

Consolidated Communications Illinois Holdings, Inc.

Form 424B3

July 27, 2005

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Filed Pursuant to Rule 424(b)(3)
Registration Nos. 333-119968 to 333-119968-02

\$200,000,000

Consolidated Communications Illinois Holdings, Inc.

Consolidated Communications Texas Holdings, Inc.

Offer to exchange all outstanding 9³/₄% Senior Notes due 2012

for an equal amount of 9³/₄% Senior Notes due 2012,

which have been registered under the Securities Act of 1933, as amended.

The Exchange Offer

Consolidated Communications Illinois Holdings, Inc., or Illinois Holdings, and Consolidated Communications Texas Holdings, Inc., or Texas Holdings, will exchange all 9³/₄% Senior Notes due 2012, referred to as the outstanding notes, that are validly tendered and not validly withdrawn for an equal principal amount of 9³/₄% Senior Notes due 2012, referred to as the exchange notes, that are freely tradeable in integral multiples of \$1,000.

You may withdraw tenders of outstanding notes at any time prior to the expiration of the exchange offer.

The exchange offer expires at 5:00 P.M., New York City time, on August 23, 2005, unless extended.

The exchange of outstanding notes for exchange notes in the exchange offer will not be a taxable event for U.S. federal income tax purposes.

We will not receive any proceeds from the exchange offer.

The Exchange Notes

We issued the outstanding notes on April 14, 2004, in a transaction not requiring registration under the Securities Act of 1933, as amended, referred to as the Securities Act. We are offering you exchange notes in order to satisfy certain of our obligations under the registration rights agreement entered into in connection with that transaction.

The terms of the exchange notes to be issued in the exchange offer are substantially identical to the outstanding notes, except that the transfer restrictions, registration rights and additional interest provisions applicable to the outstanding notes will not apply to the exchange notes.

We do not intend to list the exchange notes on any securities exchange or automated dealer quotation system.

Broker-Dealers and Affiliates

If you are a broker-dealer and you receive exchange notes for your own account, you must acknowledge that you will deliver a prospectus in connection with any resale of such exchange notes. By making such acknowledgment, you will not be deemed to admit that you are an underwriter under the Securities Act. Broker-dealers may use this prospectus, as it may be amended from time to time, in connection with any resale of exchange notes received in exchange for outstanding notes where such outstanding notes were acquired by the broker-dealer as a result of market-making activities or trading activities. We have agreed that, for a period of 180 days after the expiration of the exchange offer, we will make this prospectus available to such broker-dealers for use in connection with any such resale. A broker-dealer may not participate in the exchange offer with respect to outstanding notes acquired other than as a result of market-making activities or trading activities. See Plan of Distribution .

If you are an affiliate of ours or are engaged in, or intend to engage in, or have an agreement or understanding to participate in, a distribution of the exchange notes, you cannot rely on the applicable interpretations of the SEC and you must comply with the registration requirements of the Securities Act in connection with any resale

transaction.

See Risk Factors beginning on page 17 for a discussion of the factors that you should consider before participating in the exchange offer.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined that this prospectus is accurate or complete or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is July 26, 2005.

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This prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any exchange notes offered hereby in any jurisdiction where, or to any person to whom, it is unlawful to make such offer or solicitation. The information contained in this prospectus speaks only as of the date of this prospectus unless the information specifically indicates that another date applies. No dealer, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this prospectus in connection with the offer contained herein and, if given or made, such information or representations must not be relied upon as having been authorized by us. Neither the delivery of this prospectus nor any sales made hereunder shall under any circumstances create an implication that there has been no change in our affairs or that of our subsidiaries since the date hereof.

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SUMMARY

This summary highlights some of the information contained elsewhere in this prospectus. It may not include all the information that is important to you. Before participating in the exchange offer you should read the entire prospectus carefully, including the more detailed information in the financial statements and the related notes included elsewhere in this prospectus. See Risk Factors Risks Related to the Exchange Offer for factors that you should consider before participating in the exchange offer and Forward-Looking Statements for information relating to statements contained in this prospectus that are not historical facts.

The outstanding notes are, and any exchange notes issued in the exchange offer will be, the several obligations of Illinois Holdings and Texas Holdings, respectively. Throughout this prospectus, unless otherwise indicated or the context otherwise requires, all historical financial statements and other financial data are of Illinois Holdings and its consolidated subsidiaries and Texas Holdings and its consolidated subsidiaries, respectively. By contrast, references to pro forma financial statements are of Homebase Acquisition, LLC, or Homebase, which includes the results of Illinois Holdings and its subsidiaries on a consolidated basis, which we refer to as CCI Illinois, and Texas Holdings and its subsidiaries on a consolidated basis, which we refer to as CCI Texas.

The Company

We are an established rural local exchange company that provides communications services to residential and business customers in Illinois and Texas. As of March 31, 2005, we estimate that we were the 15th largest local telephone company in the United States, based on industry sources, with approximately 253,071 local access lines and approximately 30,804 digital subscriber lines, or DSL lines, in service. Our main sources of revenues are our local telephone businesses in Illinois and Texas, which offer an array of services, including local dial tone, custom calling features, private line services, long distance, dial-up and high-speed Internet access, carrier access and billing and collection services. Each of the subsidiaries through which we operate our local telephone businesses is classified as a rural telephone company under the Telecommunications Act of 1996, or the Telecommunications Act. Our rural telephone companies, Illinois Consolidated Telephone Company, which we refer to as ICTC, Consolidated Communications of Fort Bend Company and Consolidated Communications of Texas Company, in general benefit from stable customer demand and a favorable regulatory environment. In addition, because our rural telephone companies primarily provide service in rural areas, competition for local telephone service has been limited due to the generally unfavorable economics of constructing and operating competitive systems in these areas.

For the year ended December 31, 2004 and the three months ended March 31, 2005, after giving effect to the transactions, we would have had \$323.5 million and \$79.8 million of revenues, respectively, of which approximately 15.9% and 17.2% came from state and federal subsidies. For the year ended December 31, 2004 and the three months ended March 31, 2005, we had a net loss of \$3.6 million and net income of \$0.7 million, respectively. As of March 31, 2005, we had \$624.9 million of total long-term debt (including current portion), an accumulated deficit of \$23.0 million and \$210.1 million redeemable preferred shares.

CCI Illinois

CCI Illinois operates its business in two segments, which we refer to as Illinois Telephone Operations and Other Illinois Operations.

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Illinois Telephone Operations

Illinois Telephone Operations consists of local telephone, long distance and data and Internet services and serves residential and business customers in central Illinois. As of March 31, 2005, our Illinois Telephone Operations had approximately:

86,624 local access lines in service, of which approximately 64% served residential customers and 36% served business customers;

64% long distance penetration of Illinois Telephone Operations' local access lines;

7,611 dial-up Internet customers; and

11,915 DSL lines, which represented an approximately 13.8% penetration of total local access lines.

Approximately 90% of Illinois Telephone Operations' total local access lines, excluding local access lines already served by other high speed connections, are DSL-capable.

In 2004, our Illinois Telephone Operations generated \$97.3 million of revenues and \$27.6 million of cash flows from operating activities. For the three months ended March 31, 2005, our Illinois Telephone Operations generated \$24.8 million of revenues and \$9.9 million of cash flows from operating activities. As of March 31, 2005, our Illinois Telephone Operations had total assets of \$260.9 million.

Other Illinois Operations

CCI Illinois also includes the following complementary businesses, which we collectively refer to as our Other Illinois Operations:

Public Services provides local and long distance service and automated collect calling from county jails and state prisons in Illinois;

Operator Services offers both live and automated local and long distance operator assistance and national directory assistance on a wholesale and retail basis;

Market Response provides telemarketing and order fulfillment services to customers nationwide;

Business Systems sells, installs and maintains telecommunications equipment and wiring to residential and business customers in and around our Illinois rural telephone company's service area; and

Mobile Services provides one-way messaging service to residential and business customers.

In 2004, our Other Illinois Operations generated \$39.2 million of revenues and \$2.8 million of cash flows from operating activities. For the three months ended March 31, 2005, our Other Illinois Operations generated \$8.8 million of revenues and \$0.4 million of cash flows from operating activities. As of March 31, 2005, our Other Illinois Operations had total assets of \$45.3 million.

CCI Texas

CCI Texas serves residential and business customers in east Texas and rural and suburban areas surrounding Houston. As of March 31, 2005, CCI Texas had approximately:

166,447 local access lines in service, of which approximately 68% served residential customers and 32% served business customers;

40% long distance penetration of CCI Texas' local access lines;

11,998 dial-up Internet customers; and

18,889 DSL lines, which represented an approximately 11.3% penetration of total local access lines.

Approximately 90% of CCI Texas' total local access lines, excluding local access lines already served by other

high speed connections, are DSL-capable.

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CCI Texas also includes the following complementary businesses:

Directory Publishing sells directory advertising and publishes yellow and white pages directories in and around the service areas of Consolidated Communications of Fort Bend Company's and Consolidated Communications of Texas Company's, which we refer to as our Texas rural telephone companies. The directories are each published once per year and have a combined circulation of approximately 400,000.

Transport Services provides connectivity to customers within Texas over a fiber optic transport network consisting of approximately 2,500 route-miles of fiber. This transport network supports CCI Texas' long distance, Internet access and data services and provides bandwidth on a wholesale basis to third party customers, including national long distance and wireless carriers.

In 2004, CCI Texas generated \$186.9 million of revenues and \$46.1 million of cash flows from operating activities on a combined historical basis. For the three months ended March 31, 2005, CCI Texas generated \$46.3 million of revenues and \$4.3 million of cash flows from operating activities. As of March 31, 2005, CCI Texas had total assets of \$697.8 million.

Our Strengths

We believe our strengths include:

stable local telephone businesses;

favorable regulatory environment;

attractive markets and limited competition;

technologically advanced network;

broad service offerings and bundling of services; and

our experienced management team with proven track record.

Business Strategy

Our current business strategy includes:

improving operating efficiencies and maintaining capital expenditure discipline;

increasing revenues per customer;

continuing to build on our reputation for high quality service; and

pursuing selective acquisitions.

The Transactions

The offering of the outstanding notes was part of a series of simultaneous transactions that closed on April 14, 2004, which we refer to collectively as the transactions. When the transactions were consummated, Homebase, the parent of the issuers, through its indirect, wholly owned subsidiary Texas Acquisition, acquired all of the capital stock of TXUCV.

TXUCV Acquisition and Integration

On April 14, 2004, through our indirect wholly owned subsidiary Texas Acquisition, we acquired TXUCV for \$524.1 million in cash net of cash acquired and including transaction costs. Promptly following the TXUCV acquisition, we began integrating the operations of CCI Illinois with the operations of CCI Texas. We currently expect to incur approximately \$14.5 million in operating expenses associated

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with the integration and restructuring process in 2004 and 2005, \$9.2 million of which had been incurred as of March 31, 2005. These one-time integration and restructuring costs will be in addition to certain ongoing expenses we expect to incur to expand certain administrative functions, such as those relating to SEC reporting and compliance, and do not take into account other potential cost savings and expenses of the TXUCV acquisition.

Recent Developments

Dividend and Bank Amendment

On June 7, 2005, we made a \$37.5 million cash distribution to Central Illinois Telephone LLC, an entity affiliated with our Chairman, Richard A. Lumpkin, or Central Illinois Telephone, Providence Equity Partners IV, L.P. and its affiliates, or Providence Equity, and Spectrum Equity Investors IV, L.P., and its affiliates, or Spectrum Equity, which we refer to collectively as our existing equity investors, from cash on our balance sheet.

Proposed Initial Public Offering of Common Stock

On December 8, 2004, we filed a registration statement on Form S-1 with the SEC in connection with a proposed initial public offering of common stock. We currently expect to price the initial public offering on July 21, 2005 and to close it on July 27, 2005, subject to specified closing conditions and market conditions.

Prior to, and conditioned upon the closing of the initial public offering, we plan to do the following:

We will effect a reorganization pursuant to which first Texas Holdings and then Homebase will merge with and into Illinois Holdings. The result of the mergers will be to have Illinois Holdings be the survivor of the mergers of itself, Texas Holdings and Homebase. Following the proposed reorganization, Illinois Holdings will change its name to Consolidated Communications Holdings, Inc., or Consolidated Holdings, and will succeed to all of the obligations of Texas Holdings and Homebase, including Texas Holdings' obligations under the indenture and Homebase's obligations under its limited non-recourse guarantee of the outstanding notes and the exchange notes, which we refer to collectively as the notes. As a result, there will only be one issuer of the notes, Consolidated Holdings, under the indenture. The purpose of the reorganization is to facilitate the initial public offering of common stock by simplifying our corporate structure; it will not substantively affect the rights of the note holders. For charts illustrating our current and post-IPO organizational structures, see [Organizational Charts](#) below, and for more information regarding the reorganization, see [Certain Relationships and Related Party Transactions](#) [Reorganization](#) .

