VALOR COMMUNICATIONS GROUP INC
Form S-1/A
January 12, 2005

As filed with the Securities and Exchange Commission on January 12, 2005

Registration No. 333-114298

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 4
to

Form S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Valor Communications Group, Inc.

(Exact Name of Registrant as Specified in its Charter)

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

201 E. John Carpenter Freeway, Suite 200

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

WILLIAM M. OJILE, JR., ESQ.

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

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

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered(1)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee(3)
Common Stock, par value $0.01 per share(4)	$608,062,500	$71,570

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

(2) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(o) promulgated under the Securities Act of 1933, as amended.
(3) Previously paid.
(4) Includes 4,406,250 shares of common stock subject to the underwriter s overallotment option.

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

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

Subject to Completion
Preliminary Prospectus dated January 12, 2005

PROSPECTUS

29,375,000 Shares

Common Stock

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

We expect the public offering price to be between $16.00 and $18.00 per share. Currently, no public market exists for the shares. After pricing of the offering, we expect that the shares will trade on the New York Stock Exchange under the symbol VCG.

Investing in the common stock involves risks that are described in the Risk Factors section beginning on page 10 of this prospectus.

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

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

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

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

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

The date of this prospectus is , 2005.

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

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

SUMMARY

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

Our Company

Overview

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

We formed our company in 2000 in connection with the acquisition of select telephone assets from GTE Southwest Corporation, which is now part of Verizon, and have since acquired the local telephone company serving Kerrville, Texas. The rural telephone businesses that we own have been operating in the markets we serve for over 75 years. Since our inception, we have invested substantial resources to improve and expand our network infrastructure to provide high quality telecommunications services and superior customer care. This capital investment, in combination with a focused selling effort, has contributed to an increase in our revenue of $72.4 million, or 17.0%, from 2001 to 2003. In addition, we reduced our accumulated deficit from $111.6 million at December 31, 2002 to $53.4 million at December 31, 2003 and to $28.2 million at September 30, 2004. Our total common owners equity increased during those same periods from a deficit of $5.6 million to a surplus of $49.9 million and to a surplus of $75.0 million. We believe that we are well positioned for future revenue and cash flow growth through both expanded service offerings and acquisitions.

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

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

We currently have a substantial amount of indebtedness. Following the consummation of this offering, we will have approximately $1.2 billion of outstanding indebtedness. Historically, we used our excess cash to pay down our long-term debt. This practice led to negative working capital balances. At December 31, 2003 and at September 30, 2004, we had a negative working capital balance of approximately $46.2 million and $71.0 million, respectively. After this offering, we will use a substantial portion of our excess cash to pay dividends on our common stock rather than prepay outstanding indebtedness.

Our Strengths

Ability to Generate Consistent Cash Flows. We have increased our operating cash flow in each year since our inception by growing revenues, reducing expenses and optimizing our capital expenditures.

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

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

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

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

Business Strategy

Increase Penetration of Higher Margin Services. We intend to capitalize on our ability to cross-sell higher margin enhanced voice and data services as a bundled package which we believe represents a significant opportunity for us to continue to increase our revenue per customer.

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

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

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

Our Reorganization

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

As discussed in Detailed Transaction Steps, immediately prior to and in connection with this offering, we will consummate a reorganization pursuant to which our existing equity holders will contribute all their equity interests in VTC and VTS to Valor Communications Group, Inc., or Valor, in exchange for 41,458,333 shares of common stock in the aggregate. Following our reorganization, Valor will exist as a holding company with no direct operations and each of VTC, VTS and VTS II will be either a direct or an indirect wholly-owned subsidiary of Valor. Valor s principal assets will consist of the direct and indirect equity interests of its subsidiaries, all of which will be pledged to the creditors under our new credit facility.

