to cash payments made by investors in this offering	17.12
Pro forma as adjusted net tangible book deficiency after this offering	$ (6.57)
Dilution in net tangible book value per share to new investors	$ 23.57

The following table sets forth on a pro forma basis as of September 30, 2004, assuming no exercise of the over-allotment option:

- the total number of shares of our common stock to be owned by the existing equity holders and the total number of shares of our common stock to be owned by the new investors purchasing shares of common stock in this offering;
- the total consideration to be paid by the existing equity holders and to be paid by the new investors purchasing shares of common stock in this offering; and
- the average price per share of common stock to be paid by existing equity holders (cash and stock) and the average price per share of common stock to be paid by new investors purchasing shares of common stock in this offering:

	Shares of Common Stock Purchased		Total Consideration		Average Price Per Share of Common Stock
	Number	Percent	Amount	Percent	
Existing equity holders	41,458,333	58.5%	$348,878,000	41.0%	$ 8.42
New investors	29,375,000	41.5%	$499,375,000	59.0%	$17.00
Total	70,833,333	100.0%	$848,253,000	100.0%	$11.98

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SELECTED HISTORICAL FINANCIAL INFORMATION

Valor is a holding company and has no direct operations. Valor was formed for the sole purpose of reorganizing our corporate structure and consummating this offering. Valor s principal assets are the direct and indirect equity interests of its subsidiaries. As a result, we have not provided separate historical financial results for Valor and present only the historical consolidated financial results of Valor Telecommunications, LLC. The selected historical consolidated financial information set forth below as of and for the period ended December 31, 2000, as well as the selected historical consolidated financial information as of and for the year ended December 31, 2001, 2002 and 2003, have been derived from our audited consolidated financial statements, as restated (see Note 20 to the consolidated financial statements). The selected historical consolidated financial information as of and for the nine months ended September 30, 2003 and 2004, as restated (see Note 12 to the condensed consolidated financial statements), is unaudited, has been prepared on the same basis as the audited statements, and in the opinion of management, contains all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of our operating results for such period and our financial condition at such date. The financial information for the nine months ended September 30, 2003 and 2004 is not necessarily indicative of the results to be expected for any other interim period or any future fiscal year. In addition, as described in more detail in Business, we acquired, at the time of our formation, select telephone assets from GTE Southwest Corporation. We refer to these properties as the Acquired Businesses and we believe the Acquired Businesses to be the predecessor of our company, prior to formation in 2000. This is because the Acquired Businesses effectively include nearly all the businesses currently operated by us, with the exception of our Kerrville business that was acquired by us in 2002, and do not include any businesses that have been discontinued or sold. Accordingly, the selected historical financial information below includes the combined accounts of the Acquired Businesses as of and for the year ended December 31, 1999, as well as the combined accounts as of and for the period ended August 31, 2000. The combined accounts do not include any purchase accounting adjustments that occurred as a result of our acquisition of the Acquired Businesses in 2000.

The information in the following table should be read together with our audited consolidated financial statements for the years ended December 31, 2001, 2002 and 2003 and the related notes, our unaudited consolidated financial statements for the nine months ended September 30, 2003 and 2004 and Management s Discussion and Analysis of Financial Condition and Results of Operations, all as included elsewhere in this prospectus.

	Predecessor Company(1)							
	Year Ended December 31, 1999	Period Ended August 31, 2000	Period Ended December 31, 2000(2)	Year Ended December 31, 2001	2002(3)	2003	Nine Months Ended September 30, 2003	2004
	(Dollars in thousands, except per owner unit data)		(Dollars in thousands, except per owner unit data)					
Statement of Operations Data:								
Operating revenues	$367,724	$260,933	$148,784	$424,916	$479,883	$497,334	$372,450	$379,279
Operating expenses	282,719	178,948	164,172	321,618	320,632	315,061	236,165	242,795
Operating income (loss)	85,005	81,985	(15,388)	103,298	159,251	182,273	136,285	136,484
Income (loss) from continuing operations	57,434	50,678	(71,909)	(44,912)	19,763	58,125	36,975	25,171
Earnings per owners unit:(4)								
Basic and diluted (loss) income from continuing operations:								
Class A and B common interests	n/a	n/a	$ (1.05)	$ (0.58)	$ 0.22	$ 0.73	$ 0.45	$ 0.54
Class C interests	n/a	n/a	$	$	$ 0.09	$ 0.15	$ 0.12	$ (0.29)
Basic and diluted net (loss) income:								
Class A and B common interests	n/a	n/a	$ (1.05)	$ (0.77)	$ 0.17	$ 0.73	$ 0.45	$ 0.54
Class C interests	n/a	n/a	$	$	$ 0.09	$ 0.15	$ 0.12	$ (0.29)

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	Predecessor Company(1)							
	Year Ended December 31, 1999	Period Ended August 31, 2000	Period Ended December 31, 2000(2)	Year Ended December 31, 2001	2002(3)	2003	Nine Months Ended September 30, 2003	2004
	(Dollars in thousands)			(Dollars in thousands)				
Cash Flow Data:								
Net cash provided by operating activities	$154,279	$119,557	$ 16,197	$ 100,301	$ 150,383	$166,065	$132,461	$124,660
Net cash used in investing activities	$ (85,109)	$ (56,018)	$(1,821,699)	$(106,614)	$(216,773)	$ (66,299)	$ (50,551)	$ (51,362)
Net cash provided by (used in) financing activities	$ (69,170)	$ (63,539)	$ 1,811,613	$ 8,117	$ 71,015	$ (99,465)	$ (81,971)	$ (74,054)
Other Data:								
Capital expenditures	$ 85,109	$ 56,018	$ 36,918	$ 107,869	$ 89,527	$ 69,850	$ 53,239	$ 51,520
Acquisition of Kerrville Communications Corporation(5)					$ 128,135			
Depreciation and amortization(6)	$ 97,111	$ 64,103	$ 40,327	$ 110,843	$ 73,273	$ 81,638	$ 61,039	$ 63,993

	Predecessor Company(1)						
	As of December 31, 1999	As of August 31, 2000	As of December 31, 2000(2)	As of December 31, 2001	2002	2003	As of September 30, 2004
	(Dollars in thousands)			(Dollars in thousands)			
Balance Sheet Data:							
Total assets	$573,681	$567,073	$1,935,695	$1,913,057	$2,062,404	$2,039,043	$2,012,865
Long-term debt (including current maturities)			$1,440,643	$1,469,420	$1,544,285	$1,463,973	$1,405,472
Notes payable			$ 70	$ 10,197	$ 1,175	$ 6,687	$ 13,765
Redeemable preferred interests			$ 370,231	$ 370,231	$ 370,231	$ 370,231	$ 370,231
Redeemable preferred interests of subsidiary			$ 23,990	$ 20,559	$ 21,161	$ 24,475	$ 24,336

(1) The selected historical financial information presented for the Predecessor Company above was derived from unaudited financial statements prepared on a carve-out basis by GTE Southwest Corporation (the Carve-Out Financial Statements). This information reflects the results of operations and financial position of the Acquired Businesses for the year ended December 31, 1999 and for the period beginning January 1, 2000 through our acquisition date of these businesses. We acquired GTE s business in Oklahoma on July 1, 2000 and GTE s businesses in Texas, New Mexico and Arkansas on September 1, 2000.

(2) Our consolidated financial statements for the period ended December 31, 2000 include the results of operations for the businesses we acquired from GTE in Texas, Oklahoma, New Mexico and Arkansas beginning on the date of acquisition, as well as certain start-up costs that we incurred prior to commencing operations.

(3) We acquired all the outstanding common stock, preferred stock and common stock equivalents of Kerrville Communications Corporation (KCC) on January 31, 2002 and have included the assets, liabilities and results of operations of KCC from that date.

(4) Per unit data is not applicable with respect to periods covered by our Predecessor s Carve-Out Financial Statements.

(5) Reflects the purchase price for our acquisition of KCC, net of cash acquired. Excludes $1,724,119 we paid to purchase the Acquired Businesses in 2000.

(6) In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, effective January 1, 2002, we discontinued the amortization of goodwill. Amortization expense associated with goodwill was $20,529 for the period ended December 31, 2000 and $53,900 for the year ended December 31, 2001.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and accompanying notes which appear elsewhere in this prospectus. It contains forward-looking statements that involve risks and uncertainties. Please see Cautionary Statement Regarding Forward-Looking Statements for more information. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this prospectus, particularly under the headings Risk Factors and Cautionary Statement Regarding Forward-Looking Statements.

Overview

We are one of the largest providers of telecommunications services in rural communities in the southwestern United States and the seventh largest independent telephone company in the country. As of September 30, 2004, we operated approximately 548,000 telephone access lines in primarily rural areas of Texas, Oklahoma, New Mexico and Arkansas. We believe that in many of our markets we are the only service provider that offers customers an integrated package of local and long distance voice, high-speed data and Internet access as well as a variety of enhanced services such as voicemail and caller identification. We generated revenues of $497.3 million in the year ended December 31, 2003 and $379.3 million in the nine months ended September 30, 2004.

We formed our company in connection with the acquisition in 2000 of select telephone assets from GTE Southwest Corporation, which is now part of Verizon. Our formation was orchestrated by our equity sponsors Welsh, Carson, Anderson & Stowe, or WCAS, Vestar Capital Partners, Citicorp Venture Capital, Anne K. Bingaman and other individuals.

The rural telephone businesses that we own have been operating in the markets we serve for over 75 years. Since our inception, we have acquired the local telephone company serving Kerrville, Texas and we have invested substantial resources to improve and expand our network infrastructure to provide high quality telecommunications services and superior customer care. We believe that we are well positioned for future revenue and cash flow growth through both expanded service offerings and acquisitions. In November 2004, the Company acquired certain high speed internet and dial-up internet assets along with the related customers and revenues. The assets are located generally in West Texas and Southeastern New Mexico. The purchase price consisted of $1.5 million in cash and the assumption of $0.4 million of leases.

Access lines are an important element of our business. Historically, rural telephone companies have experienced consistent growth in access lines because of positive demographic trends, insulated rural local economies and little competition. Recently, however, many rural telephone companies have experienced a loss of access lines due to challenging economic conditions, increased competition from wireless providers, competitive local exchange carriers and, in some cases, cable television operators. We have not been immune to these conditions. We have been able to mitigate the access line loss through plant improvements, bundling services, win-back programs, increased community involvement and a variety of other programs. See Consolidated Results of Operations Operating Revenues for a discussion of access line trends.

Despite our net losses of access lines, we have generated growth in our revenues each year since our inception in 2000. We have accomplished this by providing our customers with services not previously available in most of our markets such as enhanced voice services and data services, including digital subscriber lines, or DSL, and through acquisitions.

We are subject to regulation primarily by federal and state government agencies. At the federal level, the Federal Communications Commission, or FCC, has jurisdiction over interstate and international telecommunications services. State telecommunications regulators exercise jurisdiction over intrastate telecommunications services. We operate under price cap regulation at the federal level and at the state level in Texas and New Mexico. We are regulated as a rural telephone company in Oklahoma. We are regulated on a rate of return basis in Arkansas. For a more extensive discussion of regulatory matters, see Risk Factors Regulatory Risks and Regulation.

Reorganization

Immediately prior to and in connection with the consummation of this offering, we will reorganize our corporate structure. Our existing equity holders currently own equity interests in Valor Telecommunications, LLC, or VTC, and Valor Telecommunications Southwest, LLC, or VTS. VTC also currently holds all of the outstanding equity interests of Valor Telecommunications Southwest II, LLC, or VTS II. As part of this reorganization, our existing equity holders will contribute their equity interests in VTC and VTS to us in exchange for 41,458,333 shares of our common stock. As a result of this reorganization, each of VTC, VTS and VTS II will be either a direct or indirect wholly-owned subsidiary of Valor Communications Group, Inc. See Detailed Transaction Steps.

Senior Notes

Concurrently with or following this offering, we expect that our subsidiary Valor Telecommunications Enterprises, LLC and its direct wholly-owned subsidiary, Valor Telecommunications Enterprises Finance Corp., as co-issuers, will issue $280 million aggregate principal amount of ten year senior notes in a private offering pursuant to Rule 144A of the Securities Act of 1933. If we offer these senior notes, we would use the net proceeds from such issuance to repay a portion of the term loan outstanding under our existing credit facility. This offering is not contingent upon our issuance of senior notes. The senior notes will contain restrictions on our ability to pay dividends that are no more restrictive than those contained in our new credit facility.

Impact of Our Reorganization, the Debt Recapitalization, this Offering and our Offering of Senior Notes on Our Results of Operations and Liquidity

Results of Operations. We have recorded a substantial number of one-time expenses related to our reorganization, the debt recapitalization and this offering, including the following:

- $5.0 million in compensation expense associated with the payment made to our former CEO upon the termination of his previous employment agreement; and

- $18.0 million in expenses associated with our repurchase of minority interests in our subsidiaries Valor Telecommunications Southwest, LLC, a Delaware limited liability company, and Valor Telecommunications Southwest II, LLC, a Delaware limited liability company, from a group of the individual investors.

In addition, we expect to record the following expenses:

- $1.8 million in compensation expense associated with our termination of the Valor Telecom Executive Incentive Plan, of which $0.5 million will be related to interests that vest in the first quarter of 2005;

- $62.4 million in loss on extinguishment of debt associated with the repayment in full of our indebtedness that was outstanding prior to the debt recapitalization, our second lien loan and our senior subordinated loan, and the partial repayment of our term loan;

- $32.4 million in fees and expenses associated with our repayment of existing indebtedness, including prepayment penalties;

- $5.1 million in compensation expense for cash transaction bonuses paid to members of our management team in connection with our debt recapitalization;

- $1.6 million in compensation expense for the portion of cash transaction bonuses that will be paid upon the consummation of this offering to members of our management team in connection with this offering; and

$5.9 million in compensation expense for restricted shares issued to members of our management team that will vest upon consummation of this offering.

We will incur higher expenses as a public company after the consummation of this offering. These expenses will include additional accounting and finance expenses, audit fees, legal fees and increased premiums for director and officer liability insurance coverage. We estimate that these additional expenses will be approximately $2.5 million annually. In addition, as a result of initial public offering cash bonuses that we will pay to certain members of our management team and issuances of shares of restricted stock that we will make under our 2005 Long-Term Incentive Plan, we expect that our compensation expense will increase to approximately $9.4 million in each of 2005 and 2006 and $8.4 million in 2007. See Management Transaction Bonuses Initial Public Offering Cash Bonuses and Management Bonus and Incentive Plans 2005 Long-Term Incentive Plan. Following the completion of this offering, we will pay taxes as a corporation for United States federal income tax purposes.

Liquidity. Upon completion of this offering, our board of directors will adopt a dividend policy which reflects an intention to distribute a substantial portion of the cash generated by our business in excess of operating needs, interest and principal payments on our indebtedness and capital expenditures as regular quarterly dividends to our stockholders, rather than retaining all such cash for other purposes. In accordance with this dividend policy, we currently intend to pay an initial dividend of $ per share on or about , 2005 and to continue to pay quarterly dividends at an annual rate of $1.44 per share for the year following the closing of this offering. We expect the aggregate impact of this dividend policy in the year following the offering to be $102.0 million. The cash requirements of the expected dividend policy are in addition to the debt service requirements discussed below in Consolidated Results of Operations. We expect that the cash requirements discussed here and below in Consolidated Results of Operations will be funded through cash flow generated from the operations of our business. We also expect to have access to the $100 million new revolving credit facility to supplement our liquidity position as needed.

Regulatory Matters

We operate in a regulated industry, and the majority of our revenues comes from the provision of regulated telecommunications services, including state and federal support for the provision of telephone services in high-cost rural areas. To further the public policy of providing universal and comparable telecommunications services throughout the United States, state and federal regulatory bodies have historically given support to rural telephone companies to offset the high costs of providing telecommunications services in rural areas. Operating in this regulated industry means that we are also generally subject to certification, service quality, rate regulation, tariff filing and other ongoing regulatory requirements by state and federal regulators.

State Regulation. We operate in Texas, Oklahoma, New Mexico and Arkansas and each state has its own regulatory framework for intrastate services.

In Texas, most of our operations are subject to price caps on our basic telecommunications services, while we maintain pricing flexibility on some non-basic services. While the Texas regulatory structure under which we operate will become subject to review and renewal in late 2005, we do not expect a material change in the benefits we have under current regulation. In addition, on November 23, 2004, the Public Utility Commission of Texas approved a stipulation that settled our pending application for the imposition of an expanded local calling surcharge. The expanded local calling surcharge compensates us for the costs and lost revenues associated with replacing long distance routes between selected towns with flat rated service. We have collected interim surcharges per month since May 2003 through November 2004 totaling $4.1 million. Pending approval of the stipulation, the surcharges billed to customers were refundable. As a result, we deferred revenue recognition of these surcharges. Due to stipulation approval in November 2004, we will record a one-time revenue item of $4.1 million for the period from May 2003 through November 2004. The terms of the stipulation provide that we cannot request an additional surcharge after the current surcharge expires on December 31, 2005.

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In New Mexico, we operate under an Alternative Form of Regulation Plan that is specific to our company. The Plan was adopted in 2000 and will expire on March 31, 2006. During its term, the Plan provides for a freeze on the prices of our intrastate telecommunications services (other than for optional services as discussed below), requires us to invest $83 million in capital in New Mexico, provides for a streamlined tariff approval process and prescribes quality of service standards, including penalties for failure to meet certain service levels. Under the Plan in 2005, we will be able to increase our prices for optional services by 10% if we have met certain quality service standards.

Recently enacted legislation mandates that the New Mexico Public Regulation Commission adopt rules tailored to the size and market demographics of local exchange carriers like our company that have between 50,000 and 375,000 access lines and flexible rules that allow pricing freedom on retail services. It also mandates the streamlining of rules governing the introduction and withdrawal of tariffs and the packaging and bundling of services. Therefore, we do not expect to have to renegotiate and renew our current plan.

In Oklahoma, legislation was enacted in May 2004 that will regulate us a rural telephone company thereby allowing us significant pricing freedom for our basic services and reducing our costs of regulation.

We also operate under rate of return regulation in the provision of intrastate telecommunications services in Arkansas. We operate approximately 17,000 access lines in Texarkana, Arkansas, which is our only market in Arkansas. Pursuant to an agreement with the Arkansas Public Service Commission, our Arkansas tariffs mirror the prices charged for retail services in our Texas tariffs.

Federal Regulation. Most of our interstate access revenues are regulated pursuant to the FCC s price cap rules. Generally, these rules establish an upper limit for access prices, but allow annual formula-based adjustments and limited pricing flexibility. In 2000, the FCC adopted the Coalition for Affordable Local and Long Distance Service, or CALLS plan, an integrated interstate access reform and universal service framework for price cap local exchange carriers. The CALLS plan allows subscriber line charges billed to end users to rise, but forced substantial decreases in access charges billed to long distance carriers. The CALLS plan will expire in mid-2005, unless extended by the FCC. We are actively participating in discussions with other industry parties aimed at developing a consensus proposal on inter-carrier compensation that would replace the CALLS plan. In October 2004, we joined with eight other carriers, collectively known as the Intercarrier Compensation Forum, to file a specific reform proposal with the FCC. The outcome of the FCC s proceeding is uncertain, but it could result in significant changes to the way in which we receive compensation from other carriers and our customers. At this time, we cannot estimate whether the FCC or Congress will reform the current system, or, if so, whether and to what extent any changes will affect our access charge revenues or other inter-carrier compensation revenues.

Universal Service Fund

In furtherance of public policy, we receive Universal Service Fund, or USF, revenues from the State of Texas and the federal government to support the high cost of providing telecommunications services in rural markets.

Texas Universal Service Fund. The Texas Universal Service Fund, or the Texas USF, supports eligible telecommunications providers that serve high cost markets. We received $103.1 million from the Texas USF in 2003, representing 20.7% of total revenues for that year and we received $76.8 million from the Texas USF during the nine months ended September 30, 2004, representing 20.2% of total revenues for that period. Texas USF is promulgated under a statute that will become subject to review and renewal in late 2005. We expect that the Texas Legislature will renew the statute or replace it with a similar law that will not materially change the benefits we receive under the current regulatory structure.

Federal Universal Service Fund. The federal USF revenue we receive helps to offset interstate access charges, defrays the high fixed switching costs in areas with fewer than 50,000 access lines and provides support where our average cost per line exceeds 115% of the national average cost per line. In 2003, we received $16.7 million, or 3.4% of our total revenues, in federal USF support and in the nine months ended September 30, 2004, we received $14.0 million, or 3.7% of our total revenues, in federal USF support. On June 8, 2004, the FCC issued a Notice of Proposed Rulemaking seeking comment on a recommended decision of the Federal-State Joint Board on Universal Service, or Joint Board. The Joint Board recommended that the FCC adopt permissive federal guidelines for states to consider in proceedings to designate competitive carriers as eligible to receive universal service support, and it further recommended that the FCC limit the scope of high-cost support to a single connection that provides a subscriber access to the public telephone network. The FCC has until February 27, 2005 to act on these recommendations. On August 16, 2004, the Joint Board issued a notice seeking comments on several issues relating to high-cost universal service support mechanisms for rural carriers and the appropriate rural mechanism to succeed the five-year plan that the FCC created in 2001. Issues under consideration include: the appropriate cost basis for determining support levels for rural carriers, whether to modify the definition of rural carrier and the amount of universal service support available for acquired exchanges. The outcome of these proceedings or other legislative or regulatory changes could affect the amount of federal universal service support that we receive, and could have an adverse effect on our business, revenue or profitability.

Critical Accounting Policies and Use of Estimates

Our financial statements are prepared in accordance with accounting principles that are generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Management continually evaluates its estimates and judgments including those related to revenue recognition, allowance for doubtful accounts, pension and postretirement benefits, accounting for goodwill and intangible assets, and estimated useful lives of property, plant and equipment. Actual results may differ from these estimates. We believe that of our significant accounting policies, the following may involve a higher degree of judgment and complexity. (See Note 2 to the consolidated financial statements for a discussion of our significant accounting policies.)

Revenue Recognition. Revenue is recognized when evidence of an arrangement between our customer and us exists, the earnings process is complete and collectibility is reasonably assured. The prices for most services are filed in tariffs with the appropriate regulatory bodies that exercise jurisdiction over the various services.

Basic local services, enhanced calling features such as caller identification, special access circuits, long distance flat rate calling plans, and most data services are billed one month in advance. Revenue for these services is recognized in the month services are rendered. The portion of advance-billed revenue associated with services that will be delivered in a subsequent period is deferred and recorded as a current liability under Advance billings and customer deposits in our consolidated balance sheets.

Amounts billed to customers for activating service are deferred and recognized over the average life of the customer. The costs associated with activating such services are deferred and are recognized as an operating expense over the same period. Costs in excess of revenues are recognized as an operating expense in the period of activation.

Revenues for providing usage based services, such as per-minute long distance service and access charges billed to long distance companies for originating and terminating long distance calls on our network, are billed in arrears. Revenues for these services are recognized in the month services are rendered.

Universal Service revenues are government-sponsored support received in association with providing service in mostly rural, high-cost areas. These revenues are typically based on information provided by us and are calculated by the government agency responsible for administering the support program and are recognized in the month the service is performed.

Allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, we assess a number of factors, including a specific customer s or carrier s ability to meet its financial obligations, the length of time the receivable has been past due and historical collection experience. Based on these assessments, we record both specific and general reserves for uncollectible accounts receivable to the amount we ultimately expect to collect from customers and carriers. If circumstances change or economic conditions worsen such that our past collection experience is no longer relevant, our estimate of the recoverability of accounts receivable could be further reduced from the levels reflected in our consolidated balance sheet.

We made an administrative error in submitting our required September 30, 2004 federal USF data filings. This administrative error caused the federal USF plan administrator to make a demand that we repay a portion of the USF payments that we received for the third quarter of 2004 and will delay the receipt of a portion of our fourth quarter 2004 federal USF payments. We received all USF revenue for which we are qualified for the third quarter of 2004 and recorded all such revenue in our condensed consolidated financial statements for the nine-month period ended September 30, 2004 accordingly. In addition, the administrative error will affect our reported revenues and accounts receivables for the three-month period ended December 31, 2004, creating a $1.5 million receivable related to this issue at December 31, 2004.

We have filed for a waiver from the FCC that will allow us to receive all 2004 federal USF payments to which we were otherwise entitled to receive under the particular program. Any repayment obligation we may have has been suspended pending resolution of the waiver. We expect that the FCC will grant a waiver of its administrative rules, which will allow the plan administrator to accept our filing, amend its third quarter 2004 data, eliminate any repayment obligation and make the remaining 2004 support payments. Further, we expect to collect this account receivable sometime in 2005.

Pension and postretirement benefits. The amounts recognized in the financial statements related to pension and postretirement benefits are determined on an actuarial basis utilizing several critical assumptions.

A significant assumption used in determining our pension and postretirement benefit expense is the expected long-term rate of return on plan assets. In 2003, we used an expected long-term rate of return of 8.5%. We continue to believe that 8.5% is an appropriate rate of return for our plan assets given our investment strategy and will continue to use this assumption for 2004. The projected portfolio mix of the plan assets is developed in consideration of the expected duration of related plan obligations and as such is more heavily weighted toward equity investments, including public and private equity positions. Our investment policy is to invest 55-75% of the pension assets in equity funds with the remainder being invested in fixed income funds and cash equivalents. The expected return on plan assets is determined by applying the expected long-term rate of return to the market-related value of plan assets. The actual return on our equity portfolio has been significantly below expected return levels due to overall equity market conditions in 2001 and 2002.

Another significant estimate is the discount rate used in the annual actuarial valuation of pension and postretirement benefit plan obligations. In determining the appropriate discount rate at year-end, we considered the current yields on high quality corporate fixed-income investments with maturities corresponding to the expected duration of the benefit obligations. As of December 31, 2003, we reduced the discount rate by 45 basis points to 6.05%.

For the nine months ended September 30, 2004, we contributed $4.7 million to our pension plan and $0.3 million to our other postretirement benefits plan. We expect to make our 2004 pension contribution of $6.5 million in September 2005. Additionally, we will begin making quarterly contributions in the current year for our estimated 2005 pension contribution. We expect to make $1.6 million contributions in April, July, and October of 2005 with the final contribution being made in January of 2006. Historically, we would not have made these contributions until September 2006.

Goodwill and Intangible Assets. During 2001, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, or SFAS 142, which requires that effective January 1, 2002, goodwill recorded in business combinations cease amortizing. SFAS 142 requires that goodwill be reviewed for impairment using fair value measurement techniques. Specifically, goodwill impairment is determined using a two-step process. The first step of the

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goodwill impairment test is used to identify potential impairment by comparing the fair value of the reporting unit to its carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired and the second step of the impairment test is unnecessary. If the fair value of the reporting unit is less than the carrying value, the second step of the goodwill impairment test calculation is performed to measure the amount of the impairment charge. The second step of the goodwill impairment test compares the implied fair value of the reporting unit s goodwill with its carrying value. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit. If the implied fair value of goodwill is less than its carrying value, goodwill must be written down to its implied fair value.

Determining the fair value of a reporting unit under the first step of the goodwill impairment test and determining the fair value of individual assets and liabilities of a reporting unit (including unrecognized intangible assets) under the second step of the goodwill impairment test is judgmental in nature and often involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. We perform internal valuation analyses and consider other market information that is publicly available. Estimates of fair value are primarily determined using discounted cash flows. This approach uses significant estimates and assumptions including projected future cash flows (including timing) and the selection of a discount rate that reflects the risk inherent in future cash flows.

Upon completion of our initial assessment in May 2002, and our annual assessments in the third quarters of 2002, 2003 and 2004, we determined that no write-down in the carrying value of goodwill was required.

Useful Life of Property, Plant and Equipment. We estimate the useful lives of property, plant and equipment in order to determine the amount of depreciation expense to be recorded during any reporting period. The majority of our telecommunications plant, property and equipment is depreciated using the group method, which develops a depreciation rate based on the average useful life of a specific group of assets, rather than the individual asset as would be utilized under the unit method. The estimated life of the group is based on historical experience with similar assets as well as taking into account anticipated technological or other changes. If technological changes were to occur more rapidly than anticipated or in a different form than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the recognition of increased depreciation expense in future periods. Likewise, if the anticipated technological or other changes occur more slowly than anticipated, the life of the group could be extended based on the life assigned to new assets added to the group. This could result in a reduction of depreciation expense in future periods. We review these types of assets for impairment when events or circumstances indicate that the carrying amount may not be recoverable over the remaining lives of the assets. In assessing impairment, we follow the provisions of Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, or SFAS 144, utilizing cash flows which take into account management s estimates of future operations.

Redeemable Preferred Interests. We are required to make an estimate of the fair value of our redeemable preferred interests in order to determine the carrying value of the liability at each reporting date. The redeemable preferred interests are not entitled to dividends and have no voting rights. The redeemable preferred interests do, however, include a provision that entitles the holder upon the occurrence of a liquidation event or redemption to a return equal to the sum of (i) the initial contribution per interest, or $1.00 for Class A Preferred interests and $0 for Class B Preferred interests and (ii) an appreciation amount calculated as interest on $1.00 per interest, at a rate of 20% per year, compounded quarterly. The appreciation amount defined in (ii) above is payable only after all holders of Class A common interests have received a return of their initial $1.00 capital investment. The fair value of this liability is determined based upon our enterprise value, since the return to be paid to preferred interest holders upon redemption would vary based upon the total value of the enterprise available to be distributed to holders of the redeemable preferred interests. As such, we do not record accretion on the redeemable preferred interests of Valor Telecommunications, LLC, or VTC, or on the redeemable preferred interests of our subsidiary, Valor Telecommunications Southwest, LLC, or VTS. We measure this liability at each reporting date as the amount of cash that would be paid if settlement occurred at the reporting date in accordance with paragraph 22 of SFAS 150 Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. Any change in the estimated value of preferred interest in a reporting period would be recorded as interest expense. This treatment requires us to make an estimate of our enterprise value at each reporting date to properly measure this liability. To date, we have concluded that this liability has been fairly stated at an amount equal to the initial contribution of $1.00 per interest for all of the outstanding redeemable preferred interests. We have recognized no changes in the fair value of the liability since inception.