The board of directors of Consolidated Holdings will change along with other changes to our corporate governance as described in more detail under [Management](#) [Management and Corporate Governance Changes After the Proposed IPO](#) .

We will adopt a dividend policy that reflects an intention to distribute to our stockholders as regular quarterly dividends a substantial portion of the cash generated by our business in excess of our expected cash needs. For more information about the proposed initial public offering and dividend policy, see [IPO Matters](#) .

In connection with the above, we will further amend and restate our existing credit agreement to allow us, upon the satisfaction of certain financial tests, to pay dividends in accordance with the proposed dividend policy. For a summary of the amended and restated credit agreement, see [Description of Other Indebtedness](#) [Amended and Restated Credit Agreement](#) .

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We currently expect to use the net proceeds from the proposed initial public offering, together with borrowings under our new amended and restated credit facilities and cash on hand to:

redeem 35.0% of the aggregate principal amount of the notes and pay the associated redemption premium of 9.75% of the principal amount to be redeemed, together with accrued but unpaid interest through the date of redemption;

repay in full outstanding borrowings under our term loan A facility and term loan C facility, together with accrued but unpaid interest through the closing date of the proposed initial public offering;

pre-fund expected integration and restructuring costs for 2005 relating to the TXUCV acquisition; and

pay fees and expenses associated with the repayment of the term loan A facility and term loan C facility and the entering into of the new amended and restated credit facilities.

We refer to the reorganization, the initial public offering and these related transactions as the IPO transactions. As of March 31, 2005, after giving effect to the reorganization, the initial public offering, the amendment and restatement of our amended and restated credit facilities and our application of the net proceeds in the manner described above, we would have had \$423.9 million outstanding under a new term loan D facility and \$130.0 million in aggregate principal amount of the notes outstanding.

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Organizational Charts

The following chart illustrates our current organizational structure:

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The following chart illustrates our organizational structure upon completion of the proposed initial public offering and the related reorganization:

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Information About Us

The address of the principal executive office of Homebase and the issuers is 121 South 17th Street, Mattoon, Illinois 61938-3987. Our telephone number at that address is (217) 235-3311, and our website address is www.consolidated.com. Information on our website is not deemed to be a part of this prospectus.

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Summary of Terms of the Exchange Offer

On April 14, 2004, we completed the offering of \$200,000,000 aggregate principal amount of the outstanding notes in a transaction exempt from registration under the Securities Act. In connection with that offering, the issuers and Homebase entered into a registration rights agreement with the initial purchasers of the outstanding notes in which they agreed, among other things, to deliver this prospectus to you and to complete an exchange offer for the outstanding notes. You are entitled to exchange in the exchange offer your outstanding notes for exchange notes that are substantially identical to the outstanding notes except that the transfer restrictions, registration rights and additional interest provisions applicable to the outstanding notes will not apply to the exchange notes:

The following is a summary of the exchange offer. For a more detailed description of the terms of the exchange offer, see the section in this prospectus entitled "The Exchange Offer."

The Exchange Offer

We are offering to exchange up to \$200,000,000 aggregate principal amount of the issuers' exchange notes issued on a several, and not a joint, basis and registered under the Securities Act, for up to \$200,000,000 aggregate principal amount of the issuers' outstanding notes. Outstanding notes may be exchanged only in integral multiples of \$1,000.

Resale

Based on an interpretation by the staff of the SEC set forth in no-action letters issued to third parties, we believe that the exchange notes issued pursuant to the exchange offer in exchange for outstanding notes may be offered for resale, resold and otherwise transferred by you (unless you are an affiliate of either issuer, within the meaning of Rule 405 under the Securities Act) without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that you are acquiring the exchange notes in the ordinary course of your business and that you are not engaged in, do not intend to engage in, and have no arrangement or understanding with any person to participate in, a distribution of the exchange notes.

Each participating broker-dealer that receives exchange notes for its own account pursuant to the exchange offer in exchange for outstanding notes that were acquired as a result of market-making or other trading activity must acknowledge that it will deliver a prospectus in connection with any resale of the exchange notes. See "Plan of Distribution."

Any holder of outstanding notes who:

is an affiliate of either issuer;

does not acquire exchange notes in the ordinary course of business; or

tenders in the exchange offer with the intention to participate, or for the purpose of participating, in a distribution of exchange notes,

cannot rely on the position of the staff of the SEC enunciated in *Exxon Capital Holdings Corporation* (available May 13, 1988) and *Morgan Stanley & Co. Incorporated* (available June 5, 1991) as interpreted in the SEC's letter to *Sherman & Sterling* (dated July 2, 1993), or similar no-action letters and, in the absence of an exemption therefrom, must comply with the

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registration and prospectus delivery requirement of the Securities Act in connection with the resale of the exchange notes.

Expiration Date; Tenders;
Withdrawal

The exchange offer will expire at 5:00 p.m., New York City time, on August 23, 2005, or such later date and time to which the issuers extend it, referred to in this prospectus as the expiration date. The issuers do not currently intend to extend the exchange offer. You may withdraw any outstanding notes that you tender for exchange at any time prior to the expiration date of the exchange offer. The issuers will accept any and all outstanding notes validly tendered and not validly withdrawn before the expiration date. Any outstanding notes not accepted for exchange for any reason will be returned without expense to the tendering holder promptly after the expiration and termination of the exchange offer. See The Exchange Offer Procedures for Tendering and Withdrawal of Tenders for a more detailed description of the tender and withdrawal procedures.

Conditions to the Exchange
Offer

The exchange offer is subject to customary conditions, which we may waive. Please read the section captioned The Exchange Offer Conditions to the Exchange Offer of this prospectus for more information regarding the conditions to the exchange offer.

Procedures for Tendering
Outstanding Notes

If you wish to accept the exchange offer, you must complete, sign and date the accompanying letter of transmittal, or a facsimile of the letter of transmittal, according to the instructions contained in this prospectus and the letter of transmittal. You must also mail or otherwise deliver the letter of transmittal, or a facsimile of the letter of transmittal, together with the outstanding notes and any other required documents, to the exchange agent at the address set forth on the cover page of the letter of transmittal. If you hold outstanding notes through The Depository Trust Company, or DTC, and wish to participate in the exchange offer, you must comply with the Automated Tender Offer Program procedures by DTC, by which you will agree to be bound by the letter of transmittal. By signing, or agreeing to be bound by the letter of transmittal, you will represent to us that, among other things:

any exchange notes that you receive will be acquired in the ordinary course of business;

you have no arrangement or understanding with any person or entity to participate in a distribution of the exchange notes within the meaning of the Securities Act;

you are not an affiliate, as defined in Rule 405 of the Securities Act, of either issuer or, if you are an affiliate, you will comply with any applicable registration and prospectus delivery requirements of the Securities Act;

if you are a broker-dealer, that you will receive exchange notes for your own account in exchange for outstanding notes that

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were acquired as a result of market-making activities or other trading activity, and that you will deliver a prospectus, in connection with any resale of such exchange notes; and

you are not acting on behalf of any person who could not truthfully make the foregoing representations.

Special Procedures for
Beneficial Owners

If you are a beneficial owner of outstanding notes that are registered in the name of a broker, dealer, commercial bank, trust company or other nominee, and you wish to tender such outstanding notes in the exchange offer, you should contact such registered holder promptly and instruct such registered holder to tender on your behalf. If you wish to tender on your own behalf, you must, prior to completing and executing the letter of transmittal and delivering your outstanding notes, either make appropriate arrangements to register ownership of the outstanding notes in your name or obtain a properly completed bond power from the registered holder. The transfer of registered ownership may take considerable time and may not be able to be completed prior to the expiration date.

Guaranteed Delivery Procedures

If you wish to tender your outstanding notes and your outstanding notes are not immediately available or you cannot deliver your outstanding notes, the letter of transmittal or any other documents required by the letter of transmittal or comply with the applicable procedures under DTC's Automated Tender Offer Program prior to the expiration date, you must tender your outstanding notes according to the guaranteed delivery procedures set forth in this prospectus under "The Exchange Offer - Guaranteed Delivery Procedures".

Effect on Holders of
Outstanding Notes

As a result of the making of, and upon acceptance for exchange of all validly tendered outstanding notes pursuant to the terms of the exchange offer, we will have fulfilled a covenant contained in the registration rights agreement and, accordingly, there will be no increase in the interest rate on the outstanding notes under the circumstances described in the registration rights agreement. If you are a holder of outstanding notes and you do not tender your outstanding notes in the exchange offer, you will continue to hold such outstanding notes and you will be entitled to all the rights and limitations applicable to the outstanding notes in the indenture, except for any rights under the registration rights agreement that by their terms terminate upon the consummation of the exchange offer. To the extent that outstanding notes are tendered and accepted in the exchange offer, the trading market for untendered outstanding notes will likely be adversely affected.

Consequences of Failure to
Exchange

All untendered outstanding notes will continue to be subject to the restrictions on transfer provided for in the outstanding notes and in the indenture. In general, the outstanding notes may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not

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subject to, the Securities Act and applicable state securities laws. Other than in connection with the exchange offer, we do not currently anticipate that we will register the outstanding notes under the Securities Act.

Material United States Federal Income Tax Consequences	Your exchange of outstanding notes for exchange notes to be issued in the exchange offer will not result in any gain or loss to you for U.S. federal income tax purposes. See Material U.S. Federal Income Tax Considerations for a summary of U.S. federal income tax consequences associated with the exchange of outstanding notes for exchange notes.
Use of Proceeds	We will not receive any cash proceeds from the issuance of exchange notes pursuant to the exchange offer.
Exchange Agent	Wells Fargo Bank, N.A. The address and telephone number of the exchange agent for the exchange offer are set forth in the section entitled The Exchange Offer Exchange Agent of this prospectus.
Shelf Registration	If (i) because of any change in law or in applicable interpretations of the staff of the SEC, we are not permitted to effect the exchange offer, (ii) the exchange offer is not consummated within 300 days after the issuance of the outstanding notes, (iii) under certain circumstances, upon the request of any initial purchaser of the outstanding notes with respect to outstanding notes not eligible to be exchanged for exchange notes in the exchange offer or (iv) because of any applicable law or interpretation thereof, any holder (other than a broker-dealer that acquired outstanding securities for its own account as a result of market making activities) of outstanding notes is not eligible to participate in the exchange offer or any such holder does not receive freely tradeable exchange notes in the exchange offer, we will be required to use our reasonable best efforts to file and to cause to become effective a shelf registration statement under the Securities Act that would cover resales of outstanding notes.

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The Exchange Notes

The summary below describes the principal terms of the exchange notes. Certain of the terms and conditions described below are subject to important limitations and exceptions. The Description of Notes section of this prospectus contains a more detailed description of the terms and conditions of the exchange notes.

Issuers	Illinois Holdings and Texas Holdings on a several, and not joint, basis.
Securities Offered	\$200,000,000 aggregate principal amount of exchange notes.
Maturity Date	April 1, 2012.
Interest Payment Dates	Interest will be payable semi-annually in arrears on April 1 and October 1 of each year, commencing October 1, 2005.
Obligations of Illinois Holdings	Illinois Holdings will be severally liable with respect to the payment of, and interest on, 37.5% of each \$1,000 principal amount of the exchange notes.
Obligations of Texas Holdings	Texas Holdings will be severally liable with respect to the payment of, and interest on, 62.5% of each \$1,000 principal amount of the exchange notes.
Homebase Guarantee	Homebase will provide a guarantee of the several obligations of each of the issuers, which will be limited in recourse to a second priority pledge of the common stock of the issuers on the terms and conditions provided in the indenture.
Cross-Guarantees	Each issuer will guarantee the other issuer's payment obligations under the exchange notes on a senior unsecured basis on the terms and conditions provided in the indenture.
Ranking	<p>The exchange notes will be each issuer's senior unsecured obligations. Accordingly, the exchange notes and the related guarantees will rank:</p> <ul style="list-style-type: none"> equal in right of payment to any of such issuer's existing and future senior unsecured indebtedness; senior in right of payment to any of such issuer's existing and future subordinated indebtedness; and effectively junior in right of payment to all of such issuer's existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness. <p>In addition, the exchange notes will be effectively subordinated to the existing and future liabilities, including trade payables and any preferred stock, of such issuer's subsidiaries.</p> <p>As of March 31, 2005:</p> <ul style="list-style-type: none"> CCI Illinois and CCI Texas had approximately \$624.9 million of senior indebtedness, including the outstanding notes and the cross-guarantees, \$424.9 million of which was secured indebtedness;

CCI Illinois and CCI Texas had no subordinated indebtedness; and

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the issuers' subsidiaries had total indebtedness, including such subsidiaries' obligations under the existing credit facilities and the guarantees thereof, of approximately \$424.9 million.

Optional Redemption

The issuers may redeem the exchange notes at any time on or after April 1, 2008, in whole or in part, in cash, at the redemption prices described in this prospectus, plus accrued and unpaid interest to, and including, the date of redemption.