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

New Credit Facility

On November 10, 2004, we entered into a $1.3 billion senior secured credit facility, which we refer to as our existing credit facility, with a syndicate of financial institutions. The existing credit facility is comprised of a six-year $100 million senior secured revolving credit facility and a seven-year $1.2 billion senior secured term loan. Contemporaneously, we entered into a seven-year $265.0 million senior secured second lien loan and a seven and a half year $135.0 million senior subordinated loan. We used the proceeds of the existing credit facility, the second lien loan and the subordinated loan to (i) repay all amounts owed under our previous senior credit facilities; (ii) redeem $325.5 million of 10% senior subordinated notes due 2010 held primarily by our equity sponsors, including interest accrued thereon; (iii) redeem $142.9 million of preferred and minority interests held by our existing equity investors, including our equity sponsors, in our subsidiary Valor Telecommunications, LLC, or VTC, (iv) pay a $16.5 million dividend to holders of Class C common interests of VTC, and (v) pay $30.7 million in associated transaction costs. Throughout this prospectus, we refer to our entry into the existing credit facility, second lien loan and senior subordinated loan, and the repayment of our then existing indebtedness with the proceeds thereof, as our debt recapitalization.

As described in Use of Proceeds, we intend to repay in full our second lien loan and senior subordinated loan with the proceeds of this offering. Following repayment of the second lien loan and the senior subordinated loan, we expect to have $1.2 billion of senior debt outstanding under our term loan. In addition, as discussed below, we expect to issue senior notes concurrently with this offering, in which case we would use the proceeds from such issuance to repay a portion of the term loan outstanding under our existing credit facility.

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

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

Senior Notes

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

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Our Corporate Structure After This Offering

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

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

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THE OFFERING

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

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General Information About This Prospectus

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

- assumes an initial public offering price of $17.00 per share of common stock, which represents the mid-point of the range set forth on the cover page of this prospectus;
- assumes no exercise by the underwriters of their over-allotment option; and
- excludes 647,436 shares of common stock that remain available for issuance under our 2004 Long-Term Incentive Plan.

Risk Factors

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

Our Corporate Information

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

Summary Consolidated Financial Information

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

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

	Year Ended December 31,			Nine Months Ended September 30,	
	2001	2002(1)	2003	2003	2004
	(Dollars in thousands)				
Statement of operations data:					
Operating revenues	$ 424,916	$ 479,883	$497,334	$372,450	$379,279
Operating income	103,298	159,251	182,273	136,285	136,484
Net (loss) income(2)	(53,355)	16,302	58,233	36,975	25,171
Cash flow data from continuing operations:					
Net cash provided by operating activities	$ 100,301	$ 150,383	$166,065	$132,461	$124,660
Net cash used in investing activities	(106,614)	(216,773)	(66,299)	(50,551)	(51,362)
Net cash provided by (used in) financing activities	8,117	71,015	(99,465)	(81,971)	(74,054)
Other data:					
Capital expenditures	$ 107,869	$ 89,527	$ 69,850	$ 53,239	$ 51,520
Acquisition of Kerrville Communications Corporation(3)	$	$ 128,135	$	$	$
Depreciation and amortization(4)	$ 110,843	$ 73,273	$ 81,638	$ 61,039	$ 63,993
Adjusted EBITDA(5)	$ 215,141	$ 240,595	$262,707	$194,879	$206,506
Total access lines(6)	551,599	571,308	556,745	558,790	547,925

	September 30, 2004		
	Actual	Adjustments	Pro Forma As Adjusted(7)
	(Dollars in thousands)		
Balance sheet data:			
Cash and cash equivalents	$ 641	$ 528	$ 1,169
Net property, plant and equipment	$ 757,976	$	$ 757,976
Total assets	$2,012,865	$ (71,204)	$1,941,661
Long-term debt (including current maturities)	$1,419,237	$(264,441)	$1,154,796
Redeemable preferred interests	$ 370,231	$(370,231)	$
Total common owners equity	$ 75,033	$ 516,671	$ 591,704

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

(2) Net (loss) income reported on the table above is after the effect of minority interest of $(3,595), $615 and $3,568 in 2001, 2002 and 2003, respectively, and $2,364 and $3,171 for the nine months ended September 30, 2003 and 2004, respectively, relating to individual investors interests in our subsidiaries.

