Lucke James T
Form 4
February 22, 2013

FORM 4

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

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
Lucke James T

(Last) (First) (Middle)

160 SOUTH INDUSTRIAL BLVD., P.O. BOX 12069

(Street)

CALHOUN, GA 30703

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
MOHAWK INDUSTRIES INC [MHK]

3. Date of Earliest Transaction (Month/Day/Year)
02/20/2013

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
VP & General Counsel

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	02/20/2013		D (1)		107	D	$ 103.5	13,881	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Lucke James T 160 SOUTH INDUSTRIAL BLVD. P.O. BOX 12069 CALHOUN, GA 30703			VP & General Counsel	

Signatures

JAMES LUCKE	02/22/2013
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Disposition related to meeting tax obligations upon vesting of restricted stock units.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. 8pt;"> **Year Ended December 31, 2004 2003**

Current:

Federal
$255 $
State
19 274
Deferred:

Federal
(2,766) 3,252
State
(395) 465 (3,161) 3,717

Income tax expense (benefit)
$(2,887) $3,717

Following is a reconciliation between the statutory federal income tax rate and the Company s overall effective tax rate:

	Year Ended December 31,	
	2004	**2003**
Statutory federal income tax rate	(35.0)%	35.0%
State income taxes, net of federal benefit	(4.8)%	5.0%
Other	3.8%	0.3%
	(36.0)%	40.3%

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CONSOLIDATED COMMUNICATIONS ILLINOIS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

Net deferred taxes consist of the following components:

	December 31,	
	2004	**2003**
Current deferred tax assets:		
Reserve for uncollectible accounts	$ 661	$ 385
Accrued vacation pay deducted when paid	591	512
Accrued expenses and deferred revenue	346	1,971
	1,598	2,868
Noncurrent deferred tax assets:		
Net operating loss carryforwards	6,015	2,253
Derivative instruments		344
Goodwill and other intangibles	846	
Pension and postretirement obligations	4,698	3,691
	11,559	6,288
Noncurrent deferred tax liabilities:		
Goodwill and other intangibles		(1,641)
Derivative instruments	(547)	
Property, plant and equipment	(8,761)	(5,761)
	(9,308)	(7,402)
Net non-current deferred tax assets (liabilities)	2,251	(1,114)
Net deferred income tax assets	$ 3,849	$ 1,754

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. In order to fully realize the gross deferred tax assets, the Company will need, to generate future taxable income in increments sufficient to recognize net operating loss carryforwards prior to expiration as described below. Based upon the level of historical taxable income and projections for future taxable income over the periods that the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced. There is an annual limitation on the use of the NOL carryforwards, however the amount of projected future taxable income is expected to be lower than the amount of the limitation calculated. Amounts and expiration dates of carryforwards are as follows:

Illinois Holdings and its subsidiaries, which file a consolidated federal income tax return, estimates it has available NOL carryforwards of approximately $15.0 million for federal and state income tax purposes to offset against future taxable income. The federal NOL carryforwards expire from 2022 to 2024 and state NOL carryforwards expire from 2015 to 2022.

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CONSOLIDATED COMMUNICATIONS ILLINOIS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

9. Accrued Expenses

Accrued expenses consist of the following:

	December 31, 2004	December 31, 2003
Salaries and employee benefits	$ 3,085	$ 2,542
Taxes payable	559	987
Accrued interest	1,944	859
Other accrued expenses	6,863	8,254
	$ 12,451	$ 12,642

10. Pension Costs and Other Postretirement Benefits

The Company has a defined benefit pension plan which covers substantially all of its hourly employees. The plan provides retirement benefits based on years of service and earnings. The pension plan is noncontributory. The Company s funding policy is to contribute amounts sufficient to meet the minimum funding requirements as set forth in employee benefit and tax laws.

The Company currently provides other postretirement benefits (Other Benefits) consisting of health care and life insurance benefits for certain groups of retired employees. Retirees share in the cost of health care benefits. Retiree contributions for health care benefits are adjusted periodically based upon either collective bargaining agreements for former hourly employees and as total costs of the program change for former salaried employees. The Company s funding policy for retiree health benefits is generally to pay covered expenses as they are incurred. Postretirement life insurance benefits are fully insured.

The Company used a September 30 measurement date for its plans.

The following tables present the benefit obligation, plan assets and funded status of the plans:

	Pension Benefits December 31,		Other Benefits December 31,	
	2004	2003	2004	2003
Change in benefit obligation				
Projected benefit obligation, beginning of period	$ 55,528	$ 49,637	$ 8,951	$ 7,966
Service cost	943	770	186	165
Interest cost	3,234	3,207	513	557
Plan participant contributions			97	135
Plan amendments				454
Benefits paid	(3,199)	(3,403)	(891)	(692)
Actuarial (gain)/ loss	422	5,317	852	366
Projected benefit obligation, end of period	$ 56,928	$ 55,528	$ 9,708	$ 8,951

Accumulated benefit obligation	$ 52,389	$ 51,070

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CONSOLIDATED COMMUNICATIONS ILLINOIS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

	Pension Benefits December 31,		Other Benefits December 31,	
	2004	**2003**	**2004**	**2003**
Change in plan assets				
Fair value of plan assets, beginning of period	$ 50,704	$ 45,446	$	$
Actual return on plan assets	4,713	7,804		
Employer contributions	916	857	794	557
Plan participant contributions			97	135
Benefits paid	(3,199)	(3,403)	(891)	(692)
Fair value of plan assets, end of period	$ 53,134	$ 50,704	$	$
Funded status				
Funded status	$ (3,794)	$ (4,824)	$ (9,708)	$ (8,951)
Employer contributions after measurement date and before fiscal year end			275	194
Unrecognized prior service cost			(115)	952
Unrecognized net actuarial (gain) loss	(202)	162	1,799	(128)
Accrued benefit cost	$ (3,996)	$ (4,662)	$ (7,749)	$ (7,933)

The Company s pension plan weighted average asset allocations by investment category are as follows:

	December 31,	
	2004	**2003**
Plan assets by category at end of year		
Equity securities	52.9%	65%
Debt securities	35.1%	35%
Other	12.0%	
	100.0%	100.0%

The Company s investment strategy is to maximize long-term return on invested plan assets while minimizing risk of market volatility. Accordingly, the Company targets it allocation percentage at 50% to 60% in equity funds with the remainder in fixed income funds and cash equivalents.

The Company does not expect to contribute to its pension plan in 2005, but does expect to contribute $837 to its other postretirement plan in 2005. The Company s expected future benefit payments to be paid during the years ended December 31 are as follows:

	Pension Benefits	Other Benefits
2005	$ 3,173	$ 837
2006	3,204	922
2007	3,245	974
2008	3,291	964
2009	3,472	983
2010 through 2014	20,150	4,915

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CONSOLIDATED COMMUNICATIONS ILLINOIS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

The following table presents the components of net periodic benefit cost for the years ended December 31, 2004 and 2003:

	Pension Benefits		Other Benefits	
	2004	**2003**	**2004**	**2003**
Service cost	$ 943	$ 770	$ 186	$ 165
Interest cost	3,234	3,207	513	557
Expected return on plan assets	(3,927)	(3,507)		
Other, net			(9)	(4)
Net periodic benefit cost	$ 250	$ 470	$ 690	$ 718

The weighted average assumptions used in measuring the Company s benefit obligations as of December 31, 2004 and 2003 are as follows:

	Pension Benefits		Other Benefits	
	2004	**2003**	**2004**	**2003**
Discount rate	6.0%	6.8%	6.0%	6.8%
Compensation rate increase	3.5%	3.5%		
Initial healthcare cost trend rate			10.0%	10.0%
Ultimate healthcare cost trend rate			5.0%	5.0%
Year ultimate trend rate is reached			2010 to 2012	2009

Weighted average actuarial assumptions used to determine the net periodic benefit cost for 2004 and 2003 are as follows: discount rate 6.0% and 6.8%, expected long-term rate of return on plan assets 8.5% and 8.0%, and rate of compensation increases 3.5% and 3.5%, respectively.

In determining the discount rate, the Company considers the current yields on high quality corporate fixed income investments with maturities corresponding to the expected duration of the benefit obligations. The expected return on plan assets assumption was based upon the categories of the assets and the past history of the return on the assets. The Compensation rate increase is based upon past history and long-term inflationary trends. A one percentage point change in the assumed health care cost trend rate would have the following effects on the Company s other postretirement benefits:

	1% Increase	1% Decrease
Effect on 2004 service and interest costs	$ 50	$ (44)
Effect on accumulated postretirement benefit obligations as of December 31, 2004	498	(452)

11. Employee 401k Benefit Plan

The Company sponsors a 401(k) defined contribution retirement savings plan. Virtually all employees are eligible to participant in one of these plans. Each employee may elect to defer a portion of his or her compensation, subject to certain limitations. During the year ended December 31, 2004, the Company matched the employee contributions up to a maximum of 4%. During the year ended December 31, 2003, the Company matched employee contributions up to a maximum of 4% for hourly employees and matched employee contributions up to 2% for salaried employees. Total Company contributions to the plans were $761 and $496 in 2004 and 2003, respectively.

CONSOLIDATED COMMUNICATIONS ILLINOIS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

12. Long-Term Debt

Long-term debt consists of the following:

	December 31,	
	2004	**2003**
Senior Secured Credit Facility		
Revolving loan	$	$
Term loan A	47,268	110,400
Term loan B		70,000
Term loan C	119,200	
Senior notes	75,000	
Capital leases		
	241,468	180,400
Less: current portion	(16,045)	(10,300)
	$ 225,423	$ 170,100

Senior Secured Credit Facility

The Company, through its wholly-owned and related subsidiaries, maintains senior secured credit facility with various financial institutions, which provides for aggregate borrowings of up to $466,000 consisting of a $122,000 term loan A facility, a $314,000 term loan C facility and a $30,000 revolving credit facility which is available in whole or in part to both CCI Illinois and CCI Texas. Borrowings under the credit facility are secured by substantially all of the assets of the Company, other than ICTC. ICTC s guarantee (and the corresponding security interest in ICTC s assets) of up to $195,000 of total borrowing under the credit facility is contingent upon obtaining the consent of the Illinois Commerce Commission (ICC).

The term loans are due in quarterly installments, which increase annually, with all borrowings under term loan A and term loan C due April 14, 2010 and October 14, 2011, respectively. The revolving credit facility matures on April 14, 2010. Within 90 days after the end of the Company s fiscal year, commencing on December 31, 2004, the Company shall be obligated to repay the loans in an amount equal to 50% of the excess cash flow for such fiscal year, provided that certain leverage ratios are maintained at the end of the fiscal year. As of December 31, 2004, the Company estimated that the excess cash flow repayment would be approximately $8,768. In addition, subject to certain exceptions, the Company is required to prepay the outstanding term loans with 100% of the net proceeds of all non-ordinary course of business asset sales and any insurance or condemnation proceeds not reinvested within a required time period, 100% of the net proceeds of certain occurrences of indebtedness and 50% of the net proceeds from certain issuances of equity.

At the Company s election, borrowings bear interest at fluctuating interest rates based on: (a) a base rate (the highest of the administrative agent s base rate in effect on such day, 0.5% per annum above the latest three week moving average of secondary market morning offering rates in the United States for three month certificates of deposit or 0.5% above the Federal Funds rate); or (b) the London Interbank Offered Rate, or LIBOR plus, in either case, an applicable margin within the relevant range of margins (0.75% to 2.50%) provided for in the credit agreement. The applicable margin is based upon the Company s total leverage ratio. As of December 31, 2004, the margins for interest rates on LIBOR based loans was 2.25% on the term loan A facility and 2.50% under the term loan C facility. At December 31, 2004, the weighted

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CONSOLIDATED COMMUNICATIONS ILLINOIS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

average rate, including swaps, of interest on the Company s term debt facilities was 5.17% per annum. Interest is payable at least quarterly.

The credit agreement contains various provisions and covenants, which include, among other items, restrictions on the ability to pay dividends, incur additional indebtedness, and issue capital stock, as well as, limitations on future capital expenditures. The Company has also agreed to maintain certain financial ratios, including interest coverage, fixed charge coverage and leverage ratios, all as defined in the credit agreement.

Senior Notes

On April 14, 2004, the Company, through its wholly owned and related subsidiaries, issued $200,000 of 9 3/4% Senior Notes due on April 1, 2012. The senior notes pay interest semi-annually on April 1 and October 1. The senior notes may be redeemed on or prior to October 6, 2005 using all or a portion of the proceeds of a qualified income depository security offering. The redemption price plus accrued interest will be, as a percentage of the principal amount, 107.313% through April 10, 2004, and 109.75% between April 1, 2005 and October 6, 2005.

Up to 35% of the senior notes may be redeemed using the proceeds of certain equity offerings completed on or prior to April 1, 2007. Some or all of the senior notes may be redeemed on or after April 1, 2008. The redemption price plus accrued interest will be, as a percentage of the principal amount, 104.875% in 2008, 102.438% in 2009 and 100% in 2010 and thereafter. In addition, holders may require the repurchase of the notes upon a change in control, as such term is defined in the indenture governing the senior notes. The indenture contains certain provisions and covenants, which include, among other items, restrictions on the ability to issue certain types of stock, incur additional indebtedness, make restricted payments, pay dividends and enter other lines of business.

Future maturities of long-term debt as of December 31, 2004 are as follows:

Calendar year 2005	$	16,045
Calendar year 2006		8,884
Calendar year 2007		9,397
Calendar year 2008		10,934
Calendar year 2009		13,598
Thereafter		182,610
	$	241,468

Derivative Instruments

The Company entered into interest rate swap agreements that effectively convert a portion of the floating-rate debt to a fixed-rate basis, thus reducing the impact of interest rate changes on future interest expense. At December 31, 2004, the Company has interest rate swap agreements covering $84,117 in aggregate principal amount of its variable rate debt at fixed LIBOR rates ranging from 2.99% to 3.35%. The swap agreements expire on December 31, 2006, May 19, 2007, and December 31, 2007. The fair value of the Company s derivative instruments, comprising interest rate swaps, amounted to an asset of $561 and liability of $859 at December 31, 2004 and 2003, respectively. The $561 is included in other current assets at December 31, 2004. The $859 is included in accrued expenses at December 31, 2003. The Company recognized a net loss of $84 in interest expense during 2004 related to its derivative instruments. The after tax change in the market value of derivative instruments is recorded in other

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CONSOLIDATED COMMUNICATIONS ILLINOIS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

comprehensive income. The Company recognized comprehensive income of $806 and a comprehensive loss of $515 during 2004 and 2003, respectively.

13. Environmental Remediation Liabilities

Environmental remediation liabilities were $914 and $931 at December 31, 2004 and 2003, respectively. These liabilities relate to anticipated remediation and monitoring costs in respect of two sites, are undiscounted and are included in accrued expenses in the accompanying balance sheet.

14. Commitments and Contingencies

Legal proceedings

From time to time the Company is involved in litigation and regulatory proceedings arising out of its operations. The Company is not currently a party to any legal proceedings, the adverse outcome of which, individually or in aggregate, management believes would have a material adverse effect on the Company s financial position or results of operations.

Operating leases

The Company has entered into several operating lease agreements covering buildings and office space and office equipment. The terms of these agreements generally range from three to five years. Rent expense totaled $2,603 and $2,043 in 2004 and 2003, respectively.

Future minimum lease payments under existing agreements for each of the next five years ending December 31 and thereafter are as follows: 2005 $1,943, 2006 $2,312, 2007 $1,914, 2008 $1,511, 2009 $1,514, thereafter $6,666.

15. Business Segments

The Company is viewed and managed as two separate, but highly integrated, reportable business segments, Telephone Operations and Other Operations . Telephone Operations consists of local telephone, long-distance and network access services, and data and Internet products provided to both residential and business customers. All other business activities comprise Other Operations including operator services products, telecommunications services to state prison facilities, equipment sales and maintenance, inbound/outbound telemarketing and fulfillment services, and paging services. Management evaluates the performance of these business segments based upon revenue, gross margins, and net operating income.

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CONSOLIDATED COMMUNICATIONS ILLINOIS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

The business segment reporting information as of and for the years ended December 31, 2004 and 2003 is as follows:

	Telephone Operations	Other Operations	Total
Year ended December 31, 2004			
Operating revenues	$ 97,326	$ 39,207	$ 136,533
Cost of services and products	21,965	24,233	46,198
	75,361	14,974	90,335
Operating expenses	34,725	10,832	45,557
Intangible assets impairment		11,578	11,578
Depreciation and amortization	16,886	5,461	22,347
Net operating income (loss)	$ 23,750	$ (12,897)	$ 10,853
Capital expenditures	$ 12,108	$ 1,231	$ 13,339
Year ended December 31, 2003			
Operating revenues	$ 90,282	$ 42,048	$ 132,330
Cost of services and products	21,762	24,543	46,305
	68,520	17,505	86,025
Operating expenses	32,987	9,508	42,495
Depreciation and amortization	16,488	5,988	22,476
Net operating income	$ 19,045	$ 2,009	$ 21,054
Capital expenditures	$ 9,117	$ 2,179	$ 11,296
As of December 31, 2004:			
Goodwill	$ 80,735	$ 8,954	$ 89,689
Total assets	$ 238,312	$ 69,554	$ 307,866
As of December 31, 2003:			
Goodwill	$ 78,443	$ 21,111	$ 99,554
Total assets	$ 245,855	$ 71,740	$ 317,595

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CONSOLIDATED COMMUNICATIONS ILLINOIS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

16. Quarterly Financial Information (unaudited)

	March 31	June 30	September 30	December 31
2004				
Revenues	$ 34,067	$ 33,028	$ 34,679	$ 34,759
Operating expenses:				
Cost of services and products	12,374	11,372	12,439	10,013
Selling, general and administrative expenses	10,589	11,139	11,276	12,553
Depreciation and amortization	5,366	6,090	5,728	5,163
Asset impairment				11,578
Total operating expenses	28,329	28,601	29,443	39,307
Income (loss) from operations	5,738	4,427	5,236	(4,548)
Other expenses, net	2,797	8,025	3,992	4,061
Pretax income (loss)	2,941	(3,598)	1,244	(8,609)
Income tax expense (benefit)	1,177	(1,440)	498	(3,122)
Net income (loss)	$ 1,764	$ (2,158)	$ 746	$ (5,487)
2003				
Revenues	$ 31,772	$ 33,224	$ 33,741	$ 33,593
Operating expenses:				
Cost of services and products	11,081	12,028	12,355	10,841
Selling, general and administrative expenses	10,090	10,114	10,348	11,943
Depreciation and amortization	5,494	5,938	5,698	5,346
Total operating expenses	26,665	28,080	28,401	28,130
Income from operations	5,107	5,144	5,340	5,463
Other expenses, net	3,131	2,889	2,961	2,855
Income tax expense	790	902	952	1,073
Net income	$ 1,186	$ 1,353	$ 1,427	$ 1,535

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ILLINOIS CONSOLIDATED TELEPHONE COMPANY AND RELATED BUSINESSES
CONSOLIDATED FINANCIAL STATEMENTS
December 30, 2002
with Report of Independent Registered Public Accounting Firm

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Consolidated Communications, Inc.

We have audited the accompanying combined balance sheet as of December 30, 2002, of the corporations and lines of business listed in Note 1 (then owned by McLeodUSA Inc.), and the related combined statements of income, changes in parent company investment, and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined 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 audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position at December 30, 2002, of the corporations and lines of business listed in Note 1, and the combined results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 3 to the combined financial statements, effective January 1, 2002, the corporations and lines of business listed in Note 1 discontinued the amortization of goodwill in accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets .

Chicago, Illinois
March 8, 2004

/s/ Ernst & Young llp

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ILLINOIS CONSOLIDATED TELEPHONE COMPANY AND RELATED BUSINESSES
COMBINED BALANCE SHEET
December 30, 2002
(Amounts in thousands)

ASSETS		
Current assets:		
Cash and cash equivalents	$	1,089
Accounts receivable, net of allowances of $1,850		14,107
Inventories		2,204
Prepaid expenses		1,399
Deferred directory costs and other charges		369
Deferred tax assets		2,914
Other current assets		1,122
Total current assets		23,204
Investments		18
Property, plant, and equipment:		
Land and buildings		24,162
Network and outside plant facilities		200,481
Furniture, fixtures and equipment		32,614
Work in process		3,330
		260,587
Less: Accumulated depreciation		155,526
Net property, plant, and equipment		105,061
Intangibles and other assets:		
Goodwill		101,324
Other intangibles		6,463
Deferred charges and other assets		333
Total intangibles and other assets		108,120
Total assets	$	236,403
LIABILITIES AND PARENT COMPANY INVESTMENT		
Current liabilities:		
Current portion of capital lease obligations	$	479
Accounts payable		7,306
Accrued liabilities		6,725
Advance billings and customer deposits		5,307
Total current liabilities		19,817
Long-term liabilities:		
Unamortized investment tax credits		320
Deferred income taxes		10,815
Pension benefit obligations and other postretirement obligations		9,471

Deferred compensation		
Other long-term liabilities		903
Long-term debt, excluding current maturities		20,593
Long-term capital lease obligations		
Commitments and contingencies		
Total long-term liabilities		42,102
Parent company investment		174,484
Total liabilities and parent company investment	$	236,403

See accompanying notes.

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ILLINOIS CONSOLIDATED TELEPHONE COMPANY AND RELATED BUSINESSES
COMBINED STATEMENT OF INCOME
Year Ended December 30, 2002
(Amounts in thousands)

Operating revenues	
Illinois Telephone Operations	$ 76,745
Other Illinois Operations	33,159
Total operating revenues	109,904
Operating expenses	
Cost of services and products (exclusive of depreciation and amortization shown separately below)	35,820
Selling, general, and administrative	35,616
Depreciation and amortization	24,544
Total operating expenses	95,980
Income from operations	13,924
Other income (expense):	
Interest income	6
Interest expense	(1,652)
Other, net	428
Total other expense	(1,218)
Income before income taxes	12,706
Income taxes	4,670
Net income	$ 8,036

See accompanying notes.

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ILLINOIS CONSOLIDATED TELEPHONE COMPANY AND RELATED BUSINESSES
COMBINED STATEMENT OF CHANGES IN PARENT COMPANY INVESTMENT
Year Ended December 30, 2002
(Amounts in thousands)

Balance at January 1, 2002	$ 178,142
Net income	8,036
Net settlement with parent	(11,694)
Balance at December 30, 2002	$ 174,484

See accompanying notes.

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ILLINOIS CONSOLIDATED TELEPHONE COMPANY AND RELATED BUSINESSES
COMBINED STATEMENT OF CASH FLOWS
Year Ended December 30, 2002
(Amounts in thousands)

Cash flows from operating activities		
Net income	$	8,036
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization		24,544
Deferred income taxes		(4,933)
Other deferred credits, net		1,864
Changes in net operating assets and liabilities:		
Accounts receivable		(660)
Inventories		805
Prepaid expenses		(105)
Accounts payable		1,102
Advance billings and customer deposits		453
Accrued income taxes and liabilities		(3,604)
Other		1,035
Net cash provided by operating activities		28,537
Cash flows from investing activities		
Property, plant, and equipment expenditures		(14,137)
Net cash used in investing activities		(14,137)
Cash flows from financing activities		
Repayment of long-term debt		(68)
Deferred charges and other noncurrent assets		19
Settle intercompany receivables, net		(16,515)
Net cash used in financing activities		(16,564)
Net decrease in cash and cash equivalents		(2,164)
Cash and cash equivalents at beginning of year		3,253
Cash and cash equivalents at end of year	$	1,089
Non-cash investing and financing activities		
Property, plant and equipment additions	$	4,821
Supplemental disclosures of cash flow information		
Cash paid for interest	$	1,643

See accompanying notes.

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ILLINOIS CONSOLIDATED TELEPHONE COMPANY AND RELATED BUSINESSES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 30, 2002
(Dollars in thousand, except share and per share amounts)

1. Nature of Business

Consolidated Communications, Inc., or CCI, is a direct, wholly owned subsidiary of Consolidated Communications Holdings, Inc. or Illinois Holdings. Illinois Holdings, in turn, is a direct, wholly owned subsidiary of Homebase Acquisition, LLC, or Homebase.

Homebase, a Delaware limited liability company that was formed on June 26, 2002, entered into a sale and purchase agreement with McLeodUSA, Inc. in July 2002 and the transaction was concluded on December 31, 2002. CCI was formed on August 6, 2002 to acquire a highly integrated group of companies and lines of business as described below. The accompanying combined financial statements include the accounts of Illinois Consolidated Telephone Company and the Related Businesses (the Business). During the periods covered by these financial statements the Business operated under the ownership of McLeodUSA, Inc., or McLeodUSA. The Business comprised of the following entities and lines of business:

Illinois Consolidated Telephone Company (ICTC) provides a broad range of local exchange telecommunications services including local dialtone and central office based vertical services features, private line services, data services (including DSL), intraLATA toll and carrier access services. Operations are subject to regulation by the Illinois Commerce Commission and the Federal Communications Commission.

Consolidated Communications Operator Services provides both live and automated local and long distance assistance as well as national directory assistance on a wholesale and retail basis. CCOS also provides specialized message center services and corporate and governmental attendant services.

McLeodUSA Public Services, Inc. primarily offers managed local and long distance automated calling from county jails and state prison facilities in Illinois. These inmate services include fraud control, customer service, call management, and technical field support.

Consolidated Communications Business Systems sells and installs telecommunications equipment, and performs cabling, wiring, and equipment maintenance services to business and residential customers within the ICTC service territory and to business customers in adjacent markets.

Consolidated Market Response, Inc. is a full service teleservices business providing inbound and outbound telemarketing and backend fulfillment services to corporate clients from diverse industry segments.

Consolidated Communications Mobile Services provides one-way messaging service for both personal and business accounts. The basic paging service has been supplemented with complimentary mobile information services including Internet, 800 service, info text and voice mail.

The Business has two reportable segments, Illinois Telephone Operations and Other Illinois Operations (see note 14, Business Segments). ICTC is represented in Illinois Telephone Operations while all other entities and lines of business are reflected in Other Illinois Operations.

2. Basis of Preparation

These combined financial statements present, on an historical cost basis, the combined assets, liabilities, revenues and expenses related to the entities and businesses as if the Business had existed as an entity separate from McLeodUSA. The historical cost basis includes the allocation of goodwill and other intangible assets resulting from McLeodUSA s purchase of the Business in 1997. As such, the accompanying combined financial statements are not intended to be a complete representation of the debt

ILLINOIS CONSOLIDATED TELEPHONE COMPANY AND RELATED BUSINESSES
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
December 30, 2002
(Dollars in thousand, except share and per share amounts)

and equity structure of the Business on a stand-alone basis. All material transactions between businesses included in these financial statements have been eliminated. Comprehensive income is equivalent to net income for all periods presented. Line costs totaling $17,980 for 2002 were reclassified from general and administrative expenses to cost of services.

3. Summary of Significant Accounting Policies

Regulatory Accounting

ICTC, an independent local exchange carrier, follows the accounting for regulated enterprises prescribed by Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation* which permits rates (tariffs) to be set at levels intended to recover estimated costs of providing regulated services or products, including capital costs. SFAS No. 71 requires ICTC to depreciate wireline plant over the useful lives approved by the regulators, which could be different than the useful lives that would otherwise be determined by management. SFAS No. 71 also requires deferral of certain costs and obligations based upon approvals received from regulators to permit recovery of such amounts in future years. Criteria that would give rise to the discontinuance of SFAS No. 71 include (1) increasing competition restricting the wireline business ability to establish prices to recover specific costs and (2) significant changes in the manner by which rates are set by regulators from cost-based regulation to another form of regulation.