Any such partial redemption may be made by the two issuers concurrently on a *pro rata* basis (based on the relative proportions of such issuer's obligations under the exchange notes) or in disproportionate amounts. Any such partial redemption made in disproportionate amounts will reduce the respective, several liability of the two issuers disproportionately.

At any time prior to April 1, 2007, the issuers may, at their option and subject to certain requirements, redeem up to 35.0% of the aggregate principal amount of the exchange notes issued under the indenture with the net proceeds of certain equity offerings, including our proposed initial public offering of common stock, at a redemption price equal to 109.750% of the principal amount of the exchange notes plus accrued and unpaid interest thereon, if any, to the date of redemption.

Special Redemption

At any time prior to October 6, 2005, the issuers may redeem the exchange notes in whole but not in part with all or a portion of the net proceeds of an offering of a qualified income depository security at the redemption prices described in this prospectus, plus accrued and unpaid interest thereon, if any, to and including the date of redemption.

Change of Control

If we experience a Change of Control (as defined under "Description of Notes - Change of Control"), we will be required to make an offer to repurchase the exchange notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but excluding, the date of repurchase.

Certain Covenants

The exchange notes contain restrictive covenants that are identical to those contained in the outstanding notes. See "Description of Notes - Certain Covenants".

No Prior Market

The exchange notes will be new securities for which there is no market. Although the initial purchasers in the private offering of the outstanding notes have informed us that they intend to make a market in the outstanding notes and, if issued, the exchange notes, they are not obligated to do so and may discontinue market-making at any time without notice. Accordingly, we cannot assure you that a liquid market for the outstanding notes or exchange notes will develop or be maintained.

Table of Contents**Summary Unaudited Pro Forma Financial and Other Data**

The pro forma statement of operations data, other pro forma financial data and the Homebase pro forma data summarized below have been derived from the unaudited pro forma condensed financial statements of Homebase. The unaudited pro forma condensed financial statements of Homebase have been prepared to give pro forma effect to the transactions as if they had occurred on January 1, 2004. The historical cash flow data for the year ended December 31, 2004 and the three months ended March 31, 2005 summarized below have been derived from the financial statements of each of Illinois Holdings and Texas Holdings and its related predecessor, the results of which have been combined. The Homebase balance sheet data as of March 31, 2005, have been derived from Homebase's unaudited condensed consolidated balance sheet. The other data referred to below are approximations as of December 31, 2004. You should read the information summarized below in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations - CCI Illinois and CCI Texas, the unaudited pro forma condensed financial statements of Homebase and the related notes and the financial statements of each of Homebase, Illinois Holdings and Texas Holdings and the related notes included elsewhere in this prospectus.

	Year Ended December 31, 2004
	(dollars in thousands)
Pro Forma Statement of Operations Data:	
Total operating revenues	\$ 323,463
Cost of services and products (exclusive of depreciation and amortization shown separately below)	95,868
Selling, general and administrative	110,975
Intangible impairment charges	11,566
Depreciation and amortization	67,521
Income from operations	37,533
Interest expense, net	46,193
Other, net	4,764
Loss before income taxes	(3,896)
Income taxes	(307)
Net loss	\$ (3,589)
Other Pro Forma Financial Data:	
Total Telephone Operations revenues(1)	\$ 284,256
Other Data:	
Local access lines in service	
Residential	168,778
Business	86,430
Total local access lines	255,208
DSL subscribers	27,445
Total connections	282,653
Homebase Pro Forma Data:	
Cash interest expense	\$ 41,763

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	Year Ended December 31, 2004			Three Months Ended March 31, 2005		
	CCI Illinois	CCI Texas	Combined Historical	CCI Illinois	CCI Texas	Combined Historical
(dollars in thousands)						
Historical Cash Flow Data:						
Cash flows from operating activities	\$ 30,385	\$ 51,416	\$ 81,801	\$ 10,315	\$ 4,297	\$ 14,612
Cash flows used in investing activities	(13,339)	(543,780)	(557,119)	(1,421)	(4,112)	(5,533)
Cash flows from (used in) financing activities	(10,462)	526,155	515,693	(1,802)	(2,823)	(4,625)
Capital expenditures	13,339	23,406	36,745	1,421	4,112	5,533

	As of March 31, 2005
	(dollars in thousands)
Homebase Balance Sheet Data:	
Cash and cash equivalents	\$ 56,538
Total current assets	103,916
Net plant, property & equipment	353,060
Total assets	1,002,243
Total long-term debt (including current portion)	624,909
Redeemable preferred shares and stockholders deficit	189,061

- (1) Total Telephone Operations revenues consist of the sum of the revenues from Illinois Telephone Operations of \$97.3 million and all CCI Texas revenues of \$186.9 million for the year ended December 31, 2004. We present this data to show the most comparable results of telephone operations of CCI Illinois and CCI Texas. Whereas CCI Illinois has two segments, Illinois Telephone Operations and Other Illinois Operations, CCI Texas has one reportable segment, which includes its rural telephone company, transport and directory publishing businesses.

Ratio of Earnings to Fixed Charges

The following table shows the ratio of earnings to fixed charges of CCI Illinois and CCI Texas. The ratio of earnings to fixed charges has been computed by dividing:

income before income taxes plus fixed charges, by

fixed charges.

Fixed charges include interest, whether expensed or capitalized, amortization of deferred financing costs, and the portion of rental expense that is representative of interest or financing charges. For the years ended December 31, 2000, 2001 and 2002, CCI Texas earnings were insufficient to cover fixed charges by \$7.8 million, \$27.1 million and \$132.0 million, respectively.

	Fiscal Year					Three Months Ended	
						March 31,	March 31,
	2000	2001	2002	2003	2004	2004	2005
CCI Illinois ratio of earnings to fixed charges	2.20x	4.71x	7.95x	2.66x	1.53x	2.90x	2.07x
CCI Texas ratio of earnings to fixed charges	0.25x			3.07x	2.48x	1.30x	1.16x

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RISK FACTORS

You should carefully consider the following factors in addition to the other information contained in this prospectus before deciding to tender your outstanding notes for exchange notes pursuant to the exchange offer.

Risks Related to the Exchange Offer

If you choose not to exchange your outstanding notes, the present transfer restrictions will remain in force and the market price of your outstanding notes could decline.

If you do not exchange your outstanding notes for exchange notes in the exchange offer, then you will continue to be subject to the transfer restrictions on the outstanding notes as set forth in the confidential offering circular distributed in connection with the private offering of the outstanding notes. In general, the outstanding notes may not be offered or sold unless they are registered or exempt from registration under the Securities Act and applicable state securities laws. Except as required by the registration rights agreement, we do not intend to register resales of the outstanding notes under the Securities Act. You should refer to *The Exchange Offer* for information about how to tender your outstanding notes.

The tender of outstanding notes in the exchange offer will reduce the principal amount of the outstanding notes outstanding, which may have an adverse effect upon, and increase the volatility of, the market price of the outstanding notes due to a reduction in liquidity.

An active trading market for the exchange notes may not develop, which could reduce their value.

We are offering the exchange notes to the holders of the outstanding notes. The outstanding notes were offered and sold in April 2004 to a relatively small number of institutional investors and are eligible for trading in the Private Offerings, Resale and Trading through Automated Linkages (PORTAL) Market. We do not intend to apply to have the exchange notes listed on any securities exchange or automated dealer quotation system. Although the initial purchasers of the outstanding notes have advised us that they currently intend to make a market in the exchange notes, they are not obligated to do so. The initial purchasers could stop making a market at any time without notice. Accordingly, no market for the exchange notes may develop, and any market that develops may not last. Thus, we cannot ensure you that you will be able to sell any of the exchange notes at a particular time, at attractive prices, or at all. If the exchange notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our credit rating, our operating performance and financial condition and other factors. To the extent that an active trading market does not develop, the price at which you may be able to sell the exchange notes may be less than the price you paid for the outstanding notes.

Risks Relating to Our Indebtedness and Our Capital Structure

We have a substantial amount of debt outstanding and have significant interest payments.

We have a significant amount of debt outstanding. As of March 31, 2005, the issuers had \$624.9 million of total long-term debt (including current portion) outstanding and \$189.1 million of stockholders' equity. The degree to which we are leveraged has important consequences for you, including:

requiring us to dedicate a substantial portion of our cash flow from operations to make payments on our debt, thereby reducing funds available for operations, future business opportunities and other purposes;

limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

making it more difficult for us to satisfy our obligations with respect to the notes and our other debt obligations;

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limiting our ability to borrow additional funds, or to sell assets to raise funds, if needed, for working capital, capital expenditures, acquisitions or other purposes;

increasing our vulnerability to general adverse economic and industry conditions, including changes in interest rates;

limiting noteholders' rights to receive payments under the notes if lenders whose rights are senior have not been paid;

placing us at a competitive disadvantage compared to our competitors which have less debt; and

preventing us from raising the funds necessary to repurchase notes tendered to us if there is a change of control, which would constitute a default under the indenture governing the notes and the existing credit agreement.

We cannot assure that we will generate sufficient revenues to service and repay our debt and have sufficient funds left over to achieve or sustain profitability in our operations, meet our working capital and capital expenditure needs or compete successfully in our markets.

Subject to the restrictions in the existing credit agreement and the indenture, we may be able to incur additional debt, including secured and guaranteed debt that would effectively rank senior to the notes. As of March 31, 2005, we expect to be able to incur approximately \$215.7 million of additional debt. Although the terms of the existing credit agreement and the indenture contain restrictions on our ability to incur additional debt, these restrictions are subject to a number of important exceptions. If we incur additional debt, the risks associated with our substantial leverage, including our ability to service our debt, would likely increase.

We will require a significant amount of cash to service and repay our debt, including the notes, and our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on and repay our debt, including the notes, will depend on our ability to generate cash in the future, which will depend on many factors beyond our control. We cannot assure you that:

our business will generate sufficient cash flow from operations to service and repay our debt and to fund working capital and planned capital expenditures;

future borrowings will be available under our current or any future credit facilities in an amount sufficient to enable us to repay our debt; or

we will be able to refinance any of our debt on commercially reasonable terms or at all.

If we cannot generate sufficient cash from our operations to meet our debt service and repayment obligations, we may need to reduce or delay capital expenditures, the development of our business generally and any acquisitions. If for any reason we are unable to meet our debt service and repayment obligations, we would be in default under the terms of the agreements governing our debt, which would allow the lenders under the existing credit facilities to declare all borrowings outstanding to be due and payable, which would in turn trigger an event of default under the indenture. In addition, our lenders could compel us to apply all of our available cash to repay our borrowings or they could prevent us from making payments on the notes. If the amounts outstanding under the existing credit facilities or the notes were to be accelerated, we cannot assure you that our assets would be sufficient to repay in full the money owed to the lenders or to our other debt holders, including you as a noteholder.

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The indenture and the existing credit agreement contain covenants that limit the discretion of our management in operating our business and could prevent us from capitalizing on business opportunities and taking other corporate actions.

The indenture and the existing credit agreement impose significant operating and financial restrictions on us. These restrictions limit or restrict, among other things, our and our restricted subsidiaries' ability to:

incur additional debt and issue preferred stock;

make restricted payments, including paying dividends on, redeeming, repurchasing or retiring our capital stock;

make investments and prepay or redeem debt;

enter into agreements restricting our subsidiaries' ability to pay dividends, make loans or transfer assets to us;

create liens;

sell or otherwise dispose of assets, including capital stock of subsidiaries;

engage in transactions with affiliates;

engage in sale and leaseback transactions;

make capital expenditures;

engage in business other than telecommunications businesses; and

consolidate or merge.

In addition, the existing credit agreement requires, and any future credit agreements may require, us to comply with specified financial ratios, including regarding interest coverage, total leverage, senior secured leverage and fixed charge coverage. Our ability to comply with these ratios may be affected by events beyond our control. The restrictions contained in the indenture and the existing credit agreement:

limit our ability to plan for or react to market conditions, meet capital needs or otherwise restrict our activities or business plans; and

adversely affect our ability to finance our operations, enter into acquisitions or to engage in other business activities that would be in our interest.

In the event of a default under the existing credit agreement, the lenders could foreclose on the assets and capital stock pledged to them.

A breach of any of the covenants contained in the existing credit agreement, or in any future credit agreements, or our inability to comply with the financial ratios could result in an event of default, which would allow the lenders to declare all borrowings outstanding to be due and payable, which would in turn trigger an event of default under the indenture. In addition, our lenders could compel us to apply all of our available cash to repay our borrowings or they could prevent us from making payments on the notes. If the amounts outstanding under the existing credit facilities or the notes were to be accelerated, we cannot assure you that our assets would be sufficient to repay in full the money owed to the lenders or to our other debt holders, including you as a noteholder.

Homebase's guarantee is limited to a pledge of the common stock of each issuer.