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

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

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

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

	Year Ended December 31,			Nine Months Ended September 30,	
	2001	**2002**	**2003**	**2003**	**2004**
			(Dollars in thousands)		
Calculation of Adjusted EBITDA:					
Net (loss) income	$ (53,355)	$ 16,302	$ 58,233	$ 36,975	$ 25,171
Adjustments:					
Income tax expense (benefit)(a)		1,649	2,478	2,193	(6,095)
Interest expense	133,156	127,365	119,185	95,300	83,384
Depreciation and amortization	110,843	73,273	81,638	61,039	63,993
Minority interest	(3,595)	615	3,568	2,364	3,171
Loss on interest rate hedging arrangements	14,292	12,348	2,113	2,199	122
Earnings from unconsolidated cellular partnerships		(2,757)	(3,258)	(2,687)	(1,007)
Management fees paid to equity sponsors	1,000	1,000	1,000	750	750
Other income and expense, net(b)	(358)	268	62	(59)	25,060
Loss (income) on discontinued operations	8,443	3,461	(108)		
Cumulative effect of change in accounting principle	4,715				
Impairment on investments in cellular partnerships					6,678
Non-recurring items(c)		7,071	(2,204)	(3,195)	5,279
Total adjustments	268,496	224,293	204,474	157,904	181,335

Adjusted EBITDA	$215,141	$240,595	$262,707	$194,879	$206,506

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

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

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(c) Non-recurring items, as defined in the new credit facility:					
Termination benefits associated with workforce reduction		1,768			279
MCI bankruptcy		4,998	(3,386)	(3,386)	
Transaction fees for acquisitions not consummated		305	1,182	191	
CEO transition payment					5,000
	—				
Total non-recurring items, as defined in the new credit facility		7,071	(2,204)	(3,195)	5,279

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

(a) Non-recurring items, as defined in the new credit facility:					
Termination benefits associated with workforce reduction		1,768			279
MCI bankruptcy		4,998	(3,386)	(3,386)	
Transaction fees for acquisitions not consummated		305	1,182	191	
Costs related to reorganization transaction					(17,988)
CEO transition payment					5,000
	—				
Total non-recurring items, as defined in the new credit facility		7,071	(2,204)	(3,195)	(12,709)

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

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

RISK FACTORS

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

Risks Relating to Our Common Stock and Our New Credit Facility

You may not receive any dividends.

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

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

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

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

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

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

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

- our ability to obtain additional financing in the future for working capital, capital expenditures or acquisitions may be limited;

- we may be unable to refinance our indebtedness on terms acceptable to us or at all;

- a significant portion of our cash flow from operations is likely to be dedicated to the payment of the principal of and interest on our indebtedness, thereby reducing funds available for other corporate purposes; for example, as described under Dividend Policy and Restrictions we expect that our interest expense for the year following the offering will be $79.7 million, which would have represented 29.1% of our Adjusted EBITDA for the twelve months ended September 30, 2004; and

- our substantial indebtedness may make us more vulnerable to economic downturns and limit our ability to withstand competitive pressures.

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

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

- the incurrence of additional indebtedness and the issuance of preferred stock and certain redeemable capital stock;

- the payment of dividends on, and the repurchase of, capital stock;

- a number of other restricted payments, including investments and acquisitions;

- specified sales of assets;

- specified transactions with affiliates;

- the creation of a number of liens;

- consolidations, mergers and transfers of all or substantially all of our assets; and

- our ability to change the nature of our business.

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

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

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

A breach of any of these covenants, ratios or tests could result in a default under the new credit facility. Upon the occurrence of an event of default, the lenders could elect to declare all amounts outstanding under the new credit facility, together with accrued interest, to be immediately due and payable. If we were unable to repay or refinance those amounts, the lenders could proceed against the security granted to

them to secure that indebtedness. If the lenders accelerate the payment of the indebtedness, our assets may not be sufficient to repay in full this indebtedness.

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

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

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

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

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

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

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

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

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securities, which has often been unrelated to operating performance. Any such market volatility may have a significant adverse effect on the market price and marketability of our common stock.

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

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

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

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

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

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

Regulatory Risks

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

We receive Texas and federal Universal Service Fund, or USF, revenues to support the high cost of providing affordable telecommunications services in rural markets. Such support payments constituted 24.1% of our revenues for the year ended December 31, 2003 and 23.9% of our revenues for the nine

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

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

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

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

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

required to pay or be entitled to receive access charges or universal service fund support, or the extent to which users will substitute VoIP calls for traditional wireline communications or the effect of the growth of VoIP on our revenues.