Use of Estimates

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

Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments with an original maturity of three months or less.

Accounts Receivable and Allowance for Doubtful Accounts

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

Inventory

Inventory consists mainly of copper and fiber cable that will be used for ICTC network expansion and upgrades as well as materials and equipment used in the maintenance and installation of telephone systems. All inventory is stated at the lower of average cost or market.

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ILLINOIS CONSOLIDATED TELEPHONE COMPANY AND RELATED BUSINESSES
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
December 30, 2002
(Dollars in thousand, except share and per share amounts)

Investments

Investments primarily consist of the net cash surrender value of variable whole life insurance policies to cover deferred compensation liabilities for certain executives. These investments are carried at fair value. The deferred compensation arrangement was terminated in January 2002, and accordingly, proceeds received from the insurance policies were used to pay the deferred compensation obligations.

Intangible Assets and Goodwill

Goodwill is stated at cost and was amortized using the straight-line method over thirty years. Effective January 1, 2002, the Business adopted SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), at which time amortization ceased. The Company will test annually for impairment as part of its annual business planning cycle in the fourth quarter. Impairment will be tested using the discounted cash flow method to determine the fair value at the reporting unit level. Intangible assets are stated at cost and consist of customer relationships, tradenames, and software and are being amortized over their useful lives which range from five to ten years.

Property, Plant, and Equipment

Property, plant and equipment are recorded at cost. The cost of additions, replacements and major improvements is capitalized, while repairs and maintenance are charged to expense. When property, plant and equipment are retired from ICTC, the original cost, net of salvage, is charged against accumulated depreciation, with no gain or loss recognized in accordance with the composite group remaining life methodology used for regulated telephone plant assets. When property applicable to non-regulated operations is sold or retired, the assets and related accumulated depreciation are removed from the accounts and the associated gain or loss is recognized.

The provision for depreciation of regulated property and equipment is computed using rates and lives approved by the Illinois Commerce Commission. The provision is equivalent to annual composite depreciation rates of 5.59% for 2002.

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

	Years
Buildings	15-20
Telecommunications networks	5-15
Furniture, fixtures, and equipment	3-10

Depreciation of assets recorded under capital leases is included within depreciation and amortization expense.

Revenue Recognition

Wireline local access revenues are recognized over the period that the service is provided. Nonrecurring installation revenues are deferred upon service activation and are recognized over the shorter of three to five years or the determined useful life. The associated costs are recorded in the period in which they are incurred. Revenues from other telecommunications services, including network access charges, custom calling feature revenues, billing and collection services, long distance and private line services, Internet service provider charges, operator services, and paging services are recognized monthly as services are provided.

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ILLINOIS CONSOLIDATED TELEPHONE COMPANY AND RELATED BUSINESSES
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
December 30, 2002
(Dollars in thousand, except share and per share amounts)

Telephone equipment revenues generated from retail channels are recorded at the point of sale. Telecommunications systems and structured cabling project revenues are recognized upon completion and billing of the project. Maintenance services are provided on both a contract and time and material basis and are recorded when the service is provided.

Teleservices revenues include both inbound and outbound calling as well as fulfillment services. All revenues are recorded as program activity is completed.

Advertising Costs

The costs of advertising are charged to expense as incurred. Advertising expenses totaled $1,758 in 2002.

Financial Instruments

At December 30, 2002, the Business financial instruments consist of cash and cash equivalents, accounts receivable and payable, long-term debt and capital lease obligations. The fair values of the financial instruments were not materially different from their carrying value except for long-term debt. The aggregate fair value of the Business long-term debt (including current maturities) was approximately $24,212 at December 30, 2002. Fair values for the long-term debt were determined using discounted cash flow analyses based on the Business current incremental interest rates for similar instruments.

Deferred Income Taxes

Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts.

Stock-Based Compensation

The Business follows the provisions of Accounting Principle Board Opinion No. 25, *Accounting for Stocks Issued to Employees* (APB No. 25) and related interpretations in accounting for its employee stock options.

In September 1997, McLeodUSA granted 837,245 stock options to the Business employees at an exercise price of $24.50 per share. The aggregate intrinsic value of these options at the date of grant exceeded the aggregate exercise price by approximately $9,000. As a result, the Business has amortized the stock compensation expense over the four-year vesting period of the options. There is no charge for stock-based compensation in 2002.

Recent Accounting Pronouncements

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (SFAS 143). SFAS 143 requires companies to record liabilities equal to the fair value of their asset retirement obligations when they are incurred. When the liability is initially recorded, companies capitalize an equivalent amount as part of the cost of the asset. The Business is required to adopt SFAS 143 on January 1, 2003, and it does not believe that the adoption of this new standard will have a material effect on the 2003 consolidated financial statements.

In August 2001, the Financial Accounting Standards Board issued SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* SFAS 144 retains the requirement to recognize an impairment loss only where the carrying value of a long-lived asset is not recoverable from its

ILLINOIS CONSOLIDATED TELEPHONE COMPANY AND RELATED BUSINESSES
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
December 30, 2002
(Dollars in thousand, except share and per share amounts)

undiscounted cash flows and to measure such loss as the difference between the carrying amount and fair value of the asset. SFAS 144, among other things, changes the criteria that have to be met in order to classify an asset held-for-sale and requires that operating losses from discontinued operations be recognized in the period that the losses are incurred rather than as of the measurement date. SFAS 144 was adopted for the Business 2002 accounting period and did not have a material impact on the combined financial statements.

In July 2002, the FASB issued SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities.* Under SFAS 146, a liability for costs associated with an exit or disposal activity should be recognized when the liability is incurred. Previously, such a liability was recognized at the date of commitment to an exit plan. SFAS 146 also makes some changes to the timing of recognizing severance pay costs where benefit arrangements require employees to render future service beyond a minimum retention period. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Business is required to adopt SFAS 146 on January 1, 2003, and it does not believe that the adoption of this new standard will have a material effect on the 2003 consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45 (FIN 45), *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others.* FIN 45 requires certain guarantees to be recorded at fair value, which is different from current practice, which is generally to record a liability only when a loss is probable and reasonably estimable. FIN 45 also requires a guarantor to make certain new disclosures in the financial statements; these disclosure requirements are effective for the Business 2002 reporting period. The Business is required to adopt the recognition and measurement provisions of FIN 45 on a prospective basis with respect to guarantees issued or modified after December 31, 2002. The Business does not believe the adoption of FIN 45 will have a material effect on its 2003 consolidated financial statements.

Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities* , was issued by the FASB in January 2003. FIN 46 requires a company to consolidate a variable interest entity if the company is subject to a majority of the risk of loss from the variable interest entity s activities or is entitled to receive a majority of the entity s residual returns. The interpretation also requires disclosures about variable interest entities that the company is not required to consolidate but in which it has a significant variable interest. FIN 46 is immediately effective for variable interest entities created on or after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 will become effective for the periods after March 15, 2004, except for Special Purpose Entities, to which the provisions apply as of December 31, 2003. The Business has not yet determined the effect of adopting FIN 46, if any, on its statement of income or financial position.

4. Affiliated Transactions

McLeodUSA provided corporate communications, human resources, treasury and other general and administrative services. In accordance with the cost allocation manual filed with the ICC, the following allowable methods were used to apportion costs to ICTC: corporate of communications departmental time study; human resources total company wages; treasury departmental time study; and general and administrative general allocation factor. We believe these methods were reasonable and the charges were representative of what would have been incurred on a stand-alone basis. Allocations of the costs incurred were charged to ICTC and amounted to $910 in 2002, which has been recorded in general and administrative expense.

The 2002 line items net settlement with the parent reflected in the Combined Statement of Changes in Parent Company Investment for Illinois Consolidated Telephone Company and Related

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ILLINOIS CONSOLIDATED TELEPHONE COMPANY AND RELATED BUSINESSES
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
December 30, 2002
(Dollars in thousand, except share and per share amounts)

Businesses depict specifically the settlement of the intercompany receivables and payables and the associated cash distribution to the parent company.

5. Goodwill and Intangible Assets

Effective January 1, 2002, the Business adopted SFAS 142. Accordingly, goodwill and other indefinite lived intangibles are no longer amortized but are subject to an annual impairment test. Other intangible assets will continue to be amortized over their useful lives. We have determined that software and customer lists have a useful life of five years. The Business tradenames have an estimated useful life of ten years. Amortization of tradenames will continue for the next five years. The amortization expense will be $1,360 during each of the next four years through 2006, and $1,022 in 2007.

6. Income Taxes

For federal income tax purposes, the Business was included in a consolidated tax return along with other companies in the McLeodUSA group during 2002. For the purpose of these combined financial statements, the provision for income taxes has been computed on a stand-alone basis as if the Business had filed a separate return for the periods presented and was not a member of a group. However, due to the fact that the McLeodUSA group had a consolidated net operating loss, the Business did not make any cash payments for income taxes during 2002. Therefore, income taxes that would be payable on a stand-alone basis have been settled as an increase in parent company investment.

The components of the income tax provision charged to expense for 2002 are as follows:

Current:		
Federal	$	8,628
State		1,240
Total Current		9,868
Deferred:		
Federal		(4,297)
State		(636)
Total Deferred		(4,933)
Investment tax credit amortized		(265)
Total income tax expense	$	4,670

The following is a reconciliation between the statutory federal income tax rate and the Business overall effective tax rate:

Statutory federal income tax rate	34.0%
State income taxes, net of federal benefit	4.8
Other	(2.0)
Effective overall income tax rate	36.8%

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ILLINOIS CONSOLIDATED TELEPHONE COMPANY AND RELATED BUSINESSES
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
December 30, 2002
(Dollars in thousand, except share and per share amounts)

The temporary differences which give rise to significant portions of the net deferred tax liability at December 30, 2002, are as follows:

Current deferred income tax assets:	
Accrued vacation	$ 582
Reserve for uncollectible accounts	541
Accrued expenses	365
Deferred revenue and regulatory reserves	1,426
Total current deferred income tax assets	2,914
Noncurrent deferred income tax assets:	
Pension and post retirement expense	3,771
Other	320
Total noncurrent deferred income tax assets	4,091
Noncurrent deferred income tax liabilities:	
Depreciable property	(11,740)
Intangibles	(2,685)
Regulatory liabilities	(481)
Total noncurrent deferred income tax liability	(14,906)
Net noncurrent deferred income tax liability	(10,815)
Total net deferred tax liability	$ (7,401)

7. Pension Costs and Other Postretirement Benefits

ICTC maintains a noncontributory defined pension and death benefit plan covering substantially all of its hourly employees. The pension benefit formula used in the determination of pension cost is based on the highest five consecutive calendar years base earnings within the last ten calendar years immediately preceding retirement or termination. It is ICTC s policy to fund pension costs as they accrue subject to any applicable Internal Revenue Code limitations.

The changes in benefit obligation for 2002 are as follows:

Projected benefit obligation at beginning of period	$ 47,379
Service cost	807
Interest cost	3,240
Benefits paid	(3,374)
Actuarial loss	1,585
Projected benefit obligation at end of period	$ 49,637

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ILLINOIS CONSOLIDATED TELEPHONE COMPANY AND RELATED BUSINESSES
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
December 30, 2002
(Dollars in thousand, except share and per share amounts)

The changes in plan assets for 2002 relate to the following:

Fair value of plan assets at beginning of period	$	50,769
Actual return on plan assets		(1,949)
Benefits paid		(3,374)
Fair value of plan assets at end of period	$	45,446

The reconciliations of the funded status of the pension plans as of December 30, 2002, are as follows:

Funded status	$	(4,191)
Unrecognized net actuarial gain		(220)
Unrecognized prior service cost		2,536
Net amount recognized at period-end	$	(1,875)

The components of net periodic benefit cost for 2002 are as follows:

Service cost	$	807
Interest cost		3,240
Expected return on plan assets		(3,940)
Amortization of prior service costs		482
Recognized actuarial gain		(223)
Net periodic benefit cost	$	366

The assets of the plan consist principally of equity and fixed income securities. Actuarial assumptions used to calculate the projected benefit obligation included a discount rate of 6.75%. Future compensation level increases were estimated to be 4.0%. The assumed long-term rate of return on plan assets was 8.0%.

In addition to providing pension benefits, ICTC provides an optional retiree medical program to its salaried and union retirees and spouses under age 65 and life insurance coverage for the salaried retirees. All retirees are required to contribute to the cost of their medical coverage while the salaried life insurance is provided at no cost to the retiree.

The following postretirement benefit plan disclosures relate to ICTC and Related Businesses. The changes in the postretirement benefit obligation for 2002 are as follows:

Benefit obligation at beginning of period	$	7,710
Service cost		143
Interest cost		520
Benefits paid		(393)
Actuarial gain		(14)
Benefit obligation at end of period	$	7,966

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ILLINOIS CONSOLIDATED TELEPHONE COMPANY AND RELATED BUSINESSES
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
December 30, 2002
(Dollars in thousand, except share and per share amounts)

The changes in plan assets for 2002 relate to the following:

Fair value of plan assets at beginning of period	$	
Employer contributions		393
Benefits paid		(393)
Fair value of plan assets at end of period	$	

The reconciliations of the funded status of the postretirement benefit plan as of December 30, 2002 are as follows:

Funded status	$	(7,966)
Contributions made after measurement date and before fiscal year end		111
Unrecognized net actuarial gain		(1,018)
Unrecognized transition obligation		2,796
Unrecognized prior service cost		(1,519)
Net amount recognized at period-end	$	(7,596)

The components of postretirement benefit cost for 2002 are as follows:

Service cost	$	143
Interest cost		520
Amortization of prior service costs		(174)
Amortization of transitional obligation		388
Recognized actuarial gain		(26)
Net periodic benefit cost	$	851

The postretirement benefit obligation is calculated assuming that health-care costs increased by 12.0% in 2002, and that the rate of increase thereafter (the health-care cost trend rate) will decline to 6.0% in 2008 and subsequent years. The health-care cost trend rate has a significant effect on the amounts reported for costs each year as well as on the accumulated postretirement benefit obligation. For example, a one percentage point increase each year in the health-care cost trend rate would increase the accumulated postretirement benefit obligation as of December 30, 2002, by approximately $643 and the aggregate of the service and interest cost components of the net periodic postretirement benefit cost by approximately $62. A one percentage point decrease each year in the health-care cost trend rate would decrease the accumulated postretirement benefit obligation as of December 30, 2002, by approximately $529 and the aggregate of the service and interest cost components of the net periodic postretirement benefit cost by approximately $50. The weighted-average discount rate used in determining the benefit obligation was 6.75%.

8. Employee Benefit Plan

The Business provides a 401(k) defined contribution retirement savings plan made available to virtually all employees. Each employee may elect to defer a portion of his or her compensation subject to certain limitations. During the periods covered in this report, for all hourly employees participating in the plan, the Business matched employee contributions up to a maximum of 4%. For salaried employees

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ILLINOIS CONSOLIDATED TELEPHONE COMPANY AND RELATED BUSINESSES
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
December 30, 2002
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during the same periods, McLeodUSA contributed a matching amount in McLeodUSA company stock. The Business contributions towards the hourly plan totaled $329 in 2002.

9. Long-Term Debt

ICTC s first mortgage bonds are collateralized by substantially all real and personal property. The Series K Bonds and Series L Bonds provide for early redemption by payment of the principal amount to be redeemed, any accrued interest and a make-whole amount as described in the indenture. As a result of the Series K Bond and Series L Bond issues, ICTC is restricted from declaring or paying any dividends or distributions, subject to certain exceptions, that would reduce the retained earnings balance below $915.

CMR entered into a $1,250 mortgage on their building in Charleston, Illinois, on March 18, 1994. A floating interest rate was set at 100 basis points above the Harris Bank prime with a floor and cap of 5% and 9%, respectively. The note matures on March 18, 2004.

Long-term debt consisted of the following at December 31, 2002:

ICTC First mortgage bonds:		
Series K, 8.620%, due September 1, 2022	$	10,000
Series L, 7.050%, due October 1, 2013		10,000
CMR mortgage bond		593
	$	20,593

As disclosed in Note 15 below, the long-term debt balances were settled immediately following the acquisition of the Business by Homebase Acquisition LLC on December 31, 2002.

10. Environmental Remediation Liabilities

Environmental remediation liabilities totaled $931 at December 30, 2002. These liabilities relate to anticipated remediation and monitoring costs in respect of two sites and are undiscounted.

11. Operating Leases

The Business has operating lease agreements covering buildings and office space and office equipment. The terms of these agreements generally range from three to five years. Rent expense totaled $1,195 in 2002.

Future minimum lease payments under existing agreements for each of the next five years ending December 31 and thereafter are as follows:

Year		Lease Payments
2003	$	675
2004		457
2005		419
2006		364
2007		312
2008 and thereafter		815
Total	$	3,042

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ILLINOIS CONSOLIDATED TELEPHONE COMPANY AND RELATED BUSINESSES
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
December 30, 2002
(Dollars in thousand, except share and per share amounts)

12. Capital Leases

The Business has capital lease agreements for desktop computing equipment. The terms of these agreements range from 20 months to 39 months, with the remaining open leases expiring in 2003. The gross amount of assets recorded under capital leases was $605 at December 30, 2002. The related accumulated amortization at December 30, 2002 was $458. Lease payments related to these obligations totaled $357 during 2002. The minimum lease payments in 2003 under these existing agreements totaled $153.

13. Business Segments

The Business is viewed and managed as two separate, but highly integrated, reportable business segments, Illinois Telephone Operations and Other Illinois Operations . Illinois Telephone Operations consists of local telephone, long-distance and network access services, and data products provided to both residential and business customers in central Illinois. ICTC is included in Telephone Operations during the periods covered in these combined financial statements. All other entities and lines of business comprise Other Illinois Operations . Services include operator services products, telecommunications services to state prison facilities, equipment sales and maintenance, inbound/outbound telemarketing and fulfillment services, and paging services. Management evaluates the performance of these business segments based upon revenue, gross margins, and net operating income. The business segment reporting information is as follows:

	2002		
	Illinois Telephone Operations	**Other Illinois Operations**	**Total**
Operating revenues	$ 76,745	$ 33,159	$ 109,904
Cost of services and products	17,980	17,840	35,820
	58,765	15,319	74,084
Selling, general and administrative expenses	28,967	6,649	35,616
Depreciation and amortization	20,074	4,470	24,544
Net operating income	$ 9,724	$ 4,200	$ 13,924
Total assets	$ 222,380	$ 14,023	$ 236,403
Goodwill	81,059	20,265	101,324
Capital expenditures	12,005	2,132	14,137

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ILLINOIS CONSOLIDATED TELEPHONE COMPANY AND RELATED BUSINESSES
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
December 30, 2002
(Dollars in thousand, except share and per share amounts)

14. Quarterly Financial Information (unaudited)

	2002			
	March 31	**June 30**	**September 30**	**December 31**
Operating revenues	$ 27,155	$ 27,998	$ 27,610	$ 27,141
Cost of services and products	8,837	9,188	8,518	9,277
	18,318	18,810	19,092	17,864
Selling, general and administrative expenses	8,733	7,782	8,752	10,349
Depreciation and amortization	6,135	6,136	6,136	6,137
Net operating income	3,450	4,892	4,204	1,378
Other expenses	(252)	(305)	(320)	(341)
Income taxes	1,183	2,127	1,639	(279)
Net income	$ 2,015	$ 2,460	$ 2,245	$ 1,316

15. Subsequent Event

Effective December 31, 2002, Homebase purchased the entities and lines of business that comprise the Business for a total consideration of $271,200 (excluding acquisition-related expenses) from McLeodUSA. As a result of the acquisition, the Business long-term debt of approximately $20,593 was immediately extinguished. These financial statements do not include any adjustments that would be required to reflect this acquisition transaction in the Business combined balance sheet.

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CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
FINANCIAL STATEMENTS
As of December 31, 2004 and
the Period from April 14, 2004 (Date of Acquisition) to December 31, 2004
with Report of Independent Registered Public Accounting Firm

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Consolidated Communications Texas Holdings, Inc.

We have audited the accompanying consolidated balance sheet of Consolidated Communications Texas Holdings, Inc. and subsidiaries. (the Company) as of December 31, 2004, and the related consolidated statements of operations, changes in shareholder s equity, and cash flows for the period from April 14, 2004 (date of acquisition) to December 31, 2004. 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2004 and the consolidated results of their operations and their cash flows for the period from April 14, 2004 to December 31, 2004, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young, LLP

Chicago, Illinois
March 11, 2005

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CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
CONSOLIDATED BALANCE SHEET
(Dollars in thousands, except share amounts)

		December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$	35,358
Accounts receivable, net of allowance of $945		14,946
Inventories		1,393
Deferred income taxes		1,680
Prepaid expenses and other current assets		3,202
Total current assets		56,579
Property, plant and equipment, net		259,183
Intangibles and other assets:		
Investments		42,554
Goodwill		228,792
Customer lists, net		102,264
Deferred financing costs and other assets		12,820
Total assets	$	702,192
LIABILITIES AND SHAREHOLDER S EQUITY		
Current liabilities:		
Current portion of long-term debt	$	25,034
Accounts payable		9,738
Advance billings and customer deposits		3,456
Accrued expenses		21,905
Total current liabilities		60,133
Long-term debt less current maturities		362,919
Deferred income taxes		68,892
Pension and postretirement benefit obligations		49,616
Other liabilities		1,924
Total liabilities		543,484
Minority interests		2,291
Shareholder s equity		
Common shares, $0.01 par value, 1,000 shares authorized, issued and outstanding		
Paid in capital		152,458
Retained earnings		3,992
Accumulated other comprehensive loss		(33)

Total shareholder s equity		156,417
Total liabilities and shareholder s equity	$	702,192

See accompanying notes

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CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(Dollars in thousands)

	For the Period from April 14, 2004 through December 31, 2004
Revenues	$ 133,075
Operating expenses:	
Cost of services and products (exclusive of depreciation and amortization shown separately below)	34,374
Selling, general and administrative expenses	42,398
Depreciation and amortization	32,175
Income from operations	24,128
Other income (expense):	
Interest income	187
Interest expense	(20,220)
Partnership income	1,288
Dividend income	2,187
Minority interest	(327)
Other, net	(132)
Income before income taxes	7,111
Income tax expense	3,119
Net income	$ 3,992

See accompanying notes

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CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER S EQUITY
(Dollars in thousands)

For the Period from April 14, 2004 through December 31, 2004

	Common Shares				Accumulated Other		
	Shares	Amount	Paid in Capital	Retained Earnings	Comprehensive Income (Loss)	Total	Comprehensive Income
Net income				3,992		3,992	$ 3,992
Capital contributions			152,458			152,458	
Minimum pension liability, net of ($174) of tax					(283)	(283)	(283)
Unrealized loss on marketable securities, net of ($33) of tax					(49)	(49)	(49)
Change in fair value of cash flow hedges, net $200 of tax					299	299	299
Balance, December 31, 2004	1,000	$	$ 152,458	$ 3,992	$ (33)	$ 156,417	$ 3,959

See accompanying notes

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CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(Dollars in thousands)

	For the Period from April 14, 2004 through December 31, 2004
Operating Activities	
Net income	$ 3,992
Adjustments to reconcile net income to cash provided by operating activities:	
Depreciation and amortization	32,175
Provision for bad debt losses	1,157
Deferred income tax	2,295
Partnership income	(1,288)
Minority interest in net income of subsidiary	327
Amortization of deferred financing costs	1,292
Changes in operating assets and liabilities:	
Accounts receivable	1,783
Inventories	(390)
Other assets	2,310
Accounts payable	(212)
Accrued expenses and other liabilities	5,940
Net cash provided by operating activities	49,381
Investing Activities	
Capital expenditures	(16,671)
Acquisition, net of cash acquired	(524,090)
Net cash used in investing activities	(540,761)
Financing Activities	
Capital contributions from investors	152,458
Proceeds from long-term obligations	392,000
Payments made on long-term obligations	(6,894)
Payment of deferred financing costs	(10,826)
Net cash provided by financing activities	526,738
Net increase in cash and cash equivalents	35,358
Cash and cash equivalents at beginning of period	
Cash and cash equivalents at end of period	$ 35,358
Supplemental cash flow information	
Interest paid	$ 15,134

Income taxes paid	$	1,495

See accompanying notes

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CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004
(Dollars in thousand, except share and per share amounts)

1. Description of Business

Homebase Acquisition, LLC, a Delaware limited liability company (Homebase), was formed on June 26, 2002, and commenced operations in Illinois on December 31, 2002, with its acquisition of Illinois Consolidated Telephone Company and the related businesses (collectively, ICTC) and in Texas on April 14, 2004 with its acquisition of TXU Communications Ventures Company (TXUCV). Homebase is a holding company with no income from operations or assets except for the capital stock of Consolidated Communications Illinois Holdings, Inc. (Illinois Holdings) and Consolidated Communications Texas Holdings, Inc. (Texas Holdings or CCI Texas or the Company). Homebase and its wholly owned subsidiaries operate under the name Consolidated Communications.

Texas Holdings is a holding company with no income from operations or assets except for the capital stock of Consolidated Communications Texas, Inc. (Texas Acquisition). Texas Holdings and Texas Acquisition were formed for the sole purpose of acquiring TXUCV, which was subsequently renamed Consolidated Communications Ventures Company (CCV). Texas Holdings operates its business through, and receives all of its income from, CCV and its subsidiaries.

The Company provides local telephone, long-distance and network access services, and data and Internet products to both residential and business customers.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Texas Holdings and its wholly owned subsidiaries and subsidiaries in which it has a controlling financial interest. All material intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

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

Regulatory Accounting

Two wholly owned subsidiaries, Consolidated Communications of Texas Company and Consolidated Communications of Fort Bend Company, are independent local exchange carriers (ILECs) which follow the accounting for regulated enterprises prescribed by Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation* (SFAS No 71). SFAS No. 71 permits rates (tariffs) to be set at levels intended to recover estimated costs of providing regulated services or products, including capital costs. SFAS No. 71 requires the ILECs to depreciate wireline plant over the useful lives approved by the regulators, which could be different than the useful lives that would otherwise be determined by management. SFAS No. 71 also requires deferral of certain costs and obligations based upon approvals received from regulators to permit recovery of such amounts in future years. Criteria that would give rise to the discontinuance of SFAS No. 71 include (1) increasing competition restricting the wireline business ability to establish prices to recover specific costs and (2) significant changes in the manner by which rates are set by regulators from cost-base regulation to another form of regulation.

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CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments with a remaining maturity of three months or less when purchased.

Investments

Investments in equity securities that have readily determinable fair values are categorized as available for sale securities and are carried at fair value. The unrealized gains or losses on securities classified as available for sale are included as a separate component of common members equity. Investments in equity securities that do not have readily determinable fair values are carried at cost.

Investments in affiliated companies that the Company does not control but does have the ability to exercise significant influence over operations and financial policies, are accounted for using the equity method. Investments in affiliated companies that the Company does not control and does not have the ability to exercise significant influence over such affiliated companies operations and financial policies are accounted for using the cost method.

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

Accounts Receivable and Allowance for Doubtful Accounts

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

Inventory

Inventory consists mainly of copper and fiber cable that will be used for network expansion and upgrades and materials and equipment used in the maintenance and installation of telephone systems. Inventory is stated at the lower of average cost or market.

Goodwill and Other Intangible Assets

In accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), goodwill and intangible assets that have indefinite useful lives are not amortized but rather are tested annually for impairment. The Company evaluates the carrying value of goodwill in the fourth quarter of each year. As part of the evaluation, the Company compares the carrying value of the goodwill for each reporting unit with their fair value to determine whether impairment exists. If impairment is determined to exist, any related impairment loss is calculated based upon fair value.