Homebase provided a guarantee of the several obligations of each of the issuers that is limited in recourse to a second priority pledge of the common stock of the issuers. The guarantee is not a guarantee of payment or performance on the notes. If the issuers fail to fulfill their obligations under the notes or the indenture, you will not have the right to recover against any of Homebase's assets, other than the common stock of the issuers, after the

lenders under the existing credit facilities exercise any rights they will have against that guarantee. In addition, your rights under the pledge to foreclose on and sell the stock of the

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issuers would be subject to receipt of federal and Illinois regulatory commission approvals, which could be delayed, withheld or denied.

The notes are effectively subordinated to our secured debt to the extent of the value of the collateral securing the debt.

The indebtedness evidenced by the notes is our senior unsecured obligations. The notes rank equal in right of payment with all of our existing and future senior indebtedness, and senior to all of our existing and future subordinated indebtedness. Debt outstanding under the existing credit facilities is secured by a first priority security interest, subject to certain exceptions, in substantially all of our assets and, through secured guarantees, the assets of our subsidiaries. As of March 31, 2005, the total amount of our secured debt was \$424.9 million, excluding \$30.0 million in revolving credit availability and no outstanding letters of credit. In addition, in the future we may incur additional secured debt. The notes are also effectively subordinated to all of our secured indebtedness, including our obligations under the existing credit facilities, to the extent of the value of the assets securing such secured indebtedness.

If any of the following events were to occur, the holders of the secured debt could have the right to foreclose on their collateral to the exclusion of the holders of the notes even if an event of default were then to exist under the indenture governing the notes:

a bankruptcy, liquidation, reorganization or other winding up involving us or any of our subsidiaries;

a default in the payment under the existing credit facilities, the notes or other secured debt; or

an acceleration of any debt under the existing credit facilities, the notes or other secured debt.

Upon the occurrence of any of these events, there may not be sufficient funds to pay amounts due on the notes.

The indebtedness evidenced by the Homebase guarantee and the cross-guarantees of the issuers is senior unsecured indebtedness of the applicable guarantor. Such guarantees rank equal in right of payment with all existing and future senior indebtedness of such guarantor, and senior to all existing and future subordinated indebtedness of such guarantor. The guarantees are also effectively subordinated to any secured indebtedness of such guarantor, including the obligations of such guarantor under the existing credit facilities, to the extent of the value of the assets securing such secured indebtedness.

At March 31, 2005:

CCI Illinois and CCI Texas had approximately \$624.9 million of senior indebtedness, including the notes and the cross-guarantees, \$424.9 million of which was secured indebtedness of the issuers;

CCI Illinois and CCI Texas had no subordinated indebtedness; and

the issuers' subsidiaries had total indebtedness, including such subsidiaries' obligations under the existing credit facilities and the guarantees thereof, of approximately \$424.9 million.

Each of the issuers is a holding company, and they may not have access to sufficient cash to make payments on the notes. In addition, the notes are effectively subordinated to the liabilities and any preferred stock of the issuers' subsidiaries.

Each of the issuers is a holding company with no direct operations. The principal assets of each of the issuers are the equity interests it holds in its respective subsidiaries. As a result, the issuers are dependent upon dividends and other payments from their subsidiaries to generate the funds necessary to meet their outstanding debt and other obligations. The issuers' subsidiaries are legally distinct from the issuers and have no obligation to pay amounts due on the issuers' debt or to make funds available to the issuers for such payment. The issuers' subsidiaries may not generate sufficient cash from operations to enable the issuers to make principal and interest payments on their indebtedness, including the notes.

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The notes are the several obligations of the issuers. Since all of the operations of the issuers are conducted through their respective subsidiaries, none of which have guaranteed the notes, each issuer's ability to service its indebtedness, including the notes, will be dependent upon the earnings of its subsidiaries and the distribution of those earnings, or upon loans or other payments of funds, by those subsidiaries to such issuer. The payment of dividends and the making of loans and advances to each issuer by its subsidiaries may be subject to various restrictions, including restrictions under the existing credit agreement more fully described below. In addition, the ability of each issuer's subsidiaries to make such payments or advances to such issuer may be limited by the laws of the relevant states in which such subsidiaries are organized or located, including, in some instances, by requirements imposed by state regulatory bodies that oversee the telecommunications industry in such states. In certain circumstances, the prior or subsequent approval of such payments or advances by such subsidiaries to such issuer is required from such regulatory bodies or other governmental entities.

The notes will not be guaranteed by the issuers' subsidiaries. The existing credit facilities are, and future credit facilities may be, guaranteed by some of the issuers' subsidiaries. In addition, claims of creditors of such subsidiaries, including trade creditors, and claims of preferred stockholders (if any) of such subsidiaries generally will have priority with respect to the assets and earnings of such subsidiaries over the claims of creditors of such issuer. The notes, therefore, are effectively subordinated to creditors (including trade creditors) and preferred stockholders (if any) of the subsidiaries of such issuer. Although the indenture contains limitations on the amount of additional indebtedness that the issuers and their restricted subsidiaries may incur, the amounts of such indebtedness could be substantial and such indebtedness may be secured indebtedness. In addition, each of the issuers' subsidiaries have other liabilities, including contingent liabilities (including the cross-guarantee obligations under the existing credit facilities), that may be significant. As of March 31, 2005, the issuers' subsidiaries had total indebtedness and other liabilities of \$612.4 million.

The Illinois Commerce Commission, or ICC, and the Public Utility Commission of Texas, or the PUCT, may require our rural telephone companies to make minimum amounts of capital expenditures and could limit the amount of cash available to transfer from our rural telephone companies to the issuers. As part of the ICC's review of the reorganization we expect to implement in connection with our proposed initial public offering, the ICC imposed various conditions as part of its approval of the reorganization, including (1) prohibitions on the payment of dividends or other cash transfers from our Illinois rural telephone company to us if it fails to meet or exceed agreed benchmarks for a majority of seven service quality metrics and (2) the requirement that our Illinois rural telephone company have access to the higher of \$5.0 million or its currently approved capital expenditure budget for each calendar year through a combination of available cash and amounts available under credit facilities. In addition, the Illinois Public Utilities Act prohibits the payment of dividends by ICTC, except out of earnings and earned surplus, if ICTC's capital is or would become impaired by payment of the dividend, or if payment of the dividend would impair ICTC's ability to render reasonable and adequate service at reasonable rates, unless the ICC otherwise find that the public interest requires payment of the dividend, subject to any conditions imposed by the ICC.

In addition, the existing credit agreement restricts all payments to the issuers during the continuance of a payment default and also restrict payments to the issuers for a period of up to 180 days during the continuance of a non-payment default. The existing credit agreement also limits the amounts CCI Illinois and CCI Texas may spend on capital expenditures through 2011. CCI Illinois and CCI Texas are limited to aggregate capital expenditures of \$45.0 million per year. In the event the full amount allotted to capital expenditures is not spent during a fiscal year, the remaining balance may be carried forward to the following year only. However, the carried forward balance may not be utilized until such time as the amount originally established as the capital expenditure limit for such year has been fully-utilized.

The issuers' subsidiaries are permitted under the terms of our indebtedness to incur additional indebtedness that may restrict payments from the issuers' subsidiaries to the issuers. We cannot assure you that agreements governing current and future indebtedness of the issuers' subsidiaries will permit those subsidiaries to provide the issuers with sufficient cash to fund payments on the notes when due.

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U.S. bankruptcy or fraudulent conveyance law may interfere with the payment of the notes.

The incurrence by the issuers of debt, such as the notes, may be subject to review under U.S. federal bankruptcy law or relevant state fraudulent conveyance laws if a bankruptcy proceeding or lawsuit is commenced by or on behalf of unpaid creditors of the issuers. Under these laws, if in such a proceeding or lawsuit a court were to find that, at the time either of the issuers incurred debt (including debt represented by the notes),

either of the issuers incurred this debt with the intent of hindering, delaying or defrauding current or future creditors; or

either of the issuers received less than reasonably equivalent value or fair consideration for incurring this debt and either of the issuers:

were insolvent or were rendered insolvent by reason of any of the transactions;

were engaged, or about to engage, in a business or transaction for which the assets remaining with the applicable issuer constituted unreasonably small capital to carry on their business;

intended to incur, or believed that they would incur, debts beyond their respective ability to pay as these debts matured (as all of the foregoing terms are defined in or interpreted under the relevant fraudulent transfer or conveyance statutes); or

were defendants in an action for money damages or had a judgment for money damages docketed against them (if, in either case, after final judgment the judgment is unsatisfied),

then that court could avoid or subordinate the amounts owing under the notes to presently existing and future debt of the applicable issuer and take other actions detrimental to you.

The measure of insolvency for purposes of the foregoing considerations will vary depending upon the law of the jurisdiction that is being applied in any proceeding. Generally, a company would be considered insolvent if, at the time it incurred the debt,

the sum of its debts (including contingent liabilities) is greater than its assets, at fair valuation;

the present fair saleable value of its assets is less than the amount required to pay the probable liability on its total existing debts and liabilities (including contingent liabilities) as they become absolute and mature; or

it could not pay its debts as they became due.

We cannot predict what standards a court would use to determine whether either issuer was solvent at the relevant time, or whether the notes would not be avoided or further subordinated on another of the grounds set forth above. In rendering their opinions in connection with the transactions, counsel for the issuers did not express any opinion as to the applicability of federal or state fraudulent transfer and conveyance laws.

We believe that at the time the issuers initially incurred debt represented by the notes:

neither issuer was:

insolvent or rendered insolvent by the incurrence;

lacking sufficient capital to run its businesses effectively; or

unable to pay obligations on the notes as they mature or become due; and

each had sufficient assets to satisfy any probable money judgment against it in any pending action.

In reaching the foregoing conclusions, we relied upon our analyses of internal cash flow projections and estimated values of assets and liabilities of the issuers. We cannot assure you, however, that a court passing on the same questions would reach the same conclusions.

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We may be unable to repurchase the notes upon a change of control as required by the indenture.

Upon the occurrence of a change of control as specified in Description of Notes , we will be required to make an offer to repurchase all notes then outstanding. In this circumstance, we cannot assure you that we will have sufficient funds available to repay all of our senior debt and any other debt that would become payable upon a change of control and to repurchase the notes. Our failure to purchase the notes would be a default under the indenture, which would in turn trigger a default under the existing credit agreement, which we would need to cure or refinance the existing credit facilities, before making the change of control offer.

Agreements governing future senior indebtedness of the issuers may contain prohibitions of certain events that would constitute a change of control or require such senior indebtedness to be repurchased or repaid upon a change of control. Moreover, the exercise by the holders of their right to require the issuers to repurchase the notes could cause a default under such agreements, even if the change of control itself does not, due to the financial effect of such repurchase on the issuers. Finally, an issuer's ability to pay cash to the holders upon a repurchase may be limited by such issuer's then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make any required repurchases.

The definition of change of control includes a phrase relating to the sale or other transfer of all or substantially all of Homebase's or an issuer's assets. There is no precise definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty in ascertaining whether a particular transaction would involve a disposition of all or substantially all of the assets of Homebase or the issuers, and therefore it may be unclear as to whether a change of control has occurred and whether the holders of the notes have the right to require the issuers to repurchase such notes.

None of Homebase's owners or their affiliates will have any liability for payments on the notes.

Our ability to make payments on the notes will be solely dependent upon our ability to generate sufficient cash from our operations. If we fail to fulfill our obligations under the notes or the indenture, you will not have the right to recover against any of Homebase's owners or against their respective parents or other affiliates.

Should our proposed initial public offering occur, we will face several additional risks.

We may face several additional risks following the consummation of the proposed initial public offering, including the following:

Pursuant to our proposed dividend policy, we expect to distribute to our stockholders a substantial portion of the cash generated by our business, which will significantly reduce the amount of excess cash available for other uses, including payments on our outstanding indebtedness. In addition, if the cash generated by our business were to fall below our current expectations, in order to continue to pay dividends in accordance with our proposed dividend policy, we may need to fund dividends from a variety of sources, including (a) by incurring additional debt, which would likely increase the risks associated with our substantial leverage, including reducing our ability to service our debt, and/or (b) from other sources, such as by asset sales or reducing other expected cash uses, such as capital expenditures, both which could have a material adverse affect on our business.

Our proposed dividend policy may limit our ability to pursue growth opportunities and otherwise make us more dependent upon third party financing in order to pursue growth opportunities, which may not be available to us on reasonable terms or at all.

As a public company with listed equity securities, we will need to comply with new laws, regulations and requirements, which will increase our costs and expenses and occupy a significant amount of our directors', officers' and management's time.

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Risk Factors Relating to Our Business

The telecommunications industry is generally subject to substantial regulatory changes, rapid development and introduction of new technologies and intense competition that could cause us to suffer price reductions, customer losses, reduced operating margins or loss of market share.