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

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

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

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

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

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

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

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

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

The prices, terms and conditions of the services that we offer to local telephone customers are subject to state regulatory approval. If a state regulatory body orders us to reduce a price, withdraws our approval to

charge a certain price, changes material terms or conditions of a service we offer or refuses to approve or limits our ability to offer a new or existing service, our revenues, earnings and cash flow from operations may be reduced.

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

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

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

Risks Relating to Our Business

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

Our business generates revenue by delivering voice and data services over access lines. We have experienced net access line loss over the past few years, and during the year ended December 31, 2003, the number of access lines we serve declined by 2.6% due to challenging economic conditions, increased competition and the introduction of digital subscriber lines, or DSL, and cable modems. Furthermore, our access line count decreased by approximately 8,800 lines, or 1.6%, during the nine months ended September 30, 2004. We may continue to experience net access line loss in our markets for an unforeseen period of time. Our inability to retain access lines could adversely affect our revenues, earnings and cash flow from operations.

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

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

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

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

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

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

Weak economic conditions may decrease demand for our services.

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

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

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

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

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

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

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

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

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

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

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

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

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

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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USE OF PROCEEDS

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

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

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

(2) Includes prepayment fees of $21.0 million associated with the repayment of the second lien loan and senior subordinated loan, includes an estimated $7.4 million payable to lenders under our new credit facility.

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

Our existing credit facility consists of a $900.0 million term loan B, a $270.0 million term loan C and a $30.0 million term loan D. Each of these term loans mature on November 10, 2011. As of November 30, 2004, amounts outstanding under the term loan B bore interest at a weighted average annual rate of 5.74%, our term loan C bore interest at a weighted average annual rate of 6.94% and our term loan D bore interest at a weighted average annual rate of 6.38%. We used some of the proceeds from our term loan B to refinance our previous credit facilities. The second lien loan will mature on November 10, 2011, and the senior subordinated loan will mature on May 10, 2012. As of November 30, 2004, amounts outstanding under the second lien loan bore interest at a weighted average annual rate of 9.93%. Amounts outstanding under the senior subordinated loan bore interest at an annual rate of 12.88%. The proceeds from the second lien loan and the senior subordinated loan, together with the proceeds from our revolving facility and term loans, were used to refinance our then existing credit facilities.

DIVIDEND POLICY AND RESTRICTIONS

General

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

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

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

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

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

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

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

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

Minimum Adjusted EBITDA

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

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

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

We believe that, in order to fund dividends on our common stock for the year following this offering at the level described above solely from cash generated by our business, our Adjusted EBITDA for the year following the offering would need to be at least $240.2 million. As described under Assumptions and Considerations below, we believe that our Adjusted EBITDA for the year following the closing of this offering will be at least $240.2 million and we have determined that our assumptions as to capital expenditures, cash interest expense, income taxes, working capital and availability of funds under our new revolving credit facility are reasonable. We have also determined that if our Adjusted EBITDA for such period is at or above this level, we would be permitted to pay dividends at the level described above under the restricted payment and total leverage covenants that will be contained in our new credit facility. We expect that the senior notes we plan to issue simultaneously with the closing of this offering will contain restrictions on our ability to pay dividends that are no more restrictive than those contained in our new credit facility.

The following table sets forth our calculation illustrating that $240.2 million of Adjusted EBITDA would be sufficient to fund dividends at the above level for the year following the closing of this offering and to permit us to pay dividends at our anticipated level under all relevant financial and restricted payment covenants and restrictions that will be contained in the new credit facility and any other agreement that governs any other indebtedness we incur.

	Amount
	(Dollars in thousands)
Estimated Cash Available to Pay Dividends on Common Stock Based On Minimum Adjusted EBITDA	
Minimum Adjusted EBITDA(1)	$ 240,200
Less:	
Estimated capital expenditures(2)	58,800
Estimated cash interest expense(3)	78,200
Estimated cash income taxes(4)	1,200
Estimated cash available to pay dividends on outstanding common stock(5)	$ 102,000
Estimated total leverage ratio derived from the above(6)	4.79x
Estimated interest coverage ratio derived from the above(7)	3.07x