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CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

SFAS 142 also provides that assets which have finite lives be amortized over their useful lives. Customer lists are being amortized over their estimated useful lives based upon the Company s historical experience with customer attrition and the recommendation of an independent appraiser. The estimated lives average thirteen years.

Property, Plant, and Equipment

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

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

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

Estimated useful lives are as follows:

	Years
Buildings	15-35
Network and outside plant facilities	5-30
Furniture, fixtures, and equipment	3-17

Revenue Recognition

Wireline local access revenues are recognized over the period that the service is provided. Nonrecurring installation revenues are deferred upon service activation and are recognized over the shorter of three to five years or the determined useful life. The associated costs are recorded in the period in which they are incurred. Revenues from other telecommunications services, including network access charges, custom calling feature revenues, billing and collection services, long distance and private line services, Internet service provider charges, operator services, and paging services are recognized monthly as services are provided.

Print advertising and publishing revenues are recognized ratably over the life of the related directory, generally twelve months.

Operating Costs

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, requires that public business enterprises report certain information about operating segments in complete sets of financial statements of the enterprise. SFAS No. 131 defines an operating segment as a component of the organization (1) that engages in business activities from which it may earn revenues and incur expenses (2) whose operating results are regularly reviewed by the enterprise s chief operating decision maker to

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CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

make decisions about performance and resource allocation; and (3) for which discrete financial information is available. Notwithstanding this definition, SFAS No. 131 provides the criteria for aggregating segments with similar economic characteristics such as the nature of product and services, the nature of production processes, the type or class of customers, the distribution method for products or services, and the nature of regulatory environment. The Company identified two operating segments ILEC and Transport Operations; however, Transport does not meet the quantitative threshold for separately reportable business segments.

Advertising Costs

The costs of advertising are charged to expense as incurred. Advertising expenses totaled $985 for the period from April 14, 2004 through December 31, 2004.

Income Taxes

Texas Holdings and its subsidiaries file separate consolidated federal income tax returns and East Texas Fiber Line Incorporated files a separate federal income tax return. State income tax returns are filed on a separate legal entity basis. Federal and state income tax expense or benefit is allocated to each subsidiary based on separately determined taxable income or loss.

Amounts in the financial statements related to income taxes are calculated in accordance with SFAS No. 109, *Accounting for Income Taxes* (SFAS No. 109). Deferred income taxes are provided for the temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes as well as loss carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company records a valuation allowance for deferred income tax assets when, in the opinion of management, it is more likely than not that deferred tax assets will not be realized.

Provisions for federal and state income taxes are calculated on reported pre-tax earnings based on current tax law and also may include, in the current period, the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provisions may differ from the amounts currently receivable or payable because certain items of income and expense are recognized in different time periods form financial reporting purposes than for income tax purposes. Significant judgment is required in determining income tax provisions and evaluating tax positions. The Company establishes reserves for income tax when, despite the belief that its tax positions are fully supportable, there remain certain positions that are probable to be challenged and possibly disallowed by various authorities. The consolidated tax provision and related accruals include the impact of such reasonably estimated losses. To the extent that the probable tax outcomes of these matters changes, such changes in estimate will impact the income tax provision in the period in which such determination is made.

Financial Instruments and Derivatives

As of December 31, 2004, the Company s financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and long-term debt obligations. At December 31, 2004, the carrying value of these financial instruments approximated fair value.

Derivative instruments are accounted for in accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activity* (SFAS No. 133). SFAS No. 133 provides comprehensive and consistent standards for the recognition and measurement of

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CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

derivative and hedging activities. It requires that derivatives be recorded on the consolidated balance sheet at fair value and establishes criteria for hedges of changes in fair values of assets, liabilities or firm commitments, hedges of variable cash flows of forecasted transactions and hedges of foreign currency exposures of net investments in foreign operations. To the extent that the derivatives qualify as a cash flow hedge, the gain or loss associated with the effective portion is recorded as a component of Other Comprehensive Income (Loss). Changes in the fair value of derivatives that do not meet the criteria for hedges are recognized in the consolidated statement of income. Upon termination of interest rate swap agreements, any resulting gain or loss is recognized over the shorter of the remaining original term of the hedging instrument or the remaining life of the underlying debt obligation. Since the Company s interest swap agreements are with major financial institutions, the Company does not anticipate any nonperformance by any counterparty.

Recent Accounting Pronouncements

In December 2003, the U.S. Congress enacted the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Medicare Act) that will provide a prescription drug subsidy beginning in 2006 to companies that sponsor post-retirement health care plans that provide drug benefits. Additional legislation is anticipated that will clarify whether a company is eligible for the subsidy, the amount of the subsidy available and the procedures to be following in obtaining the subsidy. In May 2004, the FASB issued Staff Position 106-2, A*ccounting Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (SAP 106-2), that provides guidance on the accounting and disclosure for the effects of the Medicare Act. The Company s post-retirement prescription drug plans are actuarially equivalent and accordingly, the Company began reflecting the Medicare Act s impact on July 1, 2004, without a material adverse effect on the financial condition or results of operations of the Company.

In December 2004, the FASB issued SFAS 123R, which replaces SFAS 123 and supersedes APB Opinion No. 25. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first annual period after June 15, 2005, with early adoption encouraged. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. The Company is required to adopt SFAS 123R beginning January 1, 2006. Under SFAS 123R, the Company must determine the appropriate fair market value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The Company is currently evaluating the effect that the adoption of SFAS 123R will have on the financial condition or results of operations of the Company but does not expect it to have a material impact.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets-An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions* (SFAS 153). SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21 (b) of APB Opinion No. 29, Accounting for Nonmonetary Transactions, and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for the fiscal periods beginning after June 15, 2005 and is required to be adopted by us in the three months ended September 30, 2005. The Company is currently evaluating the effect that the adoption of SFAS 153 will have on the financial condition or results of operations of the Company but does not expect it to have a material impact.

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CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

3. Acquisition

On April 14, 2004, Homebase, through its wholly owned subsidiary Texas Acquisition, acquired all of the capital stock of TXUCV from Pinnacle One Partners L.P. (Pinnacle One). By acquiring all of the capital stock of TXUCV, Homebase acquired substantially all of the telecommunications assets of TXU Corp., including two rural local exchange carriers (RLECs), that together serve markets in Conroe, Katy and Lufkin, Texas, a directory publishing business, a transport services business that provides connectivity within Texas and minority interests in cellular partnerships.

In connection with the closing of the TXUCV acquisition, the Company, through its wholly owned and related subsidiaries, issued $200,000 in the aggregate principal amount of 9^3/4% Senior Notes due 2012, entered into a new $437,000 bank credit facility, repaid its existing credit facility and entered into certain related transactions. The indenture governing the notes and the new credit facility contain covenants, events of default and other provisions (see Note 14).

The Company accounted for the TXUCV acquisition using the purchase method of accounting. Accordingly, the financial statements reflect the allocation of the total purchase price to the net tangible and intangible assets acquired based on their respective fair values. The purchase price, including acquisition costs and net of $9,897 of cash acquired, was allocated to assets acquired and liabilities assumed as follows:

Current assets	$	27,478
Property, plant and equipment		268,706
Customer list		108,200
Goodwill		228,792
Other assets		43,291
Liabilities assumed		(152,377)
Net purchase price	$	524,090

The aggregate purchase price was derived from a competitive bidding process and negotiations and was influenced by the Company s assessment of the value of the overall TXUCV business. The significant goodwill value reflects the Company s view that the TXUCV business can generate strong cash flow and sales and earnings following the acquisition. In accordance with SFAS 142, the $228,792 in goodwill recorded as part of the TXUCV acquisition will not be amortized and will be tested for impairment at least annually. The customer list will be amortized over its estimated useful life of thirteen years. The goodwill and other intangibles associated with this acquisition did not qualify under the Internal Revenue Code as deductible for tax purposes.

The Company s consolidated financial statements include the results of operations for the TXUCV acquisition since the April 14, 2004, acquisition date. Unaudited pro forma results of operations data for the years ended December 31, 2004 and 2003 as if the acquisition had occurred at the beginning of each period presented are as follows:

	Year Ended December 31			
		2004		2003
Total revenues	$	186,930	$	194,818

Income from operations	$	26,680	$	8,453
Pro forma net income (loss)	$	(82)	$	(20,338)

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CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

4. Prepaids and Other Current Assets

Prepaids and other current assets consists of the following as of December 31, 2004:

Prepaid expenses	$ 2,121
Other current assets	1,081
	$ 3,202

5. Property, Plant and Equipment

Property, plant, and equipment, net consists of the following as of December 31, 2004:

Property, plant and equipment:	
Land and buildings	$ 37,869
Network and outside plant facilities	415,166
Furniture, fixtures and equipment	41,429
Work in process	4,970
	499,434
Less: accumulated depreciation	(240,251)
Net property, plant and equipment	$ 259,183

Depreciation expense totaled $26,239 for the period from April 14, 2004 through December 31, 2004.

6. Investments

Investments consist of the following as of December 31, 2004:

Cash surrender value of life insurance policies	$ 1,708
Cost method investments:	
GTE Mobilnet of South Texas Limited Partnership (2.34% owned)	21,450
CoBank, ACB stock	1,568
Rural Telephone Bank stock	5,921
Equity method investments	
GTE Mobilnet of Texas RSA #17 Limited Partnership (17.02% owned)	11,759
Fort Bend Fibernet Limited Partnership (39.06% owned)	148
	$ 42,554

The Company obtained 2.34% ownership of GTE Mobilnet of South Texas Limited Partnership (the Mobilnet South Partnership) in connection with the acquisition of TXUCV on April 14, 2004. The principal activity of the Mobilnet South Partnership is providing cellular service in the Houston, Galveston and Beaumont, Texas metropolitan areas. The Company has very limited influence on the operating and financial policies of this partnership and accounts for this investment on the cost basis. The cost basis of $22,850 as of April 14, 2004 was determined with the help of an independent appraiser. During the period from April 14, 2004 through December 31, 2004 the Company received $3,206 of cash distributions from the Mobilnet South Partnership. These distributions exceeded the Company s share of earnings in the Mobilnet South Partnership by $1,400. Accordingly, $1,400 was applied as a reduction in the carrying amount of the investment and $1,806 was recognized as dividend income in 2004.

CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

The CoBank investment represents purchases of CoBank stock as required by the CoBank loan agreement and patronage distributions from CoBank in the form of stock. CoBank operates on a cooperative basis with a portion of the bank earnings returned to the owners in the form of patronage refunds. For the period from April 14, 2004 through December 31, 2004, the Company s allocation of patronage capital from CoBank was $380, of which $152 was in cash and $228 in patronage capital certificates. The Company will be receiving annual refunds of a portion of the stock only when their stock balances reaches 10% of the five-year moving average of CoBank loan balance. Cash dividends are recorded as reduction of interest expense and the patronage distribution in form of stock are recorded as other income in the consolidated statements of operations.

The Rural Telephone Bank stock consists of 5,921 shares of $1,000 par value Class C stock which is stated at original cost plus a gain recognized at conversion of Class B to Class C.

The Company received partnership distributions totaling $340 and $78 from GTE Mobilnet of Texas RSA # 17 Limited Partnership and Fort Bend Fibernet Limited Partnership, respectively, for the period from April 14, 2004 through December 31, 2004.

Summarized Financial Information for Significant Investments

The Company obtained 17.02% ownership of GTE Mobilnet of Texas RSA #17 Limited Partnership (the Mobilnet RSA Partnership) in connection with the acquisition of TXUCV on April 14, 2004. The principal activity of the Mobilnet RSA Partnership is providing cellular service to a limited rural area in Texas. The Company has some influence on the operating and financial policies of this partnership and accounts for this investment on the equity basis. Summarized 100 percent financial information for the Mobilnet RSA Partnership was as follows:

Year ended December 31, 2004:

Revenues	$	35,203
Operating income		9,636
Income before income taxes		10,116
Net income or loss		10,116

As of December 31, 2004:

Current assets	6,443
Non-current assets	22,494
Current liabilities	1,733
Non-current liabilities	
Partnership equity	27,204

The Company has recorded its pro rata share of the equity earnings from this investment since the date of the TXUCV acquisition on April 14, 2004, through December 31, 2004.

7. Minority Interest

East Texas Fiber Line, Inc. (ETFL) is a joint venture owned 63% by the Company and 37% by Eastex Celco. ETFL provides connectivity to certain customers within Texas over a fiber optic transport network.

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CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

8. Goodwill and Other Intangible Assets

In accordance with SFAS 142, goodwill and tradenames are not amortized but are subject to an annual impairment test, or to more frequent testing if circumstances indicate that they may be impaired. In 2004, the Company completed its annual impairment test and determined there was no impairment.

The Company s customer lists consist of an established core base of customers that subscribe to its services. The carrying amount of customer lists as December 31, 2004 is as follows:

Gross carrying amount	$	108,200
Less: accumulated amortization		(5,936)
Net carrying amount	$	102,264

The aggregate amortization expense associated with customer lists for the period from April 14, 2004 through December 31, 2004 was $5,936. Customer lists are being amortized using a weighted average life of thirteen years. The estimated amortization expense for each of the next five years ended December 31 is $8,323 per year.

9. Affiliated Transactions

The Company and certain of its subsidiaries have entered into a professional services fee agreement, effective April 14, 2004, with its existing equity investors. The agreement requires Texas Holdings to pay to Richard A. Lumpkin, Providence Equity and Spectrum Equity an annual professional services fee in the aggregate of $3,000, to be divided equally among them, for consulting, advisory and other professional services provided to Texas Holdings and its subsidiaries relating to the Texas operations. The professional services fees are generally payable in cash. The Company recognized fees of $2,135 for the period from April 14, 2004 through December 31, 2004 in connection with this agreement. These fees are included in selling, general and administrative expenses in the Consolidated Statements of Operations.

10. Income Taxes

The components of the income tax provision charged to expense for the period from April 14, 2004 through December 31, 2004 are as follows:

Current:		
Federal	$	138
State		654
		792
Deferred:		
Federal		2,461
State		(134)
		2,327
Income tax expense	$	3,119

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CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

Following is a reconciliation between the statutory federal income tax rate and the Company s overall effective tax rate:

Statutory federal income tax rate	35.0%
State income taxes, net of federal benefit	7.3%
Other	1.6%
	43.9%

Net deferred taxes consist of the following components as of December 31, 2004:

Current deferred tax assets:	
Reserve for uncollectible accounts	$ 359
Accrued vacation pay deducted when paid	913
Accrued expenses and deferred revenue	408
	1,680
Noncurrent deferred tax assets:	
Net operating loss carryforwards	15,851
Pension and postretirement obligations	18,704
Minimum tax credit carryforward	806
Valuation allowance	(17,136)
	18,225
Noncurrent deferred tax liabilities:	
Partnership investment	(6,898)
Property, plant and equipment	(78,587)
Basis in investment	(1,632)
	(87,117)
Net non-current deferred tax liabilities	(68,892)
Net deferred income tax liabilities	$ (67,212)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. In order to fully realize the gross deferred tax assets, the Company will need, to generate future taxable income in increments sufficient to recognize net operating loss carryforwards prior to expiration as described below. Based upon the level of historical taxable income and projections for future taxable income over the periods that the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowance at December 31, 2004. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced. There is an annual limitation on the use of the NOL carryforwards, however the

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CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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amount of projected future taxable income is expected to be lower than the amount of the limitation calculated. Amounts and expiration dates of carryforwards are as follows:

Texas Holdings and its subsidiaries, which file a consolidated federal income tax return, estimates it has available NOL carryforwards of approximately $26,400 for federal income tax purposes and $108,200 for state income tax purposes to offset against future taxable income. The federal NOL carryforwards expire from 2020 to 2022 and state NOL carryforwards expire from 2005 to 2009.

East Texas Fiber line Incorporated, a nonconsolidated subsidiary for federal income tax return purposes, estimates it bas available NOL carryforwards of approximately $9,000 for federal income tax purposes and $6,500 for state income tax purposes to offset against future taxable income. The federal NOL carryforwards expire from 2007 to 2024 and state NOL carryforwards expire from 2005 to 2009.

The valuation allowance is primarily attributed to certain state tax loss carryforwards for which no tax benefit is expected to be utilized. If it becomes evident that sufficient taxable income will be available in the jurisdictions where these deferred tax assets exist, the Company would release the valuation allowance accordingly. During 2004, the valuation allowance decreased by $1,314 from the April 14, 2004 Texas Acquisition opening balance sheet amount of $18,450 to $17,136 at December 31, 2004.

11. Accrued Expenses

Accrued expenses consist of the following as of December 31, 2004:

Salaries and employee benefits	$	6,106
Taxes payable		6,356
Accrued interest		4,546
Other accrued expenses		4,897
	$	21,905

12. Pension Costs and Other Postretirement Benefits

The Company has several defined benefit pension plans covering substantially all of its hourly employees and certain salaried employees. The plans provide retirement benefits based on years of service and earnings. The pension plans are generally noncontributory. The Company s funding policy is to contribute amounts sufficient to meet the minimum funding requirements as set forth in employee benefit and tax laws.

The Company currently provides other postretirement benefits (Other Benefits) consisting of health care and life insurance benefits for certain groups of retired employees. Retirees share in the cost of health care benefits. Retiree contributions for health care benefits are adjusted periodically based upon either collective bargaining agreements for former hourly employees and as total costs of the program change for former salaried employees. The Company s funding policy for retiree health benefits is generally to pay covered expenses as they are incurred. Postretirement life insurance benefits are fully insured.

The Company used a December 31 measurement date for its plans.

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CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

The following tables present the benefit obligation, plan assets and funded status of the plans as of December 31, 2004:

	Pension Benefits	Other Benefits
Change in benefit obligation		
Projected benefit obligation, beginning of period	$	$
TXUCV acquisition	60,984	26,629
Service cost	1,987	803
Interest cost	2,668	1,066
Plan participant contributions		61
Plan amendments		(2,652)
Plan curtailment		(772)
Benefits paid	(4,038)	(856)
Administrative expenses paid	(410)	
Actuarial (gain)/ loss	(479)	1,760
Projected benefit obligation, end of period	$ 60,712	$ 26,039
Accumulated benefit obligation	$ 53,062	
Change in plan assets		
Fair value of plan assets, beginning of period	$	$
TXUCV acquisition	40,633	
Actual return on plan assets	2,002	
Employer contributions	2,971	795
Plan participant contributions		61
Administrative expenses paid	(410)	
Benefits paid	(4,038)	(856)
Fair value of plan assets, end of period	$ 41,158	$
Funded status		
Funded status	$ (19,554)	$ (26,039)
Unrecognized prior service cost		
Unrecognized net actuarial (gain) loss	25	(883)
Accrued benefit cost	$ (19,529)	$ (26,922)

Amounts are presented the consolidated balance sheet as follows:

	Pension Benefits	Other Benefits

Accrued benefit liability	$ (19,986)	$ (26,922)
Accumulated other comprehensive income	457	
Net amount recognized	$ (19,529)	$ (26,922)

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CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

The Company s pension plan weighted average asset allocations by investment category are as follows as of December 31, 2004:

Equity securities	57.1%
Debt securities	39.0%
Other	3.9%
	100.0%

The Company s investment strategy is to maximize long-term return on invested plan assets while minimizing risk of market volatility. Accordingly, the Company targets it allocation percentage at 50% to 60% in equity funds with the remainder in fixed income funds and cash equivalents.

The Company expects to contribute $2,215 to its pension plans and $983 to its other postretirement plans in 2005. The Company s expected future benefit payments to be paid during the years ended December 31 are as follows:

	Pension Benefits	Other Benefits
2005	$ 2,215	$ 983
2006	2,383	1,002
2007	2,619	1,111
2008	2,810	1,165
2009	3,009	1,276
2010 through 2014	20,067	7,640

The following table presents the components of net periodic benefit cost for the period from April 14, 2004 through December 31, 2004:

	Pension Benefits	Other Benefits
Service cost	$ 1,987	$ 803
Interest cost	2,668	1,066
Expected return on plan assets	(2,507)	
Other, net	(2)	(10)
Net periodic benefit cost	$ 2,146	$ 1,859

The weighted average assumptions used in measuring the Company s benefit obligations as of December 31, 2004 are as follows:

	Pension Benefits	Other Benefits

Discount rate	6.0%	6.0%
Compensation rate increase	3.5%	
Initial healthcare cost trend rate		10.0%
Ultimate healthcare cost trend rate		5.0%
Year ultimate trend rate is reached		2010

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CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Weighted average actuarial assumptions used to determine the net periodic benefit cost for the period from April 14, 2004 through December 31, 2004 are as follows: discount rate 6.0%, expected long-term rate of return on plan assets 8.5%, and rate of compensation increases 3.5%.

In determining the discount rate, the Company considers the current yields on high quality corporate fixed income investments with maturities corresponding to the expected duration of the benefit obligations. The expected return on plan assets assumption was based upon the categories of the assets and the past history of the return on the assets. The Compensation rate increase is based upon past history and long-term inflationary trends. A one percentage point change in the assumed health care cost trend rate would have the following effects on the Company s other postretirement benefits:

	1% Decrease	1% Increase
Effect on 2004 service and interest costs	$ (408)	$ 531
Effect on accumulated postretirement benefit obligations as of December 31, 2004	(3,113)	3,926

13. Employee 401k Benefit Plans and Deferred Compensation Agreements

401k Benefit Plans

The Company sponsors two 401(k) defined contribution retirement savings plans. Virtually all employees are eligible to participant in one of these plans. Each employee may elect to defer a portion of his or her compensation, subject to certain limitations. During the period from April 14, 2004 through December 31, 2004, the Company matched 50% or 100% of employee contributions up to a maximum of 3% depending upon the particular plan. During the period from April 14, 2004 through December 31, 2004 total Company contributions to the plans were $462.

Deferred Compensation Agreements

The Company has deferred compensation agreements with the former board of directors of TXUCV s predecessor company, Lufkin-Conroe Communications, and certain former employees. The benefits are payable for up to 15 years and may begin as early as age 65 or upon the death of the participant.

Deferred compensation expense was $208 for the period from April 14, 2004 through December 31, 2004. Payments related to deferred compensation agreements were $336 for the period from April 14, 2004 through December 31, 2004. The remaining obligation totaled $2,710 as of December 31, 2004 and is included in pension and postretirement benefit obligations in the accompanying balance sheet.

The Company maintains life insurance policies on certain of the participating former directors and employees. The excess of the cash surrender value of life insurance policies over the notes payable balances related to these policies totaled $1,708 as of December 31, 2004 and is included in other assets in the accompanying balance sheet. These plans do not qualify under the Internal Revenue Code and therefore, federal income tax deductions are allowed only when benefits are paid.

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CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

14. Long-Term Debt

Long-term debt consists of the following as of December 31, 2004:

Senior Secured Credit Facility		
Revolving loan	$	
Term loan A		68,065
Term loan B		
Term loan C		193,700
Senior notes		125,000
Capital leases		1,188
		387,953
Less: current portion		(25,034)
	$	362,919

Senior Secured Credit Facility

The Company, through its wholly-owned and related subsidiaries, maintains credit agreement with various financial institutions, which provides for aggregate borrowings of up to $466,000 consisting of a $122,000 term loan A facility, a $314,000 term loan C facility and a $30,000 revolving credit facility which is available in whole or in part to both CCI Illinois and CCI Texas. Borrowings under the credit facility are secured by substantially all of the assets of CCI and Texas Acquisition, other than ICTC. ICTC s guarantee (and the corresponding security interest in ICTC s assets) of up to $195,000 of total borrowing under the credit facility is contingent upon obtaining the consent of the Illinois Commerce Commission (ICC).

The term loans are due in quarterly installments, which increase annually, with all borrowings under term loan A and term loan C due April 14, 2010 and October 14, 2011, respectively. The revolving credit facility matures on April 14, 2010. Within 90 days after the end of the Company s fiscal year, commencing on December 31, 2004, the Company shall be obligated to repay the loans in an amount equal to 50% of the excess cash flow for such fiscal year, provided that certain leverage ratios are maintained at the end of the fiscal year. As of December 31, 2004, the Company estimated that the excess cash flow repayment would be approximately $13,788. In addition, subject to certain exceptions, the Company is required to prepay the outstanding term loans with 100% of the net proceeds of all non-ordinary course of business asset sales and any insurance or condemnation proceeds not reinvested within a required time period, 100% of the net proceeds of certain occurrences of indebtedness and 50% of the net proceeds from certain issuances of equity.

At the Company s election, borrowings bear interest at fluctuating interest rates based on: (a) a base rate (the highest of the administrative agent s base rate in effect on such day, 0.5% per annum above the latest three week moving average of secondary market morning offering rates in the United States for three month certificates of deposit or 0.5% above the Federal Funds rate); or (b) the London Interbank Offered Rate, or LIBOR plus, in either case, an applicable margin within the relevant range of margins (0.75% to 2.50%) provided for in the credit agreement. The applicable margin is based upon the Company s total leverage ratio. As of December 31, 2004, the margins for interest rates on LIBOR based loans was 2.25% on the term loan A facility and 2.50% under the term loan C facility. At December 31, 2004, the weighted average rate, including swaps, of interest on the Company s term debt facilities was 5.17% per annum. Interest is payable at least quarterly.

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CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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The credit agreement contains various provisions and covenants, which include, among other items, restrictions on the ability to pay dividends, incur additional indebtedness, and issue capital stock, as well as, limitations on future capital expenditures. The Company has also agreed to maintain certain financial ratios, including interest coverage, fixed charge coverage and leverage ratios, all as defined in the credit agreement.

Senior Notes

On April 14, 2004, the Company, through its wholly owned and related subsidiaries, issued $200,000 of 9^{3}/4% Senior Notes due on April 1, 2012. The senior notes pay interest semi-annually on April 1 and October 1. The senior notes may be redeemed on or prior to October 6, 2005 using all or a portion of the proceeds of a qualified income depository security offering. The redemption price plus accrued interest will be, as a percentage of the principal amount, 107.313% through April 10, 2004, and 109.75% between April 1, 2005 and October 6, 2005.

Up to 35% of the senior notes may be redeemed using the proceeds of certain equity offerings completed on or prior to April 1, 2007. Some or all of the senior notes may be redeemed on or after April 1, 2008. The redemption price plus accrued interest will be, as a percentage of the principal amount, 104.875% in 2008, 102.438% in 2009 and 100% in 2010 and thereafter. In addition, holders may require the repurchase of the notes upon a change in control, as such term is defined in the indenture governing the senior notes. The indenture contains certain provisions and covenants, which include, among other items, restrictions on the ability to issue certain types of stock, incur additional indebtedness, make restricted payments, pay dividends and enter other lines of business.

Future maturities of long-term debt as of December 31, 2004 are as follows:

Calendar year 2005	$	25,034
Calendar year 2006		13,579
Calendar year 2007		13,851
Calendar year 2008		15,966
Calendar year 2009		19,802
Thereafter		299,721
	$	387,953

Derivative Instruments

The Company entered into interest rate swap agreements that effectively convert a portion of the floating-rate debt to a fixed-rate basis, thus reducing the impact of interest rate changes on future interest expense. At December 31, 2004, the Company has interest rate swap agreements covering $133,692 in aggregate principal amount of its variable rate debt at fixed LIBOR rates ranging from 2.99% to 3.35%. The swap agreements expire on December 31, 2006, May 19, 2007, and December 31, 2007. The fair value of the Company s derivative instruments, comprising interest rate swaps, amounted to an asset of $499 at December 31, 2004. The $499 is included in other current assets at December 31, 2004. The Company recognized a net loss of $144 in interest expense during the period from April 14, 2004 through December 31, 2004 related to its derivative instruments. The after tax change in the market value of derivative instruments is recorded in other comprehensive income. The Company recognized comprehensive income of $299 during the period from April 14, 2004 through December 31, 2004.