The telecommunications industry has been, and we believe will continue to be, characterized by several trends, including the following:

substantial regulatory change due to the passage and implementation of the Telecommunications Act, which included changes designed to stimulate competition for both local and long distance telecommunications services;

rapid development and introduction of new technologies and services;

increased competition within established markets from current and new market entrants that may provide competing or alternative services;

the blurring of traditional dividing lines between, and the bundling of, different services, such as local dial tone, long distance, wireless, cable, data and Internet services; and

an increase in mergers and strategic alliances that allow one telecommunications provider to offer increased services or access to wider geographic markets.

We expect competition to intensify as a result of new competitors and the development of new technologies, products and services. Some or all of these risks may cause us to have to spend significantly more in capital expenditures than we currently anticipate to keep existing, and attract new, customers.

Many of our voice and data competitors, such as cable providers, Internet access providers, wireless service providers and long distance carriers have brand recognition and financial, personnel, marketing and other resources that are significantly greater than ours. In addition, due to consolidation and strategic alliances within the telecommunications industry, we cannot predict the number of competitors that will emerge, especially as a result of existing or new federal and state regulatory or legislative actions. For example, the pending acquisition of AT&T, one of our largest customers, by SBC, the dominant local exchange company in the areas in which our Texas rural telephone companies operate, could increase competitive pressures for our services and impact our long distance and access revenues. Such increased competition from existing and new entities could lead to price reductions, loss of customers, reduced operating margins or loss of market share.

The use of new technologies by other existing companies may increase our costs and cause us to lose customers and revenues.

The telecommunications industry is subject to rapid and significant changes in technology, frequent new service introductions and evolving industry standards. Technological developments may reduce the competitiveness of our services and require unbudgeted upgrades, significant capital expenditures and the procurement of additional services that could be expensive and time consuming. New services arising out of technological developments may reduce the competitiveness of our services. If we fail to respond successfully to technological changes or obsolescence or fail to obtain access to important new technologies, we could lose customers and revenues and be limited in our ability to attract new customers or sell new services to our existing customers. The successful development of new services, which is an element of our business strategy, is uncertain and dependent on many factors, and we may not generate anticipated revenues from such services, which would reduce our profitability. We cannot predict the effect of these changes on our competitive position, costs or our profitability.

In addition, part of our marketing strategy is based on market acceptance of DSL. We expect that an increasing amount of our revenues will come from providing DSL service. The market for high-speed Internet access is still developing, and we expect current competitors and new market entrants to introduce competing services and to develop new technologies. The markets for our DSL services could fail to

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develop, grow more slowly than anticipated or become saturated with competitors with superior pricing or services. In addition, our DSL offerings may become subject to newly adopted laws and regulations. We cannot predict the outcome of these regulatory developments or how they may affect our regulatory obligations or the form of competition for these services. As a result, we could have higher costs and capital expenditures, lower revenues and greater competition than expected for DSL services.

If we are not successful in integrating TXUCV, we may have higher costs and fail to achieve expected cost savings, among other things.

Our future success, and thus our ability to pay interest and principal on the notes, will depend in part on our ability to integrate TXUCV into our business. We currently expect to incur approximately \$14.5 million in operating expenses associated with the integration and restructuring of TXUCV in 2004 and 2005. Of the \$14.5 million, approximately \$11.5 million relates to the integration and approximately \$3.0 million relates to restructuring. These one-time integration and restructuring costs will be in addition to certain ongoing costs we expect to incur to expand certain administrative functions, such as those relating to SEC reporting and compliance and do not take into account other potential cost savings and expenses of the TXUCV acquisition. The integration of TXUCV involves numerous risks, including the following:

greater demands on our management and administrative resources;

difficulties and unexpected costs in integrating the operations, personnel, services, technologies and other systems of CCI Illinois and CCI Texas;

possible unexpected loss of key employees, customers and suppliers;

unanticipated liabilities and contingencies of TXUCV and its business;

unexpected costs of integrating the management and operation of the two businesses; and

failure to achieve expected cost savings.

These challenges and uncertainties could increase our costs and cause our management to spend less time than expected executing our business strategy. We may not be able to manage the combined operations and assets effectively or realize all or any of the anticipated benefits of the acquisition. To the extent that we make any additional acquisitions in the future, these risks would likely be exacerbated.

We may become responsible for unexpected liabilities or other contingencies that we did not discover in the course of performing due diligence in connection with the acquisition. Under the stock purchase agreement, the parent company of TXUCV agreed to indemnify us against certain undisclosed liabilities. We cannot assure you, however, that any indemnification will be enforceable, collectible or sufficient in amount, scope or duration to fully offset any possible liabilities associated with the acquisition. Any of these contingencies, individually or in the aggregate, could increase our costs.

Our possible pursuit of acquisitions is expensive, may not be successful and, even if it is successful, may be more costly than anticipated.

Our acquisition strategy entails numerous risks. The pursuit of acquisition candidates is expensive and may not be successful. Our ability to complete future acquisitions will depend on our ability to identify suitable acquisition candidates, negotiate acceptable terms for their acquisition and, if necessary, finance those acquisitions, in each case, before any attractive candidates are purchased by other parties, some of whom may have greater financial and other resources than us. Whether or not any particular acquisition is closed successfully, each of these activities is expensive and time consuming and would likely require our management to spend considerable time and effort to accomplish them, which would detract from their ability to run our current business. We may face unexpected challenges in receiving any required approvals from the FCC, the ICC, or other applicable state regulatory commissions, which could result in delay or our not being able to consummate the acquisition. Although we may spend considerable

expense and effort to pursue acquisitions, we may not be successful in closing them.

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If we are successful in closing any acquisitions, we would face several risks in integrating them, including those listed above regarding the risks of integrating TXUCV. In addition, any due diligence we perform may not prove to have been accurate. For example, we may face unexpected difficulties in entering markets in which we have little or no direct prior experience or in generating expected revenue and cash flow from the acquired companies or assets. The risks identified above may make it more challenging and costly to integrate TXUCV if we have not done so fully by the time of any new acquisition.

Currently, we are not pursuing any acquisitions or other strategic combinations. But, if any of these risks materialize, they could have a material adverse effect on our business and our ability to achieve sufficient cash flow, provide adequate working capital, service and repay our indebtedness, including the notes.

Poor economic conditions in our service areas in Illinois and Texas could cause us to lose local access lines and revenues.

Substantially all of our customers and operations are located in Illinois and Texas. The customer base for telecommunications services in each of our rural telephone companies' service areas in Illinois and Texas is small and geographically concentrated, particularly for residential customers. Due to our geographical concentration, the successful operation and growth of our business is primarily dependent on economic conditions in our rural telephone companies' service areas. The economies of these areas, in turn, are dependent upon many factors, including:

demographic trends;

in Illinois, the strength of the agricultural markets and the light manufacturing and services industries, continued demand from universities and hospitals and the level of government spending; and

in Texas, the strength of the manufacturing and retail industries and continued demand from schools and hospitals.

Poor economic conditions and other factors beyond our control in our rural telephone companies' service areas could cause a decline in our local access lines and revenues.

A system failure could cause delays or interruptions of service, which could cause us to lose customers.

In the past, we have experienced short, localized disruptions in our service due to factors such as cable damage, inclement weather and service failures of our third party service providers. To be successful, we will need to continue to provide our customers reliable service over our network. The principal risks to our network and infrastructure include:

physical damage to our central offices or local access lines;

disruptions beyond our control;

power surges or outages; and

software defects.

Disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause us to lose customers and incur unexpected expenses, and thereby adversely affect our business, revenues and cash flow.

Loss of a large customer could reduce our revenues. In addition, a significant portion of our revenues from the State of Illinois is based on contracts that are favorable to the government.

Our success depends in part upon the retention of our large customers such as AT&T, McLeodUSA and the State of Illinois. After giving effect to the TXUCV acquisition, AT&T accounted for 4.1% and the

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State of Illinois accounted for 6.1% of our revenues during 2004, and 4.0% and 5.7% of our revenues for the three months ended March 31, 2005, respectively. McLeodUSA, which in 2002 completed a bankruptcy restructuring, accounted for 6.3% and the State of Illinois's various relationships with CCI Illinois accounted for 14.5% of CCI Illinois revenues during 2004 and 4.4% and 13.7% for the three months ended March 31, 2005. In general, telecommunications companies such as ours face the risk of losing customers as a result of a contract expiration, merger or acquisition, business failure or the selection of another provider of voice or data services. In addition, we generate a significant portion of our operating revenues from originating and terminating long distance and international telephone calls for carriers such as AT&T and MCI, which are in the process of being acquired or are experiencing substantial financial difficulties. We cannot assure you that we will be able to retain long-term relationships or secure renewals of short-term relationships with our customers in the future.

In 2004, virtually all of the revenues of the Public Services business and 40.8% of the revenues of the Market Response business of our Other Illinois Operations were derived from our relationships with various agencies of the State of Illinois, principally the Department of Corrections and the Toll Highway Authority and various county governments in Illinois. Obtaining contracts from government agencies is challenging, and government contracts, like our contracts with the State of Illinois, often include provisions that are favorable to the government in ways that are not standard in private commercial transactions. Specifically, each of our contracts with the State of Illinois:

includes provisions that allow the respective state agency to terminate the contract without cause and without penalty under some circumstances;

is subject to decisions of state agencies that are subject to political influence on renewal;

gives the State of Illinois the right to renew the contract at its option but does not give us the same right; and

could be cancelled if state funding becomes unavailable.

The failure of the State of Illinois to perform under the existing agreements for any reason, or to renew the agreements when they expire, could have a material adverse effect on the revenues of CCI Illinois. For example, the State of Illinois, which represented 40.8% of Market Response's revenues for 2004, recently awarded the renewal of the Illinois State Toll Highway Authority contract, the sole source of those revenues, to another provider.

If we are unsuccessful in obtaining and maintaining necessary rights-of-way for our network, our operations may be interrupted and we would likely face increased costs.

We need to obtain and maintain the necessary rights-of-way for our network from governmental and quasi-governmental entities and third parties, such as railroads, utilities, state highway authorities, local governments and transit authorities. We may not be successful in obtaining and maintaining these rights-of-way or obtaining them on acceptable terms whether in existing or new service areas. Some of the agreements relating to these rights-of-way may be short-term or revocable at will, and we cannot be certain that we will continue to have access to existing rights-of-way after they have expired or terminated. If any of our rights-of-way agreements were terminated or could not be renewed, we may be forced to remove our network elements from under the affected rights-of-way or relocate or abandon our networks. We may not be able to maintain all of our existing rights-of-way and permits or obtain and maintain the additional rights-of-way and permits needed to implement our business plan. In addition, our failure to maintain the necessary rights-of-way, franchises, easements, licenses and permits may result in an event of default under the existing credit agreement and other credit agreements we may enter into in the future. As a result of the above, our operations may be interrupted and we may need to find alternative rights-of-way and make unexpected capital expenditures.

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We are dependent on third party vendors for our information and billing systems. Any significant disruption in or relationship with these vendors could increase our costs and affect our operating efficiencies.

Sophisticated information and billing systems are vital to our ability to monitor and control costs, bill customers, process customer orders, provide customer service and achieve operating efficiencies. We currently rely on internal systems and third party vendors to provide all of our information and processing systems. Some of our billing, customer service and management information systems have been developed by third parties for us and may not perform as anticipated. In addition, our plans for developing and implementing our information and billing systems rely primarily on the delivery of products and services by third party vendors. Our right to use these systems is dependent upon license agreements with third party vendors. Some of these agreements are cancelable by the vendor, and the cancellation or nonrenewable nature of these agreements could impair our ability to process orders or bill our customers. Since we rely on third party vendors to provide some of these services, any switch in vendors could be costly and affect operating efficiencies.

We may be unable to repurchase the shares of Homebase as required by the Limited Liability Company Agreement of Homebase.

After December 31, 2007, each of our existing equity investors will have the right to require Homebase to repurchase all of its shares of Homebase, subject to certain regulatory approvals. In this circumstance, we cannot assure you that we will have sufficient funds available to repurchase all of the shares or even be permitted to do so under the indenture or the terms of the existing credit agreement. Our failure to repurchase the shares would result in the commencement of a sale process of our company.

We cannot predict how a change in control of our existing equity investors or an exit of any of them could affect our operations or business.

Subject to certain restrictions, our existing equity investors may transfer their interests in Homebase or engage in other business combination transactions with a third party or with the other investors that could result in a change in control of any one of them or Homebase. Therefore, any transfer of an interest in Homebase or change of control of any one of our existing equity investors could affect our governance. We cannot predict how a change of existing equity investors would affect our operations or business.

Unless waived by each of our existing equity investors, the LLC agreement provides that a direct, and in the case of Central Illinois Telephone an indirect, transfer of an interest in Homebase generally may occur only after a certain date and only if the other existing equity investors are first offered the opportunity to purchase the interest. We cannot be certain that our existing equity investors will not sell, transfer or otherwise modify their ownership interest in us, whether in transactions involving third parties or the other investors.