(1) In comparing our estimated minimum Adjusted EBITDA to our historical Adjusted EBITDA, our historical Adjusted EBITDA does not include approximately $2.5 million in incremental ongoing expenses associated with being a public issuer, including estimated incremental audit fees, director and officer liability insurance premiums, expenses relating to stockholders meetings, printing expenses, investor relations expenses, additional filing fees, registrar and transfer agent fees, directors fees, additional legal fees, listing fees and miscellaneous fees. In addition, under our new credit facility, we may incur up to $10 million in transaction costs related to permitted acquisitions and other nonrecurring costs in any four consecutive fiscal quarter period. If we spend the $10 million permitted under the new credit facility in the first year following the offering, our minimum Adjusted EBITDA would need to be $250.2 million.

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

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

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

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

upgrading our fleet with newer and more reliable vehicles; and

implementing financial systems.

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

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

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

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

Dividends

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

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

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under the new credit facility if our total leverage ratio exceeds 5.25 to 1.00. We will be prohibited from paying dividends under the new credit facility if an event of default has occurred and is continuing.

(7) The interest coverage ratio will be calculated under our new credit facility as the ratio of Adjusted EBITDA to net interest expense. It is an event of default under the new credit facility if our interest coverage ratio for the four-quarter period ended on the last day of any fiscal quarter is less than to 1.00.

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

	Year Ended December 31, 2003	Twelve Months Ended September 30, 2004
	(In thousands)	
PRO FORMA CASH AVAILABLE TO PAY DIVIDENDS		
Net Income	$ 58,233	$ 46,429
Income Taxes	2,478	(5,810)
Interest Expense	119,185	107,269
Depreciation and amortization	81,638	84,592
EBITDA	261,534	232,480
Earnings from unconsolidated cellular partnerships	(3,258)	(1,578)
Impairment on investments in cellular partnerships		6,678
Minority interest	3,568	4,375
Loss on interest rate hedging arrangements	2,113	36
Other income and expense, net	62	25,181
Loss on discontinued operations	(108)	(108)
Management fees expensed	1,000	1,000
Other non-recurring items, as defined in the new credit facility	(2,204)	6,270
ADJUSTED EBITDA	262,707	274,334
Estimated cash interest expense(1)	(78,158)	(78,158)
Capital expenditures(2)	(69,850)	(68,131)
Estimated additional public company costs(3)	(2,500)	(2,500)
Cash income taxes	(1,200)	(1,200)
CASH AVAILABLE TO PAY DIVIDENDS	$ 110,999	$ 124,345

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

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

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

Assumptions and Considerations

Based on a review and analysis conducted by our management and our board of directors, we believe that our minimum Adjusted EBITDA for the first full year following the closing of this offering will be at least

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$240.2 million, and we have determined that the assumptions in the above tables as to capital expenditures, cash interest expense, income taxes, working capital and availability of funds under our new revolving credit facility are reasonable. We considered numerous factors in establishing our belief concerning the minimum Adjusted EBITDA required to support our dividend policy and our belief that our minimum Adjusted EBITDA for the first full year following the offering will be $240.2 million, including the following factors:

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

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

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

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

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

We have also assumed:

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

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

If our Adjusted EBITDA for the first year following the closing of this offering were to fall below the $240.2 million level (or if our assumptions as to capital expenditures or interest expense are too low, or if our assumptions as to the sufficiency of our new revolving credit facility to finance our working capital needs prove incorrect, or if other assumptions stated above were to prove incorrect), we may need to either reduce or eliminate dividends or, to the extent we were permitted to do so under the new credit facility, to fund a portion of our dividends with borrowings or from other sources. If we were to use working capital or permanent borrowings to fund dividends, we would have less cash and/or borrowing capacity available for future dividends and other purposes, which could negatively impact our financial condition, our results of operations, our liquidity and our ability to maintain or expand our business. In addition, to the extent we finance capital expenditures with indebtedness, we will begin to incur incremental debt service obligations.