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CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

15. Commitments and Contingencies

Legal proceedings

From time to time the Company is involved in litigation and regulatory proceedings arising out of its operations. The Company is not currently a party to any legal proceedings, the adverse outcome of which, individually or in aggregate, management believes would have a material adverse effect on the Company s financial position or results of operations.

Operating leases

The Company has entered into several operating lease agreements covering buildings and office space and office equipment. The terms of these agreements generally range from three to five years. Rent expense totaled $1,912 during the period from April 14, 2004 through December 31, 2004.

Future minimum lease payments under existing agreements for each of the next five years ending December 31 and thereafter are as follows: 2005 $2,269, 2006 $1,584, 2007 $1,255, 2008 $1,090, 2009 $1,057, thereafter $1,729.

TXU COMMUNICATIONS VENTURES COMPANY AND SUBSIDIARIES
Dallas, Texas
CONSOLIDATED FINANCIAL STATEMENTS
with Report of Independent Registered Public Accounting Firm

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholder of
TXU Communications Ventures Company
Irving, TX

We have audited the accompanying consolidated balance sheets of TXU Communications Ventures Company and subsidiaries (the Company) as of April 13, 2004, December 31, 2003 and 2002, and the related consolidated statements of operations and comprehensive income (loss), shareholder s equity, and cash flows for the period from January 1, 2004 to April 13, 2004 and each of the three years in the period ended December 31, 2003. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 at April 13, 2004, December 31, 2003 and 2002, and the results of its operations and its cash flows for the period from January 1, 2004 to April 13, 2004 and 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 N 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 No. 142, Goodwill and Other Intangible Assets .

DELOITTE & TOUCHE LLP

Dallas, Texas
October 15, 2004

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TXU COMMUNICATIONS VENTURES COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	April 13,	December 31,	
	2004	2003	2002
		(Dollars in thousands)	
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	$ 9,897	$ 11,464	$ 12,427
Accounts Receivable net of allowance of $1,316 in 2004, $1,501 in 2003 and $5,021 in 2002	17,555	15,778	18,825
Short-Term Investments	117	125	125
Prepaid Federal Income Taxes	45		6,615
Materials and Supplies	1,003	1,102	2,379
Deferred Income Taxes	3,974	2,527	34,145
Assets Held for Sale			8,030
Other Current Assets	4,467	3,519	3,814
TOTAL CURRENT ASSETS	37,058	34,515	86,360
NONCURRENT ASSETS			
Investments	36,862	36,118	35,260
Goodwill	304,336	304,336	317,536
Prepaid Pension Cost		997	3,669
Deferred Income Taxes	16,033	39,525	15,709
Other	831	961	771
TOTAL NONCURRENT ASSETS	358,062	381,937	372,945
PROPERTY, PLANT & EQUIPMENT			
Plant in Service	341,238	333,607	326,243
Plant Under Construction	7,147	8,595	5,249
TOTAL PROPERTY, PLANT & EQUIPMENT	348,385	342,202	331,492
Less: Accumulated Depreciation	118,343	110,795	90,700
TOTAL PROPERTY, PLANT & EQUIPMENT-NET	230,042	231,407	240,792
TOTAL ASSETS	$ 625,162	$ 647,859	$ 700,097
LIABILITIES AND SHAREHOLDER S EQUITY			
CURRENT LIABILITIES			
Accounts Payable	$ 7,712	$ 9,223	$ 14,043
Accounts Payable-Affiliates	35	2,314	352

Advance Billing and Payments	4,163	2,954	3,438
Customer Deposits	752	739	788
Current Maturities of Long-Term Debt	2,847	98,247	2,999
Accrued Expenses	12,105	18,518	18,234
Liabilities Related to Assets Held for Sale			2,661
Other Current Liabilities	3,485	4,594	4,078
TOTAL CURRENT LIABILITIES	31,099	136,589	46,593
LONG-TERM DEBT, LESS CURRENT MATURITIES		2,136	163,203
OTHER LIABILITIES AND DEFERRED CREDITS			
Accrued Postretirement and Pension Benefits	31,173	27,669	28,072
Deferred Income Taxes	33,513	54,486	39,458
Other Deferred Credits and Liabilities	5,868	5,856	5,145
Regulatory Liabilities	8,283	8,405	8,807
TOTAL OTHER LIABILITIES AND DEFERRED CREDITS	78,837	96,416	81,482
TOTAL LIABILITIES	109,936	235,141	291,278
MINORITY INTEREST	1,964	1,858	1,224
SHAREHOLDER S EQUITY			
Common Stock-No par value, 1,000 shares authorized, 1,000 shares issued and outstanding			
Paid-In Capital	636,868	534,749	530,459
Accumulated Deficit	(117,463)	(119,246)	(116,905)
Accumulated Other Comprehensive Loss	(6,143)	(4,643)	(5,959)
TOTAL SHAREHOLDER S EQUITY	513,262	410,860	407,595
TOTAL LIABILITIES AND SHAREHOLDER S EQUITY	$ 625,162	$ 647,859	$ 700,097

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

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TXU COMMUNICATIONS VENTURES COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	Period from January 1, 2004 to April 13, 2004	Year Ended December 31, 2003	2002	2001
		(Dollars in thousands)		
OPERATING REVENUES	$ 53,855	$ 194,818	$ 214,709	$ 207,451
OPERATING EXPENSES				
Network Operating Costs (exclusive of depreciation and amortization shown separately below)	15,296	58,415	76,891	95,663
Selling, General and Administrative	24,138	75,365	109,401	88,671
Depreciation and Amortization	8,124	32,875	40,990	50,177
Restructuring, Asset Impairment and Other Charges	(12)	248	101,390	
Goodwill Impairment Charges		13,200	18,000	
TOTAL OPERATING EXPENSES	47,546	180,103	346,672	234,511
OPERATING INCOME (LOSS)	6,309	14,715	(131,963)	(27,060)
OTHER INCOME (EXPENSE):				
Pre-payment Penalty on Extinguishment of Debt	(1,914)			
Interest Expense	(1,275)	(5,422)	(7,669)	(11,625)
(Loss)/ Gain on Sale of Property and Investments	(19)	(101)	558	6,158
Allowance for Funds Used During Construction	31	81	179	572
Partnership Income	1,174	2,693	2,332	3,151
Minority Interest	(106)	(872)	8,048	507
Other	56	(980)	489	101
TOTAL (EXPENSE) OTHER INCOME	(2,053)	(4,601)	3,937	(1,136)
INCOME (LOSS) BEFORE INCOME TAXES	4,256	10,114	(128,026)	(28,196)
Income Tax Expense (Benefit)	2,473	12,455	(38,261)	(6,304)
NET INCOME (LOSS)	1,783	(2,341)	(89,765)	(21,892)
OTHER COMPREHENSIVE INCOME (LOSS)				
Minimum Pension Liability Adjustment, Net of Tax	(1,494)	1,316	(6,028)	
Unrealized (Loss) Gain on Marketable Securities, Net of Tax	(6)		(136)	169

COMPREHENSIVE INCOME (LOSS)	$	283	$	(1,025)	$	(95,929)	$	(21,723)

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

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TXU COMMUNICATIONS VENTURES COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDER S EQUITY

	Common Stock				
	Shares	Amount	Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss
			(Dollars in thousands)		
Balance, January 1, 2001	1,000		$ 495,701	$ (5,248)	$ 36
Net Loss				(21,892)	
Capital Contributions			27,784		
Unrecognized Gain on Marketable Securities, Net of Tax					169
Balance, December 31, 2001	1,000		523,485	(27,140)	205
Net Loss				(89,765)	
Capital Contributions			6,974		
Minimum Pension Liability Adjustment, Net of Tax					(6,028)
Unrealized Loss on Marketable Securities, Net of Tax					(136)
Balance, December 31, 2002	1,000		530,459	(116,905)	(5,959)
Net Loss				(2,341)	
Capital Contributions			4,290		
Minimum Pension Liability Adjustment, Net of Tax					1,316
Balance, December 31, 2003	1,000		534,749	(119,246)	(4,643)
Net Income				1,783	
Capital Contributions			102,119		
Minimum Pension Liability Adjustment, Net of Tax					(1,494)
Unrealized Loss on Marketable Securities, Net of Tax					(6)
Balance, April 13, 2004	1,000		$ 636,868	$ (117,463)	$ (6,143)

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

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TXU COMMUNICATIONS VENTURES COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Period from January 1, 2004 to April 13, 2004	Year Ended December 31, 2003	2002	2001
	(Dollars in thousands)			
OPERATING ACTIVITIES				
Net Income (Loss)	$ 1,783	$ (2,341)	$ (89,765)	$ (21,892)
Adjustments to Reconcile Net Income (Loss) to Cash				
Provided by Operating Activities:				
Pre-payment Penalty on Extinguishment of Debt	1,914			
Deferred Income Tax	950	22,428	(38,908)	(9,368)
Depreciation and Amortization	8,124	32,875	40,990	50,177
Provision for Postretirement Benefits	3,007	3,583	9,160	838
Loss/(Gain) on Disposition of Property and Investments	19	101	(558)	(6,158)
Restructuring, Asset Impairment and Other Charges	(12)	248	101,390	
Goodwill Impairment		13,200	18,000	
Partnership Income	(1,174)	(2,693)	(2,332)	(3,151)
Allowance for Funds Used During Construction	(31)	(81)	(179)	(572)
Minority Interest	106	872	(8,048)	(507)
Provision for Bad Debt Losses	542	(804)	10,200	3,981
Changes in Operating Assets and Liabilities:				
Accounts Receivable	(2,319)	3,851	1,349	(7,287)
Materials and Supplies	99	1,277	2,520	3,048
Prepaid Federal Income Tax	(45)	6,615	(4,664)	12,299
Other Assets	(1,164)	105	(2,075)	2,688
Accounts Payable	(1,051)	(2,858)	(15,003)	(14,520)
Accrued Expenses and Other Liabilities	(5,429)	(1,323)	12,637	(2,772)
Net Cash Provided by Operating Activities	5,319	75,055	34,714	6,804
INVESTING ACTIVITIES				
Capital Expenditures	(6,735)	(18,189)	(27,374)	(66,976)
Business Assets Purchased				(2,467)
Proceeds From Sale-Leaseback Transactions			4,814	
Proceeds From Investments	432	1,837	998	188
Proceeds From Sale of Assets		2,101	290	9,309

Net Cash Used in Investing Activities		(6,303)		(14,251)		(21,272)		(59,946)
FINANCING ACTIVITIES								
Other Paid-In Capital								2,479
Proceeds From TXU Investment Company				4,290		6,974		27,784
Proceeds From Long-Term Obligations		18,000		5,895		23,319		40,620
Minority Interest Equity Distribution				(238)				
Pre-payment Penalty on Extinguishment of Debt		(1,914)						
Payments Made on Long-Term Obligations		(16,669)		(71,714)		(34,724)		(24,619)
Net Cash (Used in) Provided by Financing Activities		(583)		(61,767)		(4,431)		46,264
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(1,567)		(963)		9,011		(6,878)
CASH AND CASH EQUIVALENTS BEGINNING		11,464		12,427		3,416		10,294
CASH AND CASH EQUIVALENTS ENDING	$	9,897	$	11,464	$	12,427	$	3,416
SUPPLEMENTAL CASH FLOW INFORMATION:								
Debt for Equity Swap with TXU Investment Co.	$	102,119	$		$		$	
Interest Paid	$	1,045	$	6,045	$	7,500	$	11,820
Taxes Paid (Refunds) Received	$	73	$	(16,329)	$	(153)	$	(1,333)
Capital Leases	$		$		$	4,761	$	

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

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TXU COMMUNICATIONS VENTURES COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

TXU Communications Ventures Company (TXUCV) is a direct, wholly owned subsidiary of Pinnacle One Partners, L.P. (Pinnacle One). TXU Corp. owns a 100% voting interest in Pinnacle One. In May 2003, TXU Corp. acquired, for $150 million in cash, its joint venture partner s interest in Pinnacle One under a put/call agreement that was executed in February, 2003. Also in May 2003, TXU Corp. finalized a formal plan to dispose of TXUCV by sale. On January 15, 2004, Consolidated Communications Acquisition Texas Corp. (Texas Acquisition), a subsidiary of Homebase Acquisition, LLC, and Pinnacle One, an indirect, wholly owned subsidiary of TXU Corp., entered into a stock purchase agreement providing for the purchase by Texas Acquisition of all of the capital stock of TXUCV. Texas Acquisition is a Delaware corporation formed solely for the purpose of entering into the stock purchase agreement and closing the transactions contemplated in the agreement. The purchase transaction closed on April 14, 2004. By acquiring all the capital stock of TXUCV, Texas Acquisition acquired substantially all of TXU Corp s telecommunications business, for a cash price of $527 million, subject to certain upward or downward adjustments (see Note O Sale of TXUCV).

Principles of Consolidation The consolidated financial statements include the accounts of TXUCV and its wholly owned subsidiaries, TXU Communications Services Company (TXU Services), TXU Communications Telephone Company (TXUCV Telephone), TXU Communications Telecom Services Company (TXUCV Telecom), TXU Communications Transport Company (Transport Services), Fort Bend Telephone Company (Fort Bend Telephone), Fort Bend Long Distance Company (Fort Bend LD), Fort Bend Wireless Company (Fort Bend Wireless), Telcon, Inc. (Telcon) and FBCIP, Inc. (FBCIP). Transport Services include East Texas Fiber Line, Inc. (ETFL), a 63%-owned affiliate. Fort Bend Telephone includes Fort Bend Cellular, Inc. (Fort Bend Cellular), a wholly owned subsidiary. All material intercompany balances and transactions have been eliminated in consolidation.

Description of Business TXUCV is the parent company to TXU Services, TXUCV Telephone (now known as Consolidated Communications of Texas Company), TXUCV Telecom, Transport Services, Fort Bend Telephone (now known as Consolidated Communications of Fort Bend Company), Fort Bend LD, Fort Bend Wireless, Telcon and FBCIP.

TXUCV is a rural local exchange company that provides communications services to residential and business customers in east Texas and rural and suburban areas surrounding Houston. As of April 13, 2004, TXUCV was the 18th largest local telephone company in the United States, based on industry sources, with approximately 171,000 local access lines and 11,000 digital subscriber lines, or DSL lines, in service. TXUCV s main sources of revenue are its local telephone businesses in Texas, which offer an array of services, including local dial tone, custom calling features, private line services, long distance, dial-up and high-speed Internet access and carrier access services, including access charges for the use of its network and its billing and collection system.

Each of the subsidiaries through which TXUCV operates its local telephone businesses is classified as a Rural Local Exchange Carrier, commonly referred to as an RLEC, under the Telecommunications Act of 1996. These subsidiaries are Fort Bend Telephone and TXUCV Telephone. For ease of reference, we refer to these subsidiaries as the Texas RLECs.

TXUCV also sells directory advertising and publishes yellow and white pages directories in and around our Texas RLECs service areas and provides connectivity to customers within Texas over a fiber optic transport network consisting of approximately 2,500 route-miles of fiber. This transport network supports TXUCV s long distance, Internet access and data services and provides bandwidth on a wholesale basis to third party customers, including national long distance and wireless carriers. The transport network includes fiber owned by Transport Services, a wholly owned subsidiary of TXUCV, ETFL, a corporation in

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TXU COMMUNICATIONS VENTURES COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

which TXUCV owns a 63% equity interest, and Fort Bend Fibernet, a partnership in which Transport Services is the managing partner and owns a 39% equity interest.

In addition, TXUCV holds equity interests in the following two cellular partnerships:

- GTE Mobilnet of South Texas, which serves the greater Houston metropolitan area. TXUCV owns 2% of the equity of this partnership.

- GTE Mobilnet of Texas RSA #17, which serves rural areas in and around Conroe, Texas. TXUCV owns 17% of the equity of this partnership.

San Antonio MTA, L.P., a wholly owned partnership of Cellco Partnership (doing business as Verizon Wireless), is the general partner for both partnerships.

Telcon and TXU Services provide information management, human resources, accounting, executive and other administrative services to TXUCV affiliate companies.

Fort Bend Cellular, Fort Bend Wireless, and FBCIP had no significant activity during the period from January 1, 2004 to April 13, 2004 and the years ended December 31, 2003, 2002 and 2001.

Use of Estimates The preparation of the TXUCV consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts disclosed in the consolidated financial statements. Due to the prospective nature of estimates, actual results could differ.

Accounting and Regulatory Guidelines TXUCV Telephone and Fort Bend Telephone follow the accounting for regulated enterprises prescribed by SFAS No. 71, Accounting for the Effects of Certain Types of Regulation, which permits rates (or tariffs) to be set to levels intended to recover estimated costs of providing regulated services or products, including capital costs. SFAS 71 requires our Texas RLECs to depreciate wireline plant over the useful lives approved by the regulators, which could be different than the useful lives that would otherwise be determined by management. SFAS 71 also requires deferral of certain costs and obligations based upon approvals received from regulators to permit recovery of such amounts in future years. Criteria that would give rise to the discontinuance of SFAS 71 include (1) increasing competition restricting the wireline business ability to establish prices to recover specific costs and (2) significant changes in the manner in which rates are set by regulators from cost-based regulation to another form of regulation. Management believes the company is consistent in the application of these provisions and does not foresee regulatory, economic, or competitive changes in the near future that would necessitate a change in its method of accounting. In analyzing the effects of discontinuing the application of SFAS 71, management has determined that the useful lives of plant assets used for regulatory and financial reporting purposes are consistent with accounting principles generally accepted in the United States and, therefore, any adjustments to telecommunications plant would be immaterial, as would be the write-off of regulatory assets and liabilities.

There are two different forms of incentive regulation designated by the Texas Public Utility Regulatory Act: Chapter 58 and Chapter 59. Generally under either election, the access rates an ILEC may charge for basic local services cannot be increased from the amounts on the date of election without PUCT approval. Even with PUCT approval, increases can only occur in very specific situations. Pricing flexibility under Chapter 59 is extremely limited. In contrast, Chapter 58 allows greater pricing flexibility on non-basic network services, customer specific contracts and new services.

Initially, both Texas RLECs elected incentive regulation under Chapter 59 and fulfilled the applicable infrastructure requirements to maintain their election status. TXUCV Telephone made its election on August 17, 1997. Fort Bend Telephone made its election on May 12, 2000. On March 25, 2003, both

TXU COMMUNICATIONS VENTURES COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Texas RLECs changed their election status from Chapter 59 to Chapter 58. The rate freezes for basic services with respect to the current Chapter 58 elections are due to expire on March 24, 2007.

In connection with the 2003 election by each of our Texas RLECs to be governed under an incentive network access rate regime, our Texas RLECs were obligated to fulfill certain infrastructure requirements. While our Texas RLECs have met the current infrastructure requirements, the PUCT could impose additional or other restrictions of this type in the future.

The FCC regulates levels of interstate network access charges by imposing price caps on Regional Bell Operating Companies and large Incumbent Local Exchange Companies (ILECs). These price caps can be adjusted based on various formulae, such as inflation and productivity, and otherwise through regulatory proceedings. Small ILECs may elect to base network access charges on price caps, but are not required to do so. Our Texas RLECs elected not to apply federal price caps. Instead, our RLECs employ rate-of-return regulation for their network interstate access charges, whereby they earn a fixed return on their investment over and above operating costs. The FCC determines the profits our RLECs can earn by setting the rate-of-return on their allowable investment base, which is currently 11.25%.

Our Texas RLECs also receive federal and state subsidy payments designed to preserve and advance widely available, quality telephone service at affordable prices in rural areas

Property, Plant, Equipment and Depreciation Property, plant and equipment are stated at historical cost. Allowance for funds used during construction (AFUDC) is a cost accounting concept whereby amounts based upon interest charges on borrowed funds and a return on equity capital used to finance construction are added to telecommunications plant cost. Depreciation is generally computed on the straight-line method.

Cash and Cash Equivalents Cash equivalents are short-term, highly liquid investments readily convertible to known amounts of cash and which are so near maturity, generally 30 days, that there is no significant risk of changes in value resulting from changes in market interest rates.

Investments Investments in equity securities that have readily determinable fair values are categorized as available-for-sale securities and are carried at fair value. The unrealized gains or losses on securities classified as available-for-sale are included as a separate component of shareholder s equity. TXUCV uses the equity method of accounting for investments where the ability to exercise significant influence over such entities exists.

Goodwill Amounts paid for assets of other companies in excess of fair value are charged to goodwill. Prior to January 1, 2002, goodwill was amortized over its useful life, normally 15 to 40 years. In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 142 (SFAS No. 142), Goodwill and Other Intangible Assets, which is effective for fiscal years beginning after December 15, 2001. SFAS No. 142 addresses how intangible assets that are acquired individually or with a group of other assets should be accounted for in the financial statements upon their acquisition and after they have been initially recognized in the financial statements. SFAS No. 142 requires that goodwill and intangible assets that have indefinite useful lives not be amortized but rather be tested at least annually for impairment, and intangible assets that have finite useful lives be amortized over their useful lives. SFAS No. 142 provides specific guidance for testing goodwill and intangible assets that will not be amortized for impairment. In addition, SFAS No. 142 expands the disclosure requirements about goodwill and other intangible assets in the years subsequent to their acquisition. TXUCV adopted this standard as of January 1, 2002 and recognized no impairment as of the adoption date. TXUCV conducted impairment tests on October 1, 2003 and October 1, 2002 and, as a result of TXU Corp. s decision in 2003 to sell TXUCV for a known price and TXUCV s decision to exit the CLEC and Transport businesses, recognized on its consolidated financial statements, impairment losses of $13.2 million and $18 million, respectively for the years ended December 31, 2003 and 2002 (see

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TXU COMMUNICATIONS VENTURES COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note N Goodwill and Other Intangible Assets). No impairment tests were required for the period from January 1, 2004 to April 13, 2004, and consequently no impairment charges were recorded.

Impairment or Disposal of Long-Lived Assets In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 (SFAS No. 144), Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. The provisions of SFAS No. 144 are generally effective for financial statements issued for fiscal years beginning after December 15, 2001. TXUCV adopted this standard as of January 1, 2002 and recognized no impairment as of the adoption date. TXUCV conducted an impairment test on October 1, 2002, as a result of TXUCV s decision to exit certain businesses, and recognized on its consolidated financial statements, an impairment loss of $99.3 million for the year ended December 31, 2002 (see Note M Restructuring and Impairment Charges). Impairment tests are conducted whenever events or changes in circumstances pertaining to TXUCV or its assets indicate that the carrying amount of TXUCV s long-lived assets is not recoverable. No test was required during 2003 and for the period ended April 13, 2004.

Materials and Supplies Inventories of materials and supplies are valued at the lower of cost or market. Cost is determined by a moving weighted average method.

Indefeasible Rights of Use (IRU) TXUCV entered into several agreements that entitle it to a long-term lease, or an IRU, of local and long-haul dark fiber of another company. Generally, each agreement required TXUCV to pay an aggregate price consisting of an initial payment, followed by installments during the construction period based upon achieving certain milestones (e.g., commencement of construction, conduit installation and fiber installation). The final payment for each segment was made at the time of acceptance of the fiber for use by TXUCV.

Additionally, TXUCV entered into several agreements that entitle another party to a long-term lease, or an IRU, of certain local and long-haul dark fiber of TXUCV. In some cases, the agreement was classified as a service agreement, in which case revenue is recognized ratably over the life of the lease. In other cases an exchange of similar fiber was deemed to have occurred with another transport provider with similar fiber. In this case, no gain or loss was recognized on the exchange.

Pension and Postretirement Benefits Pension benefits are provided for substantially all employees of TXUCV. TXUCV generally funds the pension plan to the extent that contributions are deductible for federal income tax purposes. TXUCV also has deferred compensation agreements with the former board of directors and certain key employees. Postretirement benefits expense is accrued on a current basis using actuarially determined cost estimates. In addition, employees may become eligible for certain health care and life insurance benefits after retirement.

Federal Income Taxes and Deferred Credits TXUCV and its subsidiaries file a consolidated federal income tax return. ETFL files a separate federal income tax return. Federal income tax expense or benefit is allocated to each subsidiary based on separately determined taxable income or loss.

Income taxes are provided based on taxable income or loss as reported for financial statement purposes. The provision for income taxes differs from the amounts currently payable because of temporary differences in the recognition of certain income and expense items for financial reporting and tax reporting purposes. Investment tax credits (ITC) used to offset income tax for tax reporting purposes are deferred and amortized over the lives of the related assets for financial reporting.

Deferred federal income taxes are provided for the temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. TXUCV records a

TXU COMMUNICATIONS VENTURES COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

valuation allowance related to its deferred income tax assets when, in the opinion of management, it is more likely than not that deferred tax assets would not be realized.

TXUCV has recorded a regulatory liability to recognize the cumulative effects of anticipated ratemaking activities. For financial statement purposes, deferred ITC and excess deferred federal income taxes related to depreciation of regulated assets are being amortized as a reduction of the provision for income taxes over the estimated useful or remaining lives of the related property, plant and equipment.

ETFL had no current or deferred federal income taxes at April 13, 2004 and December 31, 2003 and 2002.

Revenue Recognition Revenues are generally recognized and earned when evidence of an arrangement exists, service has been rendered and collectibility is reasonably assured. Local telephone service revenue is recorded based on tariffed rates. Telephone network access and long distance service revenues are derived from access and toll charges and settlement arrangements. Revenues on billings to customers for services in advance of providing such services are deferred and recognized when earned. Print advertising and publishing revenues are recognized ratably over the life of the related directory, which is generally 12 months.

Operating Segments SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, requires that public business enterprises report certain information about operating segments in complete sets of financial statements of the enterprise. SFAS No. 131 defines an operating segment as a component of the organization (1) that engages in business activities from which it may earn revenues and incur expenses (2) whose operating results are regularly reviewed by the enterprise s chief operating decision maker to make decisions about performance and resource allocation; and (3) for which discrete financial information is available. Notwithstanding this definition, SFAS No. 131 provides the criteria for aggregating segments with similar economic characteristics such as the nature of product and services, the nature of production processes, the type or class of customers, the distribution method for products or services, and the nature of regulatory environment. TXUCV identified two operating segments ILEC and Transport Operations; however, Transport does not meet the quantitative threshold for separately reportable business segments.

Guarantees In November 2002, the FASB issued Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. Interpretation No. 45 requires that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee. This interpretation is applicable on a prospective basis to guarantees issued or modified after December 31, 2002. While TXUCV has various guarantees included in contracts in the normal course of business, primarily in the form of indemnities, these guarantees do not represent significant commitments or contingent liabilities related to the indebtedness of others.

Recent Accounting Pronouncements In January 2003, the FASB issued Interpretation No. 46 (FIN No. 46) Consolidation of Variable Interest Entities. Until this interpretation, a company generally included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN No. 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity s activities or entitled to receive a majority of the entity s residual returns. In December 2003, the FASB revised and re-released FIN No. 46 as FIN No. 46® . The provisions of FIN No. 46® were effective for TXUCV beginning in the first quarter of 2004 and the related disclosure requirements were previously effective immediately. The impact of this interpretation did not have a material effect on the financial condition or results of operations of TXUCV.

