

VALOR COMMUNICATIONS GROUP INC

Form S-1/A

May 28, 2004

Table of Contents

As filed with the Securities and Exchange Commission on May 28, 2004

Registration No. 333-114298

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1

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
*(State or other jurisdiction of
incorporation or organization)*

4813
*(Primary Standard Industrial
Classification Code Number)*

20-0792300
*(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.

(continued on next page)

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(1)
Income Deposit Securities (IDSs)(2)		
Class A Common Stock, par value \$0.01 per share(3)		
% Senior Subordinated Notes due 2019(4)		
Subsidiary Guarantees of % Senior Subordinated Notes due 2019(5)		
Total	\$875,000,000	\$ 110,863(6)

- (1) 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.
- (2) The IDSs represent _____ underlying shares of the Class A common stock and \$ _____ aggregate principal amount of underlying _____ % senior subordinated notes of Valor Communications Group, Inc. ("Valor"). Includes _____ IDSs subject to the underwriters' over-allotment option and an indeterminate number of IDSs of the same series which may be received by holders of IDSs in the future on one or more occasions in replacement of the IDSs being offered hereby in the event of a subsequent issuance of IDSs, upon an automatic exchange of portions of the senior subordinated notes for identical portions of such additional notes as discussed in note (4) below.
- (3) Represents _____ shares of Valor's Class A common stock included in the IDSs described above.
- (4) Includes \$ _____ million aggregate principal amount of Valor's _____ % senior subordinated notes included in the IDSs described above and \$ _____ million principal amount of senior subordinated notes of the same series that will be issued separately (not in the form of IDSs). Also includes an indeterminate principal amount of notes of the same series as the senior subordinated notes, which will be received by holders of senior subordinated notes in the future on one or more occasions in the event of a subsequent issuance of IDSs, upon an automatic exchange of portions of the senior subordinated notes for identical portions of such additional notes.
- (5) Each of the subsidiary guarantors listed in the Table of Additional Registrants on the next page will guarantee the senior subordinated notes represented by the IDSs and the senior subordinated notes of the same series that will be issued separately from the IDSs. Pursuant to Rule 457(n) under the Securities Act of 1933, no separate fee for the guarantees is payable.

(6) Previously paid.

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.

Table of Contents

(continued from previous page)

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.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, please check the following box and list the Securities Act of 1933 registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act of 1933, check the following box and list the Securities Act of 1933 registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act of 1933, check the following box and list the Securities Act of 1933 registration statement number of the earlier effective registration statement for the same offering.

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

Table of Contents**Table of Additional Registrant Guarantors**

Exact Name of Registrant Guarantor as Specified in its Charter	State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification Number	Address Including Zip Code, Telephone Number Including Area Code of Registrant Guarantor's Principal Executive Offices
Valor Telecommunications, LLC	Delaware	52-2171586	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000
Valor Telecommunications of Texas, LP	Texas	52-2194219	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000
Valor Telecommunications Equipment, LP	Texas	75-2884400	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000
Valor Telecommunications Services, LP	Texas	75-2884846	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000
Valor Telecommunications Investments, LLC	Delaware	47-0902124	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000
Valor Telecommunications Enterprises, LLC	Delaware	75-2884398	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000
Valor Telecommunications LD, LP	Delaware	75-2884847	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000
Southwest Enhanced Network Services, LP	Delaware	75-2885419	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000
Western Access Services, LLC	Delaware	20-0081823	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000
Western Access Services of Arizona, LLC	Delaware	20-0081863	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000
Western Access Services of Arkansas, LLC	Delaware	20-0081902	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000

Table of Contents

Exact Name of Registrant Guarantor as Specified in its Charter	State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification Number	Address Including Zip Code, Telephone Number Including Area Code of Registrant Guarantor's Principal Executive Offices
Western Access Services of Colorado, LLC	Delaware	20-0081934	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000
Western Access Services of Oklahoma, LLC	Delaware	20-0081944	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000
Western Access Services of New Mexico, LLC	Delaware	20-0081922	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000
Western Access Services of Texas, LP	Delaware	20-0081952	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000
Valor Telecommunications Corporate Group, LP	Texas	75-2895493	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000
Valor Telecommunications Southwest, LLC	Delaware	52-2194218	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000
Valor Telecommunications Southwest II, LLC	Delaware	75-2950066	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000
Valor Telecommunications Enterprises II, LLC	Delaware	75-2950064	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000
Kerrville Communications Corporation	Texas	74-2197091	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000
Kerrville Communications Management, LLC	Delaware	30-0135974	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000
Kerrville Communications Enterprises, LLC	Delaware	32-0047694	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000
Advanced Tel-Com Systems, LP	Texas	74-2228603	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000

Table of Contents

Exact Name of Registrant Guarantor as Specified in its Charter	State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification Number	Address Including Zip Code, Telephone Number Including Area Code of Registrant Guarantor's Principal Executive Offices
Kerrville Telephone, LP	Texas	74-0724580	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000
Kerrville Cellular, LP	Texas	74-2513782	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000
KCC TelCom, LP	Texas	74-2955898	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000
Kerrville Cellular Management, LLC	Delaware	51-0411886	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000
Kerrville Cellular Holdings, LLC	Delaware	51-0411889	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000
Kerrville Mobile Holdings, Inc.	Texas	74-3008924	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000
Kerrville Wireless Holdings, LP	Texas	74-3012850	201 E. John Carpenter Freeway, Suite 200 Irving, TX 75062 (972) 373-1000

Table of Contents

The information in this prospectus is not complete and may be changed without notice. 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 we are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, Dated May 28, 2004

Income Deposit Securities (IDSs)

representing
Shares of Class A Common Stock and
 \$ million % Senior Subordinated Notes due 2019 and
 \$ million % Senior Subordinated Notes due 2019

We are selling IDSs in the United States and Canada representing shares of our Class A common stock and \$ million aggregate principal amount of our % senior subordinated notes due 2019. Each IDS initially represents:

- one share of our Class A common stock; and
- a % senior subordinated note with a \$ million principal amount.