As discussed above, we must estimate our enterprise value to determine the carrying value of this liability at each reporting date. Members of our management possessing the requisite valuation experience estimated our enterprise value for purposes of determining the carrying value of the redeemable preferred interests. Determining the fair value of our redeemable preferred interests requires us to make complex and subjective judgments. We used the income approach to estimate the value of our enterprise at each reporting date. The income approach involves applying the appropriate discount rate to estimated cash flows that are based on our forecasts of revenues, costs, and capital expenditures. Our revenue forecasts are based on expected annual overall growth rates ranging from 0% to 2%. We have assumed that we will continue to gain efficiencies in our business that will allow us to reduce our expenses in certain areas and control their increase in others. There is inherent uncertainty in these estimates. The assumptions underlying the estimates are consistent with our business plan. For this analysis, we used our weighted-average cost of capital to discount the estimated cash flows. Our weighted-average cost of capital is calculated as the weighted-average return implied in each class of debt and equity that we currently have issued and outstanding. We use an annual rate of return of 20%, compounded quarterly, for the redeemable preferred interests in our weighted average cost of capital calculation. We believe this methodology gives appropriate consideration to the inherent risks and uncertainties involved with making these estimates. If we used a different weighted average cost of capital, it could have produced a different estimate of our enterprise value and a different carrying value for this liability.

We expect that after we complete our reorganization, we will not be required to make an estimate of fair value of the redeemable preferred interests because all of the outstanding redeemable preferred interests will be exchanged for shares of our common stock. After we complete our reorganization, we expect our weighted average cost of capital to decline. As a result, the fair value of the shares granted to holders of these redeemable preferred interests is likely to exceed the carrying value of the liability we have recorded. The redeemable preferred interests are held by our equity sponsors. Our equity sponsors also control the voting rights of our existing common equity. As such, we have concluded that the difference between the carrying value of this liability and the fair value of the shares issued upon completion of the reorganization will be, in essence, a capital transaction and we intend to record this difference to accumulated deficit as provided for in footnote 1 to paragraph 20 of APB Opinion 26 Early Extinguishment of Debt .

Stock Compensation. As described in more detail in Notes 2 and 15 to our Consolidated Financial Statements, we have issued Equity Incentive Non-Qualifying Stock Options to employees to purchase Class B common interests in our subsidiary Valor Telecommunications Southwest, LLC, or VTS. We account for the Equity Incentive Non-Qualifying Stock Option Plan in accordance Accounting Principles Board, or APB, Opinion No. 25, Accounting for Stock Issued to Employees as allowed by SFAS No. 123, Accounting for Stock Based Compensation . We measure compensation expense for this option plan using the intrinsic value method as prescribed by APB Opinion No. 25. Under the intrinsic value method, compensation is measured as the amount the market value of the underlying equity instrument on the grant date exceeds the exercise price of the option. This amount, if any, is then charged to compensation expense over the vesting period. During each of the years ended December 31, 2001, 2002 and 2003 and the nine months ended September 30, 2004, we recorded no compensation expense for this plan.

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Additionally, the Valor Telecom Executive Incentive Plan was implemented on April 1, 2002 whereby certain executives were granted phantom stock units that allowed them to participate, on a pro-rata basis, in the appreciation of the Class A preferred interests and Class A common interests of Valor Telecommunications, LLC, or VTC. We account for the Valor Telecom Executive Incentive Plan in accordance with FASB Interpretation No. 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans . Under this method, the amount by which the unit market value exceeds the unit value specified under the plan when the instruments are granted is charged to compensation expense over the appropriate vesting period. During each of the years ended December 31, 2001, 2002 and 2003 and the nine months ended September 30, 2004, we recorded no compensation expense recorded for this plan.

In each of these plans, the underlying equity instruments are not equivalent in value to the common stock being sold in this offering. As a result of our reorganization, the holders of options to purchase Class B common interests in VTS will not receive the right to purchase an equal number of shares of our common stock for the $1.00 exercise price. The outstanding Class B common interests in VTS will be converted into our common shares pursuant to the terms and conditions set forth in the VTS LLC agreement. Currently, we do not expect the value of these Class B common interests to exceed the exercise price. Accordingly, holders of options under VTS Equity Incentive Non-Qualifying Stock Option Plan will receive no cash and none of our shares in exchange for the options that are vested at the date of completion of this offering. Accordingly, based on an initial public offering price of $17.00 per share, the mid-point of the range on the cover of this prospectus, the estimated intrinsic value of the options to purchase Class B interests in VTS is $0. The interests held in the Valor Telecom Executive Incentive Plan will be converted into our common shares pursuant to the terms and conditions set forth in the VTC LLC agreement. We expect, based on the mid-point of the range, that we will issue a total of $1.8 million of our common shares to participants of the Valor Telecom Executive Incentive Plan in connection with the termination of the plan, which represents the estimated intrinsic value of the units based on the mid-point of the range of this offering.

For the year ended December 31, 2003 and the nine-month period ended September 30, 2004, the following awards were granted under VTS Equity Incentive Non-Qualifying Stock Option Plan.

Grants Made During Quarter Ended	Number of Options Granted (000s)	Weighted-Average Exercise Price	Weighted Average Fair Value per Interest	Weighted-Average Intrinsic Value per Interest
March 31, 2003	455	$ 1	$ 1	$
June 30, 2003	5	$ 1	$ 1	
September 30, 2003				
December 31, 2003	5	$ 1	$ 1	
March 31, 2004				
June 30, 2004				
September 30, 2004				

At September 30, 2004 the following table sets forth the intrinsic value of vested and unvested options issued under the VTS Equity Incentive Non-Qualifying Stock Option Plan and the intrinsic value of the vested and unvested interests held by executives in the Valor Telecom Executive Incentive Plan.

	September 30, 2004	
	Intrinsic Value of Vested Interests (000s)	Intrinsic Value of Unvested Interests (000s)
Equity Incentive Non-Qualifying Options to purchase Class B common interest of VTS(1),(2)	$	$
Interests in Valor Telecom Executive Incentive Plan(3),(4)	$ 1,345	$ 467

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(1) Intrinsic value reflects amount by which the consideration exchanged for Class B common interests of VTS in our reorganization exceeds the exercise price of the options issued under the VTS Equity Incentive Non-Qualifying Option Plan and is based on the mid point of the estimated range for this offering.

(2) Outstanding vested and unvested interests at September 30, 2004 were 4.2 million and 0.9 million, respectively.

(3) Intrinsic value reflects the amount of consideration that will be granted to participants in connection with the termination of the Executive Incentive Plan and is based on the mid-point of the estimated price of this offering.

(4) Outstanding vested and unvested Class B preferred interests at September 30, 2004 were 3.5 million and 2.5 million, respectively. Outstanding vested and unvested Class B common interests at September 30, 2004 were 0.6 million and 0.4 million, respectively.

Significant Factors, Assumptions, and Methodologies Used in Determining our Fair Value. Members of our management possessing the requisite valuation experience estimated the fair value of the options granted under the VTS Equity Incentive Non-Qualifying Stock Option Plan from January 1, 2003 to September 30, 2004. Additionally, we have estimated the fair value of our redeemable preferred interests in order to determine the amount of compensation we are required to record associated with the phantom stock units issued under the Valor Telecom Executive Incentive Plan at each reporting date. We did not obtain contemporaneous valuations by an unrelated valuation specialist because, at the time of the issuances of stock options during this period, we believed that our management possessed the requisite valuation expertise to prepare a reasonable estimate of the fair value of the interests.

Determining the fair value of our common and preferred equity interests requires us to make complex and subjective judgments. We used the income approach to estimate the value of our enterprise at each date options were granted and at each reporting date for purposes of valuing the interests held in the Valor Telecom Executive Incentive Plan. The income approach involves applying the appropriate discount rate to estimated cash flows that are based on our forecasts of revenues, costs, and capital expenditures. Our revenue forecasts are based on expected annual overall growth rates ranging from 0% to 2%. We have assumed that we will continue to gain efficiencies in our business that will allow us reduce our expenses in certain areas and control the increase of our expenses in other areas. There is inherent uncertainty in these estimates. The assumptions underlying the estimates are consistent with our business plan. For this analysis, we used our weighted-average cost of capital to discount the estimated cash flows; however, if a different weighted-average cost of capital had been used, the valuation would have been different. We believe this methodology gives appropriate consideration to the inherent risks and uncertainties involved with making these estimates.

The enterprise value was then allocated to preferred and common interests pursuant to the terms and conditions set forth in the limited liability company agreement. After first allocating the value to the secured and unsecured obligations of the company, the remaining value was allocated as follows:

Class A preferred interests up to the Class A Preferred Capital Amount, defined as $1.00 per interest;

Class A common interests up to the Class A Common Capital Amount, defined as $1.00 per interest;

Ratably among Class A and Class B preferred interests up to the Preferred Appreciation Amount , defined as an appreciation amount equal to interest on the Class A Preferred Capital Amount on each interest at a rate of 20% per year, compounded quarterly; and

Ratably among the holders of the Class A common interests.

We assessed our estimates for reasonableness by comparing our estimated enterprise value to that of other publicly traded companies in our industry. This assessment confirmed to us that our estimates of our enterprise value were reasonable.

As previously discussed, we do not expect there to be a significant difference between the fair value we estimated for options issued under the VTS Equity Incentive Non-Qualifying Stock Option Plan and the value of those interests based on the mid-point of the range of our common stock to be sold in this offering. Also, we expect to issue $1.8 million of our common shares to participants of the Valor Telecom Executive Incentive Plan in connection with the termination of the plan. As disclosed more fully in

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Note 15 to our Consolidated Financial Statements, we determined that the phantom stock units issued under the Valor Telecom Executive Incentive Plan had no value for the year ended December 31, 2003 and for the nine-month period ended September 30, 2004. The reasons for the difference in our estimate of fair value of the phantom stock units held in the Valor Telecom Executive Incentive Plan on each of the previous reporting dates and the fair value based the midpoint of the range are attributed to the following events, all of which occurred subsequent to September 30, 2004.

We completed our debt recapitalization, which substantially lowered our cost of debt.

We committed to complete our reorganization that will simplify our capital structure and lower our overall cost of capital primarily due to the anticipated exchange of preferred interests for common interests.

We committed to amend our credit agreement to permit the payment of dividends.

We amended the terms of the offering covered by the registration statement currently on file with the commission to reflect a structure that will allow us to pay a $1.44 per share dividend on our common stock we expect to sell in this offering.

An increasing trend towards higher valuations for public companies that offer shareholders the opportunity to receive dividends such as we intend to pay.

Although we expected the completion of this offering would add value to the phantom stock units issued under the Valor Telecom Executive Incentive Plan because of increased liquidity and marketability with respect to our common stock, we could not measure the additional value with precision or certainty when preparing our financial statements for the nine-month period ended September 30, 2004. We do intend, however, to consider the impact of the valuation of our common shares in connection with this offering when estimating the fair value of the phantom stock units issued under the Valor Telecom Executive Incentive Plan when preparing our financial statements for the twelve-month period ended December 31, 2004. As a result, we expect to record $1.3 million of compensation expense in the twelve-months ended December 31, 2004 to reflect the impact of the initial public offering on the fair value of the phantom stock units.

Consolidated Results of Operations

Operating Revenues

The following table sets forth our total average revenue per access line and our average number of long distance subscribers:

	Year Ended December 31,			Nine Months Ended September 30,	
	2001	**2002**	**2003**	**2003**	**2004**
Total operating revenues (in thousands)	$424,916	$479,883	$497,334	$372,450	$379,279
Average access lines	552,316	574,922	564,027	565,497	552,335
Average revenue per access line per month	$ 64.11	$ 69.56	$ 73.48	$ 73.18	$ 76.30
Average long distance subscribers	31,117	96,428	159,574	158,635	201,287

Local Service We derive revenues from providing local exchange telephone services to both residential and business customers, including monthly recurring charges from basic service such as local dial-tone and enhanced services such as caller identification, voicemail and call waiting and non-recurring charges for service activation and reconnection of service.

Data Services Revenues are derived from monthly recurring charges for DSL, private lines, Internet and other data related services.

Long Distance Services Revenues are derived from usage charges assessed on long distance and local toll calls and from revenue on flat rate calling plans.

Access Services Network access revenues include switched access, special access, and end user charges. Switched access represents use sensitive charges to long distance companies for access to our network in connection with the completion of interstate and intrastate long-distance calls. Special access represents dedicated circuits, which are typically purchased by long distance companies. End user charges are monthly flat-rate charges assessed on access lines.

Universal Service Fund, or USF We receive monthly payments from state and federal government-sponsored support associated with providing basic telephone services generally in rural, high cost areas.

Other Services Other revenues primarily represent sales of customer premises equipment, or CPE, directory advertising, unbundled network elements and billing and collection fees.

The following table sets forth our revenues for the periods shown:

	Year Ended December 31,			Nine Months Ended September 30,	
	2001	**2002**	**2003**	**2003**	**2004**
			(Dollars in thousands)		
Local service	$132,514	$147,130	$156,369	$117,671	$116,305
Data services	17,927	20,741	20,990	15,427	18,592
Long distance services	14,652	22,961	30,816	22,309	28,173
Access services	119,421	133,037	132,047	99,328	96,301
Universal Service Fund	116,305	121,607	119,727	90,476	90,759
Other services	24,097	34,407	37,385	27,239	29,149
	$424,916	$479,883	$497,334	$372,450	$379,279

The following table sets forth several key metrics:

	As of December 31,			As of September 30,	
	2001	**2002**	**2003**	**2003**	**2004**
Total access lines	551,599	571,308	556,745	559,686	547,925
Long distance subscribers	62,234	130,622	188,526	186,648	214,048
Penetration rate of total access lines	11%	23%	34%	33%	39%
DSL subscribers	511	3,510	8,779	7,803	16,521
Penetration rate of total access lines	0%	1%	2%	1%	3%

Operating Revenues

Our operating revenues increased $6.8 million, or 1.8% in the first nine months of 2004, as compared to the same period in 2003. In addition, our operating revenues increased $17.5 million, or 3.6%, in 2003 and $55 million, or 12.9%, in 2002. Excluding the effect of the KCC acquisition, which occurred in January 2002, revenues increased $29.5 million, or 6.9%, in 2002. Telephone access lines are an important element of our business. The monthly recurring revenue we generate from end users, the amount of traffic that traverses our network and related access charges generated from other carriers, the amount of USF revenue received, and most other revenue streams are directly related to the number of access lines in service. Excluding the effect of the KCC acquisition, we have lost access lines in each of the last two years. We have been able to generate increases in our revenue in each of the last two years by executing a strategy of selling additional services to existing customers and increasing average revenue per line through a combination of new product offerings and bundling of various services. New product offerings include DSL, long distance and other enhanced calling features. The increases in revenue related to this strategy have more than offset the declines in revenue that we have experienced from access line losses. If we continue to lose access lines or if we are unable to continue to successfully execute our strategy, it could slow the rate of our revenue growth or cause our revenue to decline, either of which could have an adverse effect on our results of operations and financial condition.

Competition from wireless service providers is intensifying as the coverage of their networks improves and the price of their product offerings continues to become more attractive to consumers in our markets. In addition, as voice over internet protocol, or VoIP, becomes a more viable product, new competitors could enter our markets and existing competitors could become more formidable. More specifically, cable television operators in some of our markets already offer a broadband product in the form of a high-speed cable modem. VoIP could allow them to offer telephony services to our customers that would bypass our network altogether. If these cable television operators or any other competitors were to successfully offer a VoIP product in any of our markets, we could lose a significant amount of our access lines and revenues in those markets.

Reflecting a general trend in the rural local exchange carrier industry, the number of access lines that we serve as an incumbent local exchange carrier has been decreasing. Several factors contribute to our belief that we may experience continued pressure on our access line counts and that this trend will likely continue into the foreseeable future. One factor is the increasing availability of DSL service, which allows a customer to receive high-speed data and voice service on the same telephone line, and therefore eliminates the need for customers to maintain a second telephone line exclusively for dial-up Internet access. As we increase the penetration of our DSL service, this will likely impact our ability to sell new or maintain existing second lines. In addition, customers may substitute wireless phones for their additional telephone lines, and in some cases, for their main telephone lines. Finally, and as discussed above, the emerging presence of competitors offering alternatives to our telephone services that utilize technologies that do not rely on our network could cause us to experience future access lines losses.

In our largest market, in which we serve 74,000 access lines, Cox Communications, the incumbent local cable television operator, began offering an alternative local telephone service in November 2004. We will likely experience continued pressure on overall access line counts because of this activity. In particular, we have recently experienced, and expect to continue to experience, on average, a higher rate of access line loss in the first several months following the initial launch of service by this competitor than we have previously experienced.

We will attempt to continue to execute our strategy of increasing revenues per access line through the selling of bundled product offerings that include long distance and DSL. We have implemented a number of initiatives to gain new access lines, and retain existing access lines, including the offering of discounts to customers who agree to take service from us for a one-year period, the offering of a triple play bundle that includes satellite television services billed on our bill, and promotional offers, including discounted second lines. Also, and as more fully described in Business - Business Strategy, we hope to retain existing customers through the provision of compelling service offerings and high quality customer service. These efforts may act to mitigate the financial impact of any access line loss we may experience. However, if these actions fail to mitigate access line loss, or we experience a higher degree of access line loss, it could have an adverse impact on our revenues and earnings.

For a more extensive discussion of risks related to loss of access lines, see Risk Factors Risks Relating to Our Business.

Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003

Local Service Revenues. Local service revenues decreased $1.4 million to $116.3 million in the first nine months of 2004 from $117.7 million during the same period in 2003. Revenues from the provision of basic service decreased $1.3 million primarily as a result of access line loss. Revenues from extended area services decreased by $0.9 million due to the termination of an agreement we had with another carrier whereby we were compensated for terminating extended area local calls that originated on their network to our customers. The decrease is partially offset by an increase of $0.3 million in sales of enhanced services. The remaining $0.5 million change is due to various other items.

Data Services Revenues. Data services revenues increased $3.2 million, or 21%, to $18.6 million from $15.4 million in the first nine months of 2003. DSL revenues increased $2.2 million as the number of DSL subscribers grew to 16,521 at September 30, 2004. This represents a 112% increase compared to the number of DSL subscribers at September 30, 2003. Revenues for providing dial-up internet access increased $0.7 million as a result of an increase in the subscriber base.

Long Distance Services Revenues. Long distance services revenues increased $5.9 million, or 26%, to $28.2 million in the first nine months of 2004 from $22.3 million during the same period in 2003. Revenues from our flat rate plans and direct-dialed long-distance products increased $3.2 million as a result of adding an average of 43,000 subscribers and $3.4 million as a result of an increase to the monthly recurring rate. These increases were partially offset by a reduction of $0.6 million related to local toll calling customers switching to alternate lower cost service providers and lower calling card revenue.

Access Services Revenues. Access services revenues decreased $3.0 million, or 3%, to $96.3 million in the first nine months of 2004 from $99.3 million during the same period in 2003. Switched access revenues decreased $2.8 million, which was primarily attributable to lower access rates. Revenues decreased an additional $0.6 million as a result of the termination of a contract under which we provided dedicated facilities on one of our microwave towers. These two decreases were partially offset by a $0.4 million increase in end user access charges which was driven by a rate increase.

USF Revenues. USF revenues increased $0.3 million to $90.8 million in the first nine months of 2004, as a result of higher Federal USF revenues.

Other Services Revenues. Other services revenues increased $1.9 million, or 7%, to $29.1 million in the first nine months of 2004 from $27.2 million during the same period in 2003. $1.6 million of this increase stemmed from the leasing of additional facilities by competitive local telephone companies to deliver service to their customers in our markets and compensation related to cellular traffic that crosses our networks.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Local Service Revenues. Local service revenues increased $9.3 million, or 6%, to $156.4 million in 2003 from $147.1 million in 2002, despite declining access lines during the period. Revenue from the provision of basic service decreased $2.3 million primarily as a result of access line loss. This access line related loss was more than offset by an increase of $9.0 million in enhanced services, primarily resulting from our bundle strategy. The remainder of the increase was from activation and reconnection charges.

Data Services Revenues. Data services revenues improved 1% in 2003 to $21.0 million from $20.7 million in 2002. DSL revenues increased $1.8 million and other data revenue increased $1.7 million. The number of DSL subscribers grew by 5,269 during the year. The increase in the number of DSL subscribers represents a 150% increase from 2002. We have been able to grow our data services revenues despite the loss of substantially all the revenue from one of our large Internet service provider customers. The loss of this customer represented a $3.2 million decrease in revenues during 2003.

Long Distance Services Revenues. Long distance services revenues increased $7.8 million, or 34%, to $30.8 million in 2003 from $23.0 million in 2002. Our flat rate plans and direct-dialed long-distance products increased $10.1 million. This increase was partially offset by a reduction in local toll revenue of $2.3 million, or 37%, compared to the previous year. This results primarily from customers switching to one of our new plans offering toll-free local calling or switching to alternate lower cost service providers.

Access Services Revenues. Access services revenues declined $1.0 million to $132.0 million in 2003 from $133.0 million in 2002. Switched access revenues decreased approximately $4.8 million, which was primarily attributable to lower access rates. Lower switched access revenue was partially offset by higher special access and end user revenues. Special access revenues increased by $1.6 million as the demand for special circuits ordered by interexchange carriers to transport their customers voice and data traffic continued to improve. End user revenues increased by $2.2 million, of which $3.8 million was due to an increase in rates, offset by a $1.6 million reduction resulting from a loss in access lines.

USF Revenues. USF revenues declined $1.9 million, or 2%, to $119.7 million in 2003 from $121.6 million in 2002. Texas State USF revenues declined $1.1 million in 2003 compared to 2002 as a result of a loss in access lines.

Other Services Revenues. Other services revenues increased $3.0 million, or 9%, to $37.4 million. $2.4 million of this increase was related to competitive local telephone companies leasing additional facilities to service their customers in our markets. The remaining $0.6 million increase was due primarily to higher directory advertising and other miscellaneous items.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Local Service Revenues. Local service revenues increased $14.6 million, or 11%, to $147.1 million in 2002 from $132.5 million in 2001. Comparing access lines at December 31, 2002 to December 31, 2001, access lines increased 19,709. $4.9 million of the revenue increase and 27,537 of the access line increase was related to our acquisition of Kerrville Communications Corporation, or KCC, in 2002.

Excluding the effects of the KCC acquisition, access lines declined 7,828, or 1.4%, most of which occurred near the end of the year. As a result, this decline had a minimal effect on our 2002 revenues. Revenues excluding the acquisition of KCC increased $9.7 million, or 7.3%. $4.2 million of this increase was related to sales of enhanced services, primarily as a result of our bundled products which we began marketing during 2002. Other increases to local service revenues include $3.4 million in activation and reconnection charges and $2.1 million of other miscellaneous increases.

Data Services Revenues. Data services revenues increased $2.8 million, or 16%, to $20.7 million in 2002 from $17.9 million in 2001. $2.5 million of the increase was related to our acquisition of KCC in 2002. The remaining increase was due substantially to our efforts to increase the number of DSL subscribers in our markets and sales of other data products.

Long Distance Services Revenues. Long distance services revenues increased $8.3 million, or 57%, to $23.0 million in 2002 from $14.7 million in 2001. $1.7 million of the revenue increase and approximately 8,400 of the long distance subscriber increase for the period was related to our acquisition of KCC in 2002.

Excluding the effects of the KCC acquisition, revenues from our flat rate plans and direct-dialed long-distance products increased $8.7 million as a result of the number of long distance subscribers increasing by 96% to 122,257 from 62,234 at the end of 2001. This increase was partially offset by a reduction in local toll revenues of $2.1 million. This reduction in local toll revenues results primarily from customers switching to one of our new plans offering toll-free local calling or switching to alternate lower cost service providers.

Access Services Revenues. Access services revenues increased $13.6 million, or 11%, to $133.0 million from $119.4 million for 2002 and 2001, respectively. $8.3 million of the increase was attributable to the acquisition of KCC.

Excluding the effects of the KCC acquisition, access services revenues increased $5.3 million in 2002 as compared to 2001. Higher special access revenues contributed $7.9 million of the increase resulting from inter-exchange carriers purchasing special circuits to transport their customers voice and data traffic and from fulfilling pent-up demand for circuits in our exchanges. Adding to the increases in access services revenue in 2002 were higher subscriber line charges of $3.6 million. These increases were partially offset by lower switched access revenues. Switched access revenue declined by $6.2 million, or 10%, compared to the previous year.

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USF Revenues. USF revenues increased $5.3 million, or 5%, to $121.6 million in 2002 from $116.3 million in 2001. $4.1 million of the increase was related to our acquisition of KCC in 2002. The remaining $1.2 million increase was due primarily to higher net federal USF support, partially offset by lower Texas state USF revenues as a result of our access line loss in Texas.

Other Services Revenues. Other services revenues increased $10.3 million, or 43%, to $34.4 million in 2002 from $24.1 million in 2001. $4.0 million of the increase was related to our acquisition of KCC in 2002. Equipment sales increased $4.0 million from a mix of sales of large systems to business customers, sales of individual phone sets, and other small items. Other miscellaneous items contributed the remaining increase of $2.3 million.

Operating Expenses

Cost of Service. Cost of service includes operational costs of owning and operating our facilities, cost of leasing other facilities to interconnect our network, access charges paid to third parties to transport and terminate toll calls, and the cost of sales of customer premises equipment.

Selling, General and Administrative. Selling, general and administrative expenses represent the cost of billing our customers, operating our call centers, performing sales and marketing activities in support of our efforts to grow revenues, and other general corporate support activities.

Depreciation and Amortization. Depreciation and amortization includes depreciation of our communications network and equipment and amortization of goodwill through December 31, 2001. The following table sets forth operating expenses for the periods shown:

	Year Ended December 31,			Nine Months Ended September 30,	
	2001	**2002**	**2003**	**2003**	**2004**
			(Dollars in thousands)		
Cost of service	$105,357	$113,891	$106,527	$ 80,698	$ 78,704
Selling, general and administrative	105,418	133,468	126,896	94,428	100,098
Depreciation and amortization	110,843	73,273	81,638	61,039	63,993
	$321,618	$320,632	$315,061	$236,165	$242,795

Consolidated Operating Expenses

Our consolidated operating expenses increased by $6.6 million, or 3%, in the first nine months of 2004 as compared to the same period in 2003. This increase was primarily attributable to a $5.7 million increase in our selling, general and administrative expenses and $3.0 million increase in depreciation and amortization expense, which was partially offset by $2.0 million decrease in cost of service.

Our consolidated operating expenses decreased $5.6 million, or 2%, in 2003 primarily due to our recovery of previously written off receivables associated with MCI WorldCom s bankruptcy and improvements in maintenance and operating costs resulting from improvements we have made to our network infrastructure. Our consolidated operating expenses were essentially flat in 2002 compared to 2001. There were substantial increases in some categories of operating expenses in 2002 primarily caused by our January 2002 acquisition of KCC, increased bad debt expense we incurred on receivables we wrote off resulting from MCI WorldCom s 2002 bankruptcy filing, the staffing of personnel in our call centers, and access charges paid to third parties to transport and terminate long distance calls. These expense increases were offset by a reduction of $53.9 million in amortization expense due to the adoption of FASB 142 in 2002. FASB 142 directed companies to test goodwill for impairment annually rather than amortize goodwill systematically to earnings.

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There are a number of factors that could cause our expenses to increase in the future, including but not limited to:

If we were to determine that our goodwill were to become impaired we would be required to write off the impaired amount under the provisions of FASB 142;

Our ability to successfully negotiate a new collective bargaining agreement with the Local 6171 and Local 7019 of the Communications Workers of America. The current contracts expire on February 28, 2005 and February 14, 2006;

Increasing costs of providing healthcare and postretirement benefits to our existing and former employees;

On October 29, 2004, we announced a workforce reduction of 72 employees. The reduction is a result of new operating efficiencies due to our investments in new customer service technologies and plant improvements, and competitive challenges in our industry. As a result of the reduction, we will record a restructuring charge in the fourth quarter of 2004 of $0.3 million representing termination benefits paid to the terminated employees. The termination benefits have been substantially paid in full;

In connection with our proposed offering, we will assess our current management compensation plans to coincide with that of a public company. Implementing these plans could result in additional costs;

Increased costs associated with our responsibilities as a public company; and

The increased presence of competitors in our markets and incremental costs we might incur to retain our existing customers or implement new product offerings.

Our inability to effectively manage any or all of these items could cause our operating expenses to increase in the future and have an adverse effect on our results of operations and financial condition.

Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003

Cost of Service. Cost of service decreased $2.0 million, or 2%, to $78.7 million in the first nine months of 2004 from $80.7 million during the same period in 2003. This decrease was attributable to, among other factors, costs for external circuits and network capacity, which declined $1.9 million as a result of efficiencies gained from upgrades we made to our network. In addition, costs to maintain and operate our network declined $0.9 million as a result of the investment we made in our telecommunications infrastructure. Furthermore, a favorable change in estimate from a previously recorded loss contingency caused a reduction of $0.9 million, and variable costs associated with equipment sales declined $0.6 million. Finally, there was a $0.7 million decrease in the amounts that we pay to cellular carriers for traffic settlements.

Offsetting the above noted decreases was a $2.8 million increase in access charges paid to third parties related to the increase in usage from our increasing long distance subscriber base and a $0.6 million increase in employee related benefit costs.

Selling, General and Administrative. Selling, general and administrative expense increased $5.7 million, or 6%, to $100.1 million in first nine months of 2004 from $94.4 million during the same period in 2003. The increase was primarily attributable to a $5.0 million one-time transition payment made to our former CEO (see Note 10 to our financial statements for the nine months ended September 30, 2004, included herein) and a $1.5 million charge for probable losses associated with certain legal and tax contingencies. Additionally, we recorded a $3.4 million one-time benefit in first nine months of 2003 upon recovering amounts that we had previously written off as a result of MCI WorldCom s 2002 bankruptcy. Finally, there was a $0.4 million increase in employee related benefit costs.

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Offsetting the above noted increases were decreases of $2.4 million due to vendor price reductions associated with certain back-office functions we have outsourced to a third party service provider and $2.0 million in bad debt expense as a result of improvements we have made to our collections processes.