Our existing equity investors control important decisions affecting our governance and our operations and their interests may differ from our and your interests.

Circumstances may arise in which the interests of our existing equity investors could be in conflict with yours as a holder of exchange notes. In particular, our existing equity investors may have an interest in pursuing certain strategies or transactions that, in their judgment, enhance the value of their investment in Homebase even though these strategies or transactions may involve risks to you as a holder of exchange notes. Further conflicts of interest may arise between you and our existing equity investors when we are faced with decisions that could have different implications for you and our existing equity investors, including financial budgets, potential competition, the issuance or disposition of securities, the payment of distributions by Homebase, regulatory and legal positions and other matters. Because our existing equity investors control Homebase, these conflicts may be resolved in a manner adverse to, or that imposes more risks on, the noteholders.

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In addition, conflicts of interest may arise between Homebase and one or more of our existing equity investors when we are faced with decisions that could have different implications for Homebase and our existing equity investors. Although our LLC agreement provides certain procedural protections and requires that any transaction or dealing between Homebase and an existing equity investor or one of its affiliates be approved on Homebase's behalf by a majority vote of the disinterested members of our board of managers, this does not address all conflicts of interest that may arise. For example, Homebase's existing equity investors and their affiliates are permitted to compete with us. Because our existing equity investors control us, conflicts of interest arising because of competition between Homebase and an existing equity investor could be resolved in a manner adverse to Homebase. It is possible that there will be situations where our existing equity investors' interests are in conflict with Homebase's interests, and Homebase's existing equity investors acting through the board of managers or through our executive officers could resolve these conflicts in a manner adverse to Homebase.

Important decisions require the approval of our board of managers that are appointed by our existing equity investors and a failure to agree could result in deadlock.

Under the terms of the LLC agreement, our board of managers manages and controls our business, property and affairs, including the determination and implementation of our strategic direction. Our board of managers consists of four directors, with one currently appointed by each of Providence Equity and Spectrum Equity and two currently appointed by Central Illinois Telephone. If, and after the date the ICC approves the new governance structure, which is summarized under Certain Relationships and Related Party Transactions Limited Liability Company Agreement Action by the Board of Managers Action by the Board of Managers Following ICC Approval of Governance Change, each existing equity investor will effectively control one-third of our board of managers subject to specified rights of Mr. Lumpkin, as a director, or the other director designated by Central Illinois Telephone, as applicable, to approve certain actions. Prior to ICC approval of our new governance structure by the ICC, each of the directors will have one vote. While the directors appointed by Central Illinois Telephone are required to vote in favor of matters that do not affect CCI Illinois, or Homebase's interest in CCI Illinois, that are approved by the directors appointed by Providence Equity and Spectrum Equity, with regard to matters relating to CCI Illinois and Homebase's interest in CCI Illinois, it is possible that the board of managers may not reach agreement regarding matters that are important to us, which could result in a deadlock. The majority vote of the directors does not include procedures for resolving deadlocks. If deadlocks cannot be resolved, inaction may result, which could, among other things, result in us losing business opportunities.

The loss of key management personnel, or the inability to attract and retain highly qualified management and other personnel in the future, could have a material adverse effect on our business, financial condition and results of operations.

Our success depends upon the talents and efforts of key management personnel, many of whom have been with our company and our industry for a long time, including Mr. Lumpkin, Robert J. Currey, Steven L. Childers, Joseph R. Dively, Steven J. Shirar, C. Robert Udell, Jr. and Christopher A. Young. There are no employment agreements with any of these senior managers. The loss of any such management personnel, due to retirement or otherwise, and the inability to attract and retain highly qualified technical and management personnel in the future, could have a material adverse effect on our business, financial condition and results of operations.

If we are not able to implement the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 in a timely manner or with adequate compliance, we may be unable to provide the required financial information in a timely and reliable manner and may be subject to sanctions by regulatory authorities. The perception of these matters could cause our share price to fall.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 and related regulations implemented by the SEC are creating

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uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. We will be evaluating our internal controls systems to allow management to report on, and our independent auditors to attest to, our internal controls. We will be performing the system and process evaluation and testing (and any necessary remediation) required to comply with the management certification and auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act. While we anticipate being able to fully implement the requirements relating to internal controls and all other aspects of Section 404 by our December 31, 2006 deadline, we cannot be certain as to the timing of completion of our evaluation, testing and remediation actions or the impact of the same on our operations since there is presently no precedent available by which to measure compliance adequacy. If we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, we might be subject to sanctions or investigation by regulatory authorities such as the SEC. Any such action could adversely affect our financial results or investors' confidence in our company. In addition, the controls and procedures that we will implement may not comply with all of the relevant rules and regulations of the SEC. If we fail to develop and maintain effective controls and procedures, we may be unable to provide the financial information in a timely and reliable manner.

Regulatory Risks

The telecommunications industry in which we operate is subject to extensive federal, state and local regulation that could change in a manner adverse to us.

Our main sources of revenues are our local telephone businesses in Illinois and Texas. The laws and regulations governing these businesses may be, and in some cases have been, challenged in the courts, and could be changed by Congress, state legislatures or regulators at any time. In addition, new regulations could be imposed by federal or state authorities increasing our operating costs or capital requirements or that are otherwise adverse to us. We cannot predict the impact of future developments or changes to the regulatory environment or the impact such developments or changes may have on us. Adverse rulings, legislation or changes in governmental policy on issues material to us could increase our competition, cause us to lose customers to competitors and decrease our revenues, increase our costs and decrease profitability.

Our rural telephone companies could lose their rural status under interconnection rules, which would increase our costs and could cause us to lose customers and the associated revenues to competitors.

The Telecommunications Act imposes a number of interconnection and other requirements on local communications providers, including incumbent telephone companies. Each of the subsidiaries through which we operate our local telephone businesses is an incumbent telephone company and is also classified as a rural telephone company under the Telecommunications Act. The Telecommunications Act exempts rural telephone companies from some of the more burdensome interconnection requirements such as unbundling of network elements and sharing information and facilities with other communications providers. These unbundling requirements and the obligation to offer unbundled network elements, or UNEs, to competitors, impose substantial costs on, and result in customer attrition for, the incumbent telephone companies that must comply with these requirements. The ICC or the PUCT can terminate the applicable rural exemption for each of our rural telephone companies if it receives a bona fide request for full interconnection from another telecommunications carrier and the state commission determines that the request is technically feasible, not unduly economically burdensome and consistent with universal service requirements. Neither the ICC nor the PUCT has yet terminated, or proposed to terminate, the rural exemption for any of our rural telephone companies. However, our Illinois rural telephone company has received a request that we provide interconnection services that are not required of an incumbent telephone company holding a rural exemption, which could result in a request to the ICC to terminate our Illinois rural telephone company's exemption. If the ICC or PUCT terminates the applicable rural exemption in whole or in part for any of our rural telephone companies, or if the applicable state commission does not allow us adequate compensation for the costs of providing the interconnection or

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UNEs, our administrative and regulatory costs could increase significantly and we could suffer a significant loss of customers and revenues to existing or new competitors.

Legislative or regulatory changes could reduce or eliminate the revenues our rural telephone companies receive from network access charges.

A significant portion of our rural telephone companies' revenues come from network access charges paid by long distance and other carriers for originating or terminating calls in our rural telephone companies' service areas. The amount of network access charge revenues that our rural telephone companies receive is based on interstate rates set by the FCC and intrastate rates set by the ICC and PUCT. The FCC has reformed, and continues to reform, the federal network access charge system, and the states, including Illinois and Texas, often establish intrastate network access charges that mirror or otherwise interrelate with the federal rules.

Traditionally, regulators have allowed network access rates to be set higher in rural areas than the actual cost of originating or terminating calls as an implicit means of subsidizing the high cost of providing local service in rural areas. In 2001, the FCC adopted rules reforming the network access charge system for rural carriers, including reductions in per-minute access charges and increases in both universal service fund subsidies and flat-rate, monthly per line charges on end-user customers. Our Illinois rural telephone company's intrastate network access rates mirror interstate network access rates. Illinois does not provide, however, an explicit subsidy in the form of a universal service fund applicable to our Illinois rural telephone company. As a result, while subsidies from the federal universal service fund have offset Illinois Telephone Operations' decrease in revenues resulting from the reduction in interstate network access rates, there was not a corresponding offset for the decrease in revenues from the reduction in intrastate network access rates.

The FCC is currently considering even more sweeping potential changes in network access charges. Depending on the FCC's decisions, our current network access charge revenues could be reduced materially, and we do not know whether increases in other revenues, such as federal or Texas subsidies and monthly line charges, will be sufficient to offset any such reductions. The ICC and the PUCT also may make changes in our intrastate network access charges, which may also cause reductions in our revenues. To the extent any of our rural telephone companies become subject to competition and competitive telephone companies increase their operations in the areas served by our rural telephone companies, a portion of long distance and other carriers' network access charges will be paid to our competitors rather than to our companies. In addition, the compensation our companies receive from network access charges could be reduced due to competition from wireless carriers.

In addition, VOIP services are increasingly being embraced by cable companies, incumbent telephone companies, competitive telephone companies and long distance carriers. The FCC is considering whether VOIP services are regulated telecommunications services or unregulated information services and is considering whether providers of VOIP services are obligated to pay access charges for calls originating or terminating on incumbent telephone company facilities. We cannot predict the outcome of the FCC's rulemaking or the impact on the revenues of our rural telephone companies. The proliferation of VOIP, particularly to the extent such communications do not utilize our rural telephone companies' networks, may cause significant reductions to our rural telephone companies' network access charge revenues.

We believe telecommunications carriers, such as long distance carriers or VOIP providers, are disputing and/or avoiding their obligation to pay network access charges to rural telephone companies for use of their networks. If carriers successfully dispute or avoid the applicability of network access charges, our revenues could decrease.

In recent years, telecommunications carriers, such as long distance carriers or VOIP providers, have become more aggressive in disputing interstate access charge rates set by the FCC and the applicability of network access charges to their telecommunications traffic. We believe that these disputes have increased in part due to advances in technology that have rendered the identity and jurisdiction of traffic more difficult to

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ascertain and that have afforded carriers an increased opportunity to assert regulatory distinctions and claims to lower access costs for their traffic. As a result of the increasing deployment of VOIP services and other technological changes, we believe that these types of disputes and claims will likely increase. In addition, we believe that there has been a general increase in the unauthorized use of telecommunications providers' networks without payment of appropriate access charges, or so-called "phantom traffic", due in part to advances in technology that have made it easier to use networks without having to pay for the traffic. As a general matter, we believe that this phantom traffic is due to unintended usage and, in some cases, fraud. We cannot assure you that there will not be material claims made against us contesting the applicability of network access charges billed by our rural telephone companies or continued or increased phantom traffic that uses our network without paying us for it. If there is a successful dispute or avoidance of the applicability of network access charges, our revenues could decrease.

Legislative or regulatory changes could reduce or eliminate the government subsidies we receive.

The federal and Texas state system of subsidies, from which we derive a significant portion of our revenues, are subject to modification. Our rural telephone companies receive significant federal and state subsidy payments.

In 2004, CCI Illinois received \$10.6 million from the federal universal service fund and CCI Texas received an aggregate of \$40.9 million from the federal universal service fund and the Texas universal service fund, which in the aggregate comprised 15.9% of our revenues in 2004, after giving effect to the TXUCV acquisition.

For the three months ended March 31, 2005, CCI Illinois received \$4.2 million from the federal universal service fund and CCI Texas received an aggregate of \$9.5 million from the federal universal service fund and the Texas universal service fund, which in the aggregate comprised 17.2% of our revenues for the three months ended March 31, 2005

During the last two years, the FCC has made modifications to the federal universal service fund system that changed the sources of support and the method for determining the level of support recipients of federal universal service fund subsidies receive. It is unclear whether the changes in methodology will continue to accurately reflect the costs incurred by our rural telephone companies and whether we will continue to receive the same amount of federal universal service fund support that our rural telephone companies have received in the past. The FCC is also currently considering a number of issues regarding the source and amount of contributions to, and eligibility for payments from, the federal universal service fund, and these issues may also be the subject of legislative amendments to the Telecommunications Act.

In December 2004, Congress suspended the application of a law called the Urgent Deficiency Act to the FCC's universal service fund until December 31, 2005. The Urgent Deficiency Act prohibits government agencies from making financial commitments in excess of their funds on hand. Currently, the universal service fund administrator makes commitments to fund recipients in advance of collecting the contributions from carriers that will pay for these commitments. The FCC has not determined whether the Urgent Deficiency Act would apply to payments to our rural telephone companies. Congress is now considering whether to extend the current temporary legislation that exempts the universal service fund from the Urgent Deficiency Act. If it does not grant this extension, however, the universal service subsidy payments to our rural telephone companies may be delayed or reduced in the future.