We are also selling \$ million aggregate principal amount of our % senior subordinated notes separately (not in the form of IDSs). The completion of the offering of separate senior subordinated notes is a condition to our sale of IDSs. In addition, as part of our reorganization described elsewhere in this prospectus, we are issuing IDSs representing shares of our Class A common stock and \$ million aggregate principal amount of our % senior subordinated notes to our existing equity holders, including management, in exchange for the interests they hold in our subsidiaries, see Detailed Transaction Steps on page 94.

This is the initial public offering of our IDSs and senior subordinated notes. We anticipate that the public offering price of the IDSs will be between \$ and \$ per IDS and the public offering price of the senior subordinated notes will be % of their stated principal amount.

Holders of IDSs may separate the IDSs into the shares of our Class A common stock and senior subordinated notes represented thereby at any time after the earlier of 45 days from the closing of this offering or the occurrence of a change of control. Similarly, any holder of shares of our Class A common stock and senior subordinated notes may, at any time, unless the IDSs have automatically separated, combine the applicable number of shares of Class A common stock and principal amount of senior subordinated notes to form IDSs.

Upon a subsequent issuance by us of IDSs or senior subordinated notes of the same series (not in the form of IDSs), a portion of your senior subordinated notes may be automatically exchanged for an identical principal amount of the senior subordinated notes issued in such subsequent issuance, and in that event your IDSs will be replaced with new IDSs. For more information regarding these automatic exchanges and the effect they may have on your investment, see Description of IDSs Procedures Relating to Subsequent Issuance on page 99 and Material United States Federal Income Tax Consequences United States Holders Senior Subordinated Notes Additional Issuances on page 150.

We have applied to list the IDSs on the New York Stock Exchange under the trading symbol VCG. In addition, we intend to list the IDSs on the Toronto Stock Exchange under the trading symbol VLR.un and our shares of Class A common stock under the symbol VLR.

Investing in our IDSs and our senior subordinated notes involves risks. See Risk Factors beginning on page 20.

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.

	Per IDS	Total	Per Note	Total
Public offering price(1)	\$	\$	%	\$
Underwriting discount	\$	\$	%	\$
Proceeds to Valor Communications Group, Inc. (before expenses)(2)	\$	\$	%	\$

(1) The offering price in Canada is payable in Canadian dollars and is the approximate equivalent of the U.S. dollar offering price based on the noon buying rate on the date of this prospectus as quoted by the Federal Reserve Bank of New York.

(2) Approximately \$ million of these proceeds will be paid to our existing equity holders. The table above does not reflect IDss being issued to our existing equity holders in exchange for their interests in our subsidiaries.

Certain holders of IDss have granted the underwriters an option to purchase up to additional IDss to cover over-allotments.

The underwriters expect to deliver the IDss and the senior subordinated notes on or about , 2004.

Joint Book-Running Lead Managers

CIBC World Markets

Merrill Lynch & Co.

Lehman Brothers

**Banc of America
Securities LLC**

JPMorgan

, 2004

Table of Contents

<u>Summary</u>	1
<u>Risk Factors</u>	20
<u>Cautionary Statement Regarding Forward-Looking Statements</u>	33
<u>Use of Proceeds</u>	34
<u>Initial Dividend Policy and Restrictions</u>	35
<u>Capitalization</u>	37
<u>Dilution</u>	38
<u>Selected Historical Financial Information</u>	39
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	42
<u>Business</u>	65
<u>Regulation</u>	74
<u>Management</u>	80
<u>Principal and Selling Stockholders</u>	88
<u>Related Party Transactions</u>	90
<u>Detailed Transaction Steps</u>	94
<u>Description of Certain Indebtedness</u>	95
<u>Description of IDss</u>	96
<u>Description of Capital Stock</u>	101
<u>Description of Senior Subordinated Notes</u>	106
<u>IDss Eligible For Future Sale</u>	147
<u>Material United States Federal Income Tax Consequences</u>	148
<u>Certain ERISA Considerations</u>	157
<u>Underwriting</u>	159
<u>Legal Matters</u>	163
<u>Experts</u>	164
<u>Where Can You Find More Information</u>	164
<u>Index to Financial Statements</u>	F-1
<u>CERTIFICATE OF FORMATION</u>	
<u>CERTIFICATE OF FORMATION</u>	
<u>CERTIFICATE OF FORMATION</u>	
<u>CERTIFICATE OF FORMATION</u>	
<u>CERTIFICATE OF FORMATION</u>	
<u>CERTIFICATE OF FORMATION</u>	
<u>CERTIFICATE OF FORMATION</u>	

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CERTIFICATE OF FORMATION
SECOND AMENDED & RESTATED LIMITED LIABILITY
LIMITED PARTNERSHIP OPERATING AGREEMENT
LIMITED PARTNERSHIP OPERATING AGREEMENT
LIMITED PARTNERSHIP OPERATING AGREEMENT
LIMITED LIABILITY COMPANY OPERATING AGREEMENT
LIMITED PARTNERSHIP AGREEMENT
LIMITED PARTNERSHIP AGREEMENT
LIMITED LIABILITY COMPANY OPERATING AGREEMENT
LIMITED LIABILITY COMPANY OPERATING AGREEMENT
LIMITED LIABILITY COMPANY OPERATING AGREEMENT
LIMITED LIABILITY COMPANY OPERATING AGREEMENT
LIMITED LIABILITY COMPANY OPERATING AGREEMENT
LIMITED LIABILITY COMPANY OPERATING AGREEMENT
LIMITED PARTNERSHIP OPERATING AGREEMENT
INCENTIVE COMPENSATION PLAN
SAVINGS PLAN
PENSION PLAN
EMPLOYMENT AGREEMENT
AMENDMENT ONE TO EMPLOYMENT AGREEMENT
AMENDMENT ONE TO EMPLOYMENT AGREEMENT
RATIO OF EARNINGS TO FIXED CHARGES
PRO FORMA RATIO OF EARNINGS TO FIXED CHARGES
CONSENT/REPORT ON SCHEDULE OF DELOITTE & TOUCHE
CONSENT OF HOULIHAN LOKEY HOWARD & ZULCIN

Table of Contents

Summary

The following is a summary of the principal features of this offering of IDSs and senior subordinated notes 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 local telephone company in the country. We operate approximately 550,000 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.