Depreciation and Amortization. Depreciation and amortization expense increased by $3.0 million, or 5%, to $64.0 million during the first nine months of 2004 as compared to the same period in 2003. Higher depreciation expense resulted from the increased investment in property, plant, and equipment as a result of our spending on capital projects to improve our network infrastructure.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Cost of Service. Cost of service decreased $7.4 million, or 6%, to $106.5 million in 2003 from $113.9 million in 2002. Costs for external circuits and network capacity declined $5.4 million as a result of efficiencies gained from upgrades we made to our network. Costs to maintain and operate our network declined $6.6 million as a result of the investment we made in our telecommunications infrastructure. Additionally, cost of goods sold for customer premises equipment decreased $2.1 million as sales for this equipment slowed during 2003. These decreases were partially offset by higher access charges of $7.4 million paid to third parties related to the increase in usage from our increasing long distance subscriber base. Other miscellaneous items contributed the remaining decrease of $0.7 million.

Selling, General and Administrative. Selling, general and administrative expenses decreased $6.6 million, or 5%, to $126.9 million in 2003 from $133.5 million in 2002. We recorded a $5.0 million charge during 2002 as a result of one of our largest customers, MCI WorldCom, declaring bankruptcy. In 2003, we sold the receivables related to the charge and negotiated setoff of amounts owed by us to MCI WorldCom against amounts owed by MCI WorldCom to us, recovering approximately $3.4 million. The effect of these transactions decreased our expense in 2003 as compared to 2002 by $8.4 million. Offsetting this reduction in expense was an increase of $1.8 million of various other miscellaneous expenses.

Depreciation and Amortization. Depreciation and amortization expense increased by $8.4 million, or 11%, to $81.6 million during 2003 as compared to 2002. Higher depreciation expense resulted from our spending on capital projects to improve our network infrastructure.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Cost of Service. Cost of service increased $8.5 million, or 8%, to $113.9 million in 2002 from $105.4 million in 2001. $5.8 million of the increase was related to our acquisition of KCC in 2002. Of the remaining $2.7 million increase, higher access charges of $4.3 million were paid to third parties related to the increased usage from our increasing long distance subscriber base, and higher cost of goods sold for $2.0 million primarily resulted from large equipment system sales in late 2002. These increases were partially offset by a reduction of $3.6 million, primarily from lower costs for external circuits and network capacity as a result of efficiencies gained from upgrades we made to our network.

Selling, General and Administrative. Selling, general and administrative expenses increased $28.1 million, or 27%, to $133.5 million in 2002 from $105.4 million in 2001. $7.1 million of the increase was from our 2002 acquisition of KCC. Of the remaining $21.0 million, $5.3 million was due principally to headcount increases in our call centers. This was done to reduce reliance on third parties to generate sales and to increase the overall effectiveness of our customer service function. Sales and marketing expense increased $6.4 million as a result of efforts to generate sales of bundle products and long distance. We wrote off approximately $5.0 million of receivables when one of our largest customers, MCI WorldCom, declared bankruptcy in 2002. Of the remaining $4.3 million increase, $1.8 million was due to a restructuring charge taken in the fourth quarter of 2002 for the elimination of 81 positions and $2.5 million was from various other miscellaneous increases.

Depreciation and Amortization. Depreciation and amortization expense decreased $37.5 million to $73.3 million in 2002 from $110.8 million in 2001. $53.9 million of this decrease resulted from our

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adoption of SFAS 142, which required that goodwill no longer be amortized. Excluding the effects of SFAS 142, depreciation and amortization expense increased $16.4 million. $4.1 million of the increase was related to our acquisition of KCC in 2002. The remaining $12.3 million increase in depreciation expense results from our spending on capital projects to improve our network infrastructure.

Interest Expense

The following table sets forth interest expense:

	Year Ended December 31,			Nine Months Ended September 30,	
	2001	2002	2003	2003	2004
	(Dollars in thousands)				
Interest expense	$133,156	$127,365	$119,185	$95,300	$83,384

Interest expense decreased $11.9 million to $83.4 million in the nine months ended September 30, 2004 from $95.3 in the nine months ended September 30, 2003. Interest expense also decreased $8.2 million to $119.2 million in 2003 from $127.4 million in 2002. In each case, our decrease in interest expense was due to lower average principal outstanding on our senior debt.

Excluding the effects of the borrowings for the KCC acquisition, our interest expense decreased $10.9 million to $122.3 million in 2002 from $133.2 million in 2001, as a result of our paying down debt. This decrease was partially offset by an increase of deferred interest on our subordinated notes and lower capitalized interest as spending for projects declined in 2002 compared to 2001.

Loss on Interest Rate Hedging Arrangements

The following table sets forth our loss on interest rate hedging arrangements:

	Year Ended December 31,			Nine Months Ended September 30,	
	2001	2002	2003	2003	2004
	(Dollars in thousands)				
Loss on interest rate hedging arrangements	$(14,292)	$(12,348)	$(2,113)	$(2,199)	$(122)

The adjustment to mark our hedging arrangements to market value resulted in non-cash income of $7.8 million, $5.6 million and $8.5 million for the nine months ended September 30, 2004 and 2003, and for the year ended December 31, 2003, respectively. For the years ended December 31, 2002 and 2001, our adjustment to mark our hedging arrangements to market value resulted in non-cash expense of $2.7 million and $9.9 million, respectively. The remaining losses relate to cash settlements during the periods. These hedging arrangements expired in November 2004. We are required to enter into new arrangements to hedge our interest rate risk under the terms of our existing credit facility by February 10, 2005.

Earnings from Unconsolidated Cellular Partnerships and Other Income and Expense

The following table sets forth other income and expense for the periods shown:

Year Ended December 31,			Nine Months Ended September 30,	
2001	2002	2003	2003	2004

	(Dollars in thousands)				
Earnings from unconsolidated cellular partnerships	$	$2,757	$ 3,258	$ 2,687	$ 1,007
Impairment on investments in cellular partnerships					(6,678)
Other income and expense, net	$3,928	$ (870)	$(3,376)	$(2,284)	$(25,060)

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Earnings from unconsolidated cellular partnerships represent our share of the earnings in the equity interest of the two cellular partnerships acquired in 2002 as part of the KCC acquisition. In 2002, 2003 and the nine months ended September 30, 2004, we recorded $2.8 million, $3.3 million and $1.0 million, respectively, for these equity earnings.

In 2004, a wireless competitor began constructing facilities in areas serviced by our unconsolidated cellular partnerships. This has resulted in a significant decrease in roaming revenue further decreasing our earnings from the unconsolidated cellular partnerships. In light of the financial results of the cellular partnership through September 30, 2004, we assessed the recoverability of the investments in the unconsolidated cellular partnerships, which resulted in an impairment charge of $6.7 million to the statement of operations.

Other income and expense, net includes the portion of income and loss allocated to shareholders who hold redeemable preferred interests in Valor Telecommunications Southwest, LLC and various other miscellaneous income and expense items, including interest income on our cash balances held at financial institutions. The decrease of $22.8 million in the nine months ended September 30, 2004 is primarily attributable to the purchase of substantially all outstanding equity interests from a group of individual investors associated with our recapitalization, which resulted in $18.0 million of expense, and offering costs of $6.8 million that were expensed as a result of our decision to not pursue the previously planned public offering of income deposit securities.

Income Taxes

The following table sets forth income taxes for the periods shown:

	Year Ended December 31,			Nine Months Ended September 30,	
	2001	2002	2003	2003	2004
	(Dollars in thousands)				
Income tax expense (benefit)	$0	$1,649	$2,478	$2,193	$(6,095)

The income taxes represent those of Valor Telecommunications Southwest II, LLC, which has elected to be taxed as a corporation for federal income tax purposes. (See Note 2, Summary of Significant Accounting Policies and Note 10, Income Taxes of our consolidated financial statements for an expanded discussion of income taxes.) Income tax benefit for the nine months ended September 30, 2004 is primarily attributable to the loss generated at Valor Telecommunications Southwest II, LLC, as a result of expense recognized in connection with the purchase of ownership interests from certain individual investors and the impairment on investment in cellular partnerships.

Following the completion of this offering, we will pay taxes as a corporation for federal income tax purposes.

Minority Interest

The following table sets forth the minority interest for the periods shown:

	Year Ended December 31,			Nine Months Ended September 30,	
	2001	2002	2003	2003	2004
	(Dollars in thousands)				
Minority interest	$25	$(13)	$(254)	$(21)	$(3,171)

Minority interest reflects the share of income and loss of minority shareholders who hold common interests in Valor Telecommunications Southwest, LLC and Valor Telecommunications Southwest II, LLC.

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Discontinued Operations

The following table sets forth discontinued operations for the periods shown:

	Year Ended December 31,		
	2001	2002	2003
	(Dollars in thousands)		
Discontinued operations	$(8,443)	$(3,461)	$108

We sold our competitive local exchange carrier in Texas during April 2002 to NTS Communications for $0.2 million. In accordance with the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which was effective for us on January 1, 2002, the revenue, costs and expenses and cash flows of our competitive local exchange business have been excluded from the respective captions in our consolidated statements of operations and consolidated statements of cash flows, and have been reported through their respective dates of separation as Net income (loss) from discontinued operations and as Net cash used in discontinued operations.

In connection with the sale, we recorded a liability of approximately $2.0 million related to certain employee termination benefits and other exit costs such as non-cancelable leases. As of December 31, 2003 and 2002, approximately $0.1 million and $0.4 million, respectively, of the $2.0 million had not been paid. As of September 30, 2004, a minimal amount remained unpaid. These amounts have been classified as current liabilities in the consolidated balance sheets. Income from discontinued operations of $0.1 million in 2003 represents a revision to the estimates we made in 2002 for recording certain employee termination benefits and other exit costs.

Cumulative Effect of Change in Accounting Principle

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, or SFAS 133, as amended by SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133, and by SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, which became effective for our company on January 1, 2001, established accounting and reporting standards that required every derivative instrument be recorded in the balance sheet as either an asset or liability measured at fair value, with changes in fair value reflected in the statement of operations.

We entered into interest rate hedge contracts to adjust the interest rate profile of our debt obligations (see Risk Management Interest Rate Risk below). In addition, our credit arrangements include provisions that require interest rate protection (hedge agreements) for a portion of our variable debt. We entered into interest rate hedging agreements with certain financial institutions to reduce the financial impact of changes in interest rates on our debt. Our interest rate swap and collar agreements did not qualify for hedge accounting under SFAS 133 and therefore are carried at fair market value and included in Deferred credits and other liabilities in the consolidated balance sheets. The transitional unrealized loss on the interest rate hedging arrangements at January 1, 2001 is reflected as the Cumulative effect of change in accounting principle on the consolidated statements of operations. Changes in the fair market value and settlements are recorded as Loss on hedging arrangements each quarter.

Financial Condition and Liquidity

Current Financial Condition. As of September 30, 2004, we had net debt of $1,418.6 million and $75.0 million of common owners equity, compared to net debt of $1,469.2 million and $49.9 million of common owners equity at December 31, 2003, and net debt of $1,544.2 million and $5.6 million of common owners deficit at December 31, 2002. Historically, we have used excess cash generated through operations to pay down long-term debt. As a result, we generally maintain a negative working capital balance. We had a negative working capital balance of $50.4 million and $71.0 million at September 30, 2003 and 2004, respectively, and $29.3 million and $46.2 million at December 31, 2002 and 2003, respectively.

As discussed in more detail below, our management believes that our operating cash flows, cash and cash equivalents, and borrowing capacity under our new credit facility will be sufficient to fund our capital and liquidity needs for the foreseeable future.

Cash Flows

	Years Ended December 31,			Nine Months Ended September 30,	
	2001	2002	2003	2003	2004
	(Dollars in thousands)				
Net cash provided by operating activities	$ 100,301	$ 150,383	$ 166,065	$ 132,461	$ 124,660
Net cash used in investing activities	(106,614)	(216,773)	(66,299)	(50,551)	(51,362)
Net cash provided by (used in) financing activities	8,117	71,015	(99,465)	(81,971)	(74,054)
Net cash used in discontinued operations	(8,373)	(3,662)	(176)	(166)	(17)
Net (decrease) increase in cash and cash equivalents	$ (6,569)	$ 963	$ 125	$ (227)	$ (773)

We began making semi-annual cash payments related to our 10% senior subordinated notes in 2003.

Net cash provided by continuing operations of $124.7 million in the first nine months of 2004, was generated primarily by $25.2 million of income from continuing operations, adjusted to exclude non-cash and reorganization items of $85.6 million. The most significant non-cash item in 2004 was depreciation and amortization expense of $64.0 million. We also recognized $18.0 million as a reconciling item to cash provided by continuing operations related to expense incurred in connection with our cash payment to minority shareholders in connection with our reorganization. Net cash provided by continuing operations of $166.1 million in 2003 was generated primarily by $58.1 million of income from continuing operations, adjusted to exclude non-cash items of $103.1 million. The most significant non-cash items in 2003 were depreciation and amortization expense of $81.6 million and non-cash interest expense related items of $17.4 million, which includes amortization of debt issuance costs, unrealized gain on hedging arrangements, and non-cash interest expense on our senior subordinated debt.

Net cash provided by continuing operations of $150.4 million in 2002, was generated primarily by $19.8 million of income from continuing operations, adjusted to exclude non-cash items of $124.8 million. The most significant non-cash items were depreciation and amortization expense of $73.3 million, non-cash interest expense related items of $42.2 million, and $11.4 million of bad debt expense. Cash flows from continuing operations were also favorably impacted by working capital improvements of $3.3 million. The growth in cash flows from continuing operations from 2001 to 2002 relates primarily to the acquisition of KCC in 2002, as well as the unfavorable working capital requirements in 2001.

Net cash provided by continuing operations of $100.3 million in 2001 resulted from $44.9 million of net loss from continuing operations, adjusted to exclude non-cash items of $168.0 million and working capital requirements of $29.9 million. The most significant non-cash items were depreciation and amortization expense of $110.8 million, non-cash interest expense related items of $49.4 million, and $11.4 million of bad debt expense.

Cash used in investing activities was $51.4 million for the first nine months of 2004, compared to $50.6 million for the nine months of 2003, $66.3 million in 2003, $216.8 million in 2002, and $106.6 million in 2001. The investing activities during 2002 include the cash paid of $128.1 million to acquire all the outstanding common stock, preferred stock and common stock equivalents of KCC. Our investing activities consist primarily of capital expenditures for property, plant and equipment. We fund

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capital expenditures to deploy new network services, modernize our property, plant and equipment, position our network infrastructure for future growth, and to meet regulatory obligations.

Capital expenditures for the years ended 2001, 2002, 2003 and the first nine months of 2004 were $107.9 million, $89.5 million, $69.9 million and $51.5 million, respectively. Since the beginning of 2001, we have invested approximately $318.8 million to replace and upgrade many facets of our infrastructure, including:

- modernizing our networks with the latest technology to allow us to offer new and innovative products;
- replacing outside plant in areas that generated abnormally high routine maintenance costs;
- implementing operational support systems to enhance our productivity in the areas of customer service and network monitoring;
- upgrading our fleet with newer and more reliable vehicles; and
- implementing financial systems.

The initiatives outlined above have been completed, and we believe they have provided us with an infrastructure that can support growth and be maintained with less capital spending than in the past. Therefore, we anticipate that capital spending for 2005 will decline to approximately $58.8 million. Cash used for capital expenditures was partially offset by distributions of $0.6 million for the nine months ended September 30, 2004, $3.5 million in 2003, and $1.9 million in 2002, received from our equity investment in two wireless partnerships. Future cash distributions from these equity investments are uncertain.

Cash used by financing activities was $74.1 million in the first nine months of 2004 and $99.5 million in 2003, compared to cash provided by financing activities of $71.0 million in 2002, and $8.1 million in 2001. These changes are principally due to the net incremental repayments of long-term debt of $59.3 million in the nine months ended September 30, 2004 and $100.0 million in 2003, and net incremental borrowings of $39.2 million in 2002, and net incremental repayments of $2.2 million in 2001, respectively. Cash used by financing activities for the nine months ended September 30, 2004 also includes our $18.6 million purchase of ownership interests from certain individual investors. Cash provided by financing activities in 2002 includes the proceeds from partner capital contribution of $46.1 million, which together with the additional borrowings of $82.0 million, was used primarily to acquire all the outstanding common stock, preferred stock and common stock equivalents of KCC.

Historically, we have managed our cash on hand through the use of revolving credit facilities to maximize the amount of debt repayment. Of the total net debt repayments of $100.0 million in 2003, $53.9 million were required principal payments and $46.1 million were optional principal payments.

Outstanding Debt and Existing Financing Arrangements

As of September 30, 2004 we had various financing arrangements outstanding with a total borrowing capacity of $1,572.7 million. Of this total borrowing capacity, $153.5 million was available under a revolving credit facility and $1,419.2 million was outstanding as debt (refer to Note 8 to the consolidated financial statements for more details on outstanding debt):

	Total Borrowing Capacity	Unused Capacity	Outstanding Debt
		(Dollars in thousands)	
Senior credit facilities			
Revolver	$ 265,000	$153,500	$ 111,500
Bank term loans	412,415		412,415
Rural Telephone Finance Cooperative, or RTFC, term loans	574,850		574,850
10% Senior Subordinated Notes due 2010	314,257		314,257
Capitalized leases and other	6,215		6,215
	$1,572,737	$153,500	$1,419,237

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Outstanding Senior Subordinated Notes

As of September 30, 2004, Valor Telecommunications Southwest, LLC had $314.3 million aggregate principal amount of 10% Senior Subordinated Notes due 2010 outstanding. Until our pro forma fixed charge coverage equaled or exceeded one to one, our 10% Senior Subordinated Notes did not pay cash interest, but accrued interest at 12.0% per annum that was converted into additional note principal. During the years ended December 31, 2002 and 2003, we converted $32.6 million and $17.8 million, respectively, of interest into additional note principal. During 2003, we reached the pro forma fixed charged coverage ratio of 1.00 to 1.00 and began making cash interest payments on our 10% Senior Subordinated Notes in December 2003.

All amounts outstanding under these notes were paid in full in connection with our entering into our existing credit facility.

New Credit Facility

On November 10, 2004, we entered into a new $1.3 billion senior secured credit facility, which we refer to as our existing credit facility, consisting of a $100.0 million senior secured revolving facility and a $1.2 billion senior secured term loan. At the same time, we entered into a $265.0 million senior secured second lien loan and a $135.0 million senior subordinated loan. We used the proceeds of the existing credit facility, the second lien loan and the subordinated loan to (i) repay all amounts owed under our previous senior credit facilities; (ii) redeem $325.5 million of 10% senior subordinated notes due 2010 held primarily by our equity sponsors, including interest accrued thereon; (iii) redeem $134.1 million of preferred interests and $16.5 million of Class C common interests held by our existing equity investors, including our equity sponsors, in our subsidiary Valor Telecommunications, LLC, or VTC, (iv) redeem $8.8 million of preferred minority interests our equity investors held in Valor Telecommunications Southwest, LLC, or VTS, a subsidiary of VTC, and (v) pay $30.7 million in associated transaction costs.

The agreements for the existing credit facility, second lien loan and senior subordinated loan, limit among other things, additional borrowings, transactions with affiliates, capital expenditures and the payment of dividends and the existing credit facility requires us to maintain certain financial ratios including total leverage and interest coverage ratios. Concurrently with the closing of this offering, we will amend our existing credit facility to, among other modifications, (i) delete restrictions on capital expenditures, (ii) permit us to pay dividends to holders of our common stock and use the proceeds from this offering in the manner set forth in Use of Proceeds and (iii) permit us to issue the senior notes and pay interest thereon and to use the proceeds of such offering to repay a portion of our term loans. Throughout this prospectus, we refer to the existing credit facility as so amended, as our new credit facility. We intend to use the proceeds of this offering to repay the second lien loan and senior subordinated loan in full and to repay a portion of the indebtedness outstanding under our existing credit facility, including any related prepayment premiums. As of September 30, 2004, on a pro forma basis after giving effect to this offering, our debt recapitalization and such repayment, we would have had $1.2 billion outstanding under our term loans (or $868.5 million if we issue the senior notes and use the proceeds thereof to repay a portion of the term loans).

Contractual and Other Obligations

In addition to the above financing arrangements, we have commitments under certain contractual arrangements to make future payments for goods and services. These commitments secure the future rights to various assets and services to be used in the normal course of operations. For example, we are contractually committed to make certain minimum lease payments for the use of property under operating lease agreements. In accordance with current accounting rules, the future rights and obligations pertaining to such firm commitments are not reflected as assets or liabilities on the consolidated balance sheet. The

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following table summarizes our contractual and other obligations at December 31, 2003, and the effect such obligations are expected to have on liquidity and cash flow in future periods:

Payments Due by Period(1)

	2004	2005-2006	2007-2008	Thereafter	Total
			(Dollars in thousands)		
Contractual obligations(2)	$ 50,786	$ 72,204	$ 713	$	$ 123,703
Long-term debt obligations(3)	$154,074	$306,511	$686,909	$867,307	$2,014,801
Capital lease obligations(4)	$ 1,777	$ 2,551	$ 397	$	$ 4,725
Operating lease obligations(5)	$ 2,257	$ 4,400	$ 3,644	$ 2,873	$ 13,174
Total contractual cash obligations	$208,894	$385,666	$691,663	$870,180	$2,156,403

(1) The table above does not include an estimate for income taxes, obligations to preferred equity holders, cash contributions to our pension plan and cash contributions to our post-retirement medical plan which we are required to make but not required to include above.

(2) Our contractual obligations represent our required capital investment in New Mexico, officers salaries under employment agreements, capital expenditure commitments and payments to third party service providers. Effective July 1, 2004, we amended an outsourcing agreement with a third party providing certain back office functions. As a result of the amendment, the contractual obligations noted above are expected to increase (decrease) by approximately the following amounts for the following years:

2004	$ (3,138)
2005-2006	$ (8,592)
2007-2008	$31,070

(3) The long-term debt obligations represent our cash debt service obligations, including both principal and interest. Effective November 10, 2004, we refinanced our existing long-term obligations. As a result of the refinancing, the long-term debt obligations noted above are expected to increase (decrease) by approximately the following amounts for the following years:

2005-2006	$ (48,705)
2007-2008	$ (433,534)
Thereafter	$1,010,881

In determining our long-term debt obligations on our variable interest rate debt, we used the weighted average interest rate as of the end of the applicable period.

(4) The capital lease obligations represent our future rental payments for vehicles leased under five year terms.

(5) Operating lease obligations represent the future minimum rental payments required under the operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2003.

On April 9, 2004, we entered into an agreement with our former Chief Executive Officer, or CEO. In conjunction with his retirement and the restructuring of his prior employment agreement, we paid our former CEO a transition bonus of $5.0 million on April 15, 2004 and further agreed to pay him a $0.8 million cash payment if this offering is consummated on or before April 9, 2005, in addition to the $0.8 million we paid to him in November 2004 in connection with the refinancing of our indebtedness. (See Note 10 Significant Events to our condensed consolidated financial statements for more information.)

On April 20, 2004, we entered into an agreement with a group of the individual investors who owned direct equity interests in the company s majority owned subsidiaries. This agreement provided for us to repurchase all of outstanding equity interests of this group of individual investors for $18.6 million in cash. We made this cash payment to the group of individual investors on April 20, 2004. (See Note 10 Significant Events to our condensed consolidated financial statements for more information.)

We paid cash transaction bonuses of $4.8 million in the aggregate to members of our management team in December 2004 in consideration of their efforts in connection with our debt recapitalization. In addition, we expect to pay our executive officers an initial public offering cash bonus of up to $3.5 million in the aggregate in consideration of their efforts in connection with this offering.

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Other than the transactions described above, there have been no material changes outside of the ordinary course of business to our contractual and other obligations since December 31, 2003.

Off-Balance Sheet Arrangements

Except as noted in the table above under Contractual and Other Obligations , we have no material off-balance sheet obligations.

Risk Management

Interest Rate Risk. We are exposed to market risk from changes in interest rates on our long-term debt obligations. To manage our interest rate risk exposure and fulfill a requirement of our previous credit facility, we entered into two agreements with investment grade financial institutions in 2000, an interest rate swap and an interest rate collar. Each of these agreements covered a notional amount of $100 million. As a further hedge against interest rate exposure, we elected a fixed rate option for some of our senior debt during the year ended December 31, 2003. In November, 2004, these agreements expired. The terms of our existing credit facility also require us to manage interest rate risk exposure. We expect to complete agreements to manage our interest rate risk associated with our existing credit facility in the first quarter of 2005.

The fair value of our fixed-rate long-term debt is sensitive to changes in interest rates. Interest rate changes would result in gains or losses in the market value of the debt due to differences between the market interest rates and rates at the incurrence of the obligation.

Inflation. Historically, we have mitigated the effects of increased costs by recovering certain costs applicable to our regulated telephone operations through the ratemaking process over time. Possible future regulatory changes may alter our ability to recover increased costs in our regulated operations. As inflation raises the operating expenses in our non-regulated lines of business, we will attempt to recover rising costs by raising prices for our services.

Derivatives. Except for the interest rate swap and interest rate collar agreements described above, we generally do not use derivative financial instruments.

Following our reorganization and the consummation of this offering, we anticipate that we will employ similar methods to reduce our exposure to interest rate fluctuations and inflation.

Recent Accounting Pronouncements

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities . This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002. We adopted this statement on January 1, 2003. The adoption of this standard did not have a material impact on our financial position or the results of operations.

Financial Accounting Standards Board Interpretation (FIN) No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others an Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FIN No. 34 was issued in November 2002 and became effective for disclosures made in December 31, 2002 financial statements. The interpretation requires expanded disclosures of guarantees. In addition, the interpretation requires recording the fair value of guarantees upon issuance or modification after January 1, 2003. While we have various guarantees included in contracts in the normal course of business, these guarantees do not represent significant commitments or contingent liabilities related to the indebtedness of others.

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51 (ARB 51) , which clarifies the consolidation accounting guidance in ARB 51, Consolidated Financial Statements, as it applies to certain entities in

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which equity investors who do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entities to finance their activities without additional subordinated financial support from other parties. Such entities are known as variable interest entities (VIEs). FIN No. 46 requires that the primary beneficiary of a VIE consolidates the VIE. FIN No. 46 also requires new disclosures for significant relationships with VIEs, whether or not consolidation accounting is used or anticipated. In December 2003, the FASB revised and re-released FIN No. 46 as FIN No. 46(R). The provisions of FIN No. 46(R) are effective for periods ending after March 15, 2004. However, we have elected to adopt FIN No. 46(R) as of December 31, 2003. The adoption of FIN No. 46(R) did not have a material impact on our financial position or the results of operations.

In May 2003, the FASB issued SFAS No. 150 Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS 150). This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability because that financial instrument embodies an obligation of the issuer. This Statement is effective for periods beginning after June 15, 2003. We have included the redeemable preferred interests as part of total liabilities as of December 31, 2002 and 2003. The adoption of SFAS 150 did not have a material impact on our financial position or the results of operations.

In January 2004, FASB Staff Position (FSP) No. 106-1, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 was issued. FSP No. 106-1 permits the deferral of recognizing the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) in the accounting for post-retirement health care plan under SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions, and in providing disclosures related to the plan required by SFAS No. 132 (revised 2003), Employers Disclosures about Pensions and Other Postretirement Benefits. In May 2004, FSP 106-2, Accounting and Disclosure Requirement Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 was issued. FSP 106-2 provides guidance that measures the accumulated post-retirement benefit obligation (APBO) and net periodic postretirement benefit cost on or after the date of enactment shall reflect the effects of the Act. FSP 106-2 is effective for the first interim or annual period beginning after June 15, 2004. Upon the effective date FSP 106-2 will supersede FSP 106-1. The deferral of the accounting for the Act will continue until FSP 106-2 is effective. We have elected the deferral provided by FSP 106-1 and are evaluating the magnitude of the potential favorable impact on our results of operations and financial position. The APBO or net periodic postretirement benefit costs do not reflect any amount associated with the subsidy because the employer is unable to conclude whether the benefits provided by the plan are actuarially equivalent to Medicare Part D under the Act. See Note 11 to our financial statements included elsewhere in this prospectus for further discussion of postretirement benefits.

In December 2004, the FASB issued a revision to SFAS No. 123, Accounting for Stock-Based Compensation. This revision will require us to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost will be recognized over the period during which an employee is required to provide service in exchange for the award. This revised Statement is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. This revised Statement will apply to all awards granted after the required effective date and to awards modified, repurchased or canceled after that date. As of the required effective date, we will apply this revised Statement using a modified version of prospective application. Under that transition method, compensation cost is recognized on or after the required effective date for the portion of outstanding awards for which the requisite service has not yet been rendered, based on the grant-date fair value of those awards calculated under SFAS No. 123 for either recognition or pro forma disclosures. For periods before the required effective date, we may elect to apply a modified version of retrospective application under which financial statements for prior periods are adjusted by SFAS No. 123.

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Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk from changes in interest rates on our long-term debt obligations. We estimate our market risk using sensitivity analysis. Market risk is defined as the potential change in the fair value of a fixed-rate debt obligation due to a hypothetical adverse change in interest rates and the potential change in interest expense on variable rate long-term debt obligations due to changes in market interest rates. Fair value on long-term debt obligations is determined based on a discounted cash flow analysis, using the rates and maturities of these obligations compared to terms and rates currently available in the long-term markets. The potential change in interest expense is determined by calculating the effect of the hypothetical rate increase on our variable rate debt for the year and does not assume changes in our financial structure.

The results of the sensitivity analysis used to estimate market risk are presented below, although the actual results may differ from these estimates.

At December 31, 2003, the fair value of our fixed rate long-term debt was estimated to be $700.1 million based on the overall weighted average rate of our fixed rate long-term debt of 7.7% and an overall weighted maturity of 5.8 years, compared to terms and rates currently available in long-term financing markets. Market risk is estimated as the potential loss in fair value of our long-term debt resulting from a hypothetical increase of 10% in interest rates. Such an increase in interest rates would result in a decrease of approximately $18.3 million in the fair value of our long-term debt. At December 31, 2003, we had approximately $564.7 million of variable rate debt. If market interest rates increase 100 basis points in 2004 over the rates in effect at December 31, 2003, interest expense would increase $4.9 million.