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TXU COMMUNICATIONS VENTURES COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In December 2003, the U.S. Congress enacted the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Act) that will provide a prescription drug subsidy, beginning in 2006, to companies that sponsor postretirement health care plans that provide drug benefits. Additional legislation is anticipated that will clarify whether a company is eligible for the subsidy, the amount of the subsidy available and the procedures to be followed in obtaining the subsidy. In May 2004, the FASB issued Staff Position 106-2 Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 that provides guidance on the accounting and disclosure for the effects of the Act. The Company has determined that its postretirement prescription drug plan is actuarially equivalent and will begin reflecting the impact on July 1, 2004.

NOTE B PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are summarized as follows:

	April 13,	December 31,		
	2004	2003	2002	Estimated Useful Life
		(Dollars in thousands)		
Land	$ 4,228	$ 4,280	$ 4,433	
Buildings	25,209	24,922	24,938	15-35 years
Telephone Plant	264,352	258,000	242,934	5-30 years
Furniture and Office Equipment	41,455	40,327	45,420	5-17 years
Automotive and Other Equipment	5,994	6,078	8,518	3-7 years
Construction in Progress	7,147	8,595	5,249	
	348,385	342,202	331,492	
Less: Accumulated Depreciation	118,343	110,795	90,700	
	$ 230,042	$ 231,407	$ 240,792	

Depreciation expense was $8.1 million, $32.8 million, $40.8 million and $36.5 million for the period from January 1, 2004 to April 13, 2004 and for the years ended December 31, 2003, 2002, and 2001, respectively.

NOTE C LONG-TERM DEBT

Long-term debt consisted of the following:

	April 13,	December 31,	
	2004	2003	2002
		(Dollars in thousands)	
TXU Corp. Revolving Credit Facility	$	$ 80,867	$ 144,066
CoBank Mortgage Notes		16,429	18,071
Capital Leases	2,847	3,087	4,009
Debentures Payable			56
	2,847	100,383	166,202
Less: Current Maturities	2,847	98,247	2,999

TOTAL LONG-TERM DEBT	$	$ 2,136	$ 163,203

After the 2000 formation of Pinnacle One, TXU Corp. provided a $200 million revolving credit facility (the Revolver) to TXUCV with a term of four years. Interest is payable by TXUCV at a rate equal to the London Interbank Offering Rate (LIBOR) plus 1.5%, in effect as of the beginning of each

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TXU COMMUNICATIONS VENTURES COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

credit facility advance. The interest rate of each advance is calculated for one, two, three, or six-month periods, as elected by TXUCV, at the end of which the interest rate is reset to the current LIBOR rate plus 1.5%. The principal balance was effectively paid off on April 13, 2004 through TXU Corp. s conversion of amounts outstanding under this arrangement into paid-in-capital and the credit facility was terminated as called for in the stock purchase agreement referenced in Note A above.

TXUCV was required to repay all of its outstanding indebtedness at or prior to the closing of the transactions, other than capital leases that are subject to purchase price adjustments and inter-company indebtedness relating to contracts that will continue following the closing of the transactions. As a consequence, all of the remaining CoBank notes were retired in April 2004 and a pre-payment penalty of $1.9 million was incurred.

The Capital Lease amount results from the two Master Lease Agreements with General Electric Capital Corporation (GECC), which are described below (see Note G Capital Leases).

Scheduled principal maturities on long-term debt for the five years subsequent to April 13, 2004 are as follows (dollars in thousands):

2004	$ 711
2005	952
2006	1,010
2007	174
TOTAL	$ 2,847

NOTE D INCOME TAXES

The provision (benefit) for income taxes consists of the following:

	Period from January 1, 2004 to April 13, 2004	Year Ended December 31, 2003	2002	2001
		(Dollars in thousands)		
Current:				
U.S. Federal	$ 28	$ (9,704)	$ (3,018)	$ (1,951)
State	455	324	(214)	83
Deferred:				
U.S. Federal	1,833	21,435	(31,819)	(3,610)
State	157	610	(2,766)	(311)
Amortization of Investment Tax Credit		(210)	(231)	(301)
Amortization of Excess Deferred Taxes			(213)	(214)
INCOME TAX EXPENSE (BENEFIT)	$ 2,473	$ 12,455	$ (38,261)	$ (6,304)

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TXU COMMUNICATIONS VENTURES COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The income tax expense (benefit) differs from amounts computed at statutory rates primarily because of basis adjustments and nondeductible change in the valuation reserve. The following is a reconciliation of the income tax expense (benefit) reported on the consolidated statements of operations:

	Period from January 1, 2004 to April 13, 2004	Year Ended December 31, 2003	2002	2001
		(Dollars in thousands)		
Income Tax Expense (Benefit) at U.S. Federal Statutory Rate	$ 1,488	$ 3,540	$ (44,809)	$ (10,101)
State Income Tax Expense (Benefit)	239	934	(3,841)	(355)
State Income Tax Refunds			(866)	
Goodwill Amortization				4,752
Goodwill Impairment	(1)	4,704	6,300	
Minority Interest	37	305	(2,817)	(177)
Amortization of Investment Tax Credit		(210)	(231)	(301)
Amortization of Excess Deferred Taxes			(214)	(214)
Increase in Valuation Reserve	157	3,084	9,080	(270)
Other	480	33	(929)	
Other Permanent Differences	73	65	66	362
INCOME TAX EXPENSE (BENEFIT)	$ 2,473	$ 12,455	$ (38,261)	$ (6,304)

Deferred income taxes reflect the net tax effects of deductible temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effects of significant items comprising TXUCV s net deferred income taxes consist of the following:

	April 13, 2004	December 31, 2003	2002
		(Dollars in thousands)	
Deferred Tax Assets			
Net Operating Losses	$ 8,649	$ 9,625	$ 19,437
Allowance for Uncollectible Accounts Receivable	500	570	1,831
Accrued Vacation	2,127	873	939
Postretirement Benefits	14,833	13,164	12,496
Deferred Franchise Tax	4,183	3,918	1,666
Prior Year Minimum Tax Credit	699	527	
Other	1,347	1,084	129
TOTAL DEFERRED ASSETS	$ 32,338	$ 29,761	$ 67,873

Deferred Tax Liabilities			
Franchise Tax	$	$	$ (3,600)
Partnership Investment	(2,212)	(1,698)	(1,151)
Basis in Investment	(1,632)	(1,632)	(1,632)
Depreciation	(29,669)	(26,691)	(42,004)
TOTAL DEFERRED LIABILITIES	(33,513)	(30,021)	(48,387)
VALUATION ALLOWANCE	(12,331)	(12,174)	(9,090)
NET DEFERRED TAX (LIABILITY) ASSET	$ (13,506)	$ (12,434)	$ 10,396

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TXU COMMUNICATIONS VENTURES COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

TXUCV has established a valuation allowance relating to ETFL, Telcon, Fort Bend LD and TXUCV.

Telecom for net operating losses (NOL) and franchise taxes not expected to be realized in the future. TXUCV has determined that certain state net operating losses are not likely to be realized; therefore, TXUCV has established a valuation allowance against the expected future tax benefit of these certain state net operating losses.

The net deferred tax liability is classified on the balance sheet as follows:

	April 13,	December 31,	
	2004	2003	2002
	(Dollars in thousands)		
Current Deferred Income Tax Asset	$ 3,974	$ 2,527	$ 34,145
Noncurrent Deferred Income Tax Asset	16,033	39,525	15,709
Noncurrent Deferred Income Tax Liability	(33,513)	(54,486)	(39,458)
NET DEFERRED TAX LIABILITY (ASSET)	$ (13,506)	$ (12,434)	$ 10,396

ETFL, a nonconsolidated subsidiary for federal income tax return purposes, has NOL carryforwards of approximately $8.7 million to offset against future taxable income. The NOLs expire from 2007 to 2024.

TXUCV and its subsidiaries, which file a consolidated federal income tax return, have NOL carryforwards of approximately $16.0 million to offset against future taxable income. The NOL may be carried forward for 20 years and will expire from 2022 to 2024, if not utilized.

NOTE E POSTRETIREMENT BENEFIT PLANS

Pension Plan

TXUCV provides pension benefits through the TXU Communications Retirement Plan (Retirement Plan), the TXU Communications Supplemental Retirement Plan (Supplemental Plan) and the TXU Deferred Compensation Plan for Emerging Businesses (Deferred Compensation Plan).

The Retirement Plan is a noncontributory defined benefit plan that provides benefits to substantially all employees. Benefit provisions are subject to collective bargaining. TXUCV s funding policy for this plan is to contribute amounts sufficient to meet minimum funding requirements as set forth in employee benefit and tax laws. Employees who became participants prior to January 1, 2002 earn benefits based on their length of service and final average pay. Employees who become participants on or after January 1, 2002 earn cumulative benefits based on their age and a percentage of their monthly pay.

Telcon, Fort Bend Telephone and Fort Bend LD elected to participate in the Retirement Plan effective January 1, 2002. Employees who became participants on or after January 1, 2002 earn cumulative benefits based on their age and a percentage of their monthly pay.

The Supplemental Plan is a noncontributory pay-as-you-go plan providing supplementary retirement benefits primarily to higher-level employees.

The Deferred Compensation Plan is a contributory salary deferral plan offered on a voluntary participation basis primarily to higher-level employees.

Changes to the projected benefit obligation, the fair value of assets and the underlying actuarial assumptions for the Retirement Plan and Supplemental Plan are shown below.

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TXU COMMUNICATIONS VENTURES COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Health Care and Life Insurance Benefits: TXUCV Services, TXUCV Telephone, TXUCV Telecom and Transport Services

TXUCV provides certain postretirement health care and life insurance benefits for employees who retire from TXUCV after reaching age 55 and accruing at least 15 years of service. Retirees share in the cost of health care benefits. Benefit provisions are subject to collective bargaining. Funding policy for retiree health benefits is generally to pay covered expenses as they are incurred. Postretirement life insurance benefits are fully insured.

Historically, TXUCV used a December 31 measurement date for its plans; however, due to the sale of TXUCV, the Company additionally measured its plans at April 13, 2004.

Obligations and Funded Status are reflected as follows:

	Pension Benefits			Other Benefits		
	April 13,	Dec. 31,		April 13,	Dec. 31,	
	2004	2003	2002	2004	2003	2002
	(Dollars in thousands)					
Change in benefit obligation						
Benefit obligation at beginning of period	$ 56,966	$ 51,534	$ 45,838	$ 24,320	$ 18,701	$ 14,240
Service cost	928	2,973	3,321	400	1,205	1,129
Interest cost	1,125	3,480	3,232	472	1,486	1,002
Plan participants contributions				47	94	97
Amendments			407			
Benefit vesting due to partial plan terminination	2,105					
Actuarial loss	736	4,624	3,672	1,701	5,743	4,561
Curtailment		(3,250)	(2,388)		(1,933)	(1,606)
Assumption change		62	5			
Benefits paid	(768)	(2,115)	(2,191)	(311)	(976)	(722)
Administrative expenses paid	(108)	(342)	(363)			
Benefit obligation at end of period	60,984	56,966	51,533	26,629	24,320	18,701
Change in plan assets						
Fair value of plan assets at beginning of period	40,399	35,468	41,397			
Actual return on plan assets	1,105	5,667	(3,375)			
Employer contribution		1,705		264	882	626
Plan participants contributions				47	94	97
Benefits paid	(763)	(2,099)	(2,191)	(311)	(976)	(723)

Administrative expenses paid	(108)	(342)	(363)			
Fair value of plan assets at end of period	40,633	40,399	35,468			
Funded status	(20,351)	(16,567)	(16,065)	(26,629)	(24,320)	(18,701)
Unrecognized net actuarial loss	19,687	17,255	19,291	9,251	7,665	4,153
Unrecognized prior service cost	302	309	443			
Net amount recognized	$ (362)	$ 997	$ 3,669	$ (17,378)	$ (16,655)	$ (14,548)

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TXU COMMUNICATIONS VENTURES COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Amounts recognized in the statement of financial position consist of:

	Pension Benefits			Other Benefits		
	April 13,	Dec. 31,		April 13,	Dec. 31,	
	2004	2003	2002	2004	2003	2002
	(Dollars in thousands)					
(Accrued) Prepaid benefit cost	$ (362)	$ 997	$ 3,669	$	$	$
Accrued benefit liability	(10,324)	(7,921)	(10,176)	(17,378)	(16,655)	(14,548)
Intangible assets	311	318	453			
Accumulated other comprehensive income	10,013	7,603	9,723			
Net amount recognized	$ (362)	$ 997	$ 3,669	$ (17,378)	$ (16,655)	$ (14,548)

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

	April 13,	Dec. 31,	
	2004	2003	2002
Projected benefit obligation	$ 60,984	$ 56,966	$ 51,533
Accumulated benefit obligation	51,197	47,323	41,975
Fair value of plan assets	40,633	40,399	35,468

Components of Net Periodic Benefit Cost:

	Pension Benefits			Other Benefits		
	Period from Jan. 1, 2004 to April 13,	Dec. 31,		Period from Jan. 1, 2004 to April 13,	Dec. 31,	
	2004	2003	2002	2004	2003	2002
	(Dollars in thousands)					
Service cost	$ 928	$ 2,973	$ 3,321	$ 400	$ 1,205	$ 1,129
Interest cost	1,125	3,480	3,232	472	1,486	1,002
	(994)	(3,066)	(3,478)			

Expected return on plan assets						
Amortization of prior service cost	7	28	41			
Net actuarial loss recognition	298	873	289	116	298	
Net periodic benefit cost	$ 1,364	$ 4,288	$ 3,405	$ 988	$ 2,989	$ 2,131

SFAS No. 87, Employers Accounting for Pensions, required TXUCV to record an additional minimum pension liability of $10.3, $7.9 million and $10.2 million at April 13, 2004 and December 31, 2003 and 2002, respectively. This liability represents the amount by which the accumulated benefit obligation exceeded the sum of the fair market value of plan assets and accrued amounts previously recorded. The additional minimum pension liability was offset by $0.3 million, $0.3 million and $0.5 million of intangible assets at April 13, 2004 and December 31, 2003 and 2002, respectively, and resulted in a $1.5 million charge, a $1.3 million credit, and a $6.0 million charge to comprehensive income, net of related tax benefit of $0.9 million, tax expense of $0.8 million and tax benefit of $3.7 million for the period from January 1, 2004 to April 13, 2004 and the years ended December 31, 2003 and 2002, respectively. The intangible assets are included in other noncurrent assets in TXUCV s consolidated balance sheet at April 13, 2004 and December 31, 2003 and 2002.

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TXU COMMUNICATIONS VENTURES COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

TXUCV recorded a reduction in earnings of $106,000 in 2003 and a credit to earnings of $243,000 in 2002 for pension and postretirement termination benefits due to a large reduction in workforce. There was no similar event for the period from January 1, 2004 to April 13, 2004. The 2003 reduction to earnings was due to a curtailment loss resulting from recognition of prior service costs for pension benefits. The December 31, 2002 credit was the net of a $494,000 curtailment gain recognized for postretirement healthcare and life insurance benefits offset by a $251,000 curtailment loss due to the recognition of prior service costs related to pension benefits.

Weighted-average assumptions used to determine benefit obligations at April 13, 2004 and December 31, 2003 and 2002 are as follows:

	Pension Benefits			Other Benefits		
	April 13,	Dec. 31,		April 13,	Dec. 31,	
	2004	2003	2002	2004	2003	2002
Discount rate	6.25%	6.25%	6.75%	6.25%	6.25%	6.75%
Rate of compensation increase	4.30%	4.30%	4.30%			

Weighted-average assumptions used to determine net periodic benefit cost for the period ended April 13, 2004 and the year ended December 31, 2003 and 2002 are as follows:

	Pension Benefits			Other Benefits		
	April 13,	Dec. 31,		April 13,	Dec. 31,	
	2004	2003	2002	2004	2003	2002
Discount rate	6.25%	6.75%/6.50%*	7.25%	6.25%	6.75%	7.25%
Expected long-term return on plan assets	8.50%	8.50%	8.50%			
Rate of compensation increase	4.30%	4.30%	4.30%			

* 6.75% from 1/1/2003 8/1/2003
6.5% from 8/1/2003 12/31/2004
for qualified plan only

The expected return on plan assets assumption was based on the categories of the assets and the past history of the return on the assets.

Assumed health care cost trend rates at April 13, 2004 and December 31, 2003 and 2002:

	April 13,	Dec. 31,	
	2004	2003	2002
Health care cost trend rate assumed for next year	10.00%	10.00%	11.00%
	5.00%	5.00%	5.00%

Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			
Year that the rate reaches the ultimate trend rate	2009	2009	2009

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

	1-Percentage-Point Increase	**1-Percentage-Point Decrease**
	(Dollars in thousands)	
Effect on total of service and interest cost	$ 176	$ (135)
Effect on postretirement benefit obligation	$ 4,061	$ (3,215)

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TXU COMMUNICATIONS VENTURES COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Plan Assets

The Company s pension plan weighted-average asset allocations by asset category are as follows:

	Plan Assets		
	April 13,	Dec. 31,	
	2004	2003	2002
Asset Category			
Equity securities	55%	55%	49%
Debt securities	40%	40%	47%
Other	5%	5%	4%
Total	100%	100%	100%

The Company s investment strategy at April 13, 2004 was to target its allocation percentage at 50% equity funds and 50% fixed income funds.

The Company expects to contribute $2.9 million to its pension plan and $0.9 million to its other postretirement plan from April 14, 2004 through December 31, 2004.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits	Other Benefits
	(Dollars in thousands)	
4/14 - 12/31/2004	$ 1,452	$ 647
2005	2,182	983
2006	2,353	1,095
2007	2,594	1,139
2008	2,790	1,239
Years 2009-2013	18,759	7,357

Deferred Compensation Agreements: TXUCV Services, TXUCV Telephone, TXUCV Telecom and Transport Services

TXUCV has deferred compensation agreements with the former board of directors of TXUCV s predecessor company, Lufkin-Conroe Communications, and certain former employees. The benefits are payable for up to 15 years and may begin as early as age 65 or upon the death of the participant.

TXUCV has purchased life insurance policies on certain former directors and key employees. The excess of the cash surrender value of life insurance policies over the notes payable balances related to these policies is reflected in TXUCV s financial statements. These plans do not qualify under the Internal Revenue Code (the Code) and therefore, federal income tax deductions are allowed only when benefits are paid.

Payments relating to deferred compensation agreements were $0.1 million for the period from January 1, 2004 to April 13, 2004 and $0.4 million for the years ended December 31, 2003, 2002 and 2001. Accrued costs were $0.2 million for the period from January 1, 2004 to April 13, 2004 and $0.5 million for the years ended December 31, 2003 and 2002 and $0.1 million for the year ended December 31, 2001. Accrued liability amounted to $3.5 million at

April 13, 2004, $3.4 million at December 31, 2003 and $3.3 million at December 31, 2002.

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TXU COMMUNICATIONS VENTURES COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

401(k) Plans

Nonbargaining: TXUCV Services, TXUCV Telephone, TXUCV Telecom, Transport Services, Telcon, Fort Bend Telephone and Fort Bend LD

TXUCV sponsors a 401(k) plan for all nonbargaining employees (Nonbargaining TXUCV Plan) who have completed 90 days of full-time service (or at least 1,000 hours of service in any year) and are age 21 or older. On December 31, 2001, the nonbargaining 401(k) plan covering Telcon, Fort Bend Telephone and Fort Bend LD was merged into this plan. The plan allows participants to contribute up to 15% of their eligible annual compensation to the plan, up to the maximum permitted by the Code. TXUCV matches 100% of the first 3% of employee contributions. TXUCV s matching contributions to the plan amounted to $0.3 million for the period from January 1, 2004 to April 13, 2004 and $0.5 million, $0.6 million and $0.6 million for 2003, 2002 and 2001, respectively. TXUCV recognized a $0.5 million loss in 2003 resulting from a partial plan termination of the 401(k) plan in which affected participants became fully vested in accrued benefits.

Bargaining: TXUCV Services, TXUCV Telephone, TXUCV Telecom and Transport Services

TXUCV sponsors a 401(k) plan for all bargaining employees (Bargaining TXUV Plan) who have completed one year of full-time service (or at least 1,000 hours of service in any year) and are age 21 or older. For the period from January 1, 2004 to April 13, 2004 and years 2003 and 2002, the plan allowed participants to contribute up to 15% of their eligible annual compensation to the plan, up to the maximum permitted by the Code. Beginning in 2002, TXUCV matched 50% of the first 3% of employee contributions, in accordance with the terms of the collective bargaining agreement. In 2001, TXUCV matched 40% of the first 3% of employee contributions. TXUCV s matching contributions to the plan amounted to $30,000 for the period from January 1, 2004 to April 13, 2004 and $0.1 million for years 2003, 2002 and 2001.

Nonbargaining: Telcon, Fort Bend Telephone and Fort Bend LD

TXUCV sponsored a 401(k) plan for all employees who had completed at least one month of full-time service and who were at least 21 years of age. Effective December 31, 2001, the plan was merged into the 401(k) savings plan for nonbargaining employees of TXUCV. Participants accounts and participation eligibility were transferred to the TXUCV plan effective January 1, 2002. Employees who became eligible on or after January 1, 2002 participated in the Nonbargaining TXUCV plan. The plan allowed participants to contribute up to 8% of their eligible annual compensation to the plan, up to the maximum permitted by the Code. TXUCV matched 50% of the first 8% of eligible employee contributions. TXUCV s matching contributions to the plan amounted to $0.7 million for 2001.

The plan provided for discretionary TXUCV-paid profit sharing contributions of up to 15% of each eligible employee s total compensation. Discretionary profit sharing contributions to the plan, which were accrued during the year and paid following the close of the year, amounted to $0.2 million for 2001.

On December 8, 2003, President Bush signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (The Act). The Act expanded Medicare to include, for the first time, coverage for prescription drugs. TXUCV sponsors retiree medical programs for certain of its locations. In May 2004, the FASB issued guidance for the accounting and disclosure effects of the Act. TXUCV has determined that its postretirement prescription drug plan is actuarially equivalent and will begin reflecting the impact on July 1, 2004.

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TXU COMMUNICATIONS VENTURES COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE F OPERATING LEASES

TXUCV is the lessor of fiber optic systems, agreements to lease capacity to customers over fiber optic lines. The leases, accounted for as operating leases, provide for minimum future rentals to be received for the remainder of the lease period and in the aggregate as follows:

As of April 13, 2004	Fiber Optic Systems (Dollars in thousands)
4/14 - 12/31/2004	$ 827
2005	1,131
2006	1,103
2007	1,103
2008	1,103
	$ 5,267

Following is a summary of property on lease:

	April 13, 2004	December 31, 2003	December 31, 2002
	(Dollars in thousands)		
Fiber Optic System	$ 222	$ 222	$ 245
Less: Accumulated Depreciation	10	6	
	$ 212	$ 216	$ 245

NOTE G CAPITAL LEASES

TXUCV leases certain furniture, fixtures, equipment and leasehold improvements at its current corporate headquarters in Irving pursuant to two Master Lease Agreements with between TXUCV and GECC.

The leasehold improvement lease had an initial term of 30 months that ended on October 1, 2004. At the termination of the initial term of this lease, TXUCV elected to purchase the scheduled leasehold improvement for $1.1 million.

At the termination of the initial term of the second lease for furniture, fixtures and equipment, TXUCV elected to extend the term of the agreement until April 1, 2007, at which time the company will have an option to purchase the equipment for its then fair market value.

During the period from January 1, 2004 to April 13, 2004, TXUCV paid a total of $0.2 million to GECC pursuant to these capital leases. As of April 13, 2004 the outstanding principal amount of these capital leases was $2.8 million. These leases require Texas Acquisition to maintain a specified debt rating. Texas Acquisition is not in compliance with this covenant, although we are not aware of the delivery of any notice of default. Upon a default under these leases, GECC may take possession of the scheduled equipment and require TXUCV to pay certain stipulated loss amounts. These capital lease obligations have been classified as current liabilities on the balance sheet.

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TXU COMMUNICATIONS VENTURES COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE H INVESTMENTS IN NONAFFILIATED COMPANIES

Marketable equity securities have been categorized as available for sale and, as a result, are stated at fair value. Unrealized gains and losses are included as a component of accumulated other comprehensive income until realized.

For the purpose of determining gross unrealized gains and losses, marketable securities include the following at April 13, 2004 and December 31, 2003 and 2002:

	Cost			Fair Value			Unrealized Gain			Realized Gain		
	4/13/04	2003	2002	4/13/04	2003	2002	4/13/04	2003	2002	4/13/04	2003	2002
	(Dollars in thousands)											
Other Marketable Equity Securities	$ 11	$ 11	$ 11	$ 117	$ 125	$ 125	$ 106	$ 114	$ 114	$	$	$ 230

The following investments are accounted for using the equity method:

	Percentage Owned			Investment Amount		
	April 13,	December 31,		April 13,	December 31,	
	2004	2003	2002	2004	2003	2002
	(Dollars in thousands)					
GTE Mobilnet of South Texas Limited Partnership	2.34%	2.34%	2.34%	$ 24,045	$ 23,384	$ 22,332
GTE Mobilnet of Texas RSA #17 Limited Partnership	17.02%	17.02%	17.02%	$ 3,731	$ 3,794	$ 3,629
Fort Bend Fibernet Limited Partnership	39.06%	39.06%	39.06%	$ 187	$ 139	$ 731

The following investments are accounted for using the cost method:

	April 13,	December 31,	
	2004	2003	2002
	(Dollars in thousands)		
CoBank, ACB Stock	$ 1,452	$ 1,347	$ 1,230
Rural Telephone Bank Stock	$ 5,921	$ 5,921	$ 5,921

The CoBank stock represents purchases of CoBank stock as required by the CoBank loan agreement and patronage distributions from CoBank in the form of stock. Although there is no CoBank loan balance outstanding at April 13, 2004, TXUCV will begin receiving annual refunds of a portion of this stock only when its stock balance reaches 11.5% of the five-year moving average of CoBank loan balance. The CoBank stock is owned by TXUCV, now known as Consolidated Communications Ventures Company.

Fort Bend Telephone owns 5,921 shares of $1,000 par value Class C Rural Telephone Bank, which is stated at original cost plus a gain recognized at conversion of Class B to Class C stock.

NOTE I MINORITY INTEREST

During 1990, Transport Services, in a joint venture with Eastex Celco (ETC), formed ETFL. Transport Services and ETC own 63% and 37%, respectively, of the outstanding stock of ETFL.

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TXU COMMUNICATIONS VENTURES COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE J TRANSACTIONS WITH RELATED PARTIES

Following is a summary of transactions with related parties:

	April 13,	December 31,		
	2004	2003	2002	2001
	(Dollars in thousands)			
Prepaid to Oncor for Transmission Fees	$ 886	$	$	
Accounts Payable TXU	$ 35	$ 2,314	$ 352	
Accounts Payable Oncor	$	$ 245	$ 117	
Long-Term Debt Payable TXU	$	$ 80,867	$ 144,066	
Capital Contributions Pinnacle	$ 102,119	$ 4,290	$ 6,974	$ 27,784
Interest Expense Paid to TXU	$ 636	$ 3,597	$ 5,059	$ 8,501
Billings From Oncor for Transmission Line Fees	$ 1,139	$ 1,458	$ 1,324	$ 1,184
Billings From TXU for Management Fees	$ 2,350	$ 2,647	$ 3,331	$ 5,594
Billings From TXU for Services	$ 660	$ 1,487	$ 2,427	$ 1,885

NOTE K COMMITMENTS AND CONTINGENCIES

TXUCV and its subsidiaries are subject to various claims and lawsuits, including property damage claims, which arise from time to time in the normal course of business. It is the opinion of management and counsel that the disposition or ultimate determination of such claims and lawsuits will not have a material effect on the financial position, results of operations or liquidity of TXUCV, since TXUCV has insurance to cover such claims.