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

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. In addition, a steady demand for telecommunications services and public policies that support universal, affordable local telephone service have generally enabled rural telephone companies to attain predictable and stable cash flow from operations.

Leading Market Position. We maintain our position as the leading provider of telecommunications 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. In addition, we generally face less competition than other industry participants because competitive entry into our markets is less attractive due to the low population density and primarily residential customer base.

Table of Contents

Scalable, State-of-the-Art Network Infrastructure. Our investment of more than \$300 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 numerous 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.

New Credit Facility

Concurrently with the closing of this offering, we will enter into a \$ _____ million new senior secured credit facility with a syndicate of financial institutions, including Banc of America Securities LLC and CIBC World Markets Corp., as joint lead arrangers and joint book-managers. CIBC is also acting as a joint book-running lead manager of this offering. Throughout this prospectus, we refer to this credit facility as the _____ new credit facility. We expect that the new credit facility will be comprised of a senior secured revolving credit facility in a total principal amount of up to \$ _____ million, which we refer to as the _____ new revolver, and a senior secured term loan facility in an aggregate principal amount of \$ _____ million, which we refer to as the _____ new term loan. We expect that the new revolving credit facility and the new term loan will each have an approximately five-year maturity with no amortization of principal prior to maturity. The senior subordinated notes will rank junior to the new credit facility and will be guaranteed by all of Valor's subsidiaries. The closing of this offering is conditioned upon the closing of the new credit facility. See Description of Certain Indebtedness New Credit Facility. As a result of the borrowings we expect to make initially under the new credit facility and the issuance of senior subordinated notes in this offering, we anticipate that upon the consummation of the offering we will have approximately \$ _____ of total debt outstanding.

Table of Contents

Our Reorganization

All the equity interests in Valor Telecommunications, LLC, or VTC, Valor Telecommunications Southwest, LLC, or VTS, and Valor Telecommunications Southwest II, LLC, or VTS II, 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.

As discussed in Detailed Transactions Steps on page 94 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, VTS and VTS II to Valor Communications Group, Inc., or Valor, in exchange for _____ IDSs, _____ shares of Class B common stock and \$ million in cash 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 are the direct and indirect equity interests of its subsidiaries, all of which will be pledged to the creditors under the new credit facility as described above.

Following our reorganization our management will collectively hold an aggregate of _____ IDSs and will be eligible to receive _____ over time under an incentive compensation plan that shall be designed to align the interests of management with those of the IDS holders. In addition, affiliates of Welsh, Carson, Anderson & Stowe, affiliates of Vestar Capital Partners and affiliates of Citicorp Venture Capital, or CVC, will beneficially own _____ %, _____ % and _____ %, respectively of our common stock. Therefore, Welsh Carson, Vestar and CVC together will be able to exert substantial influence over our company.

Table of Contents

Our Corporate Structure After This Offering

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

-
- (1) Certain Valor Operating Entities and Kerville Operating Entities will also be borrowers under our new credit facility. We, Valor Telecommunications, LLC and certain of our operating subsidiaries will guarantee the obligations of these borrowers under the new credit facility.

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.

Table of Contents

General Information About This Prospectus

Throughout this prospectus, unless otherwise noted, we have assumed that our reorganization will be consummated and that the underwriters over-allotment exercise will not be exercised.

Unless the context otherwise requires, references in this prospectus to the offering refer collectively to the offering of:

an aggregate of IDSs to the public;

an aggregate of IDSs to our existing equity holders; and

\$ million aggregate principal amount of our % senior subordinated notes to the public separately (not in the form of IDSs).

Furthermore, unless the context otherwise requires, references in this prospectus to senior subordinated notes refer to both senior subordinated notes underlying IDSs as well as senior subordinated notes issued separately (not in the form of IDSs).

Risk Factors

You should carefully consider the information under the heading Risk Factors and all other information in this prospectus before investing in the IDSs (including the shares of our Class A common stock and senior subordinated notes represented by the IDSs) or in our senior subordinated notes.

Table of Contents

The Offering

Summary of the IDSs and the Senior Subordinated Notes

We are offering _____ IDSs at an assumed initial public offering price of \$ _____ per IDS (comprised of \$ _____ allocated to each subordinated note and \$ _____ allocated to each share of Class A common stock), which represents the midpoint of the range set forth on the cover page of this prospectus. We are also offering \$ _____ million aggregate principal amount of our _____ % senior subordinated notes separately (not in the form of IDSs) at an initial public offering price of _____ % of the stated principal amount for each note. As described below, assuming we make our scheduled interest payments and pay dividends in the amount contemplated by our initial dividend policy, holders of IDSs will receive in the aggregate approximately \$ _____ per year in dividends and interest on the Class A common stock and notes represented by each IDS, and holders of our notes will receive \$ _____ per year in interest per note. Dividend payments, however, are not mandatory or guaranteed, and our board of directors may, in its discretion, amend or repeal or deviate from our initial dividend policy or otherwise decide not to declare one or more dividends or to declare dividends in different amounts. In addition, our ability to pay dividends will be restricted if we do not meet certain financial tests as set forth in the new credit facilities and the indenture governing the notes. See **Risk Factors** 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. Further, our ability to pay dividends is restricted by Delaware law. See **Initial Dividend Policy and Restrictions**. Holders of our common stock do not have any legal right to receive or require the payment of dividends.

Our sale of IDSs will be conditioned upon the consummation of our separate offering of senior subordinated notes. In addition, no purchaser, including our existing equity investors, or any affiliate of such purchaser, is entitled to purchase both IDSs and senior subordinated notes in the offering. Furthermore, as part of our reorganization described elsewhere in this prospectus, we are issuing _____ IDSs to our existing equity holders, including management, in exchange for the interests they hold in our subsidiaries, see **Detailed Transaction Steps** on page 94.

What are IDSs?

IDSs are securities comprised of Class A common stock and senior subordinated notes.