To manage our interest rate risk exposure and fulfill a requirement of our credit facility, we entered into two agreements with investment grade financial institutions in 2000, an interest rate swap and an interest rate collar. Each of these agreements covers a notional amount of $100 million and effectively converts this portion of our variable rate debt to fixed rate debt. Our interest rate swap and collar agreements do not qualify for hedge accounting under SFAS No. 133; therefore, they are carried at fair market value and are included in Deferred credits and other liabilities on the Consolidated Balance Sheets. The interest rate swap and interest rate collar agreements expired in November 2004. The terms of our existing credit facility require us to manage our interest rate risk exposure. We have until February 2005 to finalize agreements to manage our interest rate risk exposure. Until hedging contracts are in place, we will be exposed to interest rate risk. We do not hold or issue derivative financial instruments for trading or speculative purposes.

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BUSINESS

Overview

We are one of the largest providers of telecommunications services in rural communities in the southwestern United States and, based on the number of telephone lines we have in service, the seventh largest independent local telephone company in the country. We operate approximately 548,000 telephone access lines in primarily rural areas of Texas, Oklahoma, New Mexico and Arkansas. The geographic concentration of our assets has enabled us to create operational efficiencies. We believe that in many of our markets we are the only service provider that offers customers an integrated package of local and long distance voice, high-speed data and Internet access, and enhanced services such as voicemail, call waiting, caller identification and call forwarding. For the year ended December 31, 2003, we generated revenues of $497.3 million and net income of $58.2 million. In the nine months ended September 30, 2004, we generated revenues of $379.3 million and net income of $25.2 million.

We offer a wide range of telecommunications services to residential, business and government customers. Our services include: local exchange telephone services, which covers basic dial-tone service as well as enhanced services, such as caller identification, voicemail and call waiting; long distance services; and data services, such as providing digital subscriber lines. We also provide access services that enable inter-exchange carriers to complete interstate and intrastate long distance calls. In addition to the services we provide, we received 24.1% of our 2003 revenues from Universal Service Fund, or USF, payments from the State of Texas and the federal government to support the high cost of providing local telephone service in rural areas.

We formed our company in 2000 in connection with the acquisition of select telephone assets from GTE Southwest Corporation, which is now part of Verizon. In January 2002, we acquired the local telephone company serving Kerrville, Texas from BA Capital Company and individual shareholders. The rural telephone businesses that we own have been operating in the markets we serve for over 75 years.

Since our inception, we have invested substantial resources to improve and expand our network infrastructure to provide high quality telecommunications services and superior customer care. This capital investment, in combination with a focused selling effort, has contributed to an increase in our revenue of $72.4 million, or 17% from 2001 through 2003.

We currently have a substantial amount of indebtedness. Following the consummation of this offering, we will have approximately $1.2 billion of outstanding indebtedness. Historically, we used our excess cash to pay down our long-term debt. This practice led to negative working capital balances. At December 31, 2003 and at September 30, 2004, we had a negative working capital balance of approximately $46.2 million and $71.0 million, respectively. After this offering, we will use a substantial portion of our excess cash to pay dividends on our common stock rather than prepay outstanding indebtedness. In addition, at September 30, 2004, we had an accumulated deficit of $28.2 million (or $460.7 million on a pro forma basis, after giving effect to this offering and to our reorganization, debt recapitalization and issuance of senior notes).

We operate our business through telephone company subsidiaries that qualify as rural local exchange carriers under the Telecommunications Act of 1996. Like many rural telephone companies, our business is characterized by stable operating results, revenue and cash flow and a relatively favorable regulatory environment. In addition, we are entitled to exemptions from certain interconnection regulatory requirements. We have historically experienced less competition than regional Bell operating companies because of the low customer density and high residential component of our customer base. In Texas, where our largest customer base is located, we serve an average of 9.06 access lines per square mile, which is approximately half the national average of access lines per square mile served by other rural telephone companies. Since a majority of our customer base is located in areas that are less densely populated than areas served by other rural telephone companies, we believe that we are more insulated from competitive pressures than many other local telecommunications providers.

Our company culture values and promotes diversity among our employees and in our supplier base. We have made a strong commitment to ensuring inclusion of minority-owned, women-owned, veteran-owned and disabled-owned enterprises in our contracts as an intelligent business strategy in view of the markets we serve. We believe that this commitment to diversity has created value for our company by increasing customer loyalty, enhancing recruitment and promotion of highly qualified employees, and helping to grow our revenue base.

Our Strengths

We believe that our key strengths will enable us to continue to experience stable and growing streams of revenue and cash flows. Our principal strengths include:

Ability to Generate Consistent Cash Flows. We have generated strong operating cash flow in each year since our inception by growing revenues and reducing expenses. Our net cash provided from operating activities was $100.3 million in 2001, $150.4 million in 2002, $166.1 million in 2003 and $158.3 million in the twelve months ended September 30, 2004. Historically, we have been able to increase our cash flow by using excess cash to repay outstanding indebtedness and reduce our interest expense. Furthermore, rural telephone companies in general have been able to attain predictable and stable cash flow from operations due to a steady demand for telecommunications services in rural areas and public policies that support universal, affordable local telephone service.

Leading Market Position. In the markets we serve, we are the leading provider of telecommunications services. We generally face less competition from wireless providers, cable television operators and other local exchange carriers than other industry participants because competitive entry into our markets is less attractive due to the generally lower population density and primarily residential customer base. In addition, access line loss has generally been less for rural telephone companies than other industry participants due to several reasons, including fewer competitive alternatives and incomplete wireless coverage. With a lower rate of line loss, we are not required to expend as much to replace customers as some other industry participants. Furthermore, our customer base is located in areas that are generally less densely populated than areas served by other rural telephone companies, which helps insulate us from competitive pressures. These factors allow us to focus on offering additional services and provide opportunities to increase revenue per customer. We reinforce our market position by providing reliable customer service, offering a full range of voice and data services and maintaining a strong local presence in the communities we serve.

Scalable, State-of-the-Art Network Infrastructure. We invested more than $350 million since our inception in 2000 to improve and expand our network infrastructure. These initiatives have enabled us to provide additional services to our customers and improve the overall quality of our network, as demonstrated by reductions in trouble reports and service outages and our surpassing substantially all applicable statewide regulatory service quality measures in 2003 and through the nine months ended September 30, 2004. In all our markets we have implemented a technologically advanced switching network that has the capacity to accommodate future technologies. While our competitors do offer some voice and data services in some of our markets, many providers of potentially competing platforms in our markets operate on older analog equipment and are less able to provide a reliable, high grade of voice and data services to our customers. The rural nature of our markets creates substantial costs to transport voice and Internet connectivity to central network connection points. By implementing our state-of-the-art networks, we have been able to minimize these costs and service our markets in a cost effective manner. We believe that our prior capital investment in our network, combined with our focus on the quality of our service, leaves us well positioned for future cash flow growth.

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Wide Array of Integrated Services. We believe that we are the only telecommunications service provider in many of the markets we serve that has the ability to provide an integrated package of local, long distance, high-speed data and Internet access as well as a variety of enhanced services such as voicemail and caller identification. By offering a bundled package of services we have improved our long distance and enhanced services penetration, resulting in increased revenue and higher margins.

Experienced and proven management team. We have a highly experienced senior management team that has an average of over 20 years of experience in the local telecommunications industry. Our senior executives have a solid track record of managing the expansion of public telecommunications companies through both internal growth and integration of acquisitions. Our operating results demonstrate that our management team can successfully generate revenue and decrease costs while integrating and consolidating an expanding business in an evolving, regulated and increasingly competitive industry. Our management team has instilled a corporate culture that focuses on revenue opportunities, reducing costs and providing quality service. We reinforce this culture and these objectives through specifically targeted incentive bonus and employee recognition programs that motivate our employees to seek opportunities to expand our customer base, augment subscriptions for services and reduce costs. In addition, we measure performance at all levels for the purposes of these incentive programs by employing a wide range of performance tracking metrics. Upon completion of our reorganization, members of our management team will hold a significant investment in our common stock.

Business Strategy

Our business strategy is to be the leading provider of telecommunications services to the rural communities that we serve. We strive to grow our revenues, control our expenses and deploy our capital in a manner that maximizes our earnings and free cash flow. In order to achieve this goal, we have formulated the following strategy:

Increase Penetration of Higher Margin Services. We intend to capitalize on our ability to offer higher margin enhanced calling and data services as a bundled package. We have been aggressively marketing enhanced services to our customers, and we have witnessed an increasing demand for data services. Our average revenues per access line per month has increased from $64.11 for the year ended December 31, 2001 to $76.30 for the nine months ended September 30, 2004. The wide array of enhanced services such as voicemail and caller identification, generally produce higher margins than basic telephone service. We also offer dial-up Internet access and DSL broadband services, as well as satellite television services through a resale arrangement with a satellite operator. In addition, we recently upgraded our systems to enable us to send our customers one integrated bill that includes both the charges for our services and the charges of their satellite television provider. We believe there is significant opportunity to continue to increase our revenue per customer by cross-selling data services and enhanced services as a bundled package.

Provide Superior Service and Customer Care. We seek to build long-term customer relationships by offering a wide range of telecommunications services and consistent customer support. We believe that our service-driven customer relationship strategy leads to high levels of customer satisfaction and will lead to an increase in demand for enhanced and ancillary services. We currently provide personalized customer care through three call centers that support our business and residential customers. These call centers are located in the rural areas we serve and are staffed with customer representatives with knowledge of our local markets. We recently installed an interactive voice response system that has automated many of our customer service functions and expanded our customers ability to interact with our company 24 hours a day, 365 days a year. Customers can now receive answers to many frequently asked questions without having to speak with a customer care representative. In addition, in 2003 and in the nine months ended September 30, 2004 we surpassed substantially all applicable statewide service quality standards imposed by the regulators in all of the states in which we operate. In each year since 2001, we have experienced a substantial year-over-year improvement in our service quality.

Improve Operating Efficiency and Profitability. We strive for greater efficiencies and improved profit margins by consolidating corporate functions, negotiating favorable terms with our suppliers and contractors and focusing capital expenditures on projects that exceed our internal rate of return thresholds. Our investment in customer service and focus on implementing a high level of customer support has substantially reduced the number of customer service calls that we receive since 2001, with a resulting reduction in related cash operating costs. These initiatives have led to increases in our profitability. In addition, our capital investments have provided us with a state-of-the-art scalable network that has resulted in a significantly decreased number of service outages and significantly reduced the number of overtime calls that our service technicians had to make since 2001.

Pursue Selective Strategic Acquisitions. We believe that a key to the long-term growth of our business will be the successful acquisition of telecommunications assets to increase the size of our business and capitalize on the state-of-the-art network that we have built. We believe that our network infrastructure and labor force can support significant growth through strategic acquisitions. Selective acquisitions can drive growth by increasing revenue and improving profit margins through cost synergies and by expanding service offerings. Our management team has a solid track record of evaluating, purchasing and successfully integrating rural telephone company assets. We seek to acquire companies that could generate significant internal rates of return on investment and will be accretive to cash flows, as well as increase penetration, broaden our target areas and add to our offering of services.

Industry Overview

The U.S. local telephone industry is composed of a few large, well-known companies, including the regional Bell operating companies and numerous small and mid-sized independent telephone companies. Rural telephone companies are independent telephone companies that typically operate in sparsely populated rural areas where competition has been limited due to the generally unfavorable economics of constructing and operating such competitive systems. To ensure that affordable universal telephone service is available in these remote areas, rural telephone companies may receive various support mechanisms provided by both state and federal government regulation.

Federal and state regulations promoting the widespread availability of telephone service have allowed rural telephone companies to invest in their networks while keeping prices affordable for customers. This policy commitment was reaffirmed and expanded by the universal service provisions of the federal Telecommunications Act of 1996. In light of the high cost per access line of installing lines and switches and providing telephone service in sparsely populated areas, a system of cost recovery mechanisms has been established to, among other things, keep customer telephone charges at a reasonable level and yet allow owners of such telephone companies to earn a fair return on their investment. These cost recovery mechanisms, which are less available to larger telephone companies, have resulted in robust telecommunications networks in many rural areas.

The passage of the Telecommunications Act of 1996 substantially changed the regulatory structure applicable to the telecommunications industry, with a stated goal of stimulating competition for telecommunications services, including local telephone service, long distance service and enhanced services. In recent years, the telecommunications industry has undergone significant structural change. Many of the largest service providers have achieved growth through acquisitions and mergers while an increasing number of competitive providers have restructured or entered bankruptcy to obtain protection from their creditors. Since 2001, capital in the form of public financing was generally difficult to obtain for new entrants and competitive providers. Capital constraints have caused a number of competitive providers to change their business plans, resulting in consolidation. Despite these changes, the demand for all types of telecommunications services, particularly data services, has not diminished, and companies increasingly bundle services and provide integrated offerings for end-user customers.

The most common measure of the relative size of a local telephone company is the number of access lines it operates. An access line is the telephone line connecting a person s home or business to the public switched telephone network. A local telephone company can acquire access lines either through normal growth or through a transaction with another local telephone company. The net increase or decrease in access lines incurred by a local telephone company on an annual basis is a relevant measure because the access line is the foundation for a large majority of local telephone company revenues and it is also an indicator of customer growth or contraction. A local telephone company experiences normal growth when it sells additional access lines in a particular market due to increased demand for telephone service by current customers or from new customers, such as from the construction of new residential or commercial buildings. Growth in access lines through transactions with other local telephone companies occurs less frequently. Typically, one local telephone company purchases access lines from another local telephone company. Such purchases usually provide the acquiring local telephone company the opportunity to expand the geographic areas it serves, rather than increasing its access lines totals in markets that it already serves.

Families or small groups of individuals own many rural telephone companies. We believe that the owners of many of these rural telephone companies may be interested in selling such companies as the growing technical, administrative and regulatory complexities of the local telephone business challenge the capabilities of the existing management. In addition, a number of large telephone companies are selling many of their rural telephone assets to focus their attention on their major metropolitan operations that generate the bulk of their revenue. As a result, we believe that we may have opportunities to acquire additional rural telephone assets and increase the number of access lines we operate.

Our Services

We offer a wide range of high quality telecommunications and related services to residential, business and government customers and transport services to end users and other data and voice carriers. We locally manage our service offerings to serve the needs of each community effectively and efficiently. We are committed to a high standard of service and have dedicated sales and customer service representatives with local market knowledge positioned in each of the states in which we operate. Based on our understanding of our local customers needs, we offer bundled services that are designed to simplify the customer s selection and use of our services. Offering bundled services allows us to capitalize on our network infrastructure by offering a full suite of integrated communications services in voice, high-speed data, fiber transport, Internet access and long distance services, as well as enhanced services, such as voicemail and caller identification, all on one bill.

We also generate revenue through the provision of network access to interexchange carriers for origination and termination of interstate and intrastate long distance phone calls, the receipt of government-sponsored Universal Service Fund support, and from the sale of other services, such as customer premises equipment and directory advertising.

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The following chart summarizes each component of our revenue sources (percentages are based on revenues for the nine months ended September 30, 2004):

Revenue Source	Percent of Revenue	Description
Local Services	30.7%	We derive revenue from providing local exchange telephone services to both residential and business customers, including monthly recurring charges from basic services such as local dial tone and enhanced services such as caller identification, voicemail and call waiting.
Data Services	4.9%	We receive revenues from monthly recurring charges for services, including DSL, special access, private lines, Internet and other data related services.
Long Distance Services	7.4%	We receive revenues for intrastate and interstate long distance services provided to our retail users by reselling the services of wholesale long distance carriers.
Access Services	25.4%	We receive network access charges from inter-exchange carriers in connection with the completion of interstate and intrastate long-distance calls and for special access services, including dedicated circuits purchased by long distance telephone companies.
Universal Service Fund:		We receive Universal Service Fund, or USF, payments from the State of Texas and from the federal government to support the high cost of providing local telephone service in rural locations. The funds are allocated and distributed to us from pools of funds generated by surcharges on telecommunications services.
Texas	20.2%	
Federal	3.7%	
Other Services	7.7%	We generate revenues from selling telecommunications equipment, selling advertisements in directories and for billing and collecting long distance fees for other carriers, and other miscellaneous services.

You should refer to the section Management s Discussion and Analysis of Financial Condition and Results of Operations for more information.

Local Calling Services. Local calling services include basic local lines, private lines and switched data services as well as enhanced services such as voicemail and caller identification. We provide local calling services to residential, business and government customers, generally for a fixed monthly charge. In the markets we serve, the amount that we can charge a customer for local service is determined by the appropriate state regulatory authorities pursuant to the laws and regulations of the particular state. We also generate revenue from non-recurring services, such as service activation and reconnection of service.

Data Services. As of September 30, 2004, we provided Internet access services to approximately 13,200 dial-up Internet subscribers. Our dial-up Internet service provides customers, primarily residential customers, with a local dial-up number they can use to establish a connection to the Internet over their existing phone lines for a flat, monthly fee. As of September 30, 2004, we also provided high speed Internet access with our DSL products to 16,521 customers for a monthly fee. Currently, our network is capable of providing DSL service to 50% of our customers. Our Internet access services also enable customers to establish an email account and to send and receive email.

Long Distance Services. We generate revenue from the provision of long distance calling services either based on usage or pursuant to flat-rate calling plans. These services include traditional switched and dedicated long distance, toll free calling, international, calling card and operator services.

Access Services. Long distance carriers pay us network access charges when our local customers make or receive long distance telephone calls. Since toll calls are generally billed to the customer originating the call, a mechanism is required to compensate each rural telephone company, regional Bell operating company or long distance carrier providing services relating to the call. Services include switched access, charges that depend on call volume, and special access, involving dedicated circuits for which long distance telephone companies pay a flat fee. We bill access charges to long distance companies and other customers for the use of our facilities to access the customer, as described below. In addition, end users are charged a monthly flat-rate fee assessed on access lines.

Intrastate Access. We generate intrastate access revenue when an intrastate long distance call involving a long distance carrier is originated by or terminated with a customer in our exchange to or from a customer in another exchange in the same state. The long distance carrier pays us an intrastate access payment for either terminating or originating the call. We record the details of the call through our carrier access billing system and receive the access payment from the long distance carrier. When one of our customers originates the call, we typically provide billing and collection for the long distance carrier through a billing and collection agreement. The access charge for our intrastate service is regulated and approved by the state regulatory authority.

Interstate Access. We generate interstate access revenue when an interstate long distance call is originated by or terminated with a customer in our exchange to or from a customer in another state. We bill interstate access charges in the same manner as we bill intrastate access charges, however, the interstate access charge is regulated and approved by the FCC instead of the state regulatory authority.

Universal Service Fund

Texas USF. The Texas Universal Service Fund commenced payments in January 2000, pursuant to rules enacted by the Public Utility Commission of Texas, or TPUC, in 1998. It was designed to offer competitively neutral assistance so that telecommunications companies could provide basic local telecommunications services at affordable rates to customers in high cost-rural areas and to qualifying low-income and disabled customers. By order of the TPUC, the Texas USF pays eligible carriers servicing areas identified as high cost, on a per-line basis. Customers of telecommunications services in Texas fund the Texas USF through monthly surcharges on their bills.

We receive disbursements from the Texas USF in the amounts specified in the order establishing the fund payments to our predecessor, GTE Southwest, Inc. In 2003, we received $103.1 million from the Texas USF, representing 20.7% of total revenues for that year, and in the first nine months of 2004, we received $76.8 million, or 20.2%, of our total revenues, from the Texas USF. The receipt of funds is dependent on the number of eligible access lines served by the company, and therefore is impacted by economic and competitive factors. If a line is removed from service, state universal service funding for that line is discontinued.

The TPUC s rules provide for a review of the Texas USF every three years. The TPUC recently completed this review, the first since the fund was established. The TPUC received comments from interested parties regarding changes to the fund, and upon review, the TPUC staff has recommended no changes to the fund at this time. The TPUC will undertake its next review in late 2005. The regulation under which the Texas USF is promulgated will become subject to review and renewal in late 2005. We expect that the Texas Legislature will renew the law or replace it with a provision that does not materially change the benefits we receive under the current regulatory structure.

Federal USF Revenue. The federal USF supplements the amount of local service revenue that we receive to ensure that basic local service rates for customers in high cost rural areas are comparable to rates charged in lower cost urban and suburban areas. The federal USF, which is funded by monthly fees paid by long distance carriers and local telephone companies, distributes funds to us on a monthly basis based upon our embedded costs for providing local service. Federal USF payments represented approximately 3.4% of our revenues for the year ended December 31, 2003 and 3.7% of our revenues for the nine months ended September 30, 2004. This mostly reflects the changes in the universal service support as a result of the CALLS plan that moved the implicit support from access charges and made it explicit. See Regulation Promotion of Universal Service.

Other Services. Our other services consist primarily of the sale of customer premises equipment, directory advertising, unbundled network elements, billing and collection fees, and other ancillary services.

Sales and Marketing

Our marketing approach emphasizes customer-oriented sales, marketing and service with a local presence. We market our products primarily through our customer service representatives, direct sales representatives, local retail stores and outsourced telemarketing supported by direct mail, bill inserts, newspaper advertising, website promotions, public relations activities and sponsorship of community events. We have established relationships with local government officials and business leaders. In our largest operating areas, we maintain retail business offices that allow our customers the opportunity to pay their bills directly or meet personally with our customer service and sales representatives to purchase additional services or, in some locations, customer premises equipment. Our customer service and sales representatives are well trained and earn incentive compensation to promote sales of services that meet the unique needs of our customers.

We, or our predecessors, have been serving our established markets for over 75 years. Our sales force makes direct calls to prospective and existing business customers and conducts analyses of business customers usage histories and service needs, and demonstrates how our service package may improve a customer s communications capabilities and costs. Our network engineers work closely with our various sales groups to design service products and applications, such as high-speed data and wholesale transport services, for our customers. Our technicians survey customer premises to assess building entry, power and space requirements and coordinate delivery, installation and testing of equipment.

To foster long-term relationships with our subscribers, we have undertaken many initiatives to provide superior customer service to our subscribers. We operate three call centers located in the rural areas that we serve with customer service representatives who are knowledgeable about the local market. In addition, we have automated many of our customer service functions so our customers can receive answers to many frequently asked questions regarding their telecommunications services 24 hours a day without speaking to a customer service representative.

Network Architecture and Technology

Our network consists of central office hosts and remote sites with advanced digital switches, primarily manufactured by Nortel, Lucent and Siemens, generally operating with the most current software. The outside plant consists of transport and distribution delivery networks connecting our host central office with remote central offices and ultimately with our customers. As of September 30, 2004, we maintained over 47,000 route miles of copper plant. Our network also includes approximately 3,900 route miles of local and long-haul fiber optic cable predominantly based in the four state area we serve. We own fiber optic cable, which has been deployed throughout our current network and is the primary transport technology between our host and remote central offices and interconnection points with other incumbent carriers. We also lease fiber optic capacity from other major carriers.

In our markets, DSL-enabled integrated access technology is being deployed to provide significant broadband capacity to our customers. We continue to remove any network impediments so we can offer DSL service to more customers, however, we only equip central offices with DSL enabling equipment to the extent a demonstrated customer demand exists. As of September 30, 2004, we had invested approximately $6.2 million to deploy DSL technology, reaching over 275,000 potential broadband customers. On September 1, 2004, we completed a project to deploy DSL in 55 wire centers throughout our service territory.

Rapid and significant changes in technology are expected in the communications industry. Our future success will depend, in part, on our ability to anticipate and adapt to technological changes. We believe that our network architecture enables us to respond efficiently to these technological changes.

We offer facilities-based services in each of our markets. Our fully integrated telecommunications network is comprised primarily of asynchronous transport mode, or ATM, core switches, capable of handling both voice and data, and time division modulation, or TDM, digital central office switches in our four regions of operation. We currently own or lease all of our network facilities and have not booked any revenues from swaps of indefeasible rights to use, or IRUs.

Our network operations center located in Texarkana, Texas monitors all our networks, transport and ATM elements, digital switching systems and Internet services infrastructure devices 24 hours a day, seven days a week.

Information Technology and Support Systems

We have a suite of operational support systems, or OSS, and customer care/billing systems designed to allow us to meet or exceed our customers expectations. Our OSS and billing systems include automated provisioning and service activation systems, mechanized line record and trouble reporting systems, inter-company provisioning and trading partner electronic data exchange systems. The bulk of these OSS and billing services are provided through the use of systems contracted or leased from ALLTEL. We employ an Internet service provider provisioning system and helpdesk database software to assist new data customers and to communicate with them when necessary. Our approach to OSS and billing systems focuses on implementing best-of-class applications that allow consistent communication and coordination throughout our entire organization. Our objective is to improve profitability by reducing individual company costs through the sharing of best practices, centralization or standardization of functions and processes, and deployment of technologies and systems that provide for greater efficiencies and profitability.

Competition

While the telecommunications industry as a whole is extremely competitive, competition has been comparatively limited for rural telephone companies because they have historically operated in markets with:

- low population densities;
- significant distance to competitive urban areas;
- relatively low business customer base;
- limited competitive commercially viable substitution alternatives;
- reduced interconnection, resale or unbundled network element platform requirements; and
- lower broadband deployment, which translates to lower VoIP opportunities.

These factors render uneconomic most business plans for developing a facilities-based network to compete against a rural telephone company. Nonetheless, we have experienced moderate competition from rural telephone cooperatives, edging out from the territories where they are incumbent carriers, as well as from wireless providers and other intermodal competitors, including cable television operators. In Broken Arrow, Oklahoma, our largest market where we operate 74,000 lines, cable television operator Cox Communications provides competing voice and broadband service. Cox has also indicated that it may enter several small markets we serve in West Texas, although at this time Cox has not initiated interconnection negotiations with us. In addition, future technological changes could negatively impact our competitive position. For example, as Voice over Internet Protocol, or VoIP, develops, some wholesale customers may be able to bypass network access charges.

Properties

Our corporate headquarters are located in Irving, Texas. We lease over 60,000 square feet of office space for our headquarters in Irving pursuant to a lease that will expire in August 2010. In addition, we lease an aggregate of over 100,000 square feet with respect to three call centers in New Mexico and Texas pursuant to leases that expire at various times between June 2005 and April 2010. We own all of the other properties that are material to our business. Our other properties include maintenance facilities, rolling stock, central office and remote switching platforms and transport and distribution network facilities in the states in which we operate our business. Our administrative and maintenance facilities are generally located in or near the rural communities we serve and our central offices are often within the administrative building and outlying customer service centers. Auxiliary battery or other non-utility power

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sources are at each central office to provide uninterrupted service in the event of an electrical power failure. Mobile generators are located near our central offices in the event of a major power outage that continues for a long period of time. Transport and distribution network facilities include fiber optic backbone and copper wire distribution facilities, which connect customers to remote switch locations or to the central office and to points of presence or interconnection with the incumbent long distance carrier. These facilities are located on land pursuant to permits, easements, rights of way or other agreements.

Employees

As of September 30, 2004, our work force consisted of 1,356 full time employees. Approximately 945 of our employees are subject to collective bargaining agreements with the Communications Workers of America, or CWA. Most of our union employees work in our call centers and in technical positions related to the operation of our network and provision of service to our customers. Our labor agreement with the CWA, which covers our non-Kerrville employees, was renegotiated during 2002 for a three-year period that ends in February 2005. Our labor agreement with the CWA relating to employees of our Kerrville operations was renegotiated in 2003 and will expire in 2006. On October 29, 2004, we announced a workforce reduction of 72 employees due to new operating efficiencies that resulted from our investment in customer service technologies and plant improvements. Notwithstanding this work force reduction, we believe that our relations with our employees remain good.

Legal Proceedings

We are involved in various claims, legal actions and regulatory proceedings arising in the ordinary course of our business. In the opinion of our management, the resolution of these matters will not have a material adverse effect on our financial condition, results of operations or cash flows.

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REGULATION

The following summary of the regulatory environment in which our business operates does not describe all present and proposed federal, state and local legislation and regulations affecting the telecommunications industry. Some legislation and regulations are currently the subject of judicial proceedings, legislative hearings and administrative proposals that could change the manner in which this industry operates. We cannot predict the outcome of any of these matters or their potential impact on our business. Regulation in the telecommunications industry is subject to rapid change, and any such change may have an adverse effect on us in the future. See Risk Factors Regulatory Risks and Risk Factors Risks Relating to Our Business.

Overview

The telecommunications services we provide and from which we derive a large majority of our revenue are subject to federal, state and local regulation. At the federal level, the FCC generally exercises jurisdiction over our facilities and services used to provide, originate, or terminate interstate or international communications. State regulators in Texas, Oklahoma, New Mexico and Arkansas exercise jurisdiction over our facilities and services used to provide, originate or terminate intrastate communications. Local governments often regulate the public rights-of-way necessary to install and operate our networks and, in some of the states in which we operate, local governments may require us to enter into franchise agreements that compensate the local government for use of their rights-of-way. State and federal regulators share responsibility for implementing and enforcing the policies of the Telecommunications Act of 1996 intended to foster competition in local telecommunications services. We believe that the competition we have experienced to date in our markets has not been substantial as compared to that experienced by other local exchange carriers. Competition in our markets may increase in the future as a result of the Telecommunications Act and subsequent decisions by regulators implementing the Telecommunications Act.

Promotion of Universal Service

The Universal Service Fund, or USF, payments we receive from the Texas and federal USF Funds are intended to support the high cost of our operations in rural markets. Texas USF support payments represented approximately 20.7% of our revenues for the year ended December 31, 2003 and 20.2% of our revenues in the nine months ended September 30, 2004. In 2003, we received \$16.7 million, or 3.4% of our total revenues, in federal USF support and in the first nine months of 2004, we received \$14.0 million, or 3.7% of our total revenues, in federal USF support. We also collect charges from our customers to support these funds.

The purpose of the Texas USF is to implement a competitively neutral mechanism to assist telecommunications providers in providing basic local telecommunications services at reasonable prices to customers in high cost rural areas and to qualifying low-income and disabled customers. By order of the Public Utilities Commission of Texas, or TPUC, the Texas USF pays eligible carriers serving areas identified as high cost, on a per-line basis. Texas USF support payments are based on actual lines in service and therefore are subject to reduction if customers discontinue service or migrate from our lines to a competitive carrier.