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

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

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

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

Restrictions on Payment of Dividends

Delaware Law

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

New Credit Facility

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

Under the restricted payments covenant, we may use all of our available cash for the period (taken as one accounting period) from the first full fiscal quarter that starts after the date of the closing of the new credit facility to the end of our most recently ended fiscal quarter for which internal financial statements are available at the time of such payment, plus certain incremental amounts described in the new credit facility, for the payment of dividends, but we may not in general pay dividends in excess of such amounts. Available cash will be defined in the new credit facility as, on any date of determination, for the period commencing on the first day of the first full fiscal quarter that starts after the date of the closing of the new credit facility and ending on the last day of the fiscal quarter most recently ended for which a compliance certificate has been delivered, an amount equal to the sum (as calculated for us and our subsidiaries on a consolidated basis) of: (a) Adjusted EBITDA for

such period minus (b) to the extent not deducted in the determination of Adjusted EBITDA, the sum of the following: (i) interest paid or accrued in such period (but not including amortization of deferred transaction costs or other non-cash interest expense); (ii) capital expenditures during such period (other than, if in excess of a certain amount, any thereof financed with the proceeds of permitted debt, and any thereof financed with equity or from the proceeds of permitted asset sales or casualty events); (iii) payments made for permitted acquisitions (other than any thereof financed with the proceeds of permitted debt or equity); (iv) certain other permitted investments; (v) scheduled principal payments, if any, during such period; (vi) mandatory prepayments required under the new credit facility made during such period, other than mandatory prepayments of swing line loans and prepayments made to finance our investment in RTFC subordinated capital certificates; (vii) cash taxes paid during such period; (viii) costs and expenses associated with any permitted securities offering, investment, acquisition or debt offering (in each case, whether or not successful); and (ix) the cash cost of any extraordinary or unusual losses during such period; plus (c) to the extent not included in the determination of Adjusted EBITDA, interest and dividends received in cash.

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

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

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

our interest coverage ratio for the four-quarter period ended on the last day of any fiscal quarter, is less than to 1.0.

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

Senior Notes

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

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CAPITALIZATION

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

on an actual basis;

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

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

	As of September 30, 2004		
	Actual	Pro Forma as Adjusted for the Reorganization and the Debt Recapitalization	Pro Forma as Adjusted for the Offering and the Issuance of Senior Notes
Cash and cash equivalents	$ 641	$ 1,169	$ 1,169
Long-term debt, including current portion			
Current maturities of long-term debt	43,031	13,360	2,085
Notes payable	13,765	2,265	2,265
Old credit facilities (long-term portion)	1,045,893		
Existing senior subordinated notes	314,257		
Capital leases	2,291	2,291	2,291
New credit facility		1,188,300	868,155
Second lien loan		265,000	
Senior subordinated loan		135,000	
Senior Notes			280,000
Total long-term debt	1,419,237	1,606,216	1,154,796
Redeemable preferred interests	370,231		
Stockholders equity			
Limited liability company interests, no par or stated value	110,633		
Common stock, $0.01 par value per share		415	713
Preferred stock, $0.01 par value per share			
Additional paid-in capital		263,152	734,473
Accumulated deficit(1)	(28,195)	(96,220)	(136,111)
Accumulated other comprehensive loss	(7,371)	(7,371)	(7,371)
Treasury stock	(34)		
Total common owners equity	75,033	159,976	591,704
Total capitalization	$1,865,142	$1,767,361	$1,747,669

(1) In connection with the reorganization, we will terminate the Valor Telecom Executive Incentive Plan and will issue restricted stock and pay cash bonuses to certain members of our management, resulting in an aggregate compensation expense to us of approximately $9.3 million.

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DILUTION

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

Our net tangible book deficiency as of September 30, 2004 was approximately $(982.0) million, or $(23.69) per share of common stock. After giving effect to our receipt and intended use of approximately $465.1 million of estimated net proceeds (after deducting estimated underwriting discounts and commissions and offering expenses) from our sale of common stock in this offering based on an assumed initial public offering price of $17.00 per share of common stock (the midpoint of the range set forth on the cover page of this prospectus) our pro forma as adjusted net tangible book deficiency as of September 30, 2004 would have been approximately $(465.3) million, or $(6.57) per share of common stock. This represents an immediate increase in net tangible book value of $17.12 per share of our common stock to existing stockholders and an immediate dilution of $23.57 per share of our common stock to new investors purchasing shares of common stock in this offering.

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

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

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

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

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

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SELECTED HISTORICAL FINANCIAL INFORMATION

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

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

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