Each IDS initially represents:

one share of our Class A common stock; and

a _____ % senior subordinated note with a \$ _____ principal amount.

The ratio of Class A common stock to principal amount of senior subordinated notes represented by an IDS is subject to change in the event of a stock split, recombination or reclassification of our Class A common stock. For example, if we effect a two-for-one stock split, from and after the effective date of the stock split, each IDS will represent two shares of Class A common stock and the same principal amount of senior subordinated notes as it previously represented. Likewise, if we effect a recombination or reclassification of our Class A common stock, each IDS will thereafter represent the appropriate number of shares of Class A common stock on a recombined or reclassified basis, as applicable, and the same principal amount of senior subordinated notes as it previously represented.

To our knowledge, no statutory, judicial or administrative authority, including the Internal Revenue Service, has directly addressed the tax consequences of the IDS structure or the subsequent issuance of senior subordinated notes.

Table of Contents

What payments can I expect to receive as a holder of IDSs?

Assuming we make our scheduled interest payments on the senior subordinated notes and pay dividends in the amount contemplated by our anticipated dividend policy, you will receive in the aggregate approximately \$ _____ per year in interest on the senior subordinated notes and dividends on the Class A common stock represented by each IDS. We expect to make interest and dividend payments on the fifteenth day of March, June, September and December of each year to holders of record on the fifth day of each such month or the immediately preceding business day.

Subject to certain restrictions, we may choose to defer interest payments on our senior subordinated notes. In addition, our Board of Directors, in its sole discretion, decides whether or not we will pay dividends and determines the amount of any such dividend payment on the shares of our common stock.

You will be entitled to receive quarterly interest payments at an annual rate of _____ % of the aggregate principal amount of senior subordinated notes represented by your IDSs or approximately \$ _____ per IDS per year, subject to our right, if we are not otherwise in default under the indenture, for an aggregate period not to exceed eight quarters prior to 2009, and up to four occasions after _____, 2009 for a period of up to two quarters per occasion, to defer interest payments on our senior subordinated notes. For a detailed description of these circumstances, see Description of Senior Subordinated Notes Interest Deferral.

You will also receive quarterly dividends on the shares of our Class A common stock represented by your IDSs, if and to the extent dividends are declared by our board of directors and permitted by applicable law and the terms of the new credit facility, the indenture governing our senior subordinated notes and any of our other then outstanding indebtedness. Specifically, the indenture governing our senior subordinated notes restricts our ability to declare and pay dividends on our common stock as described under Dividend Policy. In addition, the new credit facility restricts our ability to declare and pay dividends on our common stock as described under Dividend Policy and Description of Certain Indebtedness New Credit Facility. Upon the closing of this offering, our board of directors is expected to adopt a dividend policy which contemplates that, subject to applicable law and the terms of our then existing indebtedness, annual dividends will be approximately \$ _____ per share of our Class A common stock for the first year following the consummation of this offering. However, our board of directors may, in its discretion, modify or repeal this dividend policy. We cannot assure you that we will pay dividends at this level in the future or at all.

Will my rights as a holder of IDSs be any different than the rights of a beneficial owner of separately held Class A common stock and senior subordinated notes?

No. As a holder of IDSs you are the beneficial owner of the Class A common stock and senior subordinated notes represented by your IDSs. As such, through your broker or other financial institution and The Depository Trust Company, or DTC, you will have exactly the same rights, privileges and preferences, including voting rights, rights to receive distributions, rights and preferences in the event of a default under the indenture governing our senior subordinated notes, ranking upon bankruptcy and rights to receive communications and notices as a beneficial owner of separately held Class A common stock and senior subordinated notes, as applicable, would have through its broker or other financial institution and DTC.

Will the terms of the notes represented by IDSs be the same as the notes sold separately (not in the form of IDSs)?

Yes. The terms of the notes sold separately (not in the form of IDSs) will be identical in all respects to the notes represented by IDSs and will be part of the same series of notes issued under the same indenture. Accordingly, holders of notes sold separately and holders of notes represented by IDSs will vote

Table of Contents

together as a single class, in proportion to the aggregate principal amount of notes they hold, on all matters on which they were eligible to vote under the indenture.

May purchasers of the senior subordinated notes being offered separately (and not in the form of IDSs) also purchase IDSs in this offering?

No. Prior to the closing of this offering, each person purchasing separate notes in this offering will be required to represent to us in writing that:

Neither such purchaser nor any entity, investment fund or account over which such purchaser exercises investment control is purchasing IDSs in this offering or owns or has the contractual right to acquire our equity securities; and

there is no plan or pre-arrangement by which,

such purchaser will acquire any IDSs or our company equity, or

separate notes being acquired by such purchaser will be transferred to any holder of the IDSs or company equity.

Will the shares of our Class A common stock and senior subordinated notes represented by the IDSs be separately listed on an exchange?

We will apply to list the shares of our Class A common stock on the Toronto Stock Exchange under the trading symbol VLR. We cannot assure you that our Class A common stock will trade on the Toronto Stock Exchange or any other exchange or that our senior subordinated notes will trade separately from the IDSs on any exchange. We currently do not expect an active trading market for our Class A common stock or senior subordinated notes to develop. However, we will use reasonable efforts to list our Class A common stock for separate trading on the New York Stock Exchange if a sufficient number of shares of our Class A common stock are held separately to meet the minimum requirements for separate trading on the New York Stock Exchange for at least 30 consecutive trading days. The shares of Class A common stock and senior subordinated notes offered hereby will be freely tradable without restriction or further registration under the Securities Act of 1933, unless they are held by affiliates as that term is defined in Rule 144 under the Securities Act.

In what form will IDSs and the shares of our Class A common stock and senior subordinated notes represented by the IDSs be issued?

The IDSs and the shares of our Class A common stock and senior subordinated notes represented by the IDSs will be issued in book-entry form only. This means that you will not be a registered holder of IDSs or the securities represented by the IDSs and you will not receive a certificate for your IDSs or the securities represented by your IDSs. You must rely on your broker or other financial institution that will maintain your book-entry position to receive the benefits and exercise the rights of a holder of IDSs.