We cannot predict the outcome of any federal or state legislative action or any FCC, PUCT or ICC rulemaking or similar proceedings. If our rural telephone companies do not continue to receive federal and state subsidies, or if these subsidies are reduced, our rural telephone companies will likely have lower revenues and may not be able to operate as profitably as they have historically. In addition, if the number of local access lines that our rural telephone companies serve increases, under the rules governing the federal universal service fund, the rate at which we can recover certain federal universal service fund payments may decrease. This may have an adverse effect on our revenues and profitability.

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In addition, under the Telecommunications Act, our competitors can obtain the same level of federal universal service fund subsidies as we do if the ICC or PUCT, as applicable, determines that granting these subsidies to competitors would be in the public interest and the competitors offer and advertise certain telephone services as required by the Telecommunications Act and the FCC. Under current rules, any such payments to our competitors would not affect the level of subsidies received by our rural telephone companies, but they would facilitate competitive entry into our rural telephone companies service areas and our rural telephone companies may not be able to compete as effectively or otherwise continue to operate as profitably.

The high costs of regulatory compliance could make it more difficult for us to enter new markets, make acquisitions or change our prices.

Regulatory compliance results in significant costs for us and diverts the time and effort of management and our officers away from running our business. In addition, because regulations differ from state to state, we could face significant costs in obtaining information necessary to compete effectively if we try to provide services, such as long distance services, in markets in different states. These information barriers could cause us to incur substantial costs and to encounter significant obstacles and delays in entering these markets. Compliance costs and information barriers could also affect our ability to evaluate and compete for new opportunities to acquire local access lines or businesses as they arise.

Our intrastate services are also generally subject to certification, tariff filing and other ongoing state regulatory requirements. Challenges to our tariffs by regulators or third parties or delays in obtaining certifications and regulatory approvals could cause us to incur substantial legal and administrative expenses. If successful, these challenges could adversely affect the rates that we are able to charge to customers, which would negatively affect our revenues.

Legislative and regulatory changes in the telecommunications industry could raise our costs by facilitating greater competition against us and reduce potential revenues.

Legislative and regulatory changes in the telecommunications industry could adversely affect our business by facilitating greater competition against us, reducing our revenues or raising our costs. For example, federal or state legislatures or regulatory commissions could impose new requirements relating to standards or quality of service, credit and collection policies, or obligations to provide new or enhanced services such as high-speed access to the Internet or number portability, whereby consumers can keep their telephone number when changing carriers. Any such requirements could increase operating costs or capital requirements.

The Telecommunications Act provides for significant changes and increased competition in the telecommunications industry. This federal statute and the related regulations remain subject to judicial review and additional rulemakings of the FCC, as well as to implementing actions by state commissions.

Currently, there exists only a small body of law and regulation applicable to access to, or commerce on, the Internet. As the significance of the Internet expands, federal, state and local governments may adopt new rules and regulations or apply existing laws and regulations to the Internet. The FCC is currently reviewing the appropriate regulatory framework governing high speed access to the Internet through telephone and cable providers communications networks. The outcome of these proceedings may affect our regulatory obligations and costs and competition for our services which could have a material adverse effect on our revenues.

Do not call registries may increase our costs and limit our ability to market our services.

Our Market Response business is subject to various federal and state do not call list requirements. Recently, the FCC and the Federal Trade Commission, or FTC, amended their rules to provide for a national do not call registry. Under these new federal regulations, consumers may have their phone numbers added to the national registry and telemarketing companies, such as our Market Response business, are prohibited from calling anyone on that registry other than for limited exceptions. In

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September 2003, telemarketers were given access to the registry and are now required to compare their call lists against the national do not call registry at least once every 31 days. We are required to pay a fee to access the registry on a quarterly basis. This rule may restrict our ability to market our services effectively to new customers. Furthermore, compliance with this new rule may prove difficult, and we may incur penalties for improperly conducting our marketing activities.

Because we are subject to extensive laws and regulations relating to the protection of the environment, natural resources and worker health and safety, we may face significant liabilities or compliance costs in the future.

Our operations and properties are subject to federal, state and local laws and regulations relating to protection of the environment, natural resources and worker health and safety, including laws and regulations governing and creating liability relating to, the management, storage and disposal of hazardous materials, asbestos, petroleum products and other regulated materials. We also are subject to environmental laws and regulations governing air emissions from our fleets of vehicles. As a result, we face several risks, including the following:

Under certain environmental laws, we could be held liable, jointly and severally and without regard to fault, for the costs of investigating and remediating any actual or threatened environmental contamination at currently and formerly owned or operated properties, and those of our predecessors, and for contamination associated with disposal by us or our predecessors of hazardous materials at third party disposal sites. Hazardous materials may have been released at certain current or formerly owned properties as a result of historic operations.

The presence of contamination can adversely affect the value of our properties and our ability to sell any such affected property or to use it as collateral.

We could be held responsible for third party property damage claims, personal injury claims or natural resource damage claims relating to any such contamination.

The cost of complying with existing environmental requirements could be significant.

Adoption of new environmental laws or regulations or changes in existing laws or regulations or their interpretations could result in significant compliance costs or as yet identified environmental liabilities.

Future acquisitions of businesses or properties subject to environmental requirements or affected by environmental contamination could require us to incur substantial costs relating to such matters.

In addition, environmental laws regulating wetlands, endangered species and other land use and natural resource issues may increase costs associated with future business or expansion opportunities, delay, alter or interfere with such plans, or otherwise adversely affect such plans.

As a result of the above, we may face significant liabilities and compliance costs in the future.

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FORWARD-LOOKING STATEMENTS

Any statements contained in this prospectus that are not statements of historical fact, including statements about our beliefs and expectations, are forward-looking statements and should be evaluated as such. The words anticipates , believes , expects , intends , plans , estimates , targets , projects , should , may , will and similar words intended to identify forward-looking statements. These forward-looking statements are contained throughout this prospectus, for example in Summary , Risk Factors , Dividend Policy and Restrictions , Management s Discussion and Analysis of Financial Condition and Results of Operations CCI Illinois and CCI Texas , Business , Regulation and the unaudited pro forma condensed consolidated financial statements and the related notes. Such forward-looking statements reflect, among other things, our current expectations, plans and strategies, and anticipated financial results, all of which are subject to known and unknown risks, uncertainties and factors that may cause our actual results to differ materially from those expressed or implied by these forward-looking statements. Many of these risks are beyond our ability to control or predict. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained throughout this prospectus. Because of these risks, uncertainties and assumptions, you should not place undue reliance on these forward-looking statements. Furthermore, forward-looking statements speak only as of the date they are made. We do not undertake any obligation to update or review any forward-looking information, whether as a result of new information, future events or otherwise.

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THE TRANSACTIONS

*We summarize below the transactions and the principal terms of the stock purchase agreement and other agreements that relate to the transactions. This summary is not a complete description of the terms of these agreements. For a summary of the effects of the proposed initial public offering and related matters, see *IPO Matters* .*

Overview

The offering of the outstanding notes was part of a series of simultaneous transactions. Upon consummation of the transactions on April 14, 2004, Homebase, the parent of the issuers, through its indirect, wholly owned subsidiary Texas Acquisition, acquired all of the capital stock of TXUCV and continued to own all of the capital stock of CCI Illinois. The transactions included the following:

the contribution by our existing equity investors of \$89.0 million in cash in exchange for additional class A preferred shares of Homebase, the distribution by CCI of \$63.4 million to Homebase and the contribution by Homebase of \$152.4 million to Texas Acquisition of the aggregate proceeds of such distribution and contribution;

the offering of the outstanding notes;

the borrowing by CCI and Texas Acquisition of \$437.0 million under the existing credit facilities;

the repayment of all the outstanding debt of CCI under its old credit facility;

the acquisition, pursuant to the stock purchase agreement, by Texas Acquisition of TXUCV from Pinnacle One Partners L.P., or Pinnacle One, an indirect, wholly owned subsidiary of TXU Corp., for \$524.1 million in cash, net of cash acquired and including transaction costs; and

the payment of fees and expenses.

Our Existing Equity Investors

Homebase is a Delaware limited liability company that was formed on June 26, 2002. In connection with the acquisition of TXUCV, our existing equity investors made additional cash investments in Homebase in an aggregate amount of \$89.0 million in exchange for additional class A preferred shares of Homebase. As a result of these and prior cash contributions, they each beneficially own 3,000,000 common shares and approximately 60,666.7 class A preferred shares of Homebase, accounting for approximately 90% of the issued and outstanding common shares and 100% of the issued and outstanding class A preferred shares. The remainder of the common shares are owned by members of our management.

Central Illinois Telephone

Central Illinois Telephone is a limited liability company managed by our Chairman, Mr. Lumpkin. Mr. Lumpkin, members of his family and their respective affiliates beneficially own 90.9% of the equity interests in Central Illinois Telephone, and the remainder is owned by members of our management and other investors.

Providence Equity

Providence Equity is a private investment firm specializing in equity investments in telecommunications and media companies around the world. Providence Equity manages funds with over \$5.0 billion in equity commitments, including Providence Equity Partners IV, a private equity fund of approximately \$2.8 billion, and has invested in more than 70 companies. Providence Equity's investment professionals are located in North America and Europe, with offices in Rhode Island, New York and London, England. Some of its recent investments include eircom ltd, Madison River Telephone Company, LLC, Brooks Fiber Properties, Inc., Bresnan Broadband Holdings, LLC, VoiceStream Wireless Corp. and Yankees Entertainment and Sports Network, LLC.

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Spectrum Equity

Spectrum Equity is a private equity firm specializing in investments in the media and communications industries on a global basis. Based in Boston, Massachusetts and Menlo Park, California, Spectrum Equity has over \$3.0 billion in capital under management and its investment professionals have invested in more than 90 companies since the firm's inception. Some of its investments include American Cellular Corporation, American Tower Corporation, CBD Media LLC, Illuminet Holdings, Inc., Jazztel, p.l.c., and Patriot Media and Communications LLC.

Stock Purchase Agreement

On January 15, 2004, Texas Acquisition and Pinnacle One entered into a stock purchase agreement pursuant to which Texas Acquisition acquired, effective as of April 14, 2004, all of the capital stock of TXUCV. Texas Acquisition is a Delaware corporation formed solely for the purpose of acquiring TXUCV. By acquiring the stock of TXUCV, Texas Acquisition acquired substantially all of TXU Corp.'s telecommunications business, consisting of the following:

Consolidated Communications of Fort Bend Company (formerly known as Fort Bend Telephone Company) and Consolidated Communications of Texas Company (formerly known as TXU Communications Telephone Company, which was formerly known as Lufkin-Conroe Telephone Exchange, Inc.), which together serve markets in Conroe, Katy and Lufkin, Texas;

a telephone directory publishing business; and

a transport services business.

The cash purchase price for the sale of TXUCV's capital stock was \$524.1 million, net of cash acquired and including transaction costs. All of TXUCV's outstanding indebtedness as of the closing date, other than the GECC capital leases and inter-company amounts relating to contracts that continued following the closing of the transactions, has been paid. In addition, Pinnacle One bore the first \$5.1 million of the severance and similar expenses associated with work force reductions occurring between the signing the stock purchase agreement on January 15, 2004 and the closing on April 14, 2004. Texas Acquisition was responsible for any amount in excess thereof. These severance and similar expenses totaled \$5.9 million, \$0.8 million of which were borne by Texas Acquisition.

The stock purchase agreement contains customary representations and warranties, covenants and indemnification provisions. In general, Pinnacle One may be liable to us for any breaches of representations and warranties to the extent that our losses, in the aggregate, exceed \$7.5 million, and then only up to \$131.8 million, in the aggregate, subject to specified exceptions. Most representations and warranties expired on April 30, 2005.

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

Other Agreements

In connection with the closing of the acquisition, Homebase and/or its subsidiaries entered into several agreements including the following:

Post-Closing Guaranty, dated as of April 14, 2004, pursuant to which TXU Corp., subject to defined limitations, guaranteed Pinnacle One's obligations to indemnify Texas Acquisition under the stock purchase agreement following the closing of the transactions;

Trademark Assignment, dated as of 14, 2004, between TXUCV and TXU Corp., pursuant to which TXUCV assigned specified trademarks to TXU Corp.;

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Internet Domain Name License Agreement, dated as of April 14, 2004, between TXUCV and TXU Corp, pursuant to which TXU Corp. licensed specified domain names to TXUCV for a transition period of two years;

Software License and Services Agreement, dated as of December 24, 2003, between PeopleSoft USA, Inc. and TXUCV and Partial Assignment, Assumption and Release Agreement, dated as of December 22, 2003, by and between PeopleSoft USA, Inc., TXUCV and TXU Business Services Company, an indirect, wholly owned subsidiary of TXU Corp., pursuant to which TXUCV obtained the right to continue to use PeopleSoft's applications for financial, human resources and inventory purposes following the closing of the transactions;

Professional Services Fee letter, dated April 14, 2004, pursuant to which CCI agreed to pay a professional services fee to our existing equity investors in the aggregate amount of \$2.0 million per year, as described under Certain Relationships and Related Party Transactions Professional Services Fee Agreements ; and

Professional Services Fee letter, dated as of April 14, 2004, pursuant to which Texas Acquisition agreed to pay a professional services fee to our existing equity investors in the aggregate amount of \$3.0 million per year, as described under Certain Relationships and Related Party Transactions Professional Services Fee Agreements .