All customers of telecommunications services in Texas fund the Texas USF through the payment of a monthly surcharge on their bills. Following a decision by the United States Court of Appeals for the Fifth Circuit, the TPUC recently implemented changes in the Texas USF funding rules without affecting the amount of Texas USF revenue we receive. Starting on September 1, 2004, the TPUC assesses only intrastate telecommunications services in support of the Texas USF. In order to maintain a sufficient level of funding to support current Texas USF payments, the TPUC approved a higher percentage assessment on intrastate telecommunications service. The TPUC is currently considering revisions to the definition of revenues subject to the Texas USF contribution requirements and other ramifications of the court decision.We cannot predict the final outcome of this proceeding or whether it will have a material impact upon our business.

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The rules governing the Texas USF provide for a review of the Texas USF every three years starting in 1999. In September 2002, the TPUC undertook its first review. Interested parties provided the TPUC with comments on whether there should be changes made to the Texas USF. In September 2003, the TPUC recommended no changes be made to the Texas USF at this time. The TPUC will undertake its next review of the rules in September 2005. In addition, the Texas USF rules provide that the TPUC must open an investigation within 90 days after any changes are made to the federal USF. We do not expect any material change in the Texas USF methodology or the manner in which the amount of support we receive is calculated under our current Texas regulations.

The Texas regulatory structure under which we operate, including the enabling statute for the Texas USF, will become subject to legislative review and renewal in late 2005. The current Texas USF rules will not expire with their enabling statute in 2005, but if the enabling statute changes as part of the 2005 review, the TPUC would have to amend the Texas USF rules to comply with the statute. We believe that there is strong support of the Texas USF in its current form from a variety of constituents, and we do not believe it is likely that there will be any material change in the current USF enabling statute during the Legislative review period. However, such changes are possible and may be adverse to our revenues.

The federal USF revenue we receive helps to offset interstate access charges, defrays the high fixed switching costs in areas with fewer than 50,000 access lines and provides support where our average cost per line exceeds 115% of the national average cost per line. The amount of support we receive may be limited by the national cap on the federal USF adopted by the FCC. Funding for the federal USF comes from surcharges on interstate and international telecommunications services. Providers pass these charges through to their customers on the customers monthly bills.

While Congress has exempted federal USF from the federal Anti-Deficiency Act until December 31, 2005, payments from other support programs administered by the Universal Service Administrative Company, such as interstate access support payments received by our incumbent local exchange carrier could be delayed or suspended under the federal Anti-Deficiency Act. We cannot predict whether and for how long interstate access support payments might be delayed or suspended or how legislative, regulatory or other actions to address this problem may affect us.

On June 8, 2004, the FCC issued a Notice of Proposed Rulemaking seeking comment on a recommended decision of the Federal-State Joint Board on Universal Service, or Joint Board. The Joint Board recommended that the FCC adopt permissive federal guidelines for states to consider in proceedings to designate competitive carriers as eligible to receive universal service support, and it further recommended that the FCC limit the scope of high-cost support to a single connection that provides a subscriber access to the public telephone network. The FCC has until February 27, 2005 to act on these recommendations. On August 16, 2004, the Joint Board issued a notice seeking comments on several issues relating to high-cost universal service support mechanisms for rural carriers and the appropriate rural mechanism to succeed the five-year plan that the FCC created in 2001. Issues under consideration include: the appropriate cost basis for determining support levels for rural carriers, whether to modify the definition of rural carrier and the amount of universal service support available for acquired exchanges. We are unable to predict whether and to what extent we would be eligible to receive any federal high-cost support if the FCC makes some or all of the modifications under consideration in these proceedings. In addition, Congress may address universal service issues in legislation, but we cannot predict the occurrence, timing or effects of such legislation. However, the federal high cost support we receive today is only one component of the federal USF support that we receive and constitutes less than one percent of our total revenues.

Federal USF payments are only available to carriers that are designated as eligible telecommunications carriers by a state regulatory body. Competitive providers that have been granted eligible telephone carrier status are eligible to receive the same amount of universal service support per customer as the local exchange carrier serving the same area. Under current federal rules, the payment of federal universal service funds to a competitor qualifying as an eligible telephone carrier in an area served by a local exchange carrier is not intended to reduce significantly any federal universal support payable to the local exchange carrier. The FCC, however, could promulgate rules that reduce universal service support for local exchange carriers under such conditions. Currently, five competitive carriers have received eligible telephone carrier designation in our markets in Texas and New Mexico and draw support.

State Regulation

We operate in Texas, Oklahoma, New Mexico and Arkansas, and we are certified in those states to provide local telecommunications services.

Intrastate Rate Regulation. State regulators in the states in which we operate regulate the prices we charge for intrastate services, including our prices for local, intrastate long distance and intrastate access services paid by providers of intrastate long distance services. In Texas, most of our intrastate operations are subject to price caps, while regulators in Arkansas employ rate-of-return regulation to set our prices and we are regulated as a rural telephone company in Oklahoma. Our subsidiaries in New Mexico operate under an alternative regulation plan whereby prices are fixed through the term of the plan, which expires in 2006. See Management s Discussion and Analysis of Financial Condition and Results of Operations Regulatory Matters State Regulation.

New Mexico Investment. In New Mexico, we operate under an Alternative Form of Regulation Plan, or Plan. Adopted in 2000, the Plan provides for a freeze on the prices of our intrastate telecommunications services during the term of the Plan, requires us to invest $83 million in capital in New Mexico during the term of the plan, provides for streamlined tariff approval process and prescribes quality of service standards, including penalties for failure to meet certain service levels. This Plan expires on March 31, 2006. As of September 30, 2004, we have invested approximately $58.0 million of the $83 million capital investment commitment. At this time, we believe that we can substantially complete our investment commitment by the end of the Plan within our current projected capital expenditures.

Service Quality. State regulators impose service quality reporting obligations on us and require us to adhere to prescribed service quality standards. These standards measure the performance of various parts of our business. If we fail to meet these standards, regulators may impose fines or penalties, require us to issue credits to customers, require incremental capital investment, impose stricter reporting and oversight standards, subject us to third-party audits or take other actions that may impact our revenues or increase our costs.

Competition. State regulators have a number of duties in implementing the Telecommunications Act of 1996, including mediating or arbitrating disputed issues in interconnection agreements, setting the prices of unbundled network elements, and designating eligible telephone carriers.

Acquisitions. State regulators may review sales, acquisitions or transfers of control directly involving local exchange carriers certified to provide intrastate telecommunications services within our states. Therefore, if we seek to acquire companies that provide intrastate telecommunications services, or engage in other activities by which a change in control occurs, we may have to report or seek approval of state regulators in connection with such activities. State regulators may deny, delay or impose conditions on such transactions.

Compliance. State regulators also have the authority to condition, modify, cancel, terminate or revoke operating authority for failure to comply with applicable laws or rules, regulations, and policies of the state regulatory agency. Fines or other penalties may be imposed for such violations.

Federal Regulation

We must comply with the Communications Act of 1934, as amended, and FCC rules which require, among other things, that we offer interstate services at just and reasonable prices and on non-discriminatory terms and conditions. The Telecommunications Act of 1996 significantly changed and is expected to continue to change the telecommunications industry.

Rural Telephone Company. The Telecommunications Act of 1996 prescribes different regulatory requirements for local exchange carriers that meet the definition of a rural telephone company. We have certified as a rural telephone company in each of the states in which we operate. A wireless carrier has challenged our certification at the FCC on two occasions, and these challenges have been pending since 2000 and 2003. We do not believe that the challenges have merit, and we do not expect the FCC to conclude we fail to meet the rural telephone company definition.

Interconnection. A central aim of the Telecommunications Act of 1996 was to open local telecommunications marketplaces to competition while enhancing universal service. Pursuant to the Telecommunications Act, most local exchange carriers have obligations to open their networks to competitors, including:

- negotiate in good faith with any carrier requesting interconnection;
- provide interconnection for the transmission and routing of telecommunications at any technically feasible point in its network on just, reasonable and nondiscriminatory rates, terms and conditions;
- provide access to unbundled network elements, such as local loops, switches and trunks, or combinations of unbundled network elements at nondiscriminatory, cost-based rates;
- offer retail local telephone services to resellers at discounted wholesale rates; and
- provide physical co-location, which allows a competitor to install and maintain its network termination equipment in a local exchange carrier s central office, or to obtain functionally equivalent forms of interconnection.

Competitors are required to compensate local exchange carriers for the cost of providing these services.

Because we qualify as a rural local exchange carrier, or rural telephone company, under the Telecommunications Act, we may rely on a statutory exemption from these additional interconnection requirements until we receive a *bona fide* request for interconnection and the applicable state regulator lifts the exemption. To lift the exemption, the state regulator must find that competitive entry would not impose an undue economic burden on us, is technically feasible and will not harm universal service. We have agreed not to exercise the rural exemption in Oklahoma, where we were classified as a non-rural carrier prior to July 1, 2003. In Texas and New Mexico, we agreed to continue providing interconnection to those competitive carriers that had interconnections agreements with GTE at the time we acquired the GTE properties and we continue to provide interconnection to these carriers today. Notwithstanding these agreements, we may request suspension or modification of certain interconnection requirements in all states, including Oklahoma, by petition to the state regulator and upon the demonstration of certain statutory factors.

Since the passage of the Telecommunications Act, we have experienced a modest amount of competition from small rural telephone companies serving adjacent markets, other competitive local carriers, resellers and wireless service providers. Many of these competitors were already providing competitive services in our markets when we acquired the business in 2000. As of September 30, 2004, we had 30 comprehensive (interconnection, unbundling and resale) agreements with 18 competitive local exchange carriers, 37 interconnection only agreements with 21 local carriers and 32 resale agreements with 22 resellers. Many of these competitors have agreements in more than one of our states, and not all of these competitors currently offer competitive local services in our markets.

In Broken Arrow, Oklahoma, our largest market where we operate 74,000 lines, Cox Communications provides competing voice and broadband service. Cox has also indicated that it may enter several small markets we serve in West Texas, although at this time Cox has not initiated interconnection negotiations with us.

In its Triennial Review Order released in August 2003, the FCC eliminated some of the obligations imposed on local exchange carriers under prior rules, and redefined some of the standards used to determine what parts of its network a local exchange carrier must make available to competitors. The United States Court of Appeals for the District of Columbia Circuit overturned significant aspects of the Triennial Review Order. In response, on August 20, 2004, the FCC released interim rules for unbundling

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and initiated a proceeding to review and revise its unbundling rules. The interim rules, and any final rules the FCC may adopt, are likely to be subject to further court challenges. We cannot predict what impact, if any, action taken by the FCC may have on our operations or earnings.

In addition, the FCC is reexamining its pricing standard for unbundled network elements and may reconsider other aspects of its new rules. Congress may consider legislation that may modify some aspects of the Telecommunications Act or these rules. We cannot predict the outcome of any of these proceedings or of any action taken by our state regulatory commissions pursuant to the new rules.

The FCC recently ruled that we and other local exchange carriers must port our telephone numbers to requesting wireless carriers, so-called wireline-to-wireless local number portability, or LNP. Local exchange carriers operating in the country s largest urban areas were required to make LNP capability available to wireless carriers by November 24, 2003. We have LNP available to wireless carriers in a number of our exchanges. As of October 31, 2004, we have had less than 100 requests to port one of our numbers to a wireless carrier. Rural telephone companies serving rural areas have to make LNP available to wireless carriers on May 24, 2004 or six months after a bona fide request from a wireless carrier. The FCC still has under consideration a number of technical and cost recovery issues associated with deployment of LNP.

We have received bona fide requests for LNP in some of our exchanges. We estimate that upgrading our switches to provide LNP will cost approximately $3.2 million in capital expenditures. We filed a petition with the state regulator in New Mexico requesting the suspension of our obligation to deploy LNP until at least March 31, 2005. Having been granted extensions by the Texas and Oklahoma regulators, we are now LNP capable in the Texas and Oklahoma exchanges for which we have received bona fide requests for LNP. Following a hearing, the state regulator in New Mexico granted us a suspension until March 31, 2005 for the Ruidoso cluster of five exchanges and until July 15, 2005 for our remaining New Mexico exchanges. Our suspension for the Hobbs/Carlsbad cluster of nine exchanges expired on November 24, 2004.

End-User and Access Charges. The FCC regulates the prices that we charge for the use of our local telephone facilities in originating or terminating interstate telecommunications services. The FCC has structured these prices as a combination of flat monthly charges paid by the end-users and usage sensitive charges or flat rated facilities charges paid by long distance carriers, also referred to as access charges. The FCC regulates the levels of interstate access charges we charge by imposing price caps on those charges. In 2000, the FCC adopted an integrated interstate access reform and universal service framework for price cap local telephone companies called the CALLS Plan, which allowed end user rates to rise, but forced substantial decreases in access charges billed to long distance carriers. The CALLS Plan will expire in mid-2005 unless extended by the FCC.

The CALLS Plan provides for a low-end adjustment to increase prices to achieve a 10.25% annual return, if needed, to address a situation where a local telephone company s return drops below 10.25%. In essence, this is a protection against unreasonably low earnings. We requested and were granted low-end adjustment relief pursuant to FCC rules for our Texas study area in 2001, 2002, 2003 and 2004. We also obtained a waiver in 2002 that delayed a price decrease in access charges until July 2004. We currently have pending a petition for reconsideration of an order denying our request to make the 2002 waiver permanent.

The FCC has made, and is continuing to consider, various changes to the existing access charge price structure. The FCC has sought comment on how it should change inter-carrier compensation, including interstate access charges, reciprocal compensation for local calling between competitors, and intrastate access charges. Specifically, the FCC proposed to adopt for all inter-carrier compensation a bill and keep mechanism in which carriers would exchange traffic at no charge to each other, and recover their costs from their own end users. Carrier charges would be limited to compensation for transporting traffic to another carrier s network. If implementation of such a proposal raises the prices paid by end users to the point where the prices are unaffordable, the FCC proposed that a universal service mechanism would be used to compensate a carrier for costs in excess of what could be recovered through affordable rates. We are actively participating in discussions with other industry parties aimed at developing a consensus proposal on inter-carrier compensation that would replace the CALLS plan. In October 2004, we joined with eight other carriers, collectively known as the Intercarrier Compensation Forum, to file a specific reform proposal with the FCC. The outcome of the FCC s proceeding is uncertain, but it could result in significant changes to the way in which we receive compensation from other carriers and our customers. At this time, we cannot estimate whether the FCC or Congress will reform the current system, or, if so, whether and to what extent any changes will affect our access charge revenues or other inter-carrier compensation revenues.

Interstate Long Distance Services. The FCC does not actively regulate the prices, terms or facilities of our interstate long distance services. However, we must comply with the general requirement that our prices and terms be just, reasonable and nondiscriminatory. Also, we must comply with FCC rules regarding unauthorized switching of a customer s long distance service provider, or slamming; the FCC has recently levied substantial fines on some carriers for slamming. In addition, our long distance carrier must post the prices, terms and conditions of its interstate service on its Internet web site and engage in other public disclosure activities.

Acquisitions. The FCC generally must approve in advance most transfers of control and assignments of operating authorizations by FCC-regulated entities. Therefore, if we seek to acquire companies that hold FCC authorizations, in most instances we will be required to seek approval from the FCC prior to completing those acquisitions. The FCC may deny, delay or impose conditions on such transactions.

Compliance and Penalties. The FCC has the authority to condition, modify, cancel, terminate or revoke operating authority for failure to comply with applicable federal laws or rules, regulations and policies of the FCC. Fines or other penalties also may be imposed for such violations.

Communications Assistance for Law Enforcement Act. Under the Communications Assistance for Law Enforcement Act, or CALEA, and related federal statutes, we are required to provide law enforcement officials with call content and call identifying information under a valid electronic surveillance warrant and to reserve a sufficient number of circuits for use by law enforcement officials in executing court-authorized electronic surveillance. We believe we are in compliance with current laws and regulations. On August 4, 2004, in response to a joint petition filed by the Department of Justice, Federal Bureau of Investigation, and the Drug Enforcement Administration, the FCC launched a Notice of Proposed Rulemaking proposing a thorough examination of the appropriate legal and policy framework of CALEA. In this proceeding, the FCC will examine issues relating to the scope of CALEA s applicability to services such as broadband Internet access, as well as implementation and enforcement issues. We cannot predict the eventual outcome of this proceeding or what compliance with any rules adopted by the FCC may cost.

Local Government Authorizations

We may be required to obtain permits from municipal authorities for street opening and construction or operating franchises to install and expand fiber optic facilities in certain rural communities. Some of these franchises may require the payment of franchise fees. We have obtained such municipal franchises in some parts of Texas, Oklahoma, New Mexico and Arkansas.

Potential Internet Regulatory Obligations

In connection with our Internet access offerings, we could become subject to laws and regulations as they are adopted or applied to the Internet. To date, the FCC has treated Internet service providers, or ISPs, as enhanced service providers, rather than common carriers, and therefore ISPs are exempt from most federal and state regulation, including the requirement to pay access charges or contribute to the federal USF. As Internet services expand, federal, state and local governments may adopt rules and regulations, or apply existing laws and regulations to the Internet. The FCC is currently reviewing the appropriate regulatory framework governing broadband access to the Internet through telephone and cable television operators communications networks. At this time, we cannot estimate what regulatory changes may occur as a result of the FCC s review, or what impact any such changes would have on our operations or revenues.

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The emerging technology application known as Voice over Internet Protocol, or VoIP, can be used to carry voice communications services over a broadband Internet connection. The FCC has ruled that some VoIP arrangements are not subject to regulation as telephone services. Recently, the FCC ruled that certain VoIP services are jurisdictionally interstate, and it preempted the ability of the states to regulate such VoIP applications or providers. The FCC has pending a proceeding that will address the applicability of various regulatory requirements to VoIP providers, including the payment of access charges and the support of programs such as The Universal Service and E-911. Expanded use of VoIP technology could reduce the access revenues received by local exchange carriers like us. We cannot predict whether or when VoIP providers may be required to pay or be entitled to receive access charges or universal service fund support, the extent to which users will substitute VoIP calls for traditional wireline communications or the effect of the growth of VoIP on our revenues.

Environmental Regulations

Our operations are subject to federal, state and local laws and regulations governing the use, storage, disposal of, and exposure to hazardous materials, the release of pollutants into the environment and the remediation of contamination. As an owner or operator of property, we could be subject to environmental laws that impose liability for the entire cost of cleanup at contaminated sites, regardless of fault or the lawfulness of the activity that resulted in contamination. We believe, however, that our operations are in substantial compliance with applicable environmental laws and regulations.

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MANAGEMENT

Executive Officers and Directors

The following table sets forth information with respect to our executive officers and directors and other key employees of Valor as of September 30, 2004.

Name	Age	Position
Anthony J. de Nicola	40	Chairman, Director
Kenneth R. Cole	56	Vice Chairman, Director
John J. Mueller	48	Chief Executive Officer and President, Director Nominee
John A. Butler	42	Executive Vice President Chief Financial Officer
William M. Ojile, Jr.	44	Senior Vice President Chief Legal Officer and Secretary
W. Grant Raney	44	Senior Vice President Operations, Sales and Marketing
Cynthia B. Nash	40	Senior Vice President and Chief Information Officer
Keith D. Terreri	39	Vice President Treasury and Corporate Development
Cynthia T. Cruz	44	Vice President Corporate Communications
Randal S. Dumas	35	Vice President Accounting and Controller
Ben Muro	58	Vice President Human Resources
Sanjay Swani	37	Director
Todd Khoury	39	Director

Anthony J. de Nicola has served as a director of our company since March 2004 and as Chairman since April 2004. Mr. de Nicola is currently a general partner of Welsh, Carson, Anderson & Stowe, which is one of our existing equity holders. He joined Welsh, Carson, Anderson & Stowe in 1994 and focuses on investments and in the information business services and communications industries. Before joining Welsh, Carson, Anderson & Stowe, he worked for four years in the private equity group at William Blair & Company. Previously, Mr. de Nicola worked at Goldman, Sachs & Co. in the Mergers and Acquisitions Department. Mr. de Nicola is also a member of the boards of directors of Alliance Data Systems Corporation, Centennial Communications Corp., Dex Media, Inc., ITC Deltacom, Inc. and several private companies.

Kenneth R. Cole has served as a director of our company since March 2004 and as our Vice Chairman since April 2004. Prior to then, Mr. Cole served as our Chief Executive Officer from January 2002 to April 2004. Mr. Cole joined our company at its inception in January 2000 as President and Chief Operating Officer. Prior to joining our company, Mr. Cole had a 26-year career at CenturyTel, Inc., culminating in his service as Chief Operating Officer from May 1999 to January 2000.

John J. Mueller has served as our Chief Executive Officer and President since April 2004 and was previously our President and Chief Operating Officer since November 2002. Mr. Mueller will be appointed to our board of directors following the consummation of this offering. Mr. Mueller joined us in April 2002 as Executive Vice President and Chief Operating Officer. Prior to joining our company, Mr. Mueller spent 23 years at Cincinnati Bell Inc. including serving as General Manager Consumer Markets from February 1999 to May 1999, President Business Units from May 1999 to November 1999 and President of the Cincinnati Bell Telephone Company from November 1999 to October 2001.

John A. Butler has served as our Executive Vice President and Chief Financial Officer since joining us in March 2000. Before joining our company, Mr. Butler served as Executive Vice President and Chief Financial Officer of Commonwealth Telephone Enterprises, Inc. starting in 1998. Prior to 1998, he was a director at First Union Capital Markets (Wachovia) in the Media and Communications Group. Mr. Butler has over 18 years of experience in the finance and telecommunications industries. Mr. Butler began his career at Arthur Andersen & Co. and is a licensed, certified public accountant.

William M. Ojile, Jr. has served as our Senior Vice President, Chief Legal Officer and Secretary since November 2000. Before joining our company, Mr. Ojile worked at U.S. WEST, Inc. for approximately 12 years, serving as Regional Executive Director Public Policy from January 1998 to July 2000, and, after the merger between U.S. WEST and Qwest Communications International in July 2000, as Corporate Counsel for Qwest Communications International from July 2000 to November 2000.

W. Grant Raney has served as our Senior Vice President Operations, Sales and Marketing since August 2004. Prior to then, Mr. Raney had served as our Senior Vice President Operations and Engineering since January 2001. In February 2000, Mr. Raney joined our company as Vice President Operations. Prior to joining our company, from March 1999 to February 2000, Mr. Raney was Division Vice President at Spectra Communications Group, a partnership of CenturyTel, Inc. Starting March 1979 at CenturyTel, Mr. Raney has gained 25 years of experience in the telecommunications industry in a variety of roles of increasing responsibility.

Cynthia B. Nash has served as our Senior Vice President and Chief Information Officer since January 2004. In April 2002, Ms. Nash joined our company as our Vice President and Chief Technology Officer. Before joining our company, Ms. Nash held various positions of increasing responsibility with CenturyTel, Inc., including Vice President of Information Technology from January 2001 to April 2002, Director of the Program Management Office and Customer Care from September 2000 to January 2001, Director of Applications Development from December 1999 to September 2000 and Director of Telco Applications from September 1997 to December 1999. Ms. Nash has over 17 years of experience in the telecommunications industry.

Keith D. Terreri has served as our Vice President Treasury and Corporate Department since July 2001. Prior to joining our company, Mr. Terreri was Vice President and Treasurer of RCN Corporation from December 1999 to June 2001 and Director of Finance from January 1998 to December 1999. Mr. Terreri has over 6 years experience in the telecommunications industry. Mr. Terreri began his career at Deloitte & Touche LLP and is a certified public accountant.

Cynthia T. Cruz has served as our Vice President Corporate Communications since June 2000. Prior to joining our company, Ms. Cruz was Senior Manager, Public Affairs, for Levi Strauss & Company from 1998 to 2000. With over 17 years experience as a communications professional, Ms. Cruz also previously held communications management positions with R.J. Reynolds Tobacco Company and the office of U.S. Representative Henry B. Gonzalez.

Randal S. Dumas has served as our Vice President Controller since July 2003. He joined our company in January 2001 as Director Accounting, and he added the responsibility of Controller in June 2002. Prior to joining our company, Mr. Dumas worked for Citizens Communications starting in 1994, where he was Revenue Accounting Manager from January 1997 to January 2000, Director of General Accounting from January to June 2000 and Director of Financial Operations from June 2000 until January 2001. Mr. Dumas is a certified public accountant.

Ben Muro has served as our Vice President Human Resources since February 2000. Prior to joining our company, Mr. Muro was Senior Vice President of Human Resources for Parkland Health and Hospital System in Dallas from March 1991 to February 2000.

Sanjay Swani has served as a director of our company since March 2004. Mr. Swani is currently a general partner of Welsh, Carson, Anderson & Stowe, which is one of our existing equity holders. He joined Welsh, Carson, Anderson & Stowe in 1999 and focuses on investments and in the information business services and communications industries. Previously, he was a director of Fox Paine & Company, a San Francisco-based private equity firm. Mr. Swani also spent four years in the Mergers, Acquisitions & Restructuring Department and two years in the Debt Capital Markets Department of Morgan Stanley Dean Witter & Co. Mr. Swani is also a member of the boards of directors of Banctec, Inc., Dex Media, Inc., Global Knowledge Networks, Inc. and ITC Deltacom, Inc.

Todd Khoury has served as a director of our company since March 2004. Mr. Khoury is currently a managing director of Vestar Capital Partners, which is one of our existing equity holders. Mr. Khoury joined Vestar in 1993. Previously, he was a member of the Corporate Finance Group of Salomon Brothers Inc. Mr. Khoury is also a member of the board of directors of Border Media Partners.

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Board of Directors and Board Committees

Within one year of the consummation of this offering, a majority of our board of directors will be independent. The term of office for each director will be until his successor is elected or appointed, with elections for each directorship being held annually.

Prior to the consummation of this offering, we intend to establish an audit committee, a nomination and corporate governance committee, a compensation committee and a pension committee. Each committee will consist of three persons, at least one of whom is not an employee of, and has no business relationships with, Valor. Within one year of the consummation of this offering, all the members of our audit committee, nominating committee and compensation committee will be independent as defined by the rules of the New York Stock Exchange.

The audit committee will be responsible for reviewing our internal accounting procedures and consulting with and reviewing the services provided by our independent accountants. The nominating committee will evaluate the qualifications of potential nominees to our board of directors and make recommendations to the board as to which candidates should be nominated for election to our board of directors. The compensation committee will be responsible for reviewing and recommending to the board of directors the compensation and benefits of all our officers and directors, including stock compensation and establishing and reviewing general policies relating to the compensation and benefits of our employees. The pension committee will be responsible for reviewing the quality of services provided by our pension and savings plan advisors and administrators.

Compensation Committee Interlocks and Insider Participation

The current compensation of our executive officers was determined by the compensation committee of Valor Telecommunications Southwest, LLC. Prior to the consummation of this offering, we plan to form a compensation committee of our board of directors to oversee executive compensation issues. We anticipate that no member of our compensation committee will serve as a member of the board of directors or compensation committee of an entity that has one or more executive officers serving as a member of our board of directors or compensation committee.

Director Compensation

Independent members of the board of directors will receive compensation for their services. Each independent director will receive an annual retainer of $45,000, which is supplemented by additional payments of $1,250 for each board meeting attended in person, $625 for each board meeting attended telephonically, $5,000 annually for acting as a committee member ($10,000 for acting as audit committee chairperson and $7,500 for acting as compensation committee chairperson), $1,000 for each committee meeting attended in person, $500 for each committee meeting attended telephonically and reasonable travel expenses for attendance in person at board and committee meetings. In addition, each independent member of the board of directors will receive an up front grant of 9,705 restricted shares pursuant to our 2004 Long-Term Incentive Plan. These restricted shares vest over the three years following their issuance at 33% per year. In addition, Mr. Cole, our Vice Chairman, will receive the compensation described above for serving as a member of our board of directors. No other non-independent director, however, shall receive compensation for serving as a member of our board of directors.

Limitations on Directors Liability and Indemnification

Our restated certificate of incorporation limits the liability of directors to the maximum extent permitted by Delaware law. Delaware law provides that directors of a corporation will not be personally liable for monetary damages for breach of their fiduciary duties as directors, except liability for:

- any breach of their duty of loyalty to the corporation or its stockholders;
- acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;

- unlawful payments of dividends or unlawful stock repurchases or redemptions; or

- any transaction from which the director derived an improper personal benefit.

The limitation of liability does not apply to liabilities arising under the federal securities laws and does not affect the availability of equitable remedies such as injunctive relief or rescission.

Our restated certificate of incorporation provides that we will indemnify our directors and officers and may indemnify our employees and other agents to the fullest extent permitted by law. We believe that indemnification under our restated certificate of incorporation covers at least negligence and gross negligence on the part of indemnified parties. Our restated certificate of incorporation also permits us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in his or her capacity as an officer, director, employee or other agent.

The limited liability and indemnification provisions in our restated certificate of incorporation may discourage stockholders from bringing a lawsuit against our directors for breach of their fiduciary duty and may reduce the likelihood of derivative litigation against our directors and officers, even though a derivative action, if successful, might otherwise benefit us and our stockholders. A stockholder s investment in us may be adversely affected to the extent we pay the costs of settlement or damage awards against our directors and officers under these indemnification provisions.

At present, there is no pending litigation or proceeding involving any of our directors, officers or employees in which indemnification is sought, nor are we aware of any threatened litigation that may result in claims for indemnification.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted for directors, officers and controlling persons of us pursuant to the foregoing provisions or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission, or SEC, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Voting Arrangement

Pursuant to a Securityholder s Agreement that we will enter into with Welsh, Carson, Anderson & Stowe, or WCAS, Vestar Capital Partners, or Vestar and certain of their respective affiliates, WCAS and Vestar will agree to vote for each other s designees to our board of directors (to the extent permitted by law and the rules of any securities exchange, system or market on which our securities are then listed), and to vote such that both WCAS and Vestar have at least one designee on each of our committees.