Can I separate my IDSs into shares of Class A common stock and senior subordinated notes or recombine shares of Class A common stock and senior subordinated notes to form IDSs?

Yes. Holders of IDSs, whether purchased in this offering or in a subsequent offering of IDSs of the same series, may, at any time after the earlier of 45 days from the date of the closing of this offering or the occurrence of a change of control, through their broker or other financial institution, separate the IDSs into the shares of our Class A common stock and senior subordinated notes represented thereby. Any holder of shares of our Class A common stock and senior subordinated notes, whether represented by IDSs purchased in this offering or a subsequent offering and separated, or purchased separately in the secondary market, may, at any time, through his or her broker or other financial institution, combine the applicable number of shares of Class A common stock and senior subordinated notes to form IDSs unless the IDSs have previously been automatically separated. Separation and recombination of IDSs will occur

Table of Contents

promptly in accordance with The Depository Trust Company's procedures and upon receipt of instructions from your broker and may involve transaction fees charged by your broker and/or other financial intermediaries. Trading in the IDSs will not be suspended as a result of any such separation or recombination of IDSs. See [Description of IDSs](#) [Book-Entry Settlement and Clearance](#) [Separation and Combination](#).

Will my IDSs automatically separate into shares of Class A common stock and senior subordinated notes upon the occurrence of certain events?

Yes. Separation of all of the IDSs will occur automatically 90 days following the acceleration of the maturity of the senior subordinated notes for any reason, upon the continuance of a payment default on the senior subordinated notes for 90 days, upon the occurrence of any redemption, whether in whole or in part, of the senior subordinated notes or upon the maturity of the senior subordinated notes. Following any such automatic separation, shares of Class A common stock and senior subordinated notes may be no longer be combined to form IDSs.

What will happen if we issue additional IDSs or senior subordinated notes of the same series in the future?

Subsequently issued IDSs or senior subordinated notes will have terms that are identical to those of the IDSs and senior subordinated notes, respectively, sold in this offering, except that:

if additional IDSs are issued 45 days or more from the closing of this offering, they will be immediately separable; and

if additional IDSs are issued less than 45 days from the closing of this offering, they will be separable on and after the same date the IDSs issued in this offering may separate.

If we issue senior subordinated notes (whether or not in the form of IDSs) in the future and these senior subordinated notes are sold with original issue discount, or OID, for U.S. federal income tax purposes, holders of our senior subordinated notes outstanding prior to such issuance and purchasers of the newly issued notes will automatically exchange among themselves a portion of the senior subordinated notes they hold so that immediately following such automatic exchange, each holder will own a *pro rata* portion of the new notes and the old notes. The aggregate amount of new notes and old notes held by any holder prior to the exchange will be the same as such holder holds subsequent to the exchange. This exchange will be effected automatically, without any action by the holders, through the facilities of DTC. DTC has advised us that the implementation of this automatic exchange may cause a delay in the settlement of trades of up to 24 hours. See [Description of IDSs](#) [Procedures Relating to Subsequent Issuances](#).

Other than potential tax and bankruptcy implications and subject to market perception, we do not believe that the automatic exchange will affect the economic attributes of your investment in our IDSs or senior subordinated notes. The tax and bankruptcy implications of an automatic exchange are summarized below and described in more detail in [Risk Factors](#) [Risks Relating to the IDSs, the Shares of Class A Common Stock, and Senior Subordinated Notes Represented by the IDSs, the Senior Subordinated Notes Offered Separately \(not in the form of IDSs\), and our New Credit Facility](#) and [Material United States Federal Income Tax Consequences](#) [United States Holders](#) [Senior Subordinated Notes](#) [Additional Issuances](#).

This automatic exchange should not impair the rights any holder might otherwise have to assert a claim under applicable securities laws, against us or the underwriters, with respect to the full amount of senior subordinated notes purchased by such holder.

Table of Contents

What will be the United States federal income tax consequences of an investment in the IDSs?

The United States federal income tax consequences of the purchase, ownership and disposition of IDSs or senior subordinated notes in this offering are not entirely clear.

Treatment of Purchase of IDSs. Our counsel, Kirkland & Ellis LLP, is of the opinion that the purchase of IDSs in this offering should be treated for United States federal tax purposes as the purchase of shares of our Class A common stock and senior subordinated notes, rather than as the purchase of a single integrated security, and, by purchasing IDSs, you will agree to such treatment. We have not received an opinion of counsel as to the tax consequence of an additional issuance of IDSs of the same series in the future. You must allocate the purchase price of the IDSs between those shares of Class A common stock and senior subordinated notes in proportion to their respective initial fair market values, which will establish your initial tax basis in each component of the IDSs. The value attributed to the shares of Class A common stock and senior subordinated notes represented by the IDSs have been established based on the fair market value of such shares of Class A common stock and senior subordinated notes. We will report the initial fair market value of each share of Class A common stock as \$ _____ and the initial fair market value of each \$ _____ principal amount of senior subordinated notes as \$ _____, and by purchasing IDSs, you will agree to such allocation.

Treatment of Senior Subordinated Notes. Our counsel is of the opinion that the senior subordinated notes should be treated as debt for United States federal income tax purposes. If the senior subordinated notes were treated as equity rather than as debt for United States federal income tax purposes, then the stated interest on the senior subordinated notes could be treated as a dividend, and interest on the senior subordinated notes would not be deductible by us for United States federal income tax purposes, which could significantly reduce our future cash flow. In addition, payments on the senior subordinated notes to foreign holders would be subject to United States federal withholding tax at rates up to 30%. Payments to foreign holders would not be grossed-up on account of any such taxes.

For a more complete discussion of the material United States federal income tax considerations in connection with an investment in IDSs or senior subordinated notes, see [Material U.S. Federal Income Tax Consequences](#).

What will be the United States federal income tax consequences of a subsequent issuance of senior subordinated notes?

The United States federal income tax consequences to you of the subsequent issuance of senior subordinated notes with OID (or any issuance of senior subordinated notes thereafter), are not entirely clear.