On November 25, 2002, TXUCV entered into a 60-month High-Capacity Term Payment Plan agreement with Southwestern Bell (SWB). The agreement requires TXUCV to make monthly purchases of at least $33,000 from SWB on a take-or-pay basis. The agreement also provides for an early termination charge of 45% of the monthly minimum commitment multiplied by the number of months remaining through the expiration date of November 25, 2007. As of April 13, 2004, the potential early termination charge is approximately $0.6 million.

TXUCV is also a party to another take-or-pay agreement with Grande Communications to provide certain directory assistance-related services to the TXUCV. The agreement which was entered into on August 28, 2001, for an initial 12-month term, has an automatic 12-month renewal provision with a minimum monthly commitment of $8,950. This agreement is still in effect at April 13, 2004.

TXUCV has executed various building space leases, with terms ranging from 36 to 84 months and monthly payments ranging from $0.1 million to $0.3 million. All but one of the leases contains provisions for escalation of the monthly payments. TXUCV s consolidated financial statements for the period from January 1, 2004 to April 13, 2004 and the years ended December 31, 2003 and 2002 include $0 million, $0.6 million, and $0.3 million of charges, respectively, representing obligations on leased facilities that were sublet to unrelated parties for amounts less than the related obligations. TXUCV also has executed several equipment leases with varying terms up to 36 months and monthly payments totaling approximately $0.1 million.

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TXU COMMUNICATIONS VENTURES COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The future minimum payments required by capital and operating leases for the next five years are as follows (dollars in thousands):

4/14 - 12/31/2004	$ 2,827
2005	$ 3,451
2006	$ 2,747
2007	$ 1,546
2008	$ 1,368
Thereafter	$ 3,038

Rent expense on operating leases was $1.0 million for the period from January 1, 2004 to April 13, 2004, $4.1 million for the year ended December 31, 2003, $3.6 million for the year ended December 31, 2002 and $2.3 million for the year ended December 31, 2002.

NOTE L FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each of the material financial instruments for which it is practicable to estimate the value:

Cash, Cash Equivalents and Short-Term Investments Cash, cash equivalents and short-term investments are valued at their carrying amounts, which are reasonable estimates of their fair value because of the short maturity of those instruments.

Long-Term Investments The fair value of investments is estimated based on the quoted market price for that investment. Other investments for which there are no quoted market prices because the stocks are not publicly traded are carried at cost since reasonable estimates of fair value could not be made without incurring excessive costs. These investments include $1.5 million of CoBank stock and $5.9 million of Rural Telephone Bank stock.

Long-Term Debt The fair value of TXUCV s long-term debt, including current maturities, is estimated based on the current rates offered to TXUCV for debt of the same remaining maturities.

The carrying amounts and estimated fair values of TXUCV s material financial instruments are as follows:

	Carrying Amount			Fair Value		
	April 13,	Dec. 31,		April 13,	Dec. 31,	
	2004	2003	2002	2004	2003	2002
	(Dollars in thousands)					
Long-Term Investments For Which It Is Not Practicable To Estimate Fair Value	$ 36,862	$ 34,585	$ 33,884	$ 36,862	$ 34,585	$ 33,884
Debt	$ 2,847	$ 100,383	$ 166,202	$ 2,663	$ 102,077	$ 166,202
Cash Surrender Value of Life Insurance Policies	$ 1,526	$ 1,533	$ 1,376	$ 1,526	$ 1,533	$ 1,376

NOTE M RESTRUCTURING AND IMPAIRMENT CHARGES

Beginning in 1999, TXUCV began operating a CLEC in a number of local markets within Texas. In late 2001, TXUCV decided to refocus its business strategy on the Texas RLECs. In December 2002, TXUCV made a decision to hold its CLEC and Transport assets for sale. TXUCV examined the value of the assets held for sale based on third party sale negotiations and similar recent sales transactions and recorded an impairment charge of $90.9 million

($56.6 million after taxes and minority interest). In

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TXU COMMUNICATIONS VENTURES COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

addition, TXUCV recorded restructuring charges of $2.1 million under the provisions of Emerging Issues Task Force Abstract 94-3.

Impairment Charges

	CLEC	Transport	Total
		(Dollars in thousands)	
PPE Net Book Value	$ 27,512	$ 70,831	$ 98,343
Estimated Cost of Sale	232	360	592
	27,744	71,191	98,935
Less: Estimated FMV	947	7,083	8,030
Assets Held For Sale Impairment Charges	$ 26,797	64,108	$ 90,905

Restructuring Charges

Employee Separations	$ 736
Facility Closure Costs	916
Other Contractual Commitments	417
Total	$ 2,069

Employee separation restructuring charges relate to 55 affected employees. These restructuring costs were all paid in 2003.

Earlier in 2002, TXUCV recorded impairment charges of $8.4 million related to certain CLEC information technology and collocation assets. The evaluation occurred in conjunction with exiting certain unprofitable activities and decommissioning non-strategic collocation sites. The information technology assets were fully written-off and taken out of service. The collocation assets were valued at fair market value based on third party pricing. This impairment occurred prior to the decision to hold those assets for sale.

Assets Held for Sale

In late 2001, TXUCV decided to refocus its business strategy on the Texas RLECs. During the subsequent 18 months, TXUCV systematically exited certain less profitable CLEC markets, ceased service to residential customers and focused solely on business customers within limited geographic markets. In December 2002, TXUCV decided to exit the CLEC business entirely and placed its CLEC assets and customer base for sale. In March 2003, TXUCV sold the majority of its remaining CLEC assets and customer base to Texas-based Grande Communications for $1.2 million. TXUCV also anticipated selling its Transport Services activities in the near term and as a result, the assets and liabilities related to the CLEC and Transport assets held for sale were presented separately in the assets and liabilities sections of the consolidated balance sheets at December 31, 2002. The assets held for sale consisted of $8.0 million of property, plant and equipment recorded at fair market value based on the estimated sales price. The liabilities represented estimated costs to sell of $0.6 million and restructuring charges of $2.1 million.

In June 2003, in light of the decision to sell the entire company, TXUCV decided that it would no longer attempt to sell the transport network separately. Consequently, in accordance with the provisions of SFAS No. 144, these assets were reclassified from assets held for sale to assets held and used and are reported on the consolidated balance sheet at the lower of fair market value or adjusted carrying amount. The resulting $0.3 million loss on long-lived assets converted to held and used is reflected in TXUCV s results of operations for the year ended December 31, 2003.

TXU COMMUNICATIONS VENTURES COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE N GOODWILL AND OTHER INTANGIBLE ASSETS

Amounts paid for assets of other companies in excess of fair value are recorded as goodwill. Goodwill was amortized over its useful life, normally 15 to 40 years through December 31, 2001.

SFAS No. 142 became effective for TXUCV on January 1, 2002. SFAS No. 142 requires, among other things, the allocation of goodwill to reporting units based upon the current fair value of the reporting units, and the discontinuance of goodwill amortization. The amortization of TXUCV goodwill ($13.6 million in 2001) ceased effective January 1, 2002.

In addition, SFAS No. 142 required completion of a transitional goodwill impairment test within six months from the date of adoption. It established a new method of testing goodwill for impairment on an annual basis, or on an interim basis if an event occurs or circumstances change that would reduce the fair value of a reporting unit below its carrying value. TXUCV completed the transitional impairment test in the second quarter of 2002, the results of which indicated no impairment of goodwill at that time. In conjunction with TXUCV s decision to exit the CLEC and Transport businesses, additional evaluations were performed as of October 1, 2003 and 2002, TXUCV s annual impairment test date. The testing, utilizing the discounted cash flow methodology, resulted in an impairment charge of $13.2 million and $18 million for the years ended December 31, 2003 and 2002, respectively. There were no impairment charges for the period from January 1, 2004 to April 13, 2004.

There were no changes in the carrying amount of goodwill for the period from January 1, 2004 to April 13, 2004. Changes in the carrying amount of goodwill for the years ended December 31, 2003 and 2002 is summarized as follows (in thousands):

	2003	2002
Balance, January 1	$ 317,536	$ 335,536
Less impairment	13,200	18,000
Balance, December 31	$ 304,336	$ 317,536

The table below reflects what reported net income would have been in the 2001 period, exclusive of goodwill amortization expense recognized for consolidated entities in those periods compared to the period from January 1, 2004 to April 13, 2004, 2003, 2002 and 2001:

	April 13,	December 31,		
	2004	2003	2002	2001
	(Dollars in thousands)			
Reported Net Income (Loss)	$ 1,783	$ (2,341)	$ (89,765)	$ (21,892)
Add: Goodwill Amortization				8,419
Proforma Net Income (Loss)	$ 1,783	$ (2,341)	$ (89,765)	$ (13,473)

NOTE O SALE OF TXUCV

On January 15, 2004, Consolidated Communications Acquisition Texas Corp. (Texas Acquisition), a subsidiary of Homebase Acquisition, LLC, and Pinnacle One, an indirect, wholly owned subsidiary of TXU Corp., entered into a stock purchase agreement providing for the purchase by Texas Acquisition of all of the capital stock of TXUCV.

Texas Acquisition is a Delaware corporation formed solely for the purpose of entering into the stock purchase agreement and closing the transactions contemplated by that

TXU COMMUNICATIONS VENTURES COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

agreement. By acquiring the capital stock of TXUCV, Texas Acquisition acquired substantially all of TXU Corp. s telecommunications business, which includes the following:

Fort Bend Telephone (now known as Consolidated Communications of Fort Bend Company) and TXUCV Telephone (now known as Consolidated Communications of Texas Company), two RLECs, which together serve markets in Conroe, Katy and Lufkin, Texas;

TXUCV s investments in the cellular partnership (see Note H Investments in Nonaffiliated Companies);

a telephone directory publishing business; and

a transport services business.

The cash purchase price for the sale of TXUCV s capital stock was $527.0 million, subject to the following adjustments:

The purchase price was reduced by $2.8 million, the outstanding principal amount of the capital lease obligations between TXUCV and GECC.

The purchase price assumed $4.6 million of cash on the balance sheet of TXUCV at closing and was adjustable upward (or downward) by the amount cash on the balance sheet at closing greater than (or less than) $4.6 million.

The purchase price was also adjustable upward (or downward) to the extent that TXUCV s working capital was greater than (or less than) negative $2.8 million. At April 13, 2004, TXUCV s adjusted working capital (as defined in the stock purchase agreement) was negative $3.9 million. As a result of differences in assumed working capital (including cash) and other balances and related actual balances at April 13, 2004, Homebase Acquisition, LLC made an additional cash payment to TXU Corp. of $5.1 million.

TXUCV was required to repay all of its outstanding indebtedness at or prior to the closing of the transactions, other than capital leases that were subject to the purchase price adjustment described above and affiliate indebtedness relating to contracts that continued following the closing of the transaction. Accordingly, all indebtedness deemed to be affected by the stock purchase agreement was reflected in the current liabilities section of TXUCV s balance sheet as of December 31, 2003 and subsequently extinguished prior to or as of April 13. 2004. In addition, Pinnacle One was to bear the first $5.1 million of any severance and similar expenses associated with work force reductions occurring between the date of the signing of the stock purchase agreement on January 15, 2004 and the closing of the transactions.

The stock purchase agreement contained customary representations and warranties, covenants and indemnification provisions. Most representations and warranties expire on the later of the first anniversary of the closing of the transactions and April 30, 2005.

TXU Corp. agreed to guarantee the payment obligations of Pinnacle One for up to the purchase price and further agreed to guarantee certain tax indemnification obligations up to, and in excess of, the purchase price.

The stock purchase agreement further provided that certain agreements and arrangements between TXU Corp. and TXUCV and its subsidiaries, and all the related liabilities and obligations of TXUCV and its subsidiaries automatically terminate in their entirety effective as of the closing without any further actions by the parties and thereby be deemed voided, cancelled and discharged in their entirety.

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TXU COMMUNICATIONS VENTURES COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE P SUBSEQUENT EVENTS

The sale of TXUCV to Texas Acquisition closed on April 14, 2004. In association with the close of the sale, Texas Acquisition and other subsidiaries of Homebase Acquisition, LLC issued $200 million of Senior Notes and entered into a new $437 million credit facility.

The initial terms of the two GECC leases expired on October 1, 2004. As provided under the terms of the lease agreements, TXUCV, now known as Consolidated Communications Ventures Company, elected to purchase the leasehold improvements under one lease for $1.1 million and extend the term of the furniture, fixtures and equipment under the second lease through April 1, 2007.

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GTE MOBILNET OF TEXAS RSA #17, Limited Partnership
FINANCIAL STATEMENTS FOR THE YEARS ENDED
December 31, 2004 and 2003
With Report of Independent Registered Public Accounting Firm

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Partners of GTE Mobilnet of
Texas #17 Limited Partnership:

We have audited the accompanying balance sheets of GTE Mobilnet of Texas #17 Limited Partnership (the Partnership) as of December 31, 2004 and 2003, and the related statements of operations, changes in partners capital, and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Partnership s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Partnership is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Partnership s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements present fairly, in all material respects, the financial position of the Partnership as of December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP
New York, New York
April 29, 2005

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GTE MOBILNET OF TEXAS #17 LIMITED PARTNERSHIP
BALANCE SHEETS
December 31, 2004 and 2003
(Dollars in thousands)

	2004	2003
ASSETS		
CURRENT ASSETS:		
Accounts receivable, net of allowance of $268 and $244	$ 2,061	$ 1,920
Unbilled revenue	712	533
Due from General Partner	3,659	7,513
Prepaid expenses and other current assets	11	13
Total current assets	6,443	9,979
PROPERTY, PLANT AND EQUIPMENT Net	22,494	13,681
TOTAL ASSETS	$ 28,937	$ 23,660
LIABILITIES AND PARTNERS CAPITAL		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 1,193	$ 1,117
Advance billings	297	223
Other current liabilities	243	232
Total current liabilities	1,733	1,572
COMMITMENTS AND CONTINGENCIES (see Notes 6 and 8)		
PARTNERS CAPITAL	27,204	22,088
TOTAL LIABILITIES AND PARTNERS CAPITAL	$ 28,937	$ 23,660

See notes to financial statements.

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GTE MOBILNET OF TEXAS #17 LIMITED PARTNERSHIP
STATEMENTS OF OPERATIONS
Years Ended December 31, 2004, 2003 and 2002
(Dollars in thousands)

	2004	2003	2002
OPERATING REVENUES:			
Service revenues	$ 32,687	$ 28,324	$ 24,525
Equipment and other	2,516	2,135	1,594
Total operating revenues	35,203	30,459	26,119
OPERATING COSTS AND EXPENSES:			
Cost of service (excluding depreciation and amortization related to network assets included below)	9,899	8,316	8,724
Cost of equipment	2,490	2,284	1,172
Selling, general and administrative	10,144	9,344	8,389
Depreciation and amortization	3,034	2,886	2,688
Loss on disposal of property, plant and equipment			3
Total operating costs and expenses	25,567	22,830	20,976
OPERATING INCOME	9,636	7,629	5,143
OTHER INCOME:			
Interest income, net	480	365	250
Other, net			20
Total other income	480	365	270
NET INCOME	$ 10,116	$ 7,994	$ 5,413
Allocation of Net Income:			
Limited partners	$ 8,093	$ 6,396	$ 4,329
General partner	$ 2,023	$ 1,598	$ 1,084

See notes to financial statements.

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GTE MOBILNET OF TEXAS #17 LIMITED PARTNERSHIP
STATEMENTS OF CHANGES IN PARTNERS CAPITAL
Years Ended December 31, 2004, 2003 and 2002
(Dollars in Thousands)

	General Partner	Limited Partners					
	San Antonio MTA, L.P.	Eastex Telecom Investments, L.P.	Telecom Supply, Inc.	Consolidated Communications Transport Company	ALLTEL Communications Investments, Inc.	San Antonio MTA, L.P.	Total Partners Capital
BALANCE January 1, 2002	$ 3,536	$ 3,009	$ 3,009	$ 3,009	$ 3,009	$ 2,109	$ 17,681
Distributions	(400)	(340)	(340)	(340)	(340)	(240)	(2,000)
Net income	1,084	921	921	921	921	645	5,413
BALANCE December 31, 2002	4,220	3,590	3,590	3,590	3,590	2,514	21,094
Distributions	(1,402)	(1,191)	(1,191)	(1,191)	(1,191)	(834)	(7,000)
Net income	1,598	1,361	1,361	1,361	1,361	952	7,994
BALANCE December 31, 2003	4,416	3,760	3,760	3,760	3,760	2,632	22,088
Distributions	(1,000)	(851)	(851)	(851)	(851)	(596)	(5,000)
Net income	2,023	1,722	1,722	1,722	1,722	1,205	10,116
BALANCE December 31, 2004	$ 5,439	$ 4,631	$ 4,631	$ 4,631	$ 4,631	$ 3,241	$ 27,204

See notes to financial statements.

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GTE MOBILNET OF TEXAS #17 LIMITED PARTNERSHIP
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2004, 2003 and 2002
(Dollars in thousands)

	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 10,116	$ 7,994	$ 5,413
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,034	2,886	2,688
Net loss on disposal of property, plant and equipment			3
Provision for losses on accounts receivable	793	496	719
Changes in certain assets and liabilities:			
Accounts receivable and unbilled revenue	(1,113)	(125)	(671)
Prepaid expenses and other current assets	2	6	(18)
Accounts payable and accrued liabilities	76	(294)	275
Advance billings and other current liabilities	85	178	133
Net cash provided by operating activities	12,993	11,141	8,542
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures, including purchases from affiliates, net	(11,847)	(2,654)	(3,225)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Decrease (Increase) in Due from General Partner	3,854	(1,487)	(3,317)
Distributions to partners	(5,000)	(7,000)	(2,000)
Net cash used in financing activities	(1,146)	(8,487)	(5,317)
CHANGE IN CASH			
CASH Beginning of year			
CASH End of year	$	$	$

See notes to financial statements.

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GTE MOBILNET OF TEXAS #17 LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2004, 2003 and 2002
(Dollars in Thousands)

1. Organization and Management

GTE Mobilnet of Texas #17 Limited Partnership GTE Mobilnet of Texas #17 Limited Partnership (the Partnership) was formed on June 13, 1989. The principal activity of the Partnership is providing cellular service in the Texas #17 rural service area.

The partners and their respective ownership percentages as of December 31, 2004, 2003 and 2002 are as follows:

General Partner:	
San Antonio MTA, L.P.*	20.0000%
Limited Partners:	
Eastex Telecom Investments, L.P.	17.0213%
Telecom Supply, Inc.	17.0213%
Consolidated Communications Transport Company	17.0213%
ALLTEL Communications Investments, Inc.	17.0213%
San Antonio MTA, L.P.*	11.9148%

* San Antonio MTA, L.P. (General Partner) is a wholly-owned subsidiary of Cellco Partnership (Cellco) doing business as Verizon Wireless.

On behalf of the General Partner, Cellco provides accounting, administrative, sales and marketing, engineering and other general support services to the Partnership. In addition, Cellco performs all of its cash, inventory, investing and financing activities. Costs related to such services are either allocated or directly charged to the Partnership.

All wireless licenses issued by the Federal Communications Commission (FCC) that authorize the Partnership to provide cellular services are held by Cellco. On January 1, 2005, the Partnership entered into a Spectrum leasing agreement with Cellco. If the fair value of the aggregated wireless licenses is less than the aggregated carrying amount of the licenses, an impairment loss will be recognized by Cellco. Any impairment loss recognized by Cellco may be allocated to the Partnership based upon a reasonable methodology.

2. Significant Accounting Policies

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used for, but not limited to, the accounting for: allocations, allowance for uncollectible accounts receivable, unbilled revenue, fair value of financial instruments, depreciation and amortization, useful lives and impairment of assets, accrued expenses, and contingencies. Estimates and assumptions are periodically reviewed and the effects of any material revisions are reflected in the financial statements in the period that they are determined to be necessary.

Reclassifications Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

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GTE MOBILNET OF TEXAS #17 LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS (Continued)

Revenue Recognition The Partnership earns revenue by providing access to the network (access revenue) and for usage of the network (airtime/usage revenue), which includes roaming and long distance revenue. In general, access revenue is billed one month in advance and is recognized when earned; the unearned portion is classified in advance billings. Airtime/usage revenue, roaming revenue and long distance revenue are recognized when service is rendered and included in unbilled revenue until billed. Equipment sales revenue associated with the sale of wireless handsets and accessories is recognized when the products are delivered to and accepted by the customer, as this is considered to be a separate earnings process from the sale of wireless services. The Partnership s revenue recognition policies are in accordance with the Securities and Exchange Commission s (SEC) Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements , and SAB No. 104, Revenue Recognition . The roaming rates charged by the Partnership to Cellco do not necessarily reflect current market rates. The Partnership continues to re-evaluate the rates and expects these rates to be reduced in the future consistent with market trends and the terms of the limited partnership agreement (See Note 5).

Operating Expenses Operating expenses include expenses incurred directly by the Partnership, as well as an allocation of certain administrative and operating costs incurred by Cellco or its affiliates on behalf of the Partnership (see note 5). Services performed on behalf of the Partnership are provided by employees of Cellco. These employees are not employees of the Partnership and therefore, operating expenses include direct and allocated charges of salary and employee benefit costs for the services provided to the Partnership. The General Partner believes such allocations, principally based on the Partnerships percentage of total customers, customer gross additions or minutes-of-use, are reasonable. The roaming rates charged to the Partnership by Cellco do not necessarily reflect current market rates. The Partnership continues to re-evaluate the rates and expects these rates to be reduced in the future consistent with market trends and the terms of the limited partnership agreement (See Note 5).

Income Taxes The Partnership is not a taxable entity for federal and state income tax purposes. Any taxable income or loss is apportioned to the partners based on their respective partnership interests and would be reported by them individually.

Inventory Inventory is owned by Cellco and held on consignment by the Partnership. Such consigned inventory is not recorded on the Partnership s financial statements. Upon sale, the related cost of the inventory is transferred to the Partnership at Cellco s cost basis and included in the accompanying Statements of Operations.

Allowance for Doubtful Accounts The Partnership maintains allowances for uncollectible accounts receivable for estimated losses resulting from the inability of customers to make required payments. Estimates are based on the aging of the accounts receivable balances and the historical write-off experience, net of recoveries.

Property, Plant and Equipment Property, plant and equipment primarily represents costs incurred to construct and expand capacity and network coverage on Mobile Telephone Switching Offices (MTSOs) and cell sites. The cost of property, plant and equipment is depreciated over its estimated useful life using the straight-line method of accounting. Leasehold improvements are amortized over the shorter of their estimated useful lives or the term of the related lease. Major improvements to existing plant and equipment are capitalized. Routine maintenance and repairs that do not extend the life of the plant and equipment are charged to expense as incurred.

Upon the sale or retirement of property, plant and equipment, the cost and related accumulated depreciation or amortization is eliminated from the accounts and any related gain or loss is reflected in the Statements of Operations.

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GTE MOBILNET OF TEXAS #17 LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS (Continued)

Network engineering costs incurred during the construction phase of the Partnership s network and real estate properties under development are capitalized as part of property, plant and equipment and recorded as construction-in-progress until the projects are completed and placed into service.

FCC Licenses The Federal Communications Commission (FCC) issues licenses that authorize cellular carriers to provide service in specific cellular geographic service areas. The FCC grants licenses for terms of up to ten years. In 1993, the FCC adopted specific standards to apply to cellular renewals, concluding it will reward a license renewal to a cellular licensee that meets certain standards of past performance. Historically, the FCC has granted license renewals routinely.

Valuation of Assets Long-lived assets, including property, plant and equipment and intangible assets with finite lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cashflows expected to result from the use and eventual disposition of the asset. The impairment loss, if determined to be necessary, would be measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. The FCC license, including the Partnership license, recorded on the books of Cellco are evaluated for impairment, by Cellco, under the guidance set forth in Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets.

The FCC licenses are treated as an indefinite life intangible asset under the provisions of SFAS No. 142 and are not amortized, but rather are tested for impairment annually or between annual dates, if events or circumstances warrant. All of the licenses in Cellco s nationwide footprint are tested in the aggregate for impairment under SFAS No. 142. When testing the carrying value of the wireless licenses for impairment, Cellco determines the fair value of the aggregated wireless licenses by subtracting from enterprise discounted cash flows (net of debt) the fair value of all of the other net tangible and intangible assets of Cellco, including previously unrecognized intangible assets. This approach is generally referred to as the residual method. In addition, the fair value of the aggregated wireless licenses is then subjected to a reasonableness analysis using public information of comparable wireless carriers. If the fair value of the aggregated wireless licenses as determined above is less than the aggregated carrying amount of the licenses, an impairment will be recognized by Cellco. Any impairment loss recognized by Cellco may be allocated to its subsidiaries based upon a reasonable methodology. No impairment was recognized in 2004, 2003 and 2002.

On September 29, 2004, the SEC issued a Staff Announcement regarding the Use of the Residual Method to Value Acquired Assets other than Goodwill. The Staff Announcement requires SEC registrants to adopt a direct value method of assigning value to intangible assets, including wireless licenses, acquired in a business combination under SFAS No. 141, Business Combinations, effective for all business combinations completed after September 29, 2004. Further, all intangible assets, including wireless licenses, valued under the residual method prior to this adoption are required to be tested for impairment using a direct value method no later than the beginning of fiscal year ended after January 1, 2005. Any impairment of intangible assets recognized upon application of a direct value method by entities previously applying the residual method should be reported as a cumulative effect of a change in accounting principle. Under this Staff Announcement, the reclassification of recorded balances from wireless licenses to goodwill prior to the adoption of this Staff Announcement is prohibited. Cellco has evaluated its wireless licenses for potential impairment using a direct value methodology effective January 1, 2005. The valuation and analyses prepared in connection with the adoption of a direct value method resulted in no adjustment to the carrying value of its wireless licenses, and accordingly, had no effect on its results of operations and financial position. Future tests for impairment will be performed by Cellco at least annually and more often if events or circumstances warrant.

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GTE MOBILNET OF TEXAS #17 LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS (Continued)

Concentrations To the extent the Partnership s customer receivables become delinquent, collection activities commence. No single customer is large enough to present a significant financial risk to the Partnership. The Partnership maintains an allowance for losses based on the expected collectibility of accounts receivable.

Cellco and the General Partner rely on local and long distance telephone companies, some of whom are related parties, and other companies to provide certain communication services. Although management believes alternative telecommunications facilities could be found in a timely manner, any disruption of these services could potentially have an adverse impact on the Partnership s operating results.

Although Cellco and the General Partner attempt to maintain multiple vendors for, each required product, their network assets and inventory, which are important components of their operations, they are currently acquired from only a few sources. Certain of these products are in turn utilized by the Partnership and are important components of the Partnership s operations. If the suppliers are unable to meet Cellco s needs as it builds out its network infrastructure and sells service and equipment, delays and increased costs in the expansion of the Partnership s network infrastructure or losses of potential customers could result, which would adversely affect operating results.

Financial Instruments The Partnership s trade receivables and payables are short-term in nature, and accordingly, their carrying value approximates fair value.

Segments The Partnership has one reportable business segment and operates domestically only. The Partnership s products and services are materially comprised of wireless telecommunications services.