Executive Compensation

Summary Compensation Table. The following table sets forth the compensation earned, awarded or paid for services rendered to us in all capacities for the fiscal year ended December 31, 2004, by our Chief Executive Officer and our four next most highly compensated executive officers who earned more than $100,000 in salary and bonus during the fiscal year ended December 31, 2004, to whom we refer in this prospectus collectively as the named executive officers:

Summary Compensation Table

		Annual Compensation			
	Fiscal Year	Salary	Bonus(2)	Long-Term Compensation	All Other Compensation
Kenneth R. Cole Vice Chairman(1)	2004	$433,462	$5,750,000		$46,102(3)
John J. Mueller Chief Executive Officer and President	2004	$469,616	$1,250,000		$46,529(4)
John A. Butler Executive Vice President and Chief Financial Officer	2004	$312,663	$1,000,000		$19,989(5)
W. Grant Raney Senior Vice President of Operations, Engineering and Customer Service	2004	$253,167	$1,000,000		$25,666(6)
William M. Ojile, Jr. Senior Vice President, Chief Legal Officer and Secretary	2004	$246,692	$ 500,000		$21,722(7)

(1) Mr. Cole served as our Chief Executive Officer from January 2002 through April 2004.

(2) Consists of debt recapitalization bonuses paid in 2004, and in the case of Mr. Cole, the one-time transition bonus paid to him in April 2004. Bonuses awarded under our Annual Incentive Plan for 2004 have not been determined as of yet and, consequently, are not included in the amounts presented in this disclosure.

(3) Consists of $28,874 of insurance premiums ($9,570 for medical insurance; $14,530 for life insurance; and $4,774 for long-term disability), $7,478 for personal travel paid for by the company, and a $9,750 company contribution to our 401(k) plan.

(4) Consists of $21,114 of insurance premiums ($9,570 for medical insurance; $4,334 for life insurance; and $7,210 for long-term disability), $7,478 for personal travel paid for by the company, a car allowance of $8,187, and a $9,750 company contribution to our 401(k) plan.

(5) Consists of $12,781 of insurance premiums ($8,645 for medical insurance; $1,921 for life insurance; and $2,215 for long-term disability) and a $7,208 company contribution to our 401(k) plan.

(6) Consists of $8,438 of insurance premiums ($5,369 for medical insurance; $2,025 for life insurance; and $1,044 for long-term disability), $7,478 for personal travel paid for by the company, and a $9,750 company contribution to our 401(k) plan.

(7) Consists of $11,972 of insurance premiums ($8,645 for medical insurance; $1,468 for life insurance; and $1,859 for long-term disability), and a $9,750 company contribution to our 401(k) plan.

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Employment and Severance Agreements

We have entered into employment, confidentiality and non-competition agreements with Messrs. Cole, Mueller, Butler, Ojile and Raney, the material terms of which are discussed below. We also have agreements with other key employees at the director level and above that provide for an agreement not to compete with us for a maximum period of up to twelve months, in return for the payment of severance benefits for involuntary termination without cause.

Agreement with Kenneth R. Cole. We entered into an agreement with Kenneth C. Cole that will remain in effect until March 31, 2007 pursuant to which Mr. Cole will receive an annual base salary of $300,000, medical and other benefits. Mr. Cole shall devote at least 25% of his professional time, efforts and attention to the duties outlined in the agreement, including but not limited to serving as Vice Chairman of our company advising and assisting our Board of Directors and management with regards to corporate strategy, the identification and implementation of potential mergers, acquisitions and other strategic transactions, regulatory matters and business development efforts.

In connection with this offering, we entered into a letter agreement with Mr. Cole on April 9, 2004 pursuant to which Mr. Cole received a one-time transition bonus of $5.0 million. In anticipation of this offering, Mr. Cole desired to implement our succession plan so that we could make anticipated changes in our senior management before becoming a public company. To facilitate this, we negotiated with and paid Mr. Cole this one-time bonus in consideration for his agreement to terminate his then existing employment agreement, his agreement to serve as our Vice Chairman and his agreement to remain as a part-time employee, as discussed above. In addition, Mr. Cole was also to receive an additional one-time payment of $1.5 million if we consummated an equity offering prior to April 9, 2005. On November 10, 2004, we amended Mr. Cole s letter agreement and part-time employment agreement to pay him $750,000 in connection with our debt recapitalization, and to pay him an additional $750,000 on the earlier of either an initial public offering or the termination of his agreement on March 31, 2007.

Agreement with John J. Mueller. We will enter into an employment agreement with John J. Mueller upon the consummation of this offering, which will replace his previous employment agreement dated April 9, 2004. Mr. Mueller s new employment agreement will remain in effect until the third anniversary of the completion of this offering and can be renewed for successive one year periods thereafter. Mr. Mueller currently receives and will continue to receive an annual base salary of $500,000, an annual incentive bonus and medical and other benefits. Mr. Mueller s annual bonus is targeted to be one times his base salary for the applicable year, although our Board of Directors may increase or decrease the amount of any award in its discretion. Pursuant to his new employment agreement, Mr. Mueller will also be entitled to receive an initial public offering cash bonus, as described below under the heading Transaction Bonuses Initial Public Offering Cash Bonuses.

If we terminate Mr. Mueller s employment without cause or if he resigns for Good Reason, as each such term is defined in his new employment agreement, he will be entitled to receive severance benefits consisting of his annual base salary and continued medical and other benefits for eighteen months following the date of his termination, plus the full amount of his target bonus for the year in which his employment terminates and life insurance and medical benefits for various periods. Mr. Mueller s new employment agreement provides that he will be restricted from engaging in competitive activities for one year after the termination of his employment although this restriction may be extended for an additional six months under certain circumstances.

Agreement with John A. Butler. We will enter into an employment agreement with John A. Butler upon the consummation of this offering, which will replace his previous employment agreement we entered into with him in 2000. Mr. Butler s new employment agreement will remain in effect until the third anniversary of the completion of this offering and can be renewed thereafter for one-year extensions of the employment term, unless either party provides written notice of its intention not to review the agreement within 90 days of the expiration of the then current term. Mr. Butler currently receives and will continue to receive an annual base salary of $315,000, an annual incentive bonus and medical and other benefits. Mr. Butler s annual bonus is targeted to be one-half his base salary for the applicable year, although our

Board of Directors may increase or decrease the amount of any award in its discretion. Pursuant to his new employment agreement, Mr. Butler will also be entitled to receive an initial public offering cash bonus, as described below under the heading Transaction Bonuses Initial Public Offering Cash Bonuses.

If we terminate Mr. Butler s employment without cause or if he resigns for Good Reason, as each such term is defined in his new employment agreement, he will be entitled to receive severance benefits consisting of his annual base salary and continued medical and other benefits for eighteen months following the date of his termination, plus, with respect to the fiscal year in which his employment terminates, the pro rata portion of the annual bonus he would have received had he been employed by our company for the full fiscal year. Mr. Butler s new employment agreement provides that he will be restricted from engaging in competitive activities for one year after the termination of his employment. Mr. Butler may not solicit employees for one year following termination of his employment with our company.

Agreement with William M. Ojile, Jr. We will enter into an employment agreement with William M. Ojile upon the consummation of this offering, which will replace the previous employment agreement we entered into with him in 2000. Mr. Ojile s new employment agreement will remain in effect until the third anniversary of the completion of this offering and can be renewed thereafter for one-year extensions of the employment term, unless either party provides written notice of its intention not to review the agreement within 90 days of the expiration of the then current term. Mr. Ojile currently receives and will continue to receive an annual base salary of $250,000, an annual incentive bonus and medical and other benefits. Mr. Ojile s annual bonus is targeted to be one-half his base salary for the applicable year, although our Board of Directors may increase or decrease the amount of any award in its discretion. Pursuant to his new employment agreement, Mr. Ojile will also be entitled to receive an initial public offering cash bonus, as described below under the heading Transaction Bonuses Initial Public Offering Cash Bonuses.

If we terminate Mr. Ojile s employment without cause or if he resigns for Good Reason, as each such term is defined in his new employment agreement, he will be entitled to receive severance benefits consisting of his annual base salary and continued medical and other benefits for eighteen months following the date of his termination, plus, with respect to the fiscal year in which his employment terminates, the pro rata portion of the annual bonus he would have received had he been employed by our company for the full fiscal year. Mr. Ojile s new employment agreement provides that he will be restricted from engaging in competitive activities for one year after the termination of his employment. Mr. Ojile may not solicit employees for one year following termination of his employment with our company.

Agreement with W. Grant Raney. We will enter into an employment agreement with W. Grant Raney upon the consummation of this offering, which will replace the previous employment agreement we entered into with him in 2000. Mr. Raney s new employment agreement will remain in effect until the third anniversary of the completion of this offering and can be renewed thereafter for one-year extensions of the employment term, unless either party provides written notice of its intention not to review the agreement within 90 days of the expiration of the then current term. Mr. Raney currently receives and will continue to receive an annual base salary of $257,000, an annual incentive bonus and medical and other benefits. Mr. Raney s annual bonus is targeted to be one-half his base salary for the applicable year, although our Board of Directors may increase or decrease the amount of any award in its discretion. Pursuant to his new employment agreement, Mr. Raney will also be entitled to receive an initial public offering cash bonus, as described below under the heading Transaction Bonuses Initial Public Offering Cash Bonuses.

If we terminate Mr. Raney s employment without cause or if he resigned for Good Reason as each such term is defined in his new employment agreement, he will be entitled to receive severance benefits consisting of his annual base salary and continued medical and other benefits for eighteen months following the date of his termination, plus, with respect to the fiscal year in which his employment terminates, the pro rata portion of the annual bonus he would have received had he been employed by our company for the full fiscal year. Mr. Raney s new employment agreement provides that he will be restricted from engaging in competitive activities and soliciting employees for one year following termination of his employment with our company.

Transaction Bonuses

Debt Recapitalization Cash Bonuses. We paid an aggregate of $4,750,000 to the following executives in the following amounts in December 2004 as a transaction bonus in recognition of their efforts in connection with our debt recapitalization and their past service to Valor: John J. Mueller, $1,250,000; John A. Butler, $1,000,000; W. Grant Raney, $1,000,000; Kenneth R. Cole, $750,000; William M. Ojile, Jr., $500,000; and Cynthia Nash, $250,000. In addition, we intend to pay an aggregate of $367,500 in transaction bonuses to other members of our management in connection with the debt recapitalization. Therefore, the total debt recapitalization cash bonuses will be $5,117,500.

Initial Public Offering Cash Bonuses. In connection with the consummation of this offering we will agree to pay additional cash bonuses of up to an aggregate of $3,475,000 to our executive officers in the manner set forth on the table below if such officer remains an employee of Valor or its affiliates as of any date on which such payment becomes due. These payments are intended to compensate our executive officers for their efforts in connection with the completion of this offering.

Name	Date of IPO	January 1, 2006	January 1, 2007	Total
Kenneth R. Cole	$ 750,000	$	$	$ 750,000
John J. Mueller	200,000	400,000	400,000	1,000,000
John A. Butler	100,000	200,000	200,000	500,000
W. Grant Raney	100,000	200,000	200,000	500,000
William M. Ojile, Jr.	50,000	100,000	100,000	250,000
Cynthia Nash	30,000	60,000	60,000	150,000
Other	325,000			325,000
Total	$1,555,000	$960,000	$960,000	$3,475,000

In addition, in connection with the consummation of this offering we will agree to pay additional cash bonuses of up to an aggregate of $432,500 to other members of our management in amounts to be recommended by our Chief Executive Officer and approved by our Compensation Committee if, with respect to any such member of management, such person remains employed by Valor or its affiliates as of the date such bonus is to be paid.

Bonus and Incentive Plans

2005 Long-Term Incentive Plan. We will adopt our 2005 Long-Term Incentive Plan effective upon the completion of this offering. The plan provides for grants of stock options, restricted stock and performance awards. Our directors, officers and other employees and persons who engage in services for us are eligible for grants under the plan. The purpose of the plan is to provide these individuals with incentives to maximize stockholder value and otherwise contribute to our success and to enable us to attract, retain and reward the best available persons for positions of responsibility.

A total of 2,500,000 shares of our common stock are authorized for issuance under the plan, subject to adjustment in the event of a reorganization, stock split, merger or similar change in our corporate structure or the outstanding shares of common stock. In connection with this offering, we will grant 1,852,564 shares of restricted stock, leaving 647,436 shares available for issuance under the plan. Our compensation committee will administer the plan. Our board also has the authority to administer the plan and to take all actions that the compensation committee is otherwise authorized to take under the plan. The terms and conditions of each award made under the plan, including vesting requirements, will be set forth consistent with the plan in a written agreement with the grantee.

Stock Options. Under the plan, the compensation committee or the board may award grants of incentive stock options and other non-qualified stock options. The compensation committee also has the authority to grant options that will become fully vested and exercisable automatically upon a change in control. The

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compensation committee may not, however, award to any one person in any calendar year options to purchase common stock equal to more than 10% of the total number of shares authorized under the plan, and it may not award incentive options first exercisable in any calendar year whose underlying shares have a fair market value greater than $100,000, determined at the time of grant.

The compensation committee will determine the exercise price and term of any option in its discretion, however, the exercise price may not be less than 100% of the fair market value of a share of common stock on the date of grant. In the case of any incentive stock option, the option must be exercised within 10 years of the date of grant. The exercise price of an incentive option awarded to a person who owns stock constituting more than 10% of our voting power may not be less than 110% of such fair market value on such date and the option must be exercised within five years of the date of grant.

Restricted Stock. Under the plan, the compensation committee may award restricted stock subject to the conditions and restrictions, and for the duration that it determines in its discretion.

Stock Appreciation Rights. Provided that our common stock is traded on an established securities market, the compensation committee may grant stock appreciation rights, or SARs, subject to the terms and conditions contained in the plan. Under the plan, the exercise price of an SAR must equal the fair market value of a share of our common stock on the date the SAR was granted.

Upon exercise of a SAR, the grantee will receive an amount in shares of our common stock equal to the difference between the fair market value of a share of common stock on the date of exercise and the exercise price of the SAR, multiplied by the number of shares as to which the SAR is exercised.

Performance Awards. The compensation committee may grant performance awards contingent upon achievement by the grantee or by us, of set goals and objectives regarding specified performance criteria, over a specified performance cycle. Awards may include specific dollar-value target awards, performance units, the value of which is established at the time of grant, and/or performance shares, the value of which is equal to the fair market value of a share of common stock on the date of grant. The value of a performance award may be fixed or fluctuate on the basis of specified performance criteria. A performance award may be paid out in cash and/or shares of common stock or other securities.

Amendment and Termination of the Plan. The board may amend or terminate the plan in its discretion, except that no amendment will become effective without prior approval of our stockholders if such approval is necessary for continued compliance with the performance-based compensation exception of Section 162(m) of the Internal Revenue Code or any stock exchange listing requirements. If not previously terminated by the board, the plan will terminate on the tenth anniversary of its adoption.

Upon the consummation of this offering, we will grant to the following executives the number of shares of restricted common stock:

Name	Number of Shares of Restricted Stock
John J. Mueller	631,805
John A. Butler	274,698
W. Grant Raney	274,698
William M. Ojile, Jr.	219,758
Cynthia B. Nash	148,337

Except as set forth below, the restricted stock will vest on the dates and in the percentages set forth in the following table:

Name	Vested upon Issuance	Vested on 1/1/06	Vested on 1/1/07	Vested on 1/1/08
John J. Mueller	21.7391%	26.0870%	26.0870%	26.0869%
John A. Butler	20.0%	26.6667%	26.6667%	26.6666%
W. Grant Raney	20.0%	26.6667%	26.6667%	26.6666%
William M. Ojile, Jr.	15.0%	28.3334%	28.3333%	28.3333%
Cynthia B. Nash	18.5185%	27.1605%	27.1605%	27.1605%

Following a Change of Control (as defined below), the vesting of all of the restricted stock will accelerate upon either (A) the termination of the employment of such executive by Valor without Cause (as defined below) or (B) the resignation of such executive from Valor for Good Reason (as defined below), in either case if such termination or resignation occurs before the later of (i) the first anniversary of the Change of Control or (ii) January 1, 2007.

In circumstances other than those described above, if the executive is terminated by Valor without Cause or resigns from Valor for Good Reason, a portion of the unvested shares of restricted stock held by such person that are scheduled to vest on the next vesting date will vest as of the date of such person s termination of employment in an amount equal to the product of (A) the number of shares of restricted stock held by such person that are scheduled to vest on the next vesting date multiplied by (B) the quotient of (i) the number of days elapsed since the last vesting date divided by (ii) 365.

If any executive is terminated for Cause or resigns without Good Reason, there will be no further vesting of any of such person s restricted stock.

Cause means (A) with respect to Mr. Mueller, the definition set forth in his Employment Agreement with the Company dated as of April 9, 2004, and (B) with respect to the other executives a termination resulting from the following actions, failures and events by or affecting an employee: (i) gross negligence by the employee in the performance of, or willful disregard by the employee of, his or her obligations under his or her employment agreement that results in material damage to our business, (ii) willful failure by the employee to obey the reasonable and lawful orders and policies of our board of directors that are consistent with the provisions of his or her employment agreement, in each case, which such negligence, willful disregard or willful failure continues unremedied for a period of 15 days after written notice thereof, or (iii) conviction of a crime, or entry of a plea of no contest with respect thereto, that results in material damage to our business.

As used herein, the term Good Reason means (A) with respect to Mr. Mueller, the definition set forth in his employment agreement and (B) with respect to the other executives, any material breach by us of our obligations under the employee s employment agreement, or (2) any substantial diminution of the employee s scope of responsibilities as an officer of Valor, as set forth in the employee s employment agreement and our restated certificate of incorporation and bylaws, diminution of title or reduction in compensation, in each case, which continues unremedied for a period of fifteen (15) days after written notice thereof to Valor, or (3) upon demand by us that the employee relocate from his or her current principal office location to a location more than 50 miles from such current principal office location.

As used herein, the term Change of Control means an acquisition of beneficial interest by a person or group (as such terms are defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended) of voting equity interests of Valor, representing more than 50% of the voting power of all outstanding voting equity interests, whether by way of merger or consolidation or otherwise, or a sale of all or substantially all of the assets of Valor and its subsidiaries taken as a whole.

Annual Incentive Compensation Plan. We maintain an incentive compensation plan whereby certain management and supervisory personnel qualify for incentive payments if our company and executives both meet or exceed certain financial performance targets.

Individual awards are paid to participants in lump sum payments within 60 days following the end of the fiscal year, subject to withholding of applicable federal, state and local taxes. Individual awards are paid annually but we may choose to make semi-annual payments if we are meeting or exceeding financial objectives and the outlook for the remaining half of the year is favorable. Participants may also qualify for a separate mid-year award at our management s discretion. Our chief executive officer, in consultation with the board of directors, may adjust or eliminate any incentive payment that would otherwise be earned under the incentive compensation plan based on such factors as they may determine in their sole discretion. Our chief executive officer, in consultation with the board of directors, may also amend or cancel the bonus plan at any time for any reason.

In January 2004, our chief executive officer, with the approval of our compensation committee, authorized bonus amounts for fiscal year 2003 for members of our management team eligible to participate in the incentive compensation plan that qualified for payment. In August 2004, our chief executive officer, with the approval of our compensation committee, authorized bonus amounts for the first half of 2004 for members of our management team eligible to participate in the incentive compensation plan that qualified for payment. The payments made were approximately one-third of the 2004 bonus opportunity for the respective employees. Members of our senior management team did not receive any payment.

Savings Plan. We sponsor the Valor Telecommunications Southwest, LLC Savings Plan, a tax qualified plan in which our eligible employees may participate. Subject to certain limitations, participants in our 401(k) plan may elect to make pre-tax contributions up to 16% of their annual base salary each year. At our discretion, we make matching contributions equal to a percentage of a participant s contributions. Matching contributions fully vest after two years of employment with our company.

Pension Plan. We also sponsor the Valor Telecommunications Enterprises, LLC Pension Plan, a defined benefit plan, in which qualified employees may participate. This plan is offered only to union employees and is not available for management. Former employees of GTE Southwest Corporation, or GTE, who participated in the pension plan of GTE and became our employees upon our acquisition of assets from GTE also participate in our pension plan. We contribute the full cost of the pension plan to a pension trust fund. The average annual compensation and accredited service determines the amount of payments an employee receives under the pension plan.

PRINCIPAL AND SELLING STOCKHOLDERS

The following table shows information regarding the beneficial ownership of shares of our common stock immediately prior to completion of this offering and shows the number of and percentage owned by:

each person who is known by us to own beneficially more than 5% of our capital stock;

each person who will sell shares of common stock in the offering if the underwriters exercise their overallotment option;

each member of our board of directors;

each of our named executive officers;

each of our nominees to our board of directors; and

all members of our board of directors and our executive officers as a group.

Except as indicated in the footnotes to this table (1) each person has sole voting and investment power with respect to all shares attributable to such person and (2) each person s address is c/o Valor Communications Group, Inc., 201 E. John Carpenter Freeway, Suite 200, Irving, Texas 75062.

	Shares Beneficially Owned Before this Offering		Shares to be Sold in this Offering Assuming Full Exercise of Overallotment Option(2)	Shares Beneficially Owned After this Offering Assuming No Exercise of Overallotment Option		Shares Beneficially Owned After this Offering Assuming Full Exercise of Overallotment Option	
	Number	%(1)		Number	%(3)	Number	%(3)
Welsh, Carson, Anderson & Stowe(4)	22,088,706	53.3%	2,461,871	22,088,706	31.2%	19,626,635	27.7%
Vestar Capital Partners(5)	9,567,036	23.1%	1,066,283	9,567,036	13.5%	8,500,753	12.0%
Citicorp Venture Capital(6)	5,603,663	13.5%	624,550	5,603,663	7.9%	4,979,113	7.0%
Kenneth R. Cole	67,739	*		67,739	*	67,739	*
John Mueller(7)	631,805	*		631,805	*	631,805	*
John Butler(8)	274,698	*		274,698	*	274,698	*
William Ojile(9)	219,758	*		219,758	*	219,758	*
Grant Raney(10)	274,698	*		274,698	*	274,698	*
Anthony J. de Nicola(11)(12)	22,125,781	53.4%	2,466,004	22,125,781	31.2%	19,659,777	27.8%
Sanjay Swani(11)(13)	22,090,811	53.3%	2,462,107	22,090,811	31.2%	19,628,704	27.7%
Todd Khoury(14)	9,567,036	13.5%	1,066,284	9,567,036	13.5%	8,500,752	12.0%
Patrick J. Welsh(15)	128,057	*	14,272	128,057	*	113,785	*
Russell L. Carson(15)	128,057	*	14,272	128,057	*	113,785	*
Bruce K. Anderson(15)	128,057	*	14,272	128,057	*	113,785	*
Andrew M. Paul(15)	84,713	*	9,442	84,713	*	75,271	*
Pondfield Holdings, L.P.(15)	21,032	*	2,344	21,032	*	18,688	*
Thomas E. McInerney(15)	128,057	*	14,272	128,057	*	113,785	*
Robert A. Minicucci(15)	63,791	*	7,110	63,791	*	56,681	*
Paul B. Queally(15)	27,135	*	3,024	27,135	*	24,111	*
Lawrence B. Sorrel(15)	42,759	*	4,766	42,759	*	37,993	*
D. Scott Mackesy(15)	925	*	103	925	*	822	*
John Clark(15)	757	*	84	757	*	673	*
Sean M. Traynor(15)	1,261	*	141	1,261	*	1,120	*
John Almeida, Jr.(15)	883	*	98	883	*	785	*
Eric Lee(15)	2,105	*	47	2,105	*	2,058	*
Jon M. Rather(15)	2,103	*	234	2,103	*	1,869	*
Lauren Melkus(15)	20,895	*	2,329	20,895	*	18,566	*
Rudolph E. Rupert(15)	11,242	*	1,253	11,242	*	9,989	*

Richard M. Cashin, Jr.(16)	21,674	*	2,416	21,674	*	19,258	*
Natasha Foundation(16)	21,674	*	2,416	21,674	*	19,258	*
David Y. Howe(16)	8,669	*	966	8,669	*	7,703	*
Richard E. Mayberry(16)	8,669	*	966	8,669	*	7,703	*
David F. Thomas(16)	21,674	*	2,416	21,674	*	19,258	*
John D. Weber(16)	4,335	*	483	4,335	*	3,852	*
Guayacan Private Equity Fund, L.P.(17)	57,843	*	6,447	57,843	*	51,396	*
Anne K. Bingaman(18)	627,493	1.5%	69,937	627,493	*	557,556	*
Bingaman Family GST Trust U/A dated June 30, 2000(19)	88,936	*	9,912	88,936	*	79,024	*
The Unruh Family Trust U/A dated June 30, 2000	11,117	*	1,239	11,117	*	9,878	*
The Bingaman Trust U/A dated June 30, 2000(19)	60,102	*	6,699	60,102	*	53,403	*
The Bingaman II Trust U/A dated June 30, 2000(19)	11,117	*	1,239	11,117	*	9,878	*

	Shares Beneficially Owned Before this Offering		Shares to be Sold in this Offering Assuming Full Exercise of Overallotment Option(2)	Shares Beneficially Owned After this Offering Assuming No Exercise of Overallotment Option		Shares Beneficially Owned After this Offering Assuming Full Exercise of Overallotment Option	
	Number	%(1)		Number	%(3)	Number	%(3)
The Bingaman III Trust U/A dated September 30, 2000(19)	1,737	*	194	1,737	*	1,543	*
Boban Mathew	251,553	*	28,037	251,553	*	223,516	*
Michael A. Page	230,211	*	25,658	230,211	*	204,553	*
Revocable Trust of Mark Zitz(20)	18,758	*	2,091	18,758	*	16,667	*
All directors, director nominees and executive officers as a group (8 persons)	33,311,957	80.4%	3,532,523	33,311,957	47.0%	29,779,434	42.0%

* Less than 1%

(1) The respective percentages of beneficial ownership are based on 41,458,333 shares of common stock outstanding immediately prior to the completion of the offering.

(2) The selling stockholders shall sell shares of common stock in connection with this offering only to the extent the underwriters exercise the overallotment option.

(3) The respective percentages of beneficial ownership are based on 70,833,333 shares of common stock as of the completion of this offering.

(4) Shares are held by the following affiliates of Welsh, Carson, Anderson & Stowe: SCD Sharing Partnership, LP, SCE Sharing Partnership, L.P., KCS Holding Co. and WCA Management Corporation. Welsh, Carson, Anderson & Stowe disclaims beneficial ownership of such shares. WCAS VIII Associates LLC, a limited liability company and affiliate of Welsh, Carson, Anderson & Stowe, exercises voting and investment control over the shares held by SCD Sharing Partnership, LP as general partner Voting and investment control over the shares held by WCAS VIII Associates LLC is determined by an affirmative vote of two thirds of its managing members. The shareholders of WCA Management Corporation exercise voting and investment control over the shares held by WCA Management Corporation. As members of WCAS VIII Associates LLC, Mr. de Nicola and Mr. Swani may be deemed to share beneficial ownership of the shares held by WCAS VIII Associates LLC. Mr. de Nicola and Mr. Swani disclaim beneficial ownership of such shares. The address of Welsh, Carson, Anderson & Stowe is 320 Park Avenue, Suite 2500, New York, NY 10022.

(5) Shares are held by the following affiliates of Vestar Capital Partners: Vestar Capital Partners III, L.P., Vestar Capital Partners IV, L.P. and Vestar/ Valor LLC. Vestar Capital Partners disclaims beneficial ownership of such shares. Vestar Capital Partners III, L.P. is a limited partnership, the general partner of which is Vestar Associates III, L.P. As general partner of Vestar Associates III, L.P., Vestar Associates Corporation III, a corporation affiliated with Vestar Capital Partners, exercises voting and investment control over shares held by Vestar Capital Partners III, L.P. Vestar Capital Partners IV, L.P. is a limited partnership, the general partner of which is Vestar Associates IV, L.P. As general partner of Vestar Associates IV, L.P., Vestar Associates Corporation IV, a corporation and affiliate of Vestar Capital Partners, exercises voting and investment control over shares held by Vestar Capital Partners IV, L.P. Vestar/ Valor LLC is a limited liability company, the managing member of which is Vestar Capital Partners IV, LP. As general partner of Vestar Associates IV, LP, Vestar Associates Corporation IV exercises voting and investment control over the shares held by Vestar/ Valor LLC. Mr. Khoury may be deemed to share beneficial ownership of the shares held by Vestar Associates Corporation III and Vestar Associates Corporation IV. Mr. Khoury disclaims beneficial ownership of such shares. The address of Vestar Capital Partners is 245 Park Avenue, 41st Floor, New York, NY 10167.

(6) Shares are held by the following affiliates of Citicorp Venture Capital: Citicorp Venture Capital, Ltd., a New York corporation; CCT Partners VI, L.P., a Delaware limited partnership; and Citicorp Mezzanine III, L.P., a Delaware limited partnership. Citicorp Venture Capital disclaims beneficial ownership over such shares. As general partner of CCT Partners VI, L.P., CCT VI Corporation, a Delaware corporation, exercises voting and investment control over shares held by CCT Partners VI, L.P. As general partner of Citicorp Mezzanine III, L.P., Citicorp Capital Investors Limited, a Delaware corporation, exercises voting and investment control over shares held by Citicorp Mezzanine III, L.P. The address of Citicorp Venture Capital is 299 Park Avenue, New York, NY 10022.

(7) Represents shares of restricted stock that will be issued to Mr. Mueller upon the consummation of this offering, of which 137,349 shares are fully vested.

(8) Represents shares of restricted stock that will be issued to Mr. Butler upon the consummation of this offering, of which 54,940 shares are fully vested.

(9) Represents shares of restricted stock that will be issued to Mr. Ojile upon the consummation of this offering, of which 32,964 shares are fully vested.

(10) Represents shares of restricted stock that will be issued to Mr. Raney upon the consummation of this offering, of which 54,940 shares are fully vested.

(11) As members of WCAS VIII Associates LLC, Mr. de Nicola and Mr. Swani may be deemed to share beneficial ownership of the shares held by WCAS VIII Associates LLC. Mr. de Nicola and Mr. Swani disclaim beneficial ownership of such shares and any other shares held by affiliates of Welsh, Carson, Anderson & Stowe.

(12) Includes 37,075 shares held directly by Mr. de Nicola, of which 4,132 shares will be sold in this offering if the underwriters exercise the overallotment option in full.

(13) Includes 2,105 shares held directly by Mr. Swani, of which 235 shares will be sold in this offering if the underwriters exercise the overallotment option in full.