Exchange of Senior Subordinated Notes. The indenture governing the senior subordinated notes and the agreements with DTC will provide that, in the event that there is a subsequent issuance of senior subordinated notes with OID, and in connection with each issuance of senior subordinated notes thereafter, including an issuance of senior subordinated notes upon an exchange of shares of Class B common stock, each holder of IDSs or separately held senior subordinated notes, as the case may be, agrees that a portion of such holder's senior subordinated notes will be exchanged for a portion of the senior subordinated notes acquired by the holders of such subsequently issued senior subordinated notes, as described above. As a result of these exchanges, the OID associated with the issuance of the new senior subordinated notes effectively will be spread among all holders of senior subordinated notes on a *pro rata* basis, which may adversely affect your tax treatment, as described below. OID is generally the excess, if any, of the stated redemption price at maturity of a note over its issue price. If the difference is de minimus as defined in the Code and the Treasury regulations relating to OID, then there is no OID.

Due to the lack of applicable authority, it is unclear whether the exchange of senior subordinated notes for subsequently issued senior subordinated notes will result in a taxable exchange for United States federal income tax purposes, and it is possible that the Internal Revenue Service, or IRS, might successfully assert that such an exchange should be treated as a taxable exchange. In such case, a holder would recognize

Table of Contents

any gain realized on such exchange, but a loss realized might be disallowed. If the exchange of senior subordinated notes is treated as a taxable exchange, then your initial tax basis in the senior subordinated notes deemed to have been received in the exchange would be the fair market value of such senior subordinated notes on the date of the deemed exchange (adjusted to reflect any disallowed loss), and your holding period for such senior subordinated notes would begin on the day after the deemed exchange.

Reporting of OID. Regardless of whether the exchange of senior subordinated notes is treated as a taxable event, such exchange could result in holders having to include OID in taxable income prior to the receipt of cash. Following any subsequent issuance of senior subordinated notes with OID (or any issuance of senior subordinated notes thereafter) and resulting exchange, we (and our agents) will report any OID on the subsequently issued senior subordinated notes ratably among all holders of IDSs and separately held senior subordinated notes, and each holder of IDSs and separately held senior subordinated notes will, by purchasing IDSs or senior subordinated notes, agree to report OID in a manner consistent with this approach. However, we cannot assure you that the IRS will not assert that any OID should be reported only by the persons that initially acquired such subsequently issued senior subordinated notes (and their transferees) and they may challenge a holder's reporting of OID on its tax returns.

We will immediately file a Current Report on Form 8-K (or any other applicable form) to announce and quantify any changes in the ratio of IDS components or changes in original issue discount attributed to the senior subordinated notes.

Because a subsequent issuance will affect the senior subordinated notes in the same manner, regardless of whether the senior subordinated notes are held as part of IDSs or separately, the combination of senior subordinated notes and shares of Class A common stock to form IDSs, or the separation of IDSs into their component parts, should not affect your tax treatment.

Because there is no statutory, judicial or administrative authority directly addressing the tax treatment of the IDSs or instruments similar to the IDSs, we urge you to consult your own tax advisor concerning the tax consequences of an investment in the IDSs or senior subordinated notes. For additional information, see *Material United States Federal Income Tax Consequences*.

What is the initial and prospective accounting treatment of the IDSs?

There is no explicit guidance under generally accepted accounting principles regarding the accounting and reporting for unit securities comprised of common stock and notes like the IDSs. Any accounting followed by us for the IDSs may be subject to future scrutiny and challenge. Authoritative accounting bodies such as the FASB, EITF or SEC may issue future guidance, rules or interpretations which may require us to adjust our accounting for our IDSs. For our interpretation of the accounting treatment based on existing guidance available, see *Management's Discussion and Analysis Critical Accounting Policies (Income Taxes and IDSs, Class B common stock and preferred stock)*.

Table of Contents

indebtedness. Specifically, the senior subordinated notes indenture and the new credit facility both restrict our ability to declare and pay dividends on our common stock, as described in detail under Dividend Policy. Upon the closing of this offering, our board of directors is expected to adopt a dividend policy which contemplates that, subject to applicable law and the terms of our then existing indebtedness, annual dividends will be approximately \$ _____ per share of our Class A common stock for the first year following the consummation of this offering. Our amended and restated certificate of incorporation contains dividend provisions with respect to our Class B common stock that are intended to replicate the yield on our IDS units. Any time a dividend is paid to holders of Class A common stock, holders of Class B common stock will be paid a dividend equal to the amount per share paid to holders of Class A common stock. In addition to any such dividend, shares of our Class B common stock accrue dividends at a rate of _____ % per annum on a deemed issuance price of \$ _____ per share, as more fully described in Description of Capital Stock Common Stock Dividends. Following the consummation of this offering, no shares of Class C common stock will be outstanding and therefore we have not established a dividend policy with respect to shares of Class C common stock. Our board of directors may, in its discretion, modify or repeal this dividend policy. We cannot assure that we will pay dividends at this level or at all in the future.

Dividend payment dates

If declared, dividends on our Class A common stock and Class B common stock will be paid quarterly on the fifteenth day of each March, June, September and December of each year to holders of record on the fifth day of such month or the immediately preceding business day. To the extent not previously paid, the _____ % dividend that accrues on shares of Class B common stock will be paid at such time when such shares of Class B Common stock are exchanged for IDSs.

Listing

We have applied to list the IDSs on the New York Stock Exchange under the trading symbol VCG. In addition, we intend to apply to list the IDSs on the Toronto Exchange under the trading symbol VLR.un and our shares of Class A common stock under the symbol VLR. We cannot assure you that our Class A common stock will trade separately from the IDSs on the Toronto Stock Exchange or any other exchange and we currently do not expect an active trading market for our Class A common stock to develop. However, we will use reasonable efforts to list our Class A common stock for separate trading on the New York Stock Exchange if a sufficient number of shares of our Class A common stock are held separately to meet the minimum requirements for separate trading on the New York Stock Exchange for at least 30 consecutive trading days. Our Class A common stock will be freely tradable without restriction or further registration under the Securities Act, unless held by affiliates as that term is defined in Rule 144 under the Securities Act.