Due from General Partner Due from General Partner principally represents the Partnership s cash position. Cellco manages, on behalf of the General Partner, all cash, inventory, investing and financing activities of the Partnership. As such, the change in due from General Partner is reflected as a financing activity in the Statements of Cash Flows. Additionally, administrative and operating costs incurred by Cellco on behalf of the General Partner, as well as the transfer of property, plant, and equipment with affiliates, are charged to the Partnership through this account. Interest income is based on the average monthly outstanding balance in this account and is calculated by applying the General Partner s average cost of borrowing from Verizon Global Funding, a wholly-owned subsidiary of Verizon Communications, Inc., which was approximately 5.9%, 5.0% and 5.0% for the years ended December 31, 2004, 2003 and 2002, respectively. Included in net interest income is $488, $365 and $252 for the years ended December 31, 2004, 2003 and 2002, respectively, related to the due from General Partner.

Distributions The Partnership is required to make distributions to its partners on a quarterly basis based upon the Partnership s operating results, cash availability and financing needs as determined by the General Partner at the date of the distribution.

Recently Issued Accounting Pronouncements In December 2004, the FASB issued SFAS No. 153, Exchanges of Non monetary Assets An Amendment of APB Opinion No. 29. This standard eliminates the exception from fair value measurement for non-monetary exchanges of similar productive assets. A non monetary exchange shall be measured based on the recorded amount of the non monetary asset(s) relinquished, and not on the fair values of the exchanged assets, if a) the fair value is not determinable, b) the exchange transaction is to facilitate sales to customers, or c) the exchange transaction lacks commercial substance. This statement specifies that a non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The Partnership will adopt the standard effective January 1, 2006. The Partnership does not expect the impact of the adoption of SFAS No. 153 to have a material effect on the Partnership s financial statements.

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GTE MOBILNET OF TEXAS #17 LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS (Continued)

3. Property, Plant and Equipment

Property, plant and equipment consists of the following as of December 31, 2004 and 2003:

	2004	2003
Buildings and improvements (10-40 years)	$ 6,858	$ 5,422
Cellular plant equipment (3-15 years)	34,259	24,134
Furniture, fixtures and equipment (2-5 years)	349	55
Leasehold improvements (5-10 years)	226	213
	41,692	29,824
Less accumulated depreciation and amortization	19,198	16,143
Property, plant and equipment, net	$ 22,494	$ 13,681

Property, plant, and equipment includes the following:

Capitalized network engineering costs of $257 and $62 were recorded during the years ended December 31, 2004 and 2003, respectively.

Construction-in-progress included in certain of the classifications shown above, principally cellular plant equipment, amounted to $408 and $350 at December 31, 2004 and 2003, respectively.

Depreciation and amortization expense for the years ended December 31, 2004, 2003 and 2002 was $3,034, $2,886 and $2,688, respectively.

4. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	2004	2003
Accounts payable	$ 481	$ 258
Non-income based taxes and regulatory fees	449	605
Accrued commissions	263	254
Accounts payable and accrued liabilities	$ 1,193	$ 1,117

5. Transactions with Affiliates

Significant transactions with affiliates and other related parties, including allocations and direct charges, are summarized as follows for the years ended December 31, 2004, 2003 and 2002:

	2004	2003	2002
Service revenues(a)	$ 1	$ (76)	$ (1)
Equipment and other revenues(b)	(234)	(267)	197
Cost of service(c)	4,137	1,579	984
Equipment costs(d)	349	852	443
Selling, general and administrative expenses(e)	5,430	5,143	5,063

(a) Service revenues include long distance, paging, data and allocated contra revenues including revenue concessions; excluding roaming revenue, see below.

(b) Equipment and other revenues include sales of handsets and accessories and allocated contra revenues including equipment concessions and coupon rebates.

GTE MOBILNET OF TEXAS #17 LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS (Continued)

(c) Cost of service includes cost of telecom, long distance, paging, and handset applications; excluding roaming costs, see below.

(d) Equipment costs include warehousing, freight, handsets, accessories, and upgrades.

(e) Selling, general and administrative expenses include office telecom, customer care, billing, salaries, sales and marketing, advertising, and commissions.

Revenues and expenses were allocated based principally on the Partnership s percentage of total customers, customer gross additions or minutes of use where applicable. The Partnership believes the allocations are reasonable.

The Partnership also receives roaming revenue from affiliates for use of the Partnership s network and incurs roaming costs for use of affiliates networks. Roaming revenues were $11,608, $9,592 and $8,001 for the years ended December 31, 2004, 2003 and 2002, respectively. Roaming costs were $4,761, $5,020 and $6,128 for the years ended December 31, 2004, 2003 and 2002, respectively. Substantially all of these roaming revenue and cost transactions were with affiliates. The roaming rates charged do not necessarily reflect current market rates. The Partnership continues to re-evaluate the rates and expects these rates to be reduced in the future consistent with market trends and the terms of the limited partnership agreement.

The Partnership had transfers and purchases involving plant, property, and equipment with affiliates having a net cost of $8,050, $1,116 and $1,333 in 2004, 2003 and 2002, respectively.

During 2004, the methodology to charge shared switch costs to the Partnership from an affiliate of the General Partner was revised. The methodology change resulted in an increase in the Partnership s switch costs in 2004. In 2004, 2003 and 2002, the Partnership recorded switch sharing costs of $1,615, $336 and $336, respectively. These costs are included above in Cost of service . The switch rates charged to the Partnership do not necessarily reflect current market rates.

On January 1, 2005, the Partnership entered into a lease agreement for the right to use additional Spectrum owned by Cellco. The annual lease commitment of $76 represents the costs of financing the Spectrum, and does not necessarily reflect the economic value of the services received. No additional Spectrum purchases or lease commitments, other than the $76, have been entered into by the Partnership as of December 31, 2004.

6. Commitments

The General Partner, on behalf of the Partnership, and the Partnership itself have entered into operating leases for facilities and equipment used in its operations. Lease contracts include renewal options that include rent expense adjustments based on the Consumer Price Index as well as annual and end-of-lease term adjustments. Rent expense is recorded on a straight-line basis. The noncancellable lease term used to calculate the amount of the straight-line rent expense is generally determined to be the initial lease term, including any optional renewal terms that are reasonably assured. Leasehold improvements related to these operating leases are amortized over the shorter of their estimated useful lives or the noncancellable lease term. For the years ended December 31, 2004, 2003 and 2002, the Partnership recognized a total of $988, $751 and $676, respectively, as rent expense related to payments under these operating leases, which is included in cost of service and selling, general and administrative expenses in the accompanying Statements of Operations.

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GTE MOBILNET OF TEXAS #17 LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS (Continued)

Future minimum rental commitments under noncancelable operating leases, including maintenance fees and excluding renewal options not reasonably assured for the years shown are as follows:

Year	
2005	$ 1,077
2006	985
2007	929
2008	891
2009	827
2010 and thereafter	235
Total minimum payments	$ 4,944

7. Valuation and Qualifying Accounts

	Balance at Beginning of the Year	**Additions Charged to Operations**	**Write-offs Net of Recoveries**	**Balance at End of the Year**
Accounts Receivable Allowances:				
2004	$ 244	$ 793	$ (769)	$ 268
2003	320	496	(572)	244
2002	451	719	(850)	320

8. Contingencies

Cellco is subject to various lawsuits and other claims including class actions, product liability, patent infringement, antitrust, partnership disputes, and claims involving relations with resellers and agents. Cellco is also defending lawsuits filed against itself and other participants in the wireless industry alleging various adverse effects as a result of wireless phone usage. Various consumer class action lawsuits allege that Cellco breached contracts with consumers, violated certain state consumer protection laws and other statutes and defrauded customers through concealed or misleading billing practices. Certain of these lawsuits and other claims may impact the Partnership. These litigation matters may involve indemnification obligations by third parties and/or affiliated parties covering all or part of any potential damage awards against Cellco and the Partnership and/or insurance coverage.

The Partnership may be allocated a portion of the damages that may result upon adjudication of these matters if the claimants prevail in their actions. Consequently, the ultimate liability with respect to these matters at December 31, 2004 cannot be ascertained. The potential effect, if any, on the financial condition and results of operations of the Partnership, in the period in which these matters are resolved, may be material.

In addition to the aforementioned matters, Cellco is subject to various other legal actions and claims in the normal course of business. While Cellco s legal counsel cannot give assurance as to the outcome of each of these matters, in management s opinion, based on the advice of such legal counsel, the ultimate liability with respect to any of these actions, or all of them combined, will not materially affect the financial position or operating results of the Partnership.

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HOMEBASE ACQUISITION, LLC
Doing Business as
CONSOLIDATED COMMUNICATIONS
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2005

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HOMEBASE ACQUISITION, LLC
Doing Business as
CONSOLIDATED COMMUNICATIONS
CONDENSED CONSOLIDATED BALANCE SHEET
(Dollars in thousands)
(Unaudited)

		March 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$	56,538
Accounts receivable, net of allowance of $2,795		32,148
Inventories		3,202
Deferred income taxes		3,278
Prepaid expenses and other current assets		8,750
Total current assets		103,916
Property, plant and equipment, net		353,060
Intangibles and other assets:		
Investments		43,261
Goodwill		318,481
Customer lists, net		146,236
Tradenames		14,546
Deferred financing costs and other assets		22,743
Total assets	$	1,002,243
LIABILITIES AND MEMBERS DEFICIT		
Current liabilities:		
Current portion of long-term debt	$	41,242
Accounts payable		9,621
Advance billings and customer deposits		10,466
Accrued expenses		31,443
Total current liabilities		92,772
Long-term debt less current maturities		583,667
Deferred income taxes		68,192
Pension and postretirement benefit obligations		62,924
Other liabilities		3,170
Total liabilities		810,725
Minority interests		2,457
Redeemable preferred shares:		
		210,092

Class A, redeemable preferred shares, $1 par value, 182,000 shares authorized, issued and outstanding; liquidation preference of $210,092		
Common members deficit:		
Common shares, no par value, 10,000,000 shares, authorized, issued and outstanding		
Paid in capital		58
Accumulated deficit		(23,033)
Accumulated other comprehensive income		1,944
Total common members deficit		(21,031)
Total liabilities and members deficit	$	1,002,243

See accompanying notes

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HOMEBASE ACQUISITION, LLC
Doing Business as
CONSOLIDATED COMMUNICATIONS
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2005	**2004**
Revenues	$ 79,772	$ 34,067
Operating expenses:		
Cost of services and products (exclusive of depreciation and amortization shown separately below)	24,417	12,374
Selling, general and administrative expenses	26,196	10,589
Depreciation and amortization	16,818	5,366
Income from operations	12,341	5,738
Other income (expense):		
Interest income	253	32
Interest expense	(11,694)	(2,829)
Partnership income	330	
Dividend income	98	
Minority interest	(165)	
Other, net	124	
Income before income taxes	1,287	2,941
Income tax expense	586	1,177
Net income	701	1,764
Dividends on redeemable preferred shares	(4,623)	(2,274)
Net loss applicable to common shareholders	$ (3,922)	$ (510)
Net loss per common share basic and diluted	$ (0.42)	$ (0.06)

See accompanying notes

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HOMEBASE ACQUISITION, LLC
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CONSOLIDATED COMMUNICATIONS
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN COMMON MEMBERS DEFICIT
Three Months Ended March 31, 2005
(Dollars in thousands)
(Unaudited)

	Common Shares				Accumulated Other Comprehensive	
	Shares	Amount	Paid in Capital	Accumulated Deficit	Income	Total
Balance, January 1, 2005	10,000,000	$	$ 58	$ (19,111)	$ 258	$ (18,795)
Net income				701		701
Dividends on redeemable preferred shares				(4,623)		(4,623)
Change in fair value of cash flow hedges, net of $1,090 of tax					1,686	1,686
Balance, March 31, 2005	10,000,000	$	$ 58	$ (23,033)	$ 1,944	$ (21,031)

See accompanying notes

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HOMEBASE ACQUISITION, LLC
Doing Business as
CONSOLIDATED COMMUNICATIONS
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2005	**2004**
Operating Activities		
Net income	$ 701	$ 1,764
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	16,818	5,366
Provision for bad debt losses	1,579	1,067
Deferred income tax	1,551	
Partnership income	(330)	
Minority interest in net income of subsidiary	166	
Amortization of deferred financing costs	732	163
Changes in operating assets and liabilities:		
Accounts receivable	90	(1,278)
Inventories	327	470
Other assets	(3,574)	197
Accounts payable	(1,555)	802
Accrued expenses and other liabilities	(1,893)	(2,681)
Net cash provided by operating activities	14,612	5,870
Investing Activities		
Capital expenditures	(5,533)	(2,737)
Net cash used in investing activities	(5,533)	(2,737)
Financing Activities		
Payments made on long-term obligations	(4,512)	(2,575)
Payment of deferred financing costs	(113)	
Net cash used in financing activities	(4,625)	(2,575)
Net increase in cash and cash equivalents	4,454	558
Cash and cash equivalents at beginning of period	52,084	10,142
Cash and cash equivalents at end of period	$ 56,538	$ 10,700

See accompanying notes

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HOMEBASE ACQUISITION, LLC
Doing Business as
CONSOLIDATED COMMUNICATIONS
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Three months ended March 31, 2005 and 2004
(Dollars in thousand, except share and per share amounts)

1. Description of Business

Homebase Acquisition, LLC, a Delaware limited liability company (Homebase or the Company), was formed on June 26, 2002, and commenced operations in Illinois on December 31, 2002, with its acquisition of Illinois Consolidated Telephone Company and the related businesses (collectively, ICTC) and in Texas on April 14, 2004 with its acquisition of TXU Communications Ventures Company (TXUCV). Homebase is a holding company with no income from operations or assets except for the capital stock of Consolidated Communications Illinois Holdings, Inc. (Illinois Holdings) and Consolidated Communications Texas Holdings, Inc. (Texas Holdings). Homebase and its wholly owned subsidiaries operate under the name Consolidated Communications.

Illinois Holdings is a holding company with no income from operations or assets except for the capital stock of Consolidated Communications, Inc. (CCI). Illinois Holdings operates its business through, and receives all of its income from, CCI and its subsidiaries. CCI was formed for the sole purpose of acquiring ICTC. Texas Holdings is a holding company with no income from operations or assets except for the capital stock of Consolidated Communications Acquisition Texas, Inc. (Texas Acquisition). Texas Holdings and Texas Acquisition were formed for the sole purpose of acquiring TXUCV, which was subsequently renamed Consolidated Communications Ventures Company (CCV). Texas Holdings operates its business through, and receives all of its income from, CCV and its subsidiaries.

The Company provides local telephone, long-distance and network access services, and data and Internet products to both residential and business customers. The Company also provides operator services, telecommunications services to state prison facilities, telecommunications equipment sales and maintenance, inbound/outbound telemarketing and fulfillment services, and paging services.

2. Presentation of Interim Financial Statements

These unaudited interim condensed consolidated financial statements include the accounts of Homebase and its wholly owned subsidiaries and subsidiaries in which it has a controlling financial interest. All material intercompany balances and transactions have been eliminated in consolidation. These interim statements have been prepared in accordance with Securities and Exchange Commission (SEC) guidelines and do not include all of the information and footnotes required by generally accepted accounting principles (GAAP) for complete financial statements. These interim financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of its financial position and results of operations for the interim periods. All such adjustments are of a normal recurring nature. Interim results are not necessarily indicative of the results that may be expected for the entire year. These interim financial statements should be read in conjunction with the financial statements and related notes for the year ended December 31, 2004, which are included as part of this registration statement.

Certain reclassifications have been made to conform previously reported data to the current presentation. Line costs totaling $4,531 for the three months ended March 31, 2004 were reclassified from general and administrative expenses to cost of services.

3. Recent Accounting Pronouncements

In December 2003, the U.S. Congress enacted the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Medicare Act) that will provide a prescription drug subsidy beginning

HOMEBASE ACQUISITION, LLC
Doing Business as
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NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

in 2006 to companies that sponsor post-retirement health care plans that provide drug benefits. Additional legislation is anticipated that will clarify whether a company is eligible for the subsidy, the amount of the subsidy available and the procedures to be following in obtaining the subsidy. In May 2004, the FASB issued Staff Position 106-2, *Accounting Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (SAP 106-2), that provides guidance on the accounting and disclosure for the effects of the Medicare Act. The Company s post-retirement prescription drug plans are actuarially equivalent and accordingly, the Company began reflecting the Medicare Act s impact on July 1, 2004, without a material adverse effect on the financial condition or results of operations of the Company.

In December 2004, the FASB issued SFAS 123R, which replaces SFAS 123 and supersedes APB Opinion No. 25. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first fiscal year after June 15, 2005, with early adoption encouraged. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. The Company is required to adopt SFAS 123R beginning January 1, 2006. Under SFAS 123R, the Company must determine the appropriate fair market value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The Company is currently evaluating the effect that the adoption of SFAS 123R will have on the financial condition or results of operations of the Company but does not expect it to have a material impact.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets-An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions* (SFAS 153). SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21 (b) of APB Opinion No. 29, Accounting for Nonmonetary Transactions, and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for the fiscal periods beginning after June 15, 2005 and is required to be adopted by us in the three months ended September 30, 2005. The Company is currently evaluating the effect that the adoption of SFAS 153 will have on the financial condition or results of operations of the Company but does not expect it to have a material impact.

4. Acquisition

On April 14, 2004, Homebase, through its wholly owned subsidiary Texas Acquisition, acquired all of the capital stock of TXUCV from Pinnacle One Partners L.P. (Pinnacle One). By acquiring all of the capital stock of TXUCV, Homebase acquired substantially all of the telecommunications assets of TXU Corp., including two rural local exchange carriers (RLECs), that together serve markets in Conroe, Katy and Lufkin, Texas, a directory publishing business, a transport services business that provides connectivity within Texas and minority interests in cellular partnerships.

In connection with the closing of the TXUCV acquisition, the Company, through its wholly owned subsidiaries, issued $200,000 in the aggregate principal amount of 9$^{3}/4$% Senior Notes due 2012, entered into a new $437,000 bank credit facility, repaid its existing credit facility and entered into certain related

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(Dollars in thousand, except share and per share amounts)

transactions. The indenture governing the notes and the new credit facility contain covenants, events of default and other provisions (see Note 7).

The Company accounted for the TXUCV acquisition using the purchase method of accounting. Accordingly, the financial statements reflect the allocation of the total purchase price to the net tangible and intangible assets acquired based on their respective fair values. The purchase price, including acquisition costs and net of $9,897 of cash acquired, was allocated to assets acquired and liabilities assumed as follows:

Current assets	$	27,478
Property, plant and equipment		268,706
Customer list		108,200
Goodwill		228,792
Other assets		43,291
Liabilities assumed		(152,377)
Net purchase price	$	524,090

The aggregate purchase price was derived from a competitive bidding process and negotiations and was influenced by the Company s assessment of the value of the overall TXUCV business. The significant goodwill value reflects the Company s view that the TXUCV business can generate strong cash flow and sales and earnings following the acquisition. In accordance with SFAS 142, the $228,792 in goodwill recorded as part of the TXUCV acquisition will not be amortized and will be tested for impairment at least annually. The customer list will be amortized over its estimated useful life of thirteen years. The goodwill and other intangibles associated with this acquisition did not qualify under the Internal Revenue Code as deductible for tax purposes.

The Company s consolidated financial statements include the results of operations for the TXUCV acquisition since the April 14, 2004, acquisition date. Unaudited pro forma results of operations data for the three months ended March 31, 2004 as if the acquisition had occurred as of January 1, 2004:

Total revenues	$	79,433
Income from operations	$	11,451
Proforma net income	$	1,259

5. Summarized financial information for significant investments

The Company obtained 17.02% ownership of GTE Mobilnet of Texas RSA #17 Limited Partnership (the Mobilnet RSA Partnership) in connection with the acquisition of TXUCV on April 14, 2004. The principal activity of the Mobilnet RSA Partnership is providing cellular service to a limited rural area in Texas. The Company has some influence on the operating and financial policies of this partnership and

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accounts for this investment on the equity basis. Summarized 100 percent unaudited financial information for the Mobilnet RSA Partnership was as follows:

Three Months ended March 31, 2005:	
Revenues	$ 9,352
Operating income	2,173
Income before income taxes	2,225
Net income or loss	2,225
As of March 31, 2005:	
Current assets	8,037
Non-current assets	23,078
Current liabilities	1,686
Non-current liabilities	
Partnership equity	29,429

6. Pension Costs and Other Postretirement Benefits

The Company has several defined benefit pension plans covering substantially all of its hourly employees and certain salaried employees, primarily those located in Texas. The plans provide retirement benefits based on years of service and earnings. The pension plans are generally noncontributory. The Company s funding policy is to contribute amounts sufficient to meet the minimum funding requirements as set forth in employee benefit and tax laws.

The Company currently provides other postretirement benefits (Other Benefits) consisting of health care and life insurance benefits for certain groups of retired employees. Retirees share in the cost of health care benefits. Retiree contributions for health care benefits are adjusted periodically based upon either collective bargaining agreements for former hourly employees and as total costs of the program change for former salaried employees. The Company s funding policy for retiree health benefits is generally to pay covered expenses as they are incurred. Postretirement life insurance benefits are fully insured.

The following table presents the components of net periodic benefit cost for the three months ended March 31, 2005 and 2004:

	Pension Benefits		**Other Benefits**	
	2005	**2004**	**2005**	**2004**
Service cost	$ 1,233	$ 119	$ 343	$ 12
Interest cost	2,615	407	508	32
Expected return on plan assets	(2,888)	(495)	(3)	(1)
Other, net	79		27	
Net periodic benefit cost	$ 1,038	$ 32	$ 874	$ 43

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7. Long-Term Debt

Long-term debt consists of the following:

		March 31, 2005
Senior Secured Credit Facility		
Revolving loan	$	
Term loan A		112,000
Term loan C		311,850
Senior notes		200,000
Capital leases		1,059
		624,909
Less: current portion		(41,242)
	$	583,667

Senior Secured Credit Facility

The Company, through its wholly-owned subsidiaries, maintains credit agreement with various financial institutions, which provides for aggregate borrowings up to $466,000 consisting of a $122,000 term loan A facility, a $314,000 term loan C facility and a $30,000 revolving credit facility. Borrowings under the credit facility are secured by substantially all of the assets of CCI and Texas Acquisition, other than ICTC. ICTC s guarantee (and the corresponding security interest in ICTC s assets) of $195,000 of total borrowing under the credit facility is contingent upon obtaining the consent of the Illinois Commerce Commission (ICC).

The term loans are due in quarterly installments, which increase annually, with all borrowings under term loan A and term loan C due April 14, 2010 and October 14, 2011, respectively. The revolving credit facility matures on April 14, 2010. Within 90 days after the end of the Company s fiscal year, commencing on December 31, 2004, the Company shall be obligated to repay the loans in an amount equal to 50% of the excess cash flow for such fiscal year, provided that certain leverage ratios are maintained at the end of the fiscal year. As of March 31, 2005, the Company estimated that the excess cash flow repayment would be approximately $22,556. In addition, subject to certain exceptions, the Company is required to prepay the outstanding term loans with 100% of the net proceeds of all non-ordinary course of business asset sales and any insurance or condemnation proceeds not reinvested within a required time period, 100% of the net proceeds of certain occurrences of indebtedness and 50% of the net proceeds from certain issuances of equity.

At the Company s election, borrowings bear interest at fluctuating interest rates based on: (a) a base rate (the highest of the administrative agent s base rate in effect on such day, 0.5% per annum above the latest three week moving average of secondary market morning offering rates in the United States for three month certificates of deposit or 0.5% above the Federal Funds rate); or (b) the London Interbank Offered Rate, or LIBOR plus, in either case, an applicable margin within the relevant range of margins (0.75% to 2.50%) provided for in the credit agreement. The applicable margin is based upon the Company s total leverage ratio. As of March 31, 2005, the margins for interest rates on LIBOR based loans was 2.25%

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HOMEBASE ACQUISITION, LLC
Doing Business as
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NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

on the term loan A facility and 2.50% under the term loan C facility. At March 31, 2005 the weighted average rate, including swaps, of interest on the Company s term debt facilities was 5.42% per annum. Interest is payable at least quarterly.

The credit agreement contains various provisions and covenants, which include, among other items, restrictions on the ability to pay dividends, incur additional indebtedness, and issue capital stock, as well as, limitations on future capital expenditures. The Company has also agreed to maintain certain financial ratios, including interest coverage, fixed charge coverage and leverage ratios, all as defined in the credit agreement.

Senior Notes

On April 14, 2004, the Company, through its wholly owned subsidiaries, issued $200,000 of 9 3/4% Senior Notes due on April 1, 2012. The senior notes pay interest semi-annually on April 1 and October 1. The senior notes may be redeemed on or prior to October 6, 2005 using all or a portion of the proceeds of a qualified income depository security offering. The redemption price plus accrued interest will be, as a percentage of the principal amount, 107.313% through April 10, 2004, and 109.75% between April 1, 2005 and October 6, 2005.

Up to 35% of the senior notes may be redeemed using the proceeds of certain equity offerings completed on or prior to April 1, 2007. Some or all of the senior notes may be redeemed on or after April 1, 2008. The redemption price plus accrued interest will be, as a percentage of the principal amount, 104.875% in 2008, 102.438% in 2009 and 100% in 2010 and thereafter. In addition, holders may require the repurchase of the notes upon a change in control, as such term is defined in the indenture governing the senior notes. The indenture contains certain provisions and covenants, which include, among other items, restrictions on the ability to issue certain types of stock, incur additional indebtedness, make restricted payments, pay dividends and enter other lines of business. Upon completion of the proposed equity offering, the Company plans to redeem 35% of the aggregate amount of our senior notes or $70,000. The cost of the redemption, including the redemption premium, will be $76,800.

Future maturities of long-term debt as of March 31, 2005 are as follows:

April 1 - December 31, 2005	$ 36,567
Calendar year 2006	22,463
Calendar year 2007	23,248
Calendar year 2008	26,900
Calendar year 2009	33,400
Thereafter	482,331
	$ 624,909

Derivative Instruments

The Company entered into interest rate swap agreements that effectively convert a portion of the floating-rate debt to a fixed-rate basis, thus reducing the impact of interest rate changes on future interest expense. At March 31, 2005, the Company has interest rate swap agreements covering $215,617 in aggregate principal amount of its variable rate debt at fixed LIBOR rates ranging from 2.99% to 3.35%. The swap agreements expire on December 31, 2006, May 19, 2007, and December 31, 2007. The fair value of the Company s derivative instruments, comprising interest rate swaps, amounted to an asset of

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HOMEBASE ACQUISITION, LLC
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(Dollars in thousand, except share and per share amounts)

$3,786 at March 31, 2005. The fair value is included in other current assets. The Company recognized a net loss of $50 and zero in interest expense during the three months ended March 31, 2005 and 2004, respectively, related to its derivative instruments. The after tax change in the market value of derivative instruments is recorded in other comprehensive income. The Company recognized comprehensive income of $1,686 and zero during the three months ended March 31, 2005 and 2004, respectively, related to these derivative instruments.

8. Restricted Share Plan

In August 2003, the Company established the 2003 Restricted Share Plan, which provides for the issuance of 1,000,000 common shares to key employees as an incentive to enhance their long-term performance as well as an incentive to join or remain with the Company. In November 2003, the Company granted 975,000 shares of its common stock to certain Company executives. In April 2004, the remaining 25,000 shares of common stock were sold to certain Company executives at $2.32 per share. These shares generally vest with the individuals every December 31, beginning December 31 2004 through December 31, 2007. These consolidated financial statements do not include any expense related to these shares. As of March 31, 2005, 250,000 of these shares were vested. No shares were vested at March 31, 2004.