(14) As an officer of Vestar Associates Corporation III and Vestar Associates Corporation IV, Mr. Khoury may be deemed to share beneficial ownership of the shares held respectively by Vestar Associates Corporation III and Vestar Associates Corporation IV. Mr. Khoury disclaims beneficial ownership of such shares and any other shares held by affiliates of Vestar Capital Partners.

(15) The address of such stockholder is c/o Welsh, Carson, Anderson & Stowe, 320 Park Avenue, Suite 2500, New York, NY 10022.

(16) The address of such stockholder is c/o Citicorp Venture Capital Ltd., 399 Park Avenue, 14th Floor, New York, NY 10043.

(17) The address of such stockholder is c/o Advent Morro Equity Partners, Banco Popular Building, Suite 903 Calle Tetuan, San Juan, PR 00902.

(18) The address of such stockholder is c/o Valor Telecom, 1200 19th Street NW, Washington, DC 20036.

(19) The address of such stockholder is c/o Fifth Floor Partners, LLC, 4300 Montgomery Avenue, Suite 305, Bethesda, ND 20814.

(20) The address of such stockholder is c/o Mark S. Zitz, 104 West 6th Street, New Castle, DE 19720.

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RELATED PARTY TRANSACTIONS

Equity Sponsors

Management Fees. Pursuant to the limited liability company operating agreement of our subsidiary, Valor Telecommunications, LLC, or VTC, each of WCAS and Vestar provides management services to us. In return for these services we paid management fees of $571,430 to affiliates of WCAS in each of 2000, 2001, 2002 and 2003, and $428,570 to an affiliate of Vestar in each of fiscal 2000, 2001, 2002 and 2003. For the year ended December 31, 2004, we accrued an aggregate of $1,000,000 of management fees payable to WCAS and Vestar. We will cease paying these fees upon the closing of the offering. We also paid a transaction fee of $750,000 to affiliates of WCAS and a $500,000 transaction fee to affiliates of Vestar and CVC in connection with our acquisition of Kerrville Communications Corporation in 2002.

Securityholders Agreement. We will also enter into a securityholders agreement with WCAS, Vestar, CVC and certain of their respective affiliates which will contain the following registration rights:

WCAS and Vestar will have demand registration rights relating to the shares of our common stock that they receive pursuant to our reorganization, subject to the requirement that the securities covered by each demand registration have an aggregate public offering price of at least $25.0 million if registered pursuant to a long-form registration statement, or $10.0 million if registered pursuant to a short-form registration statement; provided that the entities comprising WCAS and Vestar that initiate a demand for registration must hold a majority of the shares of common stock held by all such WCAS or Vestar entities, as the case may be, to initiate a demand for registration; provided, further, that WCAS or Vestar may exercise a demand right for less than an aggregate public offering price of $25.0 million if registered pursuant to a long-form registration statement, or $10.0 million if registered pursuant to a short-form registration statement, if such proposed offering is for all of the remaining shares of common stock held by WCAS or Vestar; provided, further, that WCAS can request up to three registrations that are registered pursuant to a long-form registration statement and Vestar can request up to two registrations that are registered pursuant to a long-form registration statement; and

WCAS, Vestar and CVC will have the right to include in our future public offerings of securities the shares of our common stock held by each of them.

We have agreed to pay all costs and expenses in connection with each such registration, except underwriting discounts and commissions applicable to the securities sold, and to indemnify WCAS and Vestar that have included securities in such offering against certain liabilities, including liabilities under the Securities Act.

Pursuant to the Securityholders Agreement, WCAS, Vestar, CVC and certain of their respective affiliates will agree to vote for each other s designees to our board of directors (to the extent permitted by law and the rules of any securities exchange, system or market on which our securities are then listed), and to vote such that both WCAS and Vestar have at least one designee on each of our committees.

Management

Transaction Bonuses.

Debt Recapitalization Cash Bonuses. We paid an aggregate of $4,750,000 to the following executives in the following amounts in December 2004 as a transaction bonus in recognition of their efforts in connection with our debt recapitalization and their past service to Valor: John J. Mueller, $1,250,000; John A. Butler, $1,000,000; W. Grant Raney, $1,000,000; Kenneth R. Cole, $750,000; William M. Ojile, Jr., $500,000; and Cynthia Nash, $250,000. In addition, we intend to pay an aggregate of $367,500 in transaction bonuses to other members of our management in connection with the debt recapitalization. Therefore, the total debt recapitalization cash bonuses will be $5,117,500.

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Initial Public Offering Cash Bonuses. In connection with the consummation of this offering we will agree to pay additional cash bonuses of up to an aggregate of $3,475,000 to our executive officers in the manner set forth on the table below if such officer remains an employee of Valor or its affiliates as of any date on which such payment becomes due. These payments are intended to compensate our executive officers for their efforts in connection with the completion of this offering.

Name	Date of IPO	January 1, 2006	January 1, 2007	Total
Kenneth R. Cole	$ 750,000	$	$	$ 750,000
John J. Mueller	200,000	400,000	400,000	1,000,000
John A. Butler	100,000	200,000	200,000	500,000
W. Grant Raney	100,000	200,000	200,000	500,000
William M. Ojile, Jr.	50,000	100,000	100,000	250,000
Cynthia Nash	30,000	60,000	60,000	150,000
Other	325,000			325,000
Total	$1,555,000	$960,000	$960,000	$3,475,000

In addition, in connection with the consummation of this offering, we will agree to pay additional cash bonuses of up to an aggregate of $432,500 to other members of our management in amounts to be recommended by our Chief Executive Officer and approved by our Compensation Committee if, with respect to any such member of management, such person remains employed by Valor or its affiliates as of the date such bonus is to be paid. The IPO transaction bonuses will be paid from our excess cash and not from the proceeds of this offering.

Reorganization

In connection with our reorganization we will issue common stock to our equity sponsors and certain of members of our management in exchange for their equity interests in our subsidiaries. As a result, our equity sponsors and our officers will receive the following number of shares of common stock:

Related Party	Common Stock(1)
Welsh, Carson, Anderson & Stowe	22,088,706
Vestar Capital Partners	9,567,036
Citicorp Venture Partners	5,603,663
Kenneth R. Cole	67,739
John J. Mueller	631,805
John A. Butler	274,698
William M. Ojile, Jr.	219,758
W. Grant Raney	274,698
Cynthia B. Nash	148,337

(1) Shares issued to Messrs. Mueller, Butler, Ojile and Raney and Ms. Nash represent shares of restricted stock, a portion of which remain subject to vesting. See Management Bonus and Incentive Plans 2005 Long-Term Incentive Plan.

Indemnification and Insurance

For a description of our limitation on liability and indemnification of, and provision of insurance covering, our directors and executive officers, see Management Limitations on Liability and Indemnification of Officers and Directors.

DETAILED TRANSACTION STEPS

Immediately prior to and in connection with the consummation of this offering, we will reorganize our enterprise structure. All the equity interests in our subsidiary Valor Telecommunications, LLC, or VTC, are currently held by the following individuals and entities to whom we refer to collectively as our existing equity holders :

affiliates of Welsh, Carson, Anderson & Stowe; affiliates of Vestar Capital Partners; and affiliates of Citicorp Venture Capital, to whom we refer collectively as our equity sponsors ;

a group of individuals who assisted us in forming our company, to whom we refer collectively as our founders ; and

our management and employees.

VTC together with our equity sponsors collectively hold substantially all of the outstanding equity interests of Valor Telecommunications Southwest, LLC, or VTS. VTC also currently holds all of the outstanding equity interests of Valor Telecommunications Southwest II, LLC, or VTS II.

The equity interests in VTC are held by certain of our founders, our management through a Delaware limited liability company and our equity sponsors both directly and indirectly through various entities. The equity interests in Valor Telecommunications Southwest, LLC are held by VTC, our equity sponsors, both directly and indirectly through various entities, and an individual investor.

Immediately prior to the consummation of this offering, the following transactions will take place:

1. Our founders, our management and our equity sponsors will contribute directly or indirectly their equity interests in VTC to Valor Communications Group, Inc. in exchange for an aggregate of 37,288,116 shares of common stock.

2. Our equity sponsors will contribute, directly and indirectly, their equity interests in VTS to Valor Communications Group, Inc. in exchange for an aggregate of 2,317,653 shares of common stock. The remainder of the equity interests in VTS are held by an individual investor. In connection with and as a result of this offering, such interests will be redeemed for cash to the extent of their value, if any, under the limited liability company agreement of VTS.

3. To the extent, if any, that the value of the equity interests exceeds the exercise price, our former employees who hold options to acquire Class B common units of VTS shall receive cash based on the initial offering price of our common stock in respect of such options. Such options shall be cancelled upon their surrender.

4. Our current employees who hold options to purchase Class B common units of VTS will agree to forfeit such options in partial consideration for the receipt of restricted shares of our common stock and cash. Such options shall be cancelled upon their surrender.

In addition, we will terminate the Valor Telecom Executive Incentive Plan and in connection with such termination we will record a compensation expense of $1.2 million. As a result of this reorganization, each of Valor Telecommunications, LLC, Valor Telecommunications Southwest, LLC and Valor Telecommunications Southwest II, LLC will be a wholly-owned subsidiary of Valor Communications Group, Inc.

DESCRIPTION OF CERTAIN INDEBTEDNESS

New Credit Facility

On November 10, 2004, Valor Telecommunications Enterprises, LLC, or VTE, Valor Telecommunications Enterprises II, LLC, or VTE II, and certain of their respective subsidiaries, entered into a $1.3 billion senior secured credit facility, which we refer to as our existing credit facility, with a syndicate of financial institutions. Currently, the existing credit facility (i) prohibits us from paying dividends on our common stock and requires us to use 50% of the net cash proceeds from any equity issuance to prepay amounts outstanding under the credit facility, (ii) prohibits us from issuing debt instruments such as the senior notes we expect to issue simultaneously with this offering, and (iii) requires us to prepay amounts outstanding with excess cash flow on the last day of our fiscal year. Concurrent with the closing of this offering, we will amend the existing credit facility to permit us to (i) use the net proceeds of this offering in the manner set forth in Use of Proceeds, (ii) issue the senior notes and use the proceeds therefrom to repay a portion of our outstanding term loans, and (iii) use excess cash to pay dividends, subject to our compliance with certain financial ratios and other tests described below. In addition, the existing credit facility will be amended to make VTE the only borrower thereunder. We refer to the existing credit facility, as so amended, as our new credit facility.

The existing credit facility is currently comprised of a six-year $100.0 million senior secured revolving credit facility, and a seven-year senior secured term loan facility in an aggregate principal amount of $1.2 billion in three tranches, consisting of a $900.0 million Term Loan B, a $270.0 million Term Loan C and a $30.0 million Term Loan D. In addition, as a condition of borrowing Term Loans C and D under the existing credit facility, we invested $30 million, representing 10% of the total loan amounts under Term Loans C and D, in subordinated capital certificates issued to us by the Rural Telephone Finance Cooperative, or RTFC. The RTFC will redeem the subordinated capital certificates in proportion to our principal repayments on Term Loans C and D. The new credit facility will consist of a revolver, which we refer to as the new revolver and Terms Loans B, C and D, which we collectively refer to as the new term loan, in the same amounts as the existing credit facility. Furthermore, Valor Communications Group, Inc. and each of its existing and future wholly-owned, direct and indirect subsidiaries, subject to certain exceptions, will guarantee the obligations of VTE under the new credit facility.

Upon completion of this offering and assuming we use the proceeds of our issuance of senior notes to repay a portion of our term loans, on a pro forma basis after giving effect to such offerings and our debt recapitalization, we would have had $868.5 million outstanding under the new term loan and no amount drawn on the new revolver as of September 30, 2004. We expect to borrow under the new revolver from time to time as we need to provide for our working capital and general corporate needs.

Banc of America Securities LLC, a lead manager in this offering, is one of the senior lead arrangers and senior book managers and an affiliate of Banc of America Securities LLC is the administrative agent of the existing credit facility, the second lien loan and the subordinated loan. An affiliate of J.P. Morgan Securities Inc., a lead manager in this offering is one of the senior syndication agents and Merrill Lynch, Pierce, Fenner & Smith Incorporated, one of the lead managers in this offering, is one of the documentation agents on the existing credit facility, the second lien loan and the subordinated loan. An affiliate of Wachovia Capital Markets, LLC, a co-manager in this offering, is a senior syndication agent on the existing credit facility and a lead arranger on the second lien loan and the senior subordinated loan. An affiliate of Banc of America Securities LLC will serve as the administrative agent of the new credit facility and Merrill Lynch, Pierce, Fenner & Smith Incorporated and an affiliate of J.P. Morgan Securities Inc. will serve as lenders and co-syndication agents of the new credit facility. CIBC World Markets Corp., a co-manager in this offering and Wachovia Bank National Association, an affiliate of Wachovia Capital Markets, LLC, a co-manager in this offering, will serve as lenders and co-documentation agents of the new credit facility.

Interest Rate and Fees. Borrowings under the new revolver or Term Loan B will be outstanding at either the base rate plus a margin to be determined or LIBOR plus a margin to be determined. Borrowings under the Term Loan C and Term Loan D will be outstanding at either an RFTC fixed rate or at an RFTC variable rate plus 1.18%.

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We will pay certain fees with respect to the loans under the new credit facility, including: (i) in respect of the new revolver, a commitment fee of 0.50% of any unused amounts; (ii) a commission on the aggregate face amount of all outstanding letters of credit and a fronting fee on the face amount of each letter of credit; and (iii) customary annual administration fees.

Payment of Dividends. Subject to certain conditions and restrictions, the restricted payments covenant in the new credit facility will permit us, during any fiscal quarter, to pay:

- current dividends on our common stock in an amount not to exceed the difference (calculated including all of our subsidiaries on a consolidated basis) between (a) the sum of (i) the amount of regularly-scheduled dividend payments to be made during the period commencing on the closing date of the new credit facility through the date of delivery of financial statements as required under the credit agreement with respect to the first full fiscal quarter following the closing date of the new credit facility *plus* (ii) available cash (as defined below) for a period commencing on the first day of the first full fiscal quarter after the closing of the new credit facility and ending on the last day of the fiscal quarter most recently ended for which a compliance certificate has been delivered and (b) the aggregate amount of (1) dividends paid during the period commencing on the closing date of the new credit facility and ending on the date of any dividends, other than any such dividends paid from the proceeds of equity as described in the bullet point below, (2) certain investments made during such period, other than any such investments paid from the proceeds of equity, and (3) voluntary prepayments of certain indebtedness during such period other than prepayments from the proceeds of equity and certain refinancings (such difference, cumulative distributable cash); *provided* that no dividend suspension period, as defined below, and no event of default shall have occurred and be continuing; and

- dividends from the portion of the proceeds of any incurrence, issuance or sale of our equity not used to fund certain permitted acquisitions or investments or prepayments of certain indebtedness other than certain refinancings; *provided* that no dividend suspension period and no event of default shall have occurred and be continuing.

Available cash will be defined in the new credit facility as, on any date of determination, for the period commencing on the first day of the first full fiscal quarter that starts after the date of the closing of the new credit facility and ending on the last day of the fiscal quarter most recently ended for which a compliance certificate has been delivered, an amount equal to the sum (as calculated for us and our subsidiaries on a consolidated basis) of: (a) Adjusted EBITDA for such period *minus* (b) to the extent not deducted in the determination of Adjusted EBITDA, the sum of the following: (i) interest paid or accrued in such period (but not including amortization of deferred transaction costs or other non-cash interest expense); (ii) capital expenditures during such period (other than (A) any thereof in excess of a certain amount, financed with the proceeds of permitted debt or (B) any thereof financed with equity, or from the proceeds of permitted asset sales or casualty events); (iii) payments made for permitted acquisitions (other than any thereof financed with the proceeds of permitted debt or equity); (iv) certain other permitted investments; (v) scheduled principal payments, if any, during such period; (vi) mandatory prepayments required under the new credit facility made during such period, in each case other than prepayments of revolving loans and Term Loan D; (vii) cash taxes paid during such period; (viii) costs and expenses associated with any permitted securities offering, investment, acquisition or debt offering (in each case, whether or not successful); and (ix) the cash cost of any extraordinary or unusual losses during such period; *plus* (c) to the extent not included in the determination of Adjusted EBITDA, interest and dividends received in cash.

The ratio of adjusted total debt (defined as total debt minus the sum of debt incurred to maintain our investment in RTFC subordinated capital certificates and, so long as no revolving loans are outstanding, the amount of our cash and cash equivalents) to Adjusted EBITDA (the total leverage ratio) will be tested quarterly. Within 45 days after the end of the first three fiscal quarters and within 60 days after the end of the fourth fiscal quarter of each of our fiscal years, we will be required to deliver to the administrative agent a compliance certificate that demonstrates the calculation of the total leverage ratio for the period ended on the last day of that fiscal quarter and that states the amount of dividends that we intend to pay on the next succeeding dividend payment period. If the total leverage ratio is greater than 5.0 to 1.0, we will be required to suspend dividends on the common stock (the period of such suspension, a dividend suspension period).

Mandatory Prepayments. Subject to certain conditions and exceptions, our new credit facility will require us to prepay outstanding loans in an amount equal to (i) 100% of the net proceeds from certain dispositions of assets in excess of $10.0 million in any fiscal year which are not reinvested, (ii) 100% of the net proceeds from certain debt issuances and (iii) 50% of any increase in available cash for any quarter during a dividend suspension period, as described above in Payment of Dividends. In addition, 100% of the net cash proceeds that we receive from the RFTC on any capital certificate of the RFTC shall be used to prepay the Term Loan D.

Voluntary Prepayments. The new credit facility will provide for voluntary commitment reductions and prepayments of the new revolver and new term loan, subject to certain conditions and restrictions.

Covenants. Our new credit facility will contain negative covenants that, among other things, limit or restrict our ability (as well as those of our subsidiaries) to: create liens and encumbrances; make investments, incur debt, enter into loans, merge, dissolve, liquidate or consolidate our business; make acquisitions, make dispositions or transfers; declare dividends or distributions; amend material documents; change the nature of our business; or make certain restricted payments (other than certain permitted restricted payments); engage in certain transactions with affiliates; enter into sale/leaseback or off-balance sheet transactions; become general or limited partners or joint venturers with any party other than with certain of our subsidiaries and make changes to our fiscal year.

In addition, the financial covenants under our new credit facility will require us to maintain certain ratios. Our ratio of Adjusted EBITDA to net interest expense for any measurement period of four fiscal quarters ending during any such period set forth below must be above the ratio set forth for such period:

Period	Ratio
Closing of new credit facility, to end of fiscal quarter ending March 31, 2006; and	2.50 to 1.0
Thereafter	2.75 to 1.0

We may not permit our ratio of total debt (defined as total debt minus the sum of debt incurred to maintain our investment in RTFC subordinated capital certificates, and minus, to the extent no amounts are outstanding on the new revolver, cash and cash equivalents) to Adjusted EBITDA on any date to exceed 5.25 to 1.0

Collateral. Except as otherwise provided, the new credit facility will be secured by substantially all of our tangible and intangible assets, properties and revenues as well as those of all of our current and certain of our future subsidiaries.

Events of Default. The new credit facility will contain customary events of default such as non-payment of obligations under the new credit facility and violation of affirmative and negative covenants.

Interest Rate Hedge. We will be required to enter into new arrangements to hedge our interest rate risk under the terms of our new credit facility.

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DESCRIPTION OF CAPITAL STOCK

General

The following is a description of terms of our restated certificate of incorporation and by-laws, the forms of which have been filed with the Securities and Exchange Commission, or SEC, as exhibits to the registration statement of which this prospectus is part and which will become effective prior to the offering contemplated by this prospectus.

Authorized Capitalization

Our authorized capital stock consists of:

200,000,000 shares of common stock, par value $0.0001 per share; and

20,000,000 shares of preferred stock, par value $0.0001 per share.

After this offering there will be 70,833,333 shares of our common stock and no shares of our preferred stock outstanding. All shares of common stock to be outstanding upon completion of this offering will be validly issued, fully paid and nonassessable.

Common stock

Dividends. Holders of shares of our common stock will be entitled to receive such dividends and other distributions in cash, stock or property of ours as may be declared by our board of directors from time to time out of our assets or funds legally available for dividends or other distributions. See Dividend Policy for a complete description of the dividends we expect to declare on our shares of common stock.

Rights Upon Liquidation. In the event of our voluntary or involuntary liquidation, dissolution or winding up, holders of shares of our common stock will be entitled to share equally in our assets remaining after payment of all debts and other liabilities, subject to the liquidation preference of any outstanding preferred stock.

Voting Rights. Shares of our common stock carry one vote per share. Our bylaws provide that the presence of holders of a majority of the outstanding shares entitled to vote at a stockholders meeting shall constitute a quorum. When a quorum is present, the affirmative vote of the holders of a majority of shares present in person or by proxy is required to take action, unless otherwise specified by law or our certificate of incorporation, and except for the election of directors, which is determined by a plurality vote. Holders of shares of our common stock have no cumulative voting rights.

Other Rights. Holders of shares of our common stock have no preemptive rights. The holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future.

Preferred stock

Our board of directors has the authority to issue shares of preferred stock from time to time on terms that it may determine, to divide shares of preferred stock into one or more series and to fix the designations, voting powers, preferences and relative participating, optional or other special rights of each series, and the qualifications, limitations or restrictions of each series, to the fullest extent permitted by the General Corporation Law of the State of Delaware, or DGCL. The issuance of shares of preferred stock could have the effect of decreasing the market price of our shares of common stock, impeding or delaying a possible takeover and adversely affecting the voting and other rights of the holders of shares of our common stock.

Delaware Anti-Takeover Law and Charter and Bylaw Provisions

Provisions of Delaware law and our restated certificate of incorporation and bylaws could make it more difficult to acquire us by means of a tender offer, a proxy contest or otherwise, or to remove incumbent officers and directors. These provisions, summarized below, are expected to discourage types of coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to first negotiate with us. We believe that the benefits of increased protection of our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us outweigh

the disadvantages of discouraging takeover or acquisition proposals because, among other things, negotiation of these proposals could result in an improvement of their terms.

Delaware Anti-Takeover Statute. We are subject to Section 203 of the Delaware General Corporation Law, or DGCL, an anti-takeover statute. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years following the date the person became an interested stockholder, unless (with certain exceptions) the business combination or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Generally, a business combination includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. Generally, an interested stockholder is a person who, together with affiliates and associates, owns (or within three years prior to the determination of interested stockholder status, did own) 15% or more of a corporation s voting stock. The existence of this provision would be expected to have an anti-takeover effect with respect to transactions not approved in advance by the board of directors, including discouraging attempts that might result in a premium over the market price for the shares of common stock held by stockholders.

No Cumulative Voting. The DGCL provides that stockholders are denied the right to cumulate votes in the election of directors unless our restated certificate of incorporation provides otherwise. Our restated certificate of incorporation does not expressly provide for cumulative voting.

No Stockholder Action by Written Consent; Calling of Special Meeting of Stockholders. Our organizational documents prohibit stockholder action by written consent. Our restated certificate of incorporation provides that special meetings of our stockholders may be called only by our board of directors.

Advance Notice Requirements for Stockholder Proposals and Director Nominations. Our by-laws provide that stockholders seeking to bring business before or to nominate candidates for election as directors at an annual meeting of stockholders must provide timely notice of their proposal in writing to the corporate secretary. To be timely, a stockholder s notice regarding (1) a stockholder s proposal must be delivered or mailed and received at our principal executive offices not less than 60 days not more than 90 days prior to the meeting or (2) a director nomination must be delivered or mailed and received at our principal executive offices not less than 60 nor more than 90 days in advance of the anniversary date of the immediately preceding annual meeting of stockholders; provided that if less than 70 days notice or prior public announcement of the date of the meeting is given, notice regarding stockholder nominations for the election of directors or notice of other stockholder proposals must be received by our corporate secretary by the later of 10 days following the day on which notice of the date of the special meeting was mailed or public disclosure of the date of the special meeting was made. Our by-laws also specify requirements as to the form and content of a stockholder s notice. These provisions may impede stockholders ability to bring matters before an annual meeting of stockholders or make nominations for directors at an annual meeting of stockholders.

Limitations on Liability and Indemnification of Officers and Directors. The DGCL authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breaches of directors fiduciary duties as directors. Our organizational documents include provisions that eliminate, to the extent allowable under the DGCL, the personal liability of directors for monetary damages for actions taken as a director. Our organizational documents also provide that we must indemnify and advance reasonable expenses to our directors and officers to the fullest extent authorized by the DGCL. We will also be expressly authorized to carry directors and officers insurance for our directors, officers and certain employees for some liabilities.

The limitation of liability and indemnification provisions in our restated certificate of incorporation and by-laws may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duty. These provisions may also have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit us and our stockholders. In addition, your investment may be adversely affected to the extent that, in a class action or direct suit, we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions.

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There is currently no pending material litigation or proceeding involving any of our directors, officers or employees for which indemnification is sought.

Removal of Directors. Our organizational documents provide that directors may be removed only for cause by the affirmative vote of at least a majority in voting power of the outstanding shares of our capital stock entitled to vote.

Authorized but Unissued Shares. Our authorized but unissued shares of common stock and preferred stock will be available for future issuance without your approval. We may use additional shares for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions and employee benefit plans. The existence of authorized but unissued shares of common stock and preferred stock could render more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

Supermajority Provisions. The DGCL provides generally that the affirmative vote of a majority in voting power of the outstanding shares entitled to vote is required to amend a corporation s certificate of incorporation, unless the certificate of incorporation or by-laws require a greater percentage. Our organizational documents provide that the following provisions in the certificate of incorporation or by-laws may be amended only by a vote of two-thirds or more in voting power of all the outstanding shares of our capital stock entitled to vote:

- the prohibition on stockholder action by written consent;
- the ability to call a special meeting of stockholders being vested solely in our board of directors and the chairman of our board of directors;
- the provisions relating to advance notice requirements for stockholder proposals and directors nominations;
- the provisions relating to the removal of directors;
- the limitation on the liability of our directors to us and our stockholders and the obligation to indemnify and advance reasonable expenses to the directors and officers to the fullest extent authorized by the DGCL;
- the provisions granting authority to our board of directors to amend or repeal our by-laws without a stockholder vote, as described in more detail in the next succeeding paragraph; and
- the supermajority voting requirements listed above.

In addition, our restated certificate of incorporation grants our board of directors the authority to amend and repeal our by-laws without a stockholder vote in any manner not inconsistent with the laws of the State of Delaware or our restated certificate of incorporation. Our restated certificate of incorporation provides that these provisions in our restated certificate of incorporation may be amended only by a vote of two-thirds or more in voting power of all the outstanding shares of our capital stock entitled to vote.

Corporate Opportunities and Transactions with Welsh, Carson and Vestar. In recognition that directors, officers, stockholders, members, managers and/or employees of Welsh, Carson, Anderson & Stowe and Vestar Capital Partners and their respective affiliates and investment funds, which we refer to as the Sponsor Entities, may serve as our directors and/or officers, and that the Sponsor Entities may engage in similar activities or lines of business that we do, our amended and restated certificate of incorporation provides for the allocation of certain corporate opportunities between us and the Sponsor Entities. Specifically, none of the Sponsor Entities or any director, officer, stockholder, member, manager or employee of the Sponsor Entities has any duty to refrain from engaging directly or indirectly in the same or similar business activities or lines of business that we do. In the event that any Sponsor Entity acquires knowledge of a potential transaction or matter which may be a corporate opportunity for itself and us, we will not have any expectancy in such corporate opportunity, and the Sponsor Entity will not have any duty to communicate or offer such corporate opportunity to us and may pursue or acquire such corporate opportunity for itself or direct such opportunity to another person. In addition, if a director or officer of our company who is also a director, officer, member, manager or employee of any Sponsor Entity acquires knowledge of a potential transaction or matter which may be a corporate opportunity for us and a Sponsor

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Entity, we will not have any expectancy in such corporate opportunity unless such corporate opportunity is expressly offered to such person in his or her capacity as a director or officer of our company.

The above provision shall automatically, without any need for any action by us, be terminated and void at such time as the Equity Sponsors beneficially own less than 20% of us.

In recognition that we may engage in material business transactions with the Sponsor Entities, from which we are expected to benefit, our amended and restated certificate of incorporation provides that any of our directors or officers who are also directors, officers, stockholders, members, managers and/or employees of any Sponsor Entity will have fully satisfied and fulfilled his or her fiduciary duty to us and our stockholders with respect to such transaction, if:

- the transaction was fair to us and was made on terms that are not less favorable to us than could have been obtained from a *bona fide* third party, at the time we entered into the transaction; and either

  - the transaction was approved, after being made aware of the material facts of the relationship between each of Valor or a subsidiary thereof and the Sponsor Entity and the material terms and facts of the transaction, by (i) an affirmative vote of a majority of the members of our board of directors who do not have a material financial interest in the transaction, referred to as Interested Persons or (ii) an affirmative vote of a majority of the members of a committee of our board of directors consisting of members who are not Interested Persons; or

  - the transaction was approved by an affirmative vote of the holders of a majority of shares of our common stock entitled to vote, excluding the Sponsor Entities and any Interested Person.

By becoming a stockholder in our company, you will be deemed to have notice of and consented to these provisions of our amended and restated certificate of incorporation. Any amendment to the foregoing provisions of our amended and restated certificate of incorporation requires the affirmative vote of at least 80% of the voting power of all shares of our common stock then outstanding.

Listing

We have applied to list our common stock on the New York Stock Exchange under the trading symbol VCG.

Transfer Agent and Registrar

The transfer agent and registrar for the common stock is The Bank of New York.

SHARES ELIGIBLE FOR FUTURE SALE

Future sales or the availability for sale of substantial amounts of our common stock in the public market could adversely affect prevailing market prices and could impair our ability to raise capital through future sales of our securities. Upon completion of this offering, 70,833,333 shares of our common stock will be outstanding. The shares of common stock sold in this offering will be freely tradable without restriction or further registration under the Securities Act. The remaining 41,458,333 shares of common stock outstanding, including the shares owned by our existing equity investors, will be restricted securities within the meaning of Rule 144 under the Securities Act but will be eligible for resale subject to applicable volume, manner of sale, holding period and other requirements of Rule 144. Upon completion of this offering, our existing equity investors will own 41,458,333 shares of common stock representing an aggregate 58.5% ownership interest in us after the offering (or 37,052,083 shares of common stock representing a 52.3% aggregate ownership interest in us, assuming the underwriters exercise their over-allotment option in full).