Table of Contents**Summary of the Senior Subordinated Notes**

Issuer	Valor Communications Group, Inc.		
Senior subordinated notes represented by IDSs being offered to the public:			
by Valor	\$	million aggregate principal amount of	% senior subordinated notes.
by our existing equity holders	\$	million aggregate principal amount of	% senior subordinated notes if the underwriters over-allotment option to purchase IDSs is exercised in full (which notes shall be offered from the notes represented by IDSs that we are issuing to our existing equity holders in this offering).
Senior subordinated notes represented by IDSs being issued to our existing equity holders	\$	million aggregate principal amount of	% senior subordinated notes.
Senior subordinated notes being offered to the public separately (and not in the form of IDSs)	\$	million aggregate principal amount of	% senior subordinated notes.
Senior subordinated notes to be outstanding following the offering	\$	million aggregate principal amount of	% senior subordinated notes.
Interest rate		% per year.	
Interest payment dates	Interest will be paid quarterly in arrears on the fifteenth day of March, June, September and December of each year, commencing _____, 2004, to holders of record on the fifth day of each such month or the immediately preceding business day.		
Interest deferral	<p>Prior to _____, 2009, we may, subject to certain restrictions, defer interest payments on our senior subordinated notes on one or more occasions for up to an aggregate period of eight quarters. In addition, after _____, 2009 we may, subject to certain restrictions, defer interest payments on our senior subordinated notes on up to four occasions for no more than two quarters on each occasion; provided that at the end of any interest deferral period following _____, 2009, we may not defer interest unless and until all deferred interest and accrued interest thereon is paid in full.</p> <p>During any interest deferral period and so long as any deferred interest or interest on deferred interest remains outstanding, we will not be permitted to declare or pay dividends on the common stock.</p> <p>For a detailed description of the interest deferral provisions of the indenture, see Description of Senior Subordinated Notes Interest Deferral.</p> <p>In the event that interest payments on the senior subordinated notes are deferred, you would be required to continue to include the yield on the senior subordinated notes in your income for United States federal</p>		

Table of Contents

income tax purposes as it accrues, even if you do not receive any cash interest payments.

Maturity date	The senior subordinated notes will mature on _____, 2019.
Optional redemption	<p>We may not redeem the senior subordinated notes prior _____, 2011.</p> <p>On and after _____, 2011 and prior to _____, 2016, we may redeem for cash all or part of the senior subordinated notes upon not less than 30 or more than 60 days notice by mail to the owners of senior subordinated notes, at the redemption prices set forth under Description of Notes Optional Redemption. After _____, 2016, we may redeem all or any part of the senior subordinated notes upon not less than 30 or more than 60 days notice by mail to the holders of senior subordinated notes at a redemption price of 100% of the principal amount to be redeemed. In addition, if at any time we receive an opinion of a nationally recognized tax counsel that all or a substantial portion of the interest on the senior subordinated notes will not be deductible by us for United States federal income tax purposes, we may redeem the senior subordinated notes, in whole but not in part, at a redemption price of 100% of the principal amount to be redeemed. If we redeem the senior subordinated notes in whole or in part, the senior subordinated notes and Class A common stock represented by each IDS will be automatically separated and cannot thereafter be recombined.</p>
Change of control	<p>Upon the occurrence of a change of control, as defined under Description of Senior Subordinated Notes Change of Control, each holder of senior subordinated notes will have the right to require us to repurchase that holder's senior subordinated notes at a price equal to 101% of the principal amount of the senior subordinated notes being repurchased, plus any accrued but unpaid interest to but not including the repurchase date. If senior subordinated notes are held in the form of IDSs, in order to exercise that right, a holder of IDSs must separate its IDSs into the shares of Class A common stock and senior subordinated notes represented thereby and hold the senior subordinated notes separately.</p>
Guarantees of senior subordinated notes	<p>The senior subordinated notes will be fully and unconditionally guaranteed, on an unsecured senior subordinated basis, jointly and severally, by each of our direct and indirect wholly-owned domestic subsidiaries existing on the closing of this offering and each of our future wholly-owned domestic restricted subsidiaries that has total assets of more than \$500,000. The guarantees will be subordinated to the guarantees issued by the subsidiary guarantors under the new credit facility.</p>
Ranking of senior subordinated notes and guarantees	<p>Valor is a holding company and derives all of its operating income and cash flow from its subsidiaries. The senior subordinated notes will be our and any guarantor's unsecured senior subordinated indebtedness, will be subordinated in right of payment to all our and any guarantor's existing and future senior indebtedness, including our borrowings and all guarantees of the subsidiary guarantors under the new credit facility. The senior subordinated notes and guarantees will rank <i>pari passu</i> in right of payment with all of our and any guarantor's existing</p>

Table of Contents

and future senior subordinated indebtedness and trade payables, except for such indebtedness and trade payables that are statutorily or contractually subordinated. The senior subordinated notes will also be effectively subordinated to any of our and any guarantor's secured indebtedness to the extent of the value of the assets securing the indebtedness.

The indenture governing the senior subordinated notes will permit Valor and the subsidiary guarantors to incur additional indebtedness, including senior indebtedness, subject to specified limitations. On a pro forma basis as of March 31, 2004:

Valor would have had no senior or *pari passu* indebtedness outstanding except for its guarantee under the new credit facility, as described below; and

VTC would have had \$ million aggregate principal amount of senior secured indebtedness outstanding under the new credit facility plus approximately \$ million of letters of credit, which would have been guaranteed on a senior secured basis by the subsidiary guarantors, and approximately \$ million of capital leases.

Restrictive covenants

The indenture governing the senior subordinated notes will contain covenants with respect to us and our restricted subsidiaries that will restrict:

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

the payment of dividends on, and redemption of, capital stock;

a number of other restricted payments, including investments;

specified sales of assets;

specified transactions with affiliates;

the creation of a number of liens; and

consolidations, mergers and transfers of all or substantially all of our assets.

The limitations and prohibitions described above are subject to a number of other important qualifications and exceptions described under Description of Senior Subordinated Notes Certain Covenants.

Listing

We do not anticipate that our senior subordinated notes will be listed separately on any exchange.