The restricted share plan contains a call provision whereby upon termination of employment, the Company may elect to repurchase the shares held by the former employee. The purchase price is based upon the lesser of fair value or a formula specified in the plan. The existence of the employer call provision for a purchase price that could be below fair value results in the plan being accounted for as variable, with compensation expense, if any, determined based upon the formula rather than fair value. At March 31, 2005 and 2004, the formula computation results in a negative value being ascribed to the common shares. As a result, no stock compensation expense has been recognized in these consolidated financial statements.

9. Net Loss per Common Share

The following table sets forth the computation of net loss per common share:

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Net loss applicable to common shareholders	$ (3,922)	$ (510)
Weighted average number of common shares outstanding	9,250,000	9,000,000
Net loss per common share	$ (0.42)	$ (0.06)

Non-vested shares issued pursuant to the Restricted Share Plan (Note 8) are not considered outstanding for the basic net loss per share and are not included in the computation of diluted net loss per share as their effect was anti-dilutive.

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HOMEBASE ACQUISITION, LLC
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CONSOLIDATED COMMUNICATIONS
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

10. Comprehensive Income

The following table sets forth the components of comprehensive income:

	Three Months Ended March 31,	
	2005	**2004**
Net income	$ 701	$ 1,764
Change in fair value of cash flow hedges, net of tax	1,686	
Total comprehensive income	$ 2,387	$ 1,764

11. Business Segments

The Company is viewed and managed as two separate, but highly integrated, reportable business segments, Telephone Operations and Other Operations . Telephone Operations consists of local telephone, long-distance and network access services, and data and Internet products provided to both residential and business customers. All other business activities comprise Other Operations including operator services products, telecommunications services to state prison facilities, equipment sales and maintenance, inbound/outbound telemarketing and fulfillment services, and paging services. Management evaluates the performance of these business segments based upon revenue, gross margins, and net operating income.

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HOMEBASE ACQUISITION, LLC
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(Dollars in thousand, except share and per share amounts)

The business segment reporting information is as follows:

	Telephone Operations	Other Operations	Total
Three months ended March 31, 2005:			
Operating revenues	$ 71,019	$ 8,753	$ 79,772
Cost of services and products	18,809	5,608	24,417
	52,210	3,145	55,355
Selling, general and administrative expenses	23,625	2,571	26,196
Depreciation and amortization	15,547	1,271	16,818
Net operating income (loss)	$ 13,038	$ (697)	$ 12,341
Capital expenditures	$ 5,145	$ 388	$ 5,533
Three months ended March 31, 2004:			
Operating revenues	$ 22,883	$ 11,184	$ 34,067
Cost of services and products	5,640	6,734	12,374
	17,243	4,450	21,693
Selling, general and administrative expenses	7,829	2,760	10,589
Depreciation and amortization	2,930	2,436	5,366
Net operating income (loss)	$ 6,484	$ (746)	$ 5,738
Capital expenditures	$ 2,190	$ 547	$ 2,737
As of March 31, 2005:			
Goodwill	$ 309,527	$ 8,954	$ 318,481
Total assets	$ 956,991	$ 45,252	$ 1,002,243

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CONSOLIDATED COMMUNICATIONS ILLINOIS HOLDINGS, INC.
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2005

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CONSOLIDATED COMMUNICATIONS ILLINOIS HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEET
(Dollars in thousands)
(Unaudited)

		March 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$	23,818
Accounts receivable, net of allowance of $1,619		17,775
Deferred income taxes		1,598
Prepaid expenses and other current assets		3,303
Total current assets		46,494
Property, plant and equipment, net		98,690
Intangibles and other assets:		
Investments		348
Goodwill		89,689
Customer lists, net		46,051
Tradenames		14,546
Deferred income taxes		1,693
Deferred financing costs and other assets		8,661
Total assets	$	306,172
LIABILITIES AND SHAREHOLDER S EQUITY		
Current liabilities:		
Current portion of long-term debt	$	16,116
Accounts payable		3,279
Advance billings and customer deposits		6,250
Accrued expenses		12,270
Total current liabilities		37,915
Long-term debt less current maturities		223,586
Pension and postretirement benefit obligations		12,045
Other liabilities		1,265
Total liabilities		274,811
Shareholder s equity:		
Common shares, $0.01 par value, 1,000 shares, authorized, issued and outstanding		
Paid in capital		29,600
Retained earnings		834
Accumulated other comprehensive income		927
Total shareholder s equity		31,361

Total liabilities and shareholder s equity	$	306,172

See accompanying notes

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CONSOLIDATED COMMUNICATIONS ILLINOIS HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2005	**2004**
Revenues	$ 33,631	$ 34,067
Operating expenses:		
Cost of services and products (exclusive of depreciation and amortization shown separately below)	10,952	12,374
Selling, general and administrative expenses	11,970	10,589
Depreciation and amortization	5,800	5,366
Income from operations	4,909	5,738
Other income (expense):		
Interest income	115	32
Interest expense	(4,363)	(2,829)
Dividend income	18	
Other, net	123	
Income before income taxes	802	2,941
Income tax expense	334	1,177
Net income	$ 468	$ 1,764

See accompanying notes

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CONSOLIDATED COMMUNICATIONS ILLINOIS HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER S EQUITY
Three Months Ended March 31, 2005
(Dollars in thousands)
(Unaudited)

	Common Shares				Accumulated Other Comprehensive	
	Shares	Amount	Paid in Capital	Retained Earnings	Income	Total
Balance, January 1, 2005	1,000	$	$ 29,600	$ 366	$ 291	$ 30,257
Net income				468		468
Change in fair value of cash flow hedges, net of $391 of tax					636	636
Balance, March 31, 2005	1,000	$	$ 29,600	$ 834	$ 927	$ 31,361

See accompanying notes

CONSOLIDATED COMMUNICATIONS ILLINOIS HOLDINGS, INC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2005	**2004**
Operating Activities		
Net income	$ 468	$ 1,764
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	5,800	5,366
Provision for bad debt losses	1,054	
Deferred income tax	558	
Amortization of deferred financing costs	275	163
Changes in operating assets and liabilities:		
Accounts receivable	1,645	(211)
Inventories	2,136	470
Other assets	(589)	197
Accounts payable	238	802
Accrued expenses and other liabilities	(1,270)	(2,681)
Net cash provided by operating activities	10,315	5,870
Investing Activities		
Capital expenditures	(1,421)	(2,737)
Net cash used in investing activities	(1,421)	(2,737)
Financing Activities		
Payments made on long-term obligations	(1,766)	(2,575)
Payment of deferred financing costs	(36)	
Net cash used in financing activities	(1,802)	(2,575)
Net increase in cash and cash equivalents	7,092	558
Cash and cash equivalents at beginning of period	16,726	10,142
Cash and cash equivalents at end of period	$ 23,818	$ 10,700

See accompanying notes

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CONSOLIDATED COMMUNICATIONS ILLINOIS HOLDINGS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Three Months Ended March 31, 2005 and 2004
(Dollars in thousand, except share and per share amounts)

1. Description of Business

Consolidated Communications, Inc. (CCI) is a direct, wholly owned subsidiary of Consolidated Communications Holdings, Inc. (Illinois Holdings or CCI Illinois or the Company). Illinois Holdings is a holding company with no income from operations or assets except for the capital stock of CCI. Illinois Holdings operates its business through, and receives all of its income from, CCI and its subsidiaries.

The Company provides local telephone, long-distance and network access services, and data and Internet products to both residential and business customers. The Company also provides operator services, telecommunications services to state prison facilities, telecommunications equipment sales and maintenance, inbound/outbound telemarketing and fulfillment services, and paging services.

2. Presentation of Interim Financial Statements

These unaudited interim condensed consolidated financial statements include the accounts of Illinois Holdings and its wholly owned subsidiaries and subsidiaries in which it has a controlling financial interest. All material intercompany balances and transactions have been eliminated in consolidation. These interim statements have been prepared in accordance with Securities and Exchange Commission (SEC) guidelines and do not include all of the information and footnotes required by generally accepted accounting principles (GAAP) for complete financial statements. These interim financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of its financial position and results of operations for the interim periods. All such adjustments are of a normal recurring nature. Interim results are not necessarily indicative of the results that may be expected for the entire year. These interim financial statements should be read in conjunction with the financial statements and related notes for the year ended December 31, 2004, which are included as part of this registration statement.

Certain reclassifications have been made to conform previously reported data to the current presentation. Line costs totaling $4,531 for the three months ended March 31, 2004 were reclassified from general and administrative expenses to cost of services.

3. Recent Accounting Pronouncements

In December 2003, the U.S. Congress enacted the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Medicare Act) that will provide a prescription drug subsidy beginning in 2006 to companies that sponsor post-retirement health care plans that provide drug benefits. Additional legislation is anticipated that will clarify whether a company is eligible for the subsidy, the amount of the subsidy available and the procedures to be following in obtaining the subsidy. In May 2004, the FASB issued Staff Position 106-2, *Accounting Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (SAP 106-2), that provides guidance on the accounting and disclosure for the effects of the Medicare Act. The Company s post-retirement prescription drug plans are actuarially equivalent and accordingly, the Company began reflecting the Medicare Act s impact on July 1, 2004, without a material adverse effect on the financial condition or results of operations of the Company.

In December 2004, the FASB issued SFAS 123R, which replaces SFAS 123 and supersedes APB Opinion No. 25. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first fiscal year after June 15, 2005, with early adoption encouraged. The pro forma disclosures

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CONSOLIDATED COMMUNICATIONS ILLINOIS HOLDINGS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. The Company is required to adopt SFAS 123R beginning January 1, 2006. Under SFAS 123R, the Company must determine the appropriate fair market value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The Company is currently evaluating the effect that the adoption of SFAS 123R will have on the financial condition or results of operations of the Company but does not expect it to have a material impact.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets-An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions* (SFAS 153). SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, Accounting for Nonmonetary Transactions, and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for the fiscal periods beginning after June 15, 2005 and is required to be adopted by us in the three months ended September 30, 2005. The Company is currently evaluating the effect that the adoption of SFAS 153 will have on the financial condition or results of operations of the Company but does not expect it to have a material impact.

4. Pension Costs and Other Postretirement Benefits

The Company has a defined benefit pension plan covering substantially all of its hourly employees. The plan provides retirement benefits based on years of service and earnings. The pension plan is generally noncontributory. The Company s funding policy is to contribute amounts sufficient to meet the minimum funding requirements as set forth in employee benefit and tax laws.

The Company currently provides other postretirement benefits (Other Benefits) consisting of health care and life insurance benefits for certain groups of retired employees. Retirees share in the cost of health care benefits. Retiree contributions for health care benefits are adjusted periodically based upon either collective bargaining agreements for former hourly employees and as total costs of the program change for former salaried employees. The Company s funding policy for retiree health benefits is generally to pay covered expenses as they are incurred. Postretirement life insurance benefits are fully insured.

The following table presents the components of net periodic benefit cost for the three months ended March 31, 2005 and 2004:

	Pension Benefits		Other Benefits	
	2005	**2004**	**2005**	**2004**
Service cost	$ 475	$ 119	$ 47	$ 12
Interest cost	1,630	407	129	32
Expected return on plan assets	(1,979)	(495)	(3)	(1)
Other, net			1	
Net periodic benefit cost	$ 126	$ 31	$ 174	$ 43

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CONSOLIDATED COMMUNICATIONS ILLINOIS HOLDINGS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

5. Long-Term Debt

Long-term debt consists of the following as of March 31, 2005:

Senior Secured Credit Facility		
Revolving loan	$	
Term loan A		45,902
Term loan C		118,800
Senior notes		75,000
	$	239,702
Less: current portion		(16,116)
	$	223,586

Future maturities of long-term debt as of March 31, 2005 are as follows:

April 1 December 31, 2005	$	14,279
Calendar year 2006		8,884
Calendar year 2007		9,397
Calendar year 2008		10,934
Calendar year 2009		13,598
Thereafter		182,610
	$	239,702

Derivative Instruments

The Company entered into interest rate swap agreements that effectively convert a portion of the floating-rate debt to a fixed-rate basis, thus reducing the impact of interest rate changes on future interest expense. At March 31, 2005, the Company has interest rate swap agreements covering $83,234 in aggregate principal amount of its variable rate debt at fixed LIBOR rates ranging from 2.99% to 3.35%. The swap agreements expire on December 31, 2006, May 19, 2007, and December 31, 2007. The fair value of the Company s derivative instruments, comprising interest rate swaps, amounted to an asset of $1,538 at March 31, 2005. The fair value is included in other current assets. The Company recognized a net loss of $50 and zero in interest expense during the three months ended March 31, 2005 and 2004, respectively, related to its derivative instruments. The after tax change in the market value of derivative instruments is recorded in other comprehensive income. The Company recognized comprehensive income of $636 and zero during the three months ended March 31, 2005 and 2004, respectively related to these derivative instruments.

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CONSOLIDATED COMMUNICATIONS ILLINOIS HOLDINGS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

6. Comprehensive income

The following table sets for the components of comprehensive income:

	Three Months Ended March 31,	
	2005	2004
Net income	$ 468	$ 1,764
Change in fair value of cash flow hedge, net of tax	636	
Total comprehensive income	$ 1,104	$ 1,764

7. Business Segments

The Company is viewed and managed as two separate, but highly integrated, reportable business segments, Telephone Operations and Other Operations . Telephone Operations consists of local telephone, long-distance and network access services, and data and Internet products provided to both residential and business customers. All other business activities comprise Other Operations including operator services products, telecommunications services to state prison facilities, equipment sales and maintenance, inbound/outbound telemarketing and fulfillment services, and paging services. Management evaluates the performance of these business segments based upon revenue, gross margins, and net operating income.

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CONSOLIDATED COMMUNICATIONS ILLINOIS HOLDINGS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

The business segment reporting information is as follows:

	Telephone Operations	Other Operations	Total
Three months ended March 31, 2005:			
Operating revenues	$ 24,764	$ 8,867	$ 33,631
Cost of services and products	5,230	5,722	10,952
Gross margin	19,534	3,145	22,679
Operating expenses	9,399	2,571	11,970
Depreciation and amortization	4,529	1,271	5,800
Net operating income (loss)	$ 5,606	$ (697)	$ 4,909
Capital expenditures	$ 1,033	$ 388	$ 1,421
Three months ended March 31, 2004:			
Operating revenues	$ 22,883	$ 11,184	$ 34,067
Cost of services and products	5,640	6,734	12,374
Gross margin	17,243	4,450	21,693
Operating expenses	7,829	2,760	10,589
Depreciation and amortization	2,930	2,436	5,366
Net operating income (loss)	$ 6,484	$ (746)	$ 5,738
Capital expenditures	$ 2,190	$ 547	$ 2,737
As of March 31, 2005:			
Goodwill	$ 80,735	$ 8,954	$ 89,689
Total assets	$ 260,920	$ 45,252	$ 306,172

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CONSOLIDATED COMMUNICATIONS
TEXAS HOLDINGS, INC.
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2005

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CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEET
(Dollars in thousands)
(Unaudited)

		March 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$	32,720
Accounts receivable, net of allowance of $1,176		14,373
Inventories		3,202
Deferred income taxes		1,680
Prepaid expenses and other current assets		5,447
Total current assets		57,422
Property, plant and equipment, net		254,370
Intangibles and other assets:		
Investments		42,913
Goodwill		228,792
Customer lists, net		100,185
Deferred income taxes		
Deferred financing costs and other assets		14,082
Total assets	$	697,764
LIABILITIES AND SHAREHOLDER S EQUITY		
Current liabilities:		
Current portion of long-term debt	$	25,126
Accounts payable		6,342
Advance billings and customer deposits		4,216
Accrued expenses		19,343
Total current liabilities		55,027
Long-term debt less current maturities		360,081
Deferred income taxes		69,715
Pension and postretirement benefit obligations		50,879
Other liabilities		1,905
Total liabilities		537,607
Minority interests		2,457
Shareholder s equity:		
Common shares, $0.01 par value, 1,000 shares, authorized, issued and outstanding		
Paid in capital		152,458
Retained earnings		4,225

Accumulated other comprehensive income		1,017
Total shareholder s equity		157,700
Total liabilities and shareholder s equity	$	697,764

See accompanying notes

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CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2005	**2004**
		Predecessor
Revenues	$ 46,255	$ 45,366
Operating expenses:		
Cost of services and products (exclusive of depreciation and amortization shown separately below)	13,579	13,134
Selling, general and administrative expenses	14,226	15,086
Depreciation and amortization	11,018	8,150
Income from operations	7,432	8,996
Other income (expense):		
Interest income	138	38
Interest expense	(7,331)	(1,112)
Partnership income	330	857
Dividend income	80	94
Minority interest	(165)	(126)
Other, net	1	(49)
Income before income taxes	485	8,698
Income tax expense	252	3,223
Net income (loss)	$ 233	$ 5,475

See accompanying notes

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CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER S EQUITY
Three Months Ended March 31, 2005
(Dollars in thousands)
(Unaudited)

	Common Shares			Retained	Accumulated Other Comprehensive Income	
	Shares	Amount	Paid in Capital	Earnings	(Loss)	Total
Balance, January 1, 2005	1,000	$	$ 152,458	$ 3,992	$ (33)	$ 156,417
Net income				233		233
Change in fair value of cash flow hedges, net of $699 of tax					1,050	1,050
Balance, March 31, 2005	1,000	$	$ 152,458	$ 4,225	$ 1,017	$ 157,700

See accompanying notes

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CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
CONDENSED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2005	**2004**
		Predecessor
Operating Activities		
Net income	$ 233	$ 5,475
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	11,018	8,150
Provision for bad debt losses	525	442
Deferred income tax	823	2,777
Partnership income	(330)	(857)
Minority interest in net income of subsidiary	165	126
Amortization of deferred financing costs	457	
Changes in operating assets and liabilities:		
Accounts receivable	48	1,690
Inventories	(1,809)	98
Accounts payable	(3,396)	(377)
Accrued expenses and other liabilities	(558)	(8,460)
Other, net	(2,879)	(2,926)
Net cash provided by operating activities	4,297	6,138
Investing Activities		
Capital expenditures	(4,112)	(4,797)
Other		266
Net cash used in investing activities	(4,112)	(4,531)
Financing Activities		
Proceeds from long-term obligations		566
Payments made on long-term obligations	(2,746)	(673)
Payment of deferred financing costs	(77)	
Net cash used in financing activities	(2,823)	(107)
Net increase (decrease) in cash and cash equivalents	(2,638)	1,500
Cash and cash equivalents at beginning of period	35,358	11,464
Cash and cash equivalents at end of period	$ 32,720	$ 12,964

See accompanying notes

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CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2005
(Dollars in thousand, except share and per share amounts)

1. Description of Business

Consolidated Communications Ventures Company (CCV) is a wholly owned subsidiary of Consolidated Communications Texas Holdings, Inc. (Texas Holdings or CCI Texas or the Company). Texas Holdings is a holding company with no income from operations or assets except for the capital stock of Consolidated Communications Acquisition Texas, Inc. (Texas Acquisition). Texas Acquisition is a holding company with no income from operations or assets except for the Capital Stock of CCV. The Company provides local telephone, long-distance and network access services, and data and Internet products to both residential and business customers.

2. Presentation of Interim Financial Statements

These unaudited interim condensed consolidated financial statements include the accounts of Texas Holdings and its wholly owned subsidiaries and subsidiaries in which it has a controlling financial interest. All material intercompany balances and transactions have been eliminated in consolidation. These interim statements have been prepared in accordance with Securities and Exchange Commission (SEC) guidelines and do not include all of the information and footnotes required by generally accepted accounting principles (GAAP) for complete financial statements. These interim financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of its financial position and results of operations for the interim periods. All such adjustments are of a normal recurring nature. Interim results are not necessarily indicative of the results that may be expected for the entire year. These interim financial statements should be read in conjunction with the financial statements and related notes for the year ended December 31, 2004, which are included as part of this registration statement.

3. Recent Accounting Pronouncements

In December 2003, the U.S. Congress enacted the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Medicare Act) that will provide a prescription drug subsidy beginning in 2006 to companies that sponsor post-retirement health care plans that provide drug benefits. Additional legislation is anticipated that will clarify whether a company is eligible for the subsidy, the amount of the subsidy available and the procedures to be following in obtaining the subsidy. In May 2004, the FASB issued Staff Position 106-2, *Accounting Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (SAP 106-2), that provides guidance on the accounting and disclosure for the effects of the Medicare Act. The Company s post-retirement prescription drug plans are actuarially equivalent and accordingly, the Company began reflecting the Medicare Act s impact on July 1, 2004, without a material adverse effect on the financial condition or results of operations of the Company.

In December 2004, the FASB issued SFAS 123R, which replaces SFAS 123 and supersedes APB Opinion No. 25. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first fiscal year after June 15, 2005, with early adoption encouraged. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. The Company is required to adopt SFAS 123R beginning January 1, 2006. Under SFAS 123R, the Company must determine the appropriate fair market value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The Company is currently evaluating the effect that the adoption of SFAS 123R will have on

CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

the financial condition or results of operations of the Company but does not expect it to have a material impact.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets-An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions* (SFAS 153). SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21 (b) of APB Opinion No. 29, Accounting for Nonmonetary Transactions, and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for the fiscal periods beginning after June 15, 2005 and is required to be adopted by us in the three months ended September 30, 2005. The Company is currently evaluating the effect that the adoption of SFAS 153 will have on the financial condition or results of operations of the Company but does not expect it to have a material impact.

4. Acquisition

On April 14, 2004, Texas Holdings, through its wholly owned subsidiary Texas Acquisition, acquired all of the capital stock of TXUCV from Pinnacle One Partners L.P. (Pinnacle One). By acquiring all of the capital stock of TXUCV, Texas Holdings acquired substantially all of the telecommunications assets of TXU Corp., including two rural local exchange carriers (RLECs), that together serve markets in Conroe, Katy and Lufkin, Texas, a directory publishing business, a transport services business that provides connectivity within Texas and minority interests in cellular partnerships.

The Company accounted for the TXUCV acquisition using the purchase method of accounting. Accordingly, the financial statements reflect the allocation of the total purchase price to the net tangible and intangible assets acquired based on their respective fair values. The purchase price, including acquisition costs and net of $9,897 of cash acquired, was allocated to assets acquired and liabilities assumed as follows:

Current assets	$	27,478
Property, plant and equipment		268,706
Customer list		108,200
Goodwill		228,792
Other assets		43,291
Liabilities assumed		(152,377)
Net purchase price	$	524,090

The aggregate purchase price was derived from a competitive bidding process and negotiations and was influenced by the Company s assessment of the value of the overall TXUCV business. The significant goodwill value reflects the Company s view that the TXUCV business can generate strong cash flow and sales and earnings following the acquisition. In accordance with SFAS 142, the $228,792 in goodwill recorded as part of the TXUCV acquisition will not be amortized and will be tested for impairment at least annually. The customer list will be amortized over its estimated useful life of thirteen years. The goodwill and other intangibles associated with this acquisition did not qualify under the Internal Revenue Code as deductible for tax purposes.

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CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

The unaudited condensed consolidated financial statements include the results of operations for the TXUCV acquisition since the April 14, 2004, acquisition date. Unaudited predecessor condensed consolidated results of operations and cash flows for the three months ended March 31, 2004 are included for comparative purposes. In addition, unaudited pro forma results of operations data for the three months ended March 31, 2004 as if the acquisition had occurred as of January 1, 2004 are as follows:

		2004
Total revenues	$	45,366
Income from operations	$	5,713
Proforma net loss	$	(253)

5. Summarized Financial Information for Significant Investments

The Company obtained 17.02% ownership of GTE Mobilnet of Texas RSA #17 Limited Partnership (the Mobilnet RSA Partnership) in connection with the acquisition of TXUCV on April 14, 2004. The principal activity of the Mobilnet RSA Partnership is providing cellular service to a limited rural area in Texas. The Company has some influence on the operating and financial policies of this partnership and accounts for this investment on the equity basis. Summarized 100 percent unaudited financial information for the Mobilnet RSA Partnership was as follows:

Three months ended March 31, 2005:		
Revenues	$	9,352
Operating income		2,173
Income before income taxes		2,225
Net income		2,225
As of March 31, 2005:		
Current assets		8,037
Non-current assets		23,078
Current liabilities		1,686
Non-current liabilities		
Partnership equity		29,429

6. Pension Costs and Other Postretirement Benefits

The Company has a defined benefit pension plans covering substantially all of its hourly employees and certain salaried employees. The plans provide retirement benefits based on years of service and earnings. The pension plans are generally noncontributory. The Company s funding policy is to contribute amounts sufficient to meet the minimum funding requirements as set forth in employee benefit and tax laws.

The Company currently provides other postretirement benefits (Other Benefits) consisting of health care and life insurance benefits for certain groups of retired employees. Retirees share in the cost of health care benefits. Retiree contributions for health care benefits are adjusted periodically based upon either collective bargaining agreements for former hourly employees and as total costs of the program change for former salaried employees. The Company s funding policy for retiree health benefits is generally to pay covered expenses as they are incurred. Postretirement life insurance benefits are fully insured.

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CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

The following table presents the components of net periodic benefit cost for the three months ended March 31, 2005:

	Pension Benefits	Other Benefits
Service cost	$ 758	$ 296
Interest cost	985	378
Expected return on plan assets	(909)	
Other, net	79	26
Net periodic benefit cost	$ 913	$ 700

7. Long-Term Debt

Long-term debt consists of the following as of March 31, 2005:

Senior Secured Credit Facility	
Revolving loan	$
Term loan A	66,098
Term loan C	193,050
Senior notes	125,000
Capital leases	1,059
	385,207
Less: current portion	(25,126)
	$ 360,081

Future maturities of long-term debt as of March 31, 2005 are as follows:

April 1 December 31, 2005	$ 22,288
Calendar year 2006	13,579
Calendar year 2007	13,851
Calendar year 2008	15,966
Calendar year 2009	19,802
Thereafter	299,721
	$ 385,207

Derivative Instruments

The Company entered into interest rate swap agreements that effectively convert a portion of the floating-rate debt to a fixed-rate basis, thus reducing the impact of interest rate changes on future interest expense. At March 31, 2005, the Company has interest rate swap agreements covering $132,383 in aggregate principal amount of its variable rate debt at fixed LIBOR rates ranging from 3.26% to 3.31%. The swap agreements expire on December 31, 2006, May 19, 2007, and December 31, 2007. The fair value of the Company s derivative instruments, comprising interest rate swaps, amounted to an asset of $2,248 at March 31, 2005. The fair value is included in other current assets. The Company recognized a zero in interest expense during the three months ended March 31, 2005 related to its derivative

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CONSOLIDATED COMMUNICATIONS TEXAS HOLDINGS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousand, except share and per share amounts)

instruments. The after tax change in the market value of derivative instruments is recorded in other comprehensive income. The Company recognized comprehensive income of $1,050 during the three months ended March 31, 2005 related to these derivative instruments.

8. Comprehensive income

The following table sets for the components of comprehensive income for the three months ended March 31, 2005:

Net income	$	233
Change in fair value of cash flow hedge, net of tax		1,050
Total comprehensive income	$	1,283

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$200,000,000
Consolidated Communications Illinois Holdings, Inc.
Consolidated Communications Texas Holdings, Inc.
Offer to exchange outstanding 9 3/4% Senior Notes due 2012 for an equal amount of 9 3/4% Senior Notes due 2012, which have been registered under the Securities Act of 1933, as amended

PROSPECTUS

Until October 24, 2005, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

July 26, 2005