If permitted under our new credit facility, we may issue shares of common stock from time to time as consideration for future acquisitions, investments or other corporate purposes. In the event that any such acquisition, investment or other transaction is significant, the number of shares of common stock that we may issue may in turn be significant. In addition, we may also grant registration rights covering those shares of common stock issued in connection with any such acquisitions and investments.

Stock Options

Upon completion of this offering, we intend to file a registration statement under the Securities Act to register the shares of common stock to be issued under the 2005 Long-Term Incentive Plan and, as a result, all shares of common stock acquired upon exercise of stock options will also be freely tradable under the Securities Act unless such common stock is held by our affiliates.

Lock-Up Arrangements

We, certain of our existing stockholders, our executive officers and our directors have agreed, with specified exceptions, not to sell or transfer any of our common stock for 180 days after the date of this prospectus without first obtaining the written consent of Merrill Lynch on behalf of the underwriters. Specifically, we and these other individuals have agreed not to directly or indirectly:

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of our common stock, or any securities convertible into or exercisable or exchangeable for any shares of our common stock or any right to acquire shares of our common stock; or

- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the common stock, whether any such transaction described above is to be settled by delivery of common stock or such other securities, in cash or otherwise.

Notwithstanding the foregoing, if the 180th day after the date of this prospectus occurs within 17 days following an earnings release by us or the occurrence of material news or a material event related to us, or if we intend to issue an earnings release within 16 days following the 180th day, the 180-day period will be extended to the 18th day following such earnings release or the occurrence of the material news or material event unless such extension is waived by Merrill Lynch on behalf of the underwriters.

Securityholders Agreement

We anticipate that the existing equity investors and certain members of management will have registration rights for their shares of common stock for resale in some circumstances. See Related Party Transactions Securityholders Agreement.

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Rule 144

In general, under Rule 144, as currently in effect, beginning 90 days after the date of this prospectus, any person, including an affiliate, who has beneficially owned shares of our common stock for a period of at least one year is entitled to sell, within any three-month period, a number of shares that does not exceed the greater of:

- 1% of the then-outstanding shares of common stock; and

- the average weekly trading volume in the common stock on the New York Stock Exchange during the four calendar weeks preceding the date on which the notice of the sale is filed with the Securities and Exchange Commission.

Sales under Rule 144 are also subject to provisions relating to notice, manner of sale, volume limitations and the availability of current public information about us.

Under Rule 144(k), a person who is not deemed to have been one of our affiliates at any time during the 90 days preceding a sale, and who has beneficially owned the shares for at least two years, including the holding period of any prior owner other than an affiliate, is entitled to sell the shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

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MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following discussion describes the material United States federal income tax (and, to the extent specified, certain United States federal estate tax) considerations as of the date hereof associated with the acquisition, ownership and disposition of our common stock in the offering by U.S. Holders (as defined below) and Non-U.S. Holders (as defined below). This discussion deals only with our common stock held as capital assets by holders who acquired our common stock in this offering. This discussion does not cover all aspects of United States federal taxation that may be relevant to the acquisition, ownership or disposition of our common stock by prospective investors in light of their particular circumstances. In particular, this discussion does not address all of the tax considerations that may be relevant to certain types of investors subject to special treatment under United States federal income tax laws, such as:

- dealers in securities or currencies,
- financial institutions,
- regulated investment companies,
- real estate investment trusts,
- tax-exempt entities,
- insurance companies,
- persons holding our common stock as part of a hedging, integrated, conversion or constructive sale transaction or a straddle,
- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings,
- persons liable for alternative minimum tax,
- United States expatriates,
- investors in pass-through entities, or
- U.S. Holders (as defined below) whose functional currency is not the United States dollar.

Furthermore, the discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended (the Code), the Treasury regulations promulgated thereunder and administrative and judicial interpretations thereof, all as of the date hereof, and such authorities may be repealed, revoked, modified or subject to differing interpretations, possibly on a retroactive basis, so as to result in United States federal income tax considerations different from those discussed below. The statements of law or legal conclusions in this discussion constitute the opinion of Kirkland & Ellis LLP, our special counsel. Such opinion is based in part on facts described in this prospectus and on various other factual assumptions, representations and determinations. Any alteration or incorrectness of such facts, assumptions, representations or determinations could adversely affect such opinion. This discussion does not address any state, local or non-United States tax considerations.

A U.S. Holder of our common stock means a beneficial owner of our common stock that is for United States federal income tax purposes:

- an individual citizen or resident of the United States,
- a corporation (or other entity taxable as a corporation) created or organized in or under the laws of the United States or any political subdivision thereof,
- an estate the income of which is subject to United States federal income taxation regardless of its source, or

a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

If a partnership or other entity or arrangement treated as a partnership for United States federal income tax purposes holds our common stock, the tax treatment of a partner of the partnership will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our common stock, we urge you to consult your own tax advisors.

If you are considering the purchase of our common stock, we urge you to consult your own tax advisors concerning the particular United States federal tax consequences to you of the acquisition, ownership and disposition of our common stock, as well as any consequences to you arising under the laws of any other taxing jurisdiction.

Consequences to U.S. Holders

The following discussion applies to U.S. Holders.

Dividends

The gross amount of dividends paid to you will be treated as dividend income to you to the extent paid out of current or accumulated earnings and profits (as determined under United States federal income tax principles). Distributions to you with respect to a share of our common stock in excess of earnings and profits will be treated first as a return of capital that reduces your tax basis in the share, and then as gain from the sale or exchange of a share of our common stock. Under current legislation, which is scheduled to sunset at the end of 2008, dividend income will generally be taxed to you (if you are an individual) at the rates applicable to long-term capital gains, provided that a minimum holding period and other requirements are satisfied. Dividends received after 2008 will be taxable to you at ordinary income rates. Corporate U.S. Holders may be entitled to a dividends-received deduction with respect to distributions treated as dividend income for United States federal income tax purposes, subject to numerous limitations and requirements.

Sale, Exchange or Other Taxable Disposition of our Common Stock

Upon the sale, exchange or other taxable disposition of a share of our common stock, you will recognize capital gain or loss in an amount equal to the difference between the amount realized for your share of our common stock and your tax basis in the share of our common stock. Capital gains of individuals derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

Information Reporting and Backup Withholding Tax

In general, information reporting requirements will apply to dividends paid on our common stock and to the proceeds from the sale of our common stock paid to a U.S. Holder other than certain exempt recipients (such as corporations). A backup withholding tax will apply to such payments if you fail to provide a United States taxpayer identification number or certification of other exempt status or fail to report in full dividend and interest income.

Any amounts withheld under the backup withholding tax rules will be allowed as a refund or a credit against your United States federal income tax liability, provided that the required information is furnished to the Internal Revenue Service (IRS).

Consequences to Non-U.S. Holders

The following discussion applies only to Non-U.S. Holders. A Non-U.S. Holder is a beneficial owner of our common stock that is, for United States federal income tax purposes:

- a nonresident alien individual;
- a foreign corporation; or
- a foreign estate or trust.

In the case of a holder that is classified as a partnership for United States federal income tax purposes, the tax treatment of holding our common stock generally will depend on the tax status of the partner of the

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partnership and the activities of the partnership. If you are a partner of a partnership holding our common stock, we urge you to consult your own tax advisors.

Special rules, not discussed here, may apply to certain non-United States holders such as:

- United States expatriates,
- controlled foreign corporations,
- passive foreign investment companies,
- corporations that accumulate earnings to avoid United States federal income tax,
- investors in pass-through entities that are subject to special treatment under the Code, and
- non-United States holders that are engaged in the conduct of a United States trade or business.

Such non-United States holders should consult their own tax advisors to determine the United States federal, state, local and other tax consequences that may be relevant to them.

Dividends

Dividends paid to you (to the extent paid out of our current or accumulated earnings and profits, as determined for United States federal income tax purposes) generally will be subject to United States withholding tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

If you wish to claim the benefit of an applicable treaty rate (and avoid backup withholding tax as discussed below) for dividends, you must provide the withholding agent with a properly executed IRS Form W-8BEN claiming an exemption from or reduction in withholding tax under an applicable income tax treaty. Applicable Treasury regulations provide alternative methods for satisfying this requirement. Under these Treasury regulations, in the case of common stock held by a foreign intermediary (other than a qualified intermediary) or a foreign partnership (other than a withholding foreign partnership), the foregoing intermediary or foreign partnership, as the case may be, generally must provide an IRS Form W-8IMY and attach thereto an appropriate certification by each beneficial owner or partner.

If you are eligible for a reduced rate of United States withholding tax pursuant to an income tax treaty, you may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS.

Sale, Exchange or Other Taxable Disposition of our Common Stock

You generally will not be subject to United States federal income tax with respect to gain recognized on a sale or other taxable disposition of shares of our common stock unless:

- if you are an individual and hold shares of our common stock as a capital asset, you are present in the United States for 183 or more days in the taxable year of the sale or other taxable disposition, and you have a tax home in the United States, or
- we are or have been during a specified testing period a United States real property holding corporation for United States federal income tax purposes.

We believe that we have not been and are not, and we do not anticipate becoming, a United States real property holding corporation for United States federal income tax purposes.

U.S. Federal Estate Tax

Shares of our common stock held by an individual Non-U.S. Holder at the time of the individual s death will be included in such holder s gross estate for United States federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

Information Reporting and Backup Withholding Tax

You may be subject to information reporting requirements and backup withholding tax with respect to dividend payments on, and the proceeds from dispositions of, shares of our common stock, unless you

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comply with certain reporting procedures (usually satisfied by providing an IRS Form W-8BEN) or otherwise establish an exemption. Additional rules relating to information reporting requirements and backup withholding tax with respect to the payment of proceeds from the disposition of shares of our common stock are as follows:

- If the proceeds are paid to or through the United States office of a broker, they generally will be subject to backup withholding tax and information reporting unless you certify that you are not a United States person under penalties of perjury (usually on an IRS Form W-8BEN) or otherwise establish an exemption.

- If the proceeds are paid to or through a non-United States office of a broker that is not a United States person and is not a foreign person with certain specified United States connections (a U.S. Related Person), they will not be subject to backup withholding tax or information reporting.

- If the proceeds are paid to or through a non-United States office of a broker that is a United States person or a U.S. Related Person, they generally will be subject to information reporting (but not backup withholding tax) unless you certify that you are not a United States person under penalties of perjury (usually on an IRS Form W-8BEN) or otherwise establish an exemption.

In addition, the amount of dividends paid to you and the amount of tax, if any, withheld from such payment must generally be reported annually to you and the IRS. The IRS may make such information available under the provisions of an applicable income tax treaty to the tax authorities in the country in which you are resident.

Any amounts withheld under the backup withholding tax rules will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is furnished by you to the IRS.

UNDERWRITING

We intend to offer the shares through the underwriters. Merrill Lynch, Pierce, Fenner & Smith Incorporated, Banc of America Securities LLC and J.P. Morgan Securities Inc. are acting as representatives of the underwriters named below. Subject to the terms and conditions described in a purchase agreement among us and the underwriters, we have agreed to sell to the underwriters, and the underwriters severally have agreed to purchase from us, the number of shares listed opposite their names below.

Underwriter	Number of Shares
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Banc of America Securities LLC	
J.P. Morgan Securities Inc.	
Lehman Brothers Inc.	
Morgan Stanley & Co. Incorporated	
Wachovia Capital Markets, LLC	
Bear, Stearns & Co. Inc.	
CIBC World Markets Corp.	
Legg Mason Wood Walker, Incorporated	
Raymond James & Associates, Inc.	
Total	29,375,000

The underwriters have agreed to purchase all of the shares sold under the purchase agreement if any of these shares are purchased. If an underwriter defaults, the purchase agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the purchase agreement may be terminated.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the shares, and other conditions contained in the purchase agreement, such as the receipt by the underwriters of officer s certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or part.

Commissions and Discounts

The representatives have advised us that the underwriters propose initially to offer the shares to the public at the public offering price on the cover page of this prospectus and to dealers at that price less a concession not in excess of $ per share. The underwriters may allow, and the dealers may reallow, a discount not in excess of $ per share to other dealers. After the public offering, the public offering price, concession and discount may be changed.

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The following table shows the public offering price, underwriting discount and proceeds before expenses to us. The information assumes either no exercise or full exercise by the underwriters of the over-allotment option.

	Per Share	Without Option	With Option
Public offering price	$	$	$
Underwriting discount	$	$	$
Proceeds, before expenses, to Valor Communications Group, Inc.	$	$	$

The expenses of the offering, not including the underwriting discount, are estimated at $8.0 million and are payable by us.

Overallotment Option

The selling stockholders have granted options to the underwriters to purchase up to 4,406,250 additional shares at the public offering price less the underwriting discount. The underwriters may exercise these options for 30 days from the date of this prospectus solely to cover any overallotments. If the underwriters exercise these options, each will be obligated, subject to conditions contained in the purchase agreements, to purchase a number of additional shares proportionate to that underwriter s initial amount reflected in the above table.

Reserved Shares

At our request, the underwriters have reserved for sale, at the initial public offering price, up to (%) of the shares offered by this prospectus for sale to our employees. If these persons purchase reserved shares, this will reduce the number of shares available for sale to the general public. Any reserved shares that are not orally confirmed for purchase within one day of the pricing of this offering will be offered by the underwriters to the general public on the same terms as the other shares offered by this prospectus.

No Sale of Similar Securities

We, certain of our existing stockholders, our executive officers and our directors have agreed, with specified exceptions, not to sell or transfer any of our common stock for 180 days after the date of this prospectus without first obtaining the written consent of Merrill Lynch on behalf of the underwriters. Specifically, we and these other individuals have agreed not to directly or indirectly:

offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of our common stock, or any securities convertible into or exercisable or exchangeable for any shares of our common stock or any right to acquire shares of our common stock; or

enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the common stock, whether any such transaction described above is to be settled by delivery of common stock or such other securities, in cash or otherwise.

Notwithstanding the foregoing, if the 180th day after the date of this prospectus occurs within 17 days following an earnings release by us or the occurrence of material news or a material event related to us, or if we intend to issue an earnings release within 16 days following the 180th day, the 180-day period will be extended to the 18th day following such earnings release or the occurrence of the material news or material event unless such extension is waived by Merrill Lynch on behalf of the underwriters.

This lock-up provision applies to common stock and to securities convertible into or exchangeable or exercisable for or repayable with common stock. It also applies to common stock owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires power of disposition.

New York Stock Exchange Listing

We intend to apply to have our common stock approved for listing on the New York Stock Exchange under the symbol VCG. In order to meet the requirements for listing of the shares on that exchange, the underwriters have undertaken to sell a minimum number of shares to a minimum number of beneficial owners.

NASD Regulations

Because more than ten percent of the net proceeds of the offering may be paid to members or affiliates of members of the National Association of Securities Dealers, Inc. participating in the offering, the offering will be conducted in accordance with NASD Conduct Rule 2710(h). This rule requires that the public offering price of an equity security be no higher than the price recommended by a qualified independent underwriter which has participated in the preparation of the registration statement and performed its usual standard of due diligence with respect to that registration statement. Lehman Brothers Inc. has agreed to act as qualified independent underwriter for the offering. The price of the shares will be no higher than that recommended by Lehman Brothers Inc.

Price Stabilization, Short Positions and Penalty Bids

Until the distribution of the shares is completed, SEC rules may limit underwriters and selling group members from bidding for and purchasing our common stock. However, the representative may engage in transactions that stabilize the price of the common stock, such as bids or purchases to peg, fix or maintain that price.

If the underwriters create a short position in the common stock in connection with the offering, i.e., if they sell more shares than are listed on the cover of this prospectus, the underwriters may reduce that short position by purchasing shares in the open market. The representative may also elect to reduce any short position by exercising all or part of the underwriters option described above. Purchases of our common stock to stabilize its price or to reduce a short position may cause the price of our common stock to be higher than it might be in the absence of such purchases.

The representatives may also impose a penalty bid on underwriters and selling group members. This means that if the representatives purchase shares in the open market to reduce the underwriter s short position or to stabilize the price of such shares, they may reclaim the amount of the selling concession from the underwriters and selling group members who sold those shares. The imposition of a penalty bid may also affect the price of the shares in that it discourages resales of those shares.

Neither we nor any of the underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor any of the underwriters makes any representation that the representative will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Sales Outside the United States

Each underwriter has represented, warranted and agreed that: (i) it has not offered or sold and, prior to the expiry of a period of six months from the date we consummate this offering, will not offer or sell any shares to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (FSMA)) received by it in connection with the issue or sale of any shares in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

The shares may not be offered or sold, transferred or delivered, as part of their initial distribution or at any time thereafter, directly or indirectly, to any individual or legal entity in the Netherlands other than to individuals or legal entities who or which trade or invest in securities in the conduct of their profession or trade, which includes banks, securities intermediaries, insurance companies, pension funds, other institutional investors and commercial enterprises which, as an ancillary activity, regularly trade or invest in securities.

Electronic Distribution

Merrill Lynch will be facilitating Internet distribution for this offering to certain of its Internet subscription customers. Merrill Lynch intends to allocate a limited number of shares for sale to its online brokerage customers. An electronic prospectus is available on the Internet Website maintained by Merrill Lynch. Other than the prospectus in electronic format, the information on the Merrill Lynch Website is not part of this prospectus.

Other Relationships

Banc of America Securities LLC is one of the senior lead arrangers and senior book managers and an affiliate of Banc of America Securities LLC is the administrative agent of the existing credit facility, the second lien loan and the subordinated loan. An affiliate of J.P. Morgan Securities Inc. is one of the senior syndication agents and Merrill Lynch, Pierce, Fenner & Smith Incorporated is one of the documentation agents on the existing credit facility, the second lien loan and the subordinated loan. An affiliate of Banc of America Securities LLC will serve as the administrative agent of the new credit facility and Merrill Lynch, Pierce, Fenner & Smith Incorporated and an affiliate of J.P. Morgan Securities Inc. will serve as co-syndication agents of the new credit facility. The underwriters have performed investment banking and advisory services for us from time to time for which they have received customary fees and expenses. The underwriters may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business.

Affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated, Banc of America Securities LLC and J.P. Morgan Securities Inc. are lenders under our second lien loan and our subordinated loan and as such will receive a portion of the proceeds of this offering, which will be used to repay amounts outstanding under the second lien loan and the subordinated loan, and affiliates of certain of the underwriters have also provided commitments under our new credit facility.

LEGAL MATTERS

The validity of the issuance of shares of our common stock offered hereby will be passed upon for us by Kirkland & Ellis LLP, New York, New York. Certain legal matters relating to this offering will be passed upon for the underwriters by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York. Skadden Arps, Slate, Meagher & Flom LLP has in the past performed, and continues to perform, certain legal services for us and our affiliates.

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EXPERTS

The financial statements as of December 31, 2002 and 2003 and for each of the three years in the period ended December 31, 2003 included in this prospectus and the related financial statement schedule included elsewhere in the registration statement have been audited by Deloitte & Touche LLP, independent registered public accounting firm, as stated in their reports appearing herein (which reports express an unqualified opinion and include an explanatory paragraph relating to the adoption of the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets as of January 1, 2002 and SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, as of January 1, 2001 and an explanatory paragraph related to the restatement described in Note 20) and have been so included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

WHERE CAN YOU FIND MORE INFORMATION

We have filed a Registration Statement on Form S-1 with the SEC regarding this offering. This prospectus, which is part of the registration statement, does not contain all of the information included in the registration statement, and you should refer to the registration statement and its exhibits to read that information. As a result of the effectiveness of the registration statement, we are subject to the informational reporting requirements of the Exchange Act of 1934 and, under that Act, we will file reports, proxy statements and other information with the Commission. You may read and copy the registration statement, the related exhibits and the reports, proxy statements and other information we file with the SEC at the SEC s public reference facilities maintained by the SEC at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. You can also request copies of those documents, upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. The SEC also maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file with the SEC. The site s Internet address is www.sec.gov.

Upon completion of this offering, Valor will become subject to the information and periodic reporting requirements of the Securities Exchange Act of 1934, and, in accordance with the requirements of the Securities Exchange Act of 1934, will file periodic reports, proxy statements and other information with the SEC. These periodic reports, proxy statements and other information will be available for inspection and copying at the regional offices, public reference facilities and web site of the SEC referred to above.

You may also request a copy of these filings, at no cost, by writing or telephoning us at:

VALOR COMMUNICATIONS GROUP, INC.

201 E. John Carpenter Freeway, Suite 200
Irving, Texas 75062
(972) 373-1000

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VALOR TELECOMMUNICATIONS, LLC*

INDEX TO FINANCIAL STATEMENTS

* Valor Communications Group, Inc. (Valor) is a holding company that has not commenced operations and has no assets or liabilities. Financial statements for Valor have not been included for that reason. Upon commencing operations, Valor s principal assets will be the direct and indirect equity interests of its subsidiary, Valor Telecommunications, LLC (VTC).

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VALOR TELECOMMUNICATIONS, LLC

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Valor Telecommunications, LLC
Irving, TX

We have audited the accompanying consolidated balance sheets of Valor Telecommunications, LLC and subsidiaries (the Company) as of December 31, 2002 and 2003 and the related consolidated statements of operations and comprehensive income (loss), changes in common owners equity, and cash flows for each of the three years in the period ended December 31, 2003. 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 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, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2002 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2002, the Company changed its method of accounting for goodwill and other intangible assets to conform to Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets and effective January 1, 2001, the Company changed its method of accounting for derivative financial instruments to conform to SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended.

As discussed in Note 20 to the consolidated financial statements, the accompanying 2001, 2002 and 2003 consolidated financial statements have been restated.

/s/ DELOITTE & TOUCHE LLP

Dallas, Texas

March 2, 2004 (January 25, 2005 as to Note 20)

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Valor Telecommunications, LLC

Consolidated Balance Sheets
(Dollars in thousands)

	2002	2003
	(As restated, see Note 20)	
Assets		
Current assets		
Cash and cash equivalents	$ 1,289	$ 1,414
Accounts receivable:		
Customers, net of allowance for doubtful accounts of $3,997 and $2,672, respectively	31,501	26,550
Carriers and other, net of allowance for doubtful accounts of $793 and $652, respectively	36,294	34,223
Materials and supplies, at average cost	1,990	1,922
Other current assets	7,893	9,052
Total current assets	78,967	73,161
Net property, plant and equipment	779,758	769,570
Investments and other assets		
Goodwill	1,057,007	1,057,007
Other	146,672	139,305
Total other assets	1,203,679	1,196,312
Total assets	$ 2,062,404	$ 2,039,043
Liabilities and Equity		
Current liabilities		
Current maturities of long-term debt	$ 25,152	$ 37,318
Accounts payable	21,126	14,458
Notes payable	1,175	6,687
Accrued expenses and other current liabilities:		
Taxes	12,843	11,983
Salaries and benefits	11,891	14,372
Interest	3,591	3,190
Other	15,684	14,405
Advance billings and customer deposits	16,820	16,958
Total current liabilities	108,282	119,371
Long-term debt	1,519,133	1,426,655
Deferred credits and other liabilities	49,032	48,072
Redeemable preferred interests	370,231	370,231
Redeemable preferred interests of subsidiary	21,161	24,475
Total liabilities	2,067,839	1,988,804
Minority interests	123	377
Commitments and contingencies (see Note 12)		
Common owners equity		
	64,633	64,633

Class A common interests, no par or stated value, 500,000,000 interests authorized, 65,568,694 issued and 65,534,944 outstanding		
Class B common interests, no par or stated value, 5,184,255 interests authorized, 5,056,755 issued and outstanding		
Class C interests, no par or stated value, 50,000,000 interests authorized, 46,000,000 issued and outstanding	46,000	46,000
Treasury stock	(34)	(34)
Accumulated other comprehensive loss	(4,558)	(7,371)
Accumulated deficit	(111,599)	(53,366)
Total common owners equity	(5,558)	49,862
Total liabilities and equity	$2,062,404	$2,039,043

See accompanying notes to consolidated financial statements.

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Valor Telecommunications, LLC

Consolidated Statements of Operations and Comprehensive Loss
(Dollars in thousands, except per owner unit amounts)

	Years Ended December 31,		
	2001	**2002**	**2003**
		(As restated, see Note 20)	
Operating revenues	$ 424,916	$ 479,883	$ 497,334
Operating expenses			
Cost of service (exclusive of depreciation and amortization shown separately below)	105,357	113,891	106,527
Selling, general and administrative	105,418	133,468	126,896
Depreciation and amortization	110,843	73,273	81,638
Total operating expenses	321,618	320,632	315,061
Operating income	103,298	159,251	182,273
Other income (expense)			
Interest expense	(133,156)	(127,365)	(119,185)
Loss on interest rate hedging arrangements	(14,292)	(12,348)	(2,113)
Earnings from unconsolidated cellular partnerships		2,757	3,258
Other income and expense, net	3,928	(870)	(3,376)
Total other income (expense)	(143,520)	(137,826)	(121,416)
Income (loss) from continuing operations before income taxes, minority interest and cumulative effect of change in accounting principle	(40,222)	21,425	60,857
Income tax expense		1,649	2,478
Income (loss) from continuing operations before minority interest and cumulative effect of change in accounting principle	(40,222)	19,776	58,379
Minority interest	25	(13)	(254)
Income (loss) from continuing operations before cumulative effect of change in accounting principle	(40,197)	19,763	58,125
Discontinued operations	(8,443)	(3,461)	108
Income (loss) before cumulative effect of change in accounting principle	(48,640)	16,302	58,233
Cumulative effect of change in accounting principle	(4,715)		
Net (loss) income	(53,355)	16,302	58,233
Other comprehensive loss:			
Minimum pension liability adjustment		(4,558)	(2,813)
Comprehensive (loss) income	$ (53,355)	$ 11,744	$ 55,420
Earnings per owners unit:			

Basic and diluted (loss) income from continuing operations:			
Class A and B common interests	$ (.58)	$ .22	$ .73
Class C interests	$	$ .09	$ .15
Basic and diluted net (loss) income:			
Class A and B common interests	$ (.77)	$ .17	$ .73
Class C interests	$	$ .09	$ .15

See accompanying notes to consolidated financial statements.

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Valor Telecommunications, LLC

Consolidated Statements of Cash Flows
(Dollars in thousands)

	Years Ended December 31,		
	2001	**2002**	**2003**
Operating activities			
Net (loss) income	$ (53,355)	$ 16,302	$ 58,233
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	110,843	73,273	81,638
Deferred income taxes		93	450
Loss (income) from discontinued operations	8,443	3,461	(108)
Cumulative effect of change in accounting principle	4,715		
Amortization of debt issuance costs	5,735	6,801	8,105
Non-cash interest expense	29,025	32,612	17,788
Non-cash unrealized loss (gain) on interest rate hedging arrangements	9,892	2,748	(8,487)
Earnings from unconsolidated cellular partnerships		(2,757)	(3,258)
Provision for doubtful accounts receivable	11,378	11,393	3,298
Redeemable preferred interests of subsidiary	(3,570)	602	3,314
Minority interest	(25)	13	254
Changes in current assets and current liabilities:			
Accounts receivable	206	(5,147)	3,786
Accounts payable	(15,818)	3,235	(6,668)
Accrued interest	(17,196)	(1,466)	(401)
Other current assets and current liabilities, net	2,885	6,669	3,316
Other, net	7,143	2,551	4,805
Net cash provided by operating activities from continuing operations	100,301	150,383	166,065
Investing activities			
Acquisition, net of cash acquired		(128,135)	
Additions to property, plant and equipment	(107,869)	(89,527)	(69,850)
Distributions from unconsolidated cellular partnerships		1,939	3,507
Other, net	1,255	(1,050)	44
Net cash used in investing activities from continuing operations	(106,614)	(216,773)	(66,299)
Financing activities			
Proceeds from issuance of debt	51,500	116,500	61,500
Repayments of long-term debt	(53,743)	(77,304)	(161,549)
Notes payable, net	10,197	(11,497)	1,742
Proceeds from issuance of common interests		46,000	
Proceeds from issuance of minority interests	163	110	
Payments of debt issuance costs		(2,794)	(1,158)
Net cash provided by (used in) financing activities from continuing operations	8,117	71,015	(99,465)
	1,804	4,625	301

Net increase in cash and cash equivalents from continuing operations			
Net cash used in discontinued operations (See Note 4)	(8,373)	(3,662)	(176)
Net (decrease) increase in cash and cash equivalents	(6,569)	963	125
Cash and cash equivalents at beginning of year	6,895	326	1,289
Cash and cash equivalents at end of year	$ 326	$ 1,289	$ 1,414
Supplemental disclosures of cash flow activity:			
Cash paid for interest	$ 126,850	$ 102,895	$ 109,368
Income taxes paid		1,780	2,390
Debt issued for capitalized leases	1,995	3,057	1,949
Note payable issued for insurance policies		2,475	3,770
Minimum pension liability adjustment		4,650	3,054

See accompanying notes to consolidated financial statements.

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Valor Telecommunications, LLC

Consolidated Statements of Changes
In Common Owners Equity
For Years Ended December 31, 2001, 2002 and 2003

Owner Units				Owners Interests						
Class A Common	Class B Common	Class C		Class A Common	Class B Common	Class C	Treasury Stock	Accumulated Other Comprehensive Loss	Accumulated Deficit	Common Owners Equity
				(Dollars in thousands)						
65,535	3,984		Balance, January 1, 2001	$64,633	$	$	$ (34)	$	$ (74,546)	$ (9,947)
			Net loss						(53,355)	(53,355)
65,535	3,984		Balance, December 31, 2001	$64,633	$	$	$ (34)	$	$(127,901)	$(63,302)
	1,073	46,000	Issuance of common interests			46,000				46,000
			Minimum pension liability, net of tax					(4,558)		(4,558)
			Net income						16,302	16,302
65,535	5,057	46,000	Balance, December 31, 2002	$64,633	$	$46,000	$ (34)	$ (4,558)	$(111,599)	$ (5,558)
			Minimum pension liability, net of tax					(2,813)		(2,813)
			Net income							