Representation Letter

None of the senior subordinated notes sold separately (not in the form of IDSs) in this offering, which we refer to as the separate notes may be purchased, directly or indirectly, by persons who are also (1) purchasing IDSs in this offering or (2) holders of Class B common stock following our recapitalization. Furthermore, prior to the closing of this offering, each person purchasing separate senior subordinated notes in this offering will be asked to make certain representations to us in connection with these restrictions. See Underwriting.

Table of Contents**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 three months ended March 31, 2003 and 2004.

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 consolidated financial statements as of March 31, 2004 and for the three months ended March 31, 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,			Three Months Ended March 31,	
	2001	2002(1)	2003	2003	2004
(Dollars in thousands)					
Statement of operations data:					
Operating revenues	\$ 424,916	\$ 479,883	\$ 497,334	\$ 122,119	\$ 125,852
Operating income	103,298	159,251	182,273	46,019	45,516
Net (loss) income(2)	(53,355)	16,302	58,233	12,159	15,614
Cash flow data from continuing operations:					
Net cash provided by operating activities	\$ 100,301	\$ 150,383	\$ 166,065	\$ 41,485	\$ 50,109
Net cash used in investing activities	(106,614)	(216,773)	(66,299)	(14,178)	(16,723)
Net cash provided by (used in) financing activities	8,117	71,015	(99,465)	(26,484)	(31,041)
Other data:					
Capital expenditures	\$ 107,869	\$ 89,527	\$ 69,850	\$ 14,486	\$ 16,654
Acquisition of Kerrville Communications Corporation(3)	\$	\$ 128,135	\$	\$	\$
Depreciation and amortization(4)	\$ 110,843	\$ 73,273	\$ 81,638	\$ 19,950	\$ 20,827
Adjusted EBITDA(5)	\$ 215,141	\$ 240,595	\$ 262,707	\$ 64,609	\$ 66,872
Ratio of earnings to fixed charges(6)		1.2x	1.5x	1.4x	1.6x
Deficiency in the coverage of earnings to fixed charges(6)	\$ 47,024				
Total access lines(7)	551,599	571,308	556,745	568,933	557,278

March 31, 2004

	March 31, 2004	
	Actual	Pro Forma As Adjusted(8)
(Dollars in thousands)		
Balance sheet data:		
Cash and cash equivalents	\$ 3,750	\$
Net property, plant and equipment	\$ 765,430	\$
Total assets	\$ 2,026,191	\$
Long-term debt (including current maturities)	\$ 1,430,196	\$
Redeemable preferred interests	\$ 370,231	\$
Total common owners' equity	\$ 65,476	\$

- (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.

Table of Contents

- (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, 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, as defined in the indenture governing our senior subordinated notes, is calculated as net (loss) income, as adjusted for the following items:

Income tax expense;
 Interest expense;
 Depreciation and amortization;
 Minority interest;
 Loss on interest rate hedging arrangements;
 Earnings from unconsolidated cellular partnerships;
 Other income and expense, net;
 Loss on discontinued operations;
 Cumulative effect of change in accounting principle;
 Management fees paid to equity sponsors; and
 Other non-recurring items, as defined in the indenture.

We consider Adjusted EBITDA an important indicator to investors in IDSs 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 the indenture governing our senior subordinated notes contain ratios based on this measure. As such, the summary historical financial information presented above includes our historical Adjusted EBITDA. For example, our ability to incur additional debt and make restricted payments requires a ratio of total leverage to Adjusted EBITDA of 5.75 to 1.00, except that we may incur certain debt and make certain restricted payments without regard to the ratio. Adjusted EBITDA is not a measure in accordance with GAAP, and should not be considered a substitute for, operating income (loss), net income (loss), and other measures of financial performance reported in accordance with GAAP. In addition, Adjusted EBITDA should not be used as a substitute for the Company's 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,			Three Months Ended March 31,	
	2001	2002	2003	2003	2004
	(Dollars in thousands)				
Calculation of Adjusted EBITDA:					
Net (loss) income	\$ (53,355)	\$ 16,302	\$ 58,233	\$ 12,159	\$ 15,614
Adjustments:					
Income tax expense(a)		1,649	2,478	758	567
Interest expense	133,156	127,365	119,185	31,926	27,730
Depreciation and amortization	110,843	73,273	81,638	19,950	20,827
Minority interest	(3,595)	615	3,568	770	1,518
Loss on interest rate hedging arrangements	14,292	12,348	2,113	1,229	342
Earnings from unconsolidated cellular partnerships		(2,757)	(3,258)	(783)	(325)
Other income and expense, net	(358)	268	62	(40)	70
Loss (income) on discontinued operations	8,443	3,461	(108)		
Cumulative effect of change in accounting principle	4,715				
Management fees paid to equity sponsors	1,000	1,000	1,000	250	250
Total adjustments	268,496	217,222	206,678	54,060	50,979
Other non-recurring items, as defined in the indenture:		1,768			279

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Termination benefits associated with workforce reduction					
MCI bankruptcy		4,998	(3,386)	(1,610)	
Transaction fees for acquisitions not consummated		305	1,182		
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total other non-recurring items, as defined in the indenture		7,071	(2,204)	(1,610)	279
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Adjusted EBITDA	\$215,141	\$240,595	\$262,707	\$64,609	\$66,872
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

(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.

Table of Contents

	Year Ended December 31,			Three Months Ended March 31	
	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	\$ 41,485	\$ 50,109
Adjustments:					
Interest expense	133,156	127,365	119,185	31,926	27,730
Amortization of debt issuance costs	(5,735)	(6,801)	(8,105)	(1,803)	(2,019)
Non-cash interest expense	(29,025)	(32,612)	(17,788)	(8,894)	
Provision for doubtful accounts receivable	(11,378)	(11,393)	(3,298)	(209)	(1,769)
Changes in working capital	29,923	(3,291)	(33)	1,530	(8,507)
Other, net	(2,743)	7,049	5,795	1,233	285
Income tax expense		1,649	2,478	758	567
Deferred income taxes		(93)	(450)	(17)	(123)
Other income and expense, net	(358)	268	62		