In addition, we may modify the Services and Facilities Agreement as described under Certain Relationships and Related Party Transactions Services and Facilities Agreement to permit the allocation of common costs and expenses among CCI Illinois, CCI Texas and their subsidiaries. The modification may require prior filing with or approval of the ICC.

USE OF PROCEEDS

This exchange offer is intended to satisfy the obligations of the issuers and Homebase under the registration rights agreement. We will not receive any proceeds from the issuance of the exchange notes in the exchange offer. You will receive, in exchange for outstanding notes validly tendered and accepted for exchange pursuant to the exchange offer, exchange notes in the same principal amount as such outstanding notes. Outstanding notes validly tendered and accepted for exchange pursuant to the exchange offer will be retired and cancelled and cannot be reissued. Accordingly, the issuance of the exchange notes will not result in any increase of our outstanding debt.

Table of Contents**CAPITALIZATION**

The following table sets forth as of March 31, 2005, the cash and cash equivalents and capitalization of each of CCI Illinois, CCI Texas and Homebase. You should read this table in conjunction with Use of Proceeds , Management s Discussion and Analysis of Financial Condition and Results of Operations CCI Illinois and CCI Texas , the financial statements and the related notes of each of Illinois Holdings, Texas Holdings, and Homebase and the unaudited pro forma condensed consolidated financial statements included elsewhere in this prospectus.

	As of March 31, 2005		
	CCI Illinois	CCI Texas	Homebase
	(in thousands)		
Cash and cash equivalents	\$ 23,818	\$ 32,720	\$ 56,538
Long-term debt (including current portion):			
Existing credit facilities:			
Revolving credit facility(1)	\$	\$	\$
Term loan facilities(2)	164,702	259,148	423,850
Total credit facilities	164,702	259,148	423,850
Capital lease obligation(3)		1,059	1,059
9 ³ / ₄ Senior Notes due 2012	75,000	125,000	200,000
Total long term debt (including current portion)	239,702	385,207	624,909
Redeemable preferred shares			210,092
Members deficit/stockholders equity:			
Common shares, no par value			
Additional paid-in capital	29,600	152,458	58
Accumulated earnings (deficit)	834	4,225	(23,033)
Accumulated other comprehensive income	927	1,017	1,944
Members deficit/stockholders equity	31,361	157,700	(21,031)
Total capitalization	\$ 271,063	\$ 542,907	\$ 813,970

- (1) The existing credit facilities contain a \$30.0 million revolving credit facility. See Description of Other Indebtedness Existing Credit Facilities .
- (2) As of March 31, 2005, the existing credit facilities included a \$112.0 million term loan A facility and a \$311.9 million term loan C facility. See Description of Other Indebtedness Existing Credit Facilities .
- (3) The capital lease obligation represents the outstanding balance under the GECC capital lease. On May 27, 2005, we elected to pay in full the outstanding balance on this capital lease. See Description of Other Indebtedness GECC Capital Leases .

Table of Contents**SELECTED HISTORICAL AND OTHER FINANCIAL DATA ILLINOIS HOLDINGS**

Illinois Holdings is a holding company with no income from operations or assets except for the capital stock of CCI. CCI acquired ICTC and the related businesses on December 31, 2002. We believe the operations of ICTC and the related businesses prior to December 31, 2002 represent the predecessor of Illinois Holdings.

The selected consolidated financial information set forth below have been derived from the unaudited combined financial statements of ICTC and related businesses as of and for the year ended December 31, 2000, the audited combined financial statements of ICTC and related businesses as of and for the years ended December 31, 2001 and 2002, the audited consolidated financial statements of Illinois Holdings as of and for the years ended December 31, 2003 and 2004 and the unaudited consolidated financial statements of Illinois Holdings as of and for the three months ended March 31, 2004 and 2005. The unaudited combined financial statements of ICTC and related businesses, the predecessor of Illinois Holdings, as of and for the year ended December 31, 2000 and the unaudited consolidated financial statements of Illinois Holdings as of and for the three months ended March 31, 2004 and 2005 reflect all adjustments that management believes to be of a normal and recurring nature and necessary for a fair presentation of the results for the period. Operating results for the three months ended March 31, 2004 and 2005 are not necessarily indicative of the results for the full year.

The following selected historical consolidated financial information should be read in conjunction with

Management's Discussion and Analysis of Financial Condition CCI Illinois and CCI Texas and the audited and unaudited consolidated financial statements of Illinois Holdings and the audited and unaudited combined financial statements of ICTC and related businesses and the related notes included elsewhere in this prospectus.

	Year Ended December 31,				Three Months Ended March 31,		
	Predecessor of Illinois Holdings				Illinois Holdings		
	2000	2001	2002	2003	2004	2004	2005
(dollars in millions)							
Consolidated Statement of Operations Data:							
Total operating revenues	\$ 117.1	\$ 115.6	\$ 109.9	\$ 132.3	\$ 136.5	\$ 34.1	\$ 33.6
Cost of services and products (exclusive of depreciation and amortization shown separately below)	39.0	38.9	35.8	46.3	46.2	12.4	11.0
Selling, general and administrative	42.1	36.0	35.6	42.5	45.5	10.6	12.0
Intangible assets impairment					11.6		
Depreciation and amortization(1)	33.6	31.8	24.6	22.5	22.3	5.4	5.8
Income from operations	2.4	8.9	13.9	21.0	10.9	5.7	4.8
Interest expense, net(2)	(1.8)	(1.8)	(1.6)	(11.9)	(19.5)	(2.8)	(4.2)
Other, net(3)	0.5	5.8	0.4	0.1	0.6		0.2
Income before income taxes	1.1	12.9	12.7	9.2	(8.0)	2.9	0.8
	(1.7)	(6.3)	(4.7)	(3.7)	2.9	(1.1)	(0.3)

Income tax (expense) benefit														
Net income (loss)	\$	(0.6)	\$	6.6	\$	8.0	\$	5.5	\$	(5.1)	\$	1.8	\$	0.5
Other Financial Data:														
Illinois Telephone Operations revenues	\$	82.0	\$	79.8	\$	76.7	\$	90.3	\$	97.3	\$	22.9	\$	24.7

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	Year Ended December 31,				Three Months Ended March 31,		
	Predecessor of Illinois Holdings				Illinois Holdings		
	2000	2001	2002	2003	2004	2004	2005
(dollars in millions)							
Other Data:							
Local access lines in service							
Residential	63,064	62,249	60,533	58,461	55,627	58,345	55,407
Business	32,933	33,473	32,475	32,426	31,255	32,481	31,217
Total local access lines(3)	95,997	95,722	93,008	90,887	86,882	90,826	86,624
DSL subscribers		2,501	5,761	7,951	10,794	8,456	11,915
Total connections	95,997	98,223	98,769	98,838	97,676	99,282	98,539

Consolidated Cash Flow**Data:**

Cash flows from operating activities	\$ 36.1	\$ 34.3	\$ 28.5	\$ 28.9	\$ 30.4	\$ 5.9	10.3
Cash flows used in investing activities	(21.8)	(13.1)	(14.1)	(296.1)	(13.3)	(2.7)	(1.4)
Cash flows from (used in) financing activities	(21.5)	(18.9)	(16.6)	277.4	(10.5)	(2.6)	(1.8)
Capital expenditures	20.7	13.1	14.1	11.3	13.3	2.7	1.4

	As of December 31,				As of March 31, 2005	
	Predecessor of Illinois Holdings				Illinois Holdings	
	2000	2001	2002	2003	2004	
(dollars in millions)						

Consolidated Balance Sheet Data:

Cash and cash equivalents	\$ 0.9	\$ 3.3	\$ 1.1	\$ 10.1	\$ 16.7	23.8
Total current assets	27.1	26.7	23.2	39.6	44.0	46.5
Net plant, property & equipment(4)	102.6	100.5	105.1	104.6	101.6	98.7
Total assets	270.0	248.9	236.4	317.6	307.9	306.2
Total long-term debt (including current portion)(5)	21.3	21.1	21.0	180.4	241.5	239.7

Shareholders equity	191.3	178.1	174.5	98.0	30.3	31.4
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- (1) On January 1, 2002, CCI Illinois adopted SFAS No. 142, Goodwill and Other Intangible Assets. Pursuant to SFAS No. 142, CCI Illinois ceased amortizing goodwill on January 1, 2002 and instead tests for goodwill impairment annually. Amortization expense for goodwill and intangible assets was \$17.6 million in 2000 and 2001, \$10.1 million in 2002 and \$7.0 million in 2003. In accordance with SFAS 142, CCI Illinois recognized intangible asset impairments of \$11.6 million in 2004. Depreciation and amortization excludes amortization of deferred financing costs.
- (2) Interest expense includes amortization of deferred financing costs totaling \$0.5 million in 2003, \$5.2 million in 2004 and \$0.3 million and \$0.2 million for the three months ended March 31, 2004 and 2005, respectively.
- (3) On September 30, 2001, ICTC sold two exchanges of approximately 2,750 access lines, received proceeds from the sale of \$7.2 million and recorded a gain on the sale of assets of approximately \$5.2 million.
- (4) Property, plant and equipment are recorded at cost. The cost of additions, replacements and major improvements is capitalized, while repairs and maintenance are charged to expenses. When property, plant and equipment are retired from ICTC, the original cost, net of salvage, is charged against accumulated depreciation, with no gain or loss recognized in accordance with composite group life remaining methodology used for regulated telephone plant assets.
- (5) In connection with the TXUCV acquisition on April 14, 2004, CCI Illinois and CCI Texas incurred, severally and not jointly, an aggregate of \$637.0 million of new long-term debt. As of March 31, 2005, CCI Illinois was severally responsible for \$75.0 million in outstanding notes and \$164.7 million in term loans under the existing credit facilities.

Table of Contents**SELECTED HISTORICAL AND OTHER FINANCIAL DATA TEXAS HOLDINGS**

Texas Holdings is a holding company with no income from operations or assets except for the capital stock of Texas Acquisition. Texas Holdings and Texas Acquisition were formed for the sole purpose of acquiring TXUCV, which was renamed Texas Holdings after the closing of the acquisition. We believe that the operations of TXUCV prior to April 14, 2004 represent the predecessor of Texas holdings. In addition, TXU Corp. contributed the parent company of Fort Bend Telephone Company on August 11, 2000 to TXUCV. We believe the operations of Fort Bend Telephone Company prior to August 11, 2000 represent the predecessor of TXUCV.

The selected consolidated financial information set forth below have been derived from the audited consolidated financial statements of Fort Bend Telephone Company, the predecessor of TXUCV, as of and for the period ended August 10, 2000, the audited consolidated financial statements of TXUCV, the predecessor of Texas Holdings, as of and for the years ended December 31, 2000, 2001, 2002, 2003 and as of and for the period ended April 13, 2004, the audited consolidated financial statements of Texas Holdings as of and for the period ended December 31, 2004, the unaudited consolidated financial statements of TXUCV as of and for the three months ended March 31, 2004 and the unaudited consolidated financial statements of Texas Holdings as of and for the three months ended March 31, 2005. The unaudited consolidated financial statements of TXUCV as of and for the three months ended March 31, 2004 and of Texas Holdings as of and for the three months ended March 31, 2005 reflect all adjustments that management believes to be of a normal and recurring nature and necessary for a fair presentation of the results for the period. Operating results for the three months ended March 31, 2004 and 2005 are not necessarily indicative of the results for the full year.

The following selected consolidated financial information should be read in conjunction with Management's Discussion and Analysis of Financial Condition CCI Illinois and CCI Texas and the consolidated financial statements of TXUCV and Texas Holdings and the related notes included elsewhere in this prospectus.

Year Ended December 31,

Predecessor to TXUCV	Predecessor to Texas Holdings					Three Months Ended March 31,			
	Period from 1/1/00 to 8/10/00	Period from 8/11/00 to 12/31/00	2001	2002	2003	Period from 1/1/04 to 4/13/04	Period from 4/14/04 to 12/31/04	Predecessor 2004	Texas Holdings 2005

(dollars in millions)

Consolidated Statement of Operations Data:									
Total operating revenues	\$ 93.2	\$ 67.9	\$ 207.5	\$ 214.7	\$ 194.8	\$ 53.9	\$ 133.1	\$ 45.4	\$ 46.3
Network operating costs (exclusive of depreciation and amortization shown separately below)	38.7	29.9	95.6	76.9	58.4	15.3	34.4	13.1	13.6

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Selling, general and administrative	31.8	32.1	88.7	109.4	75.4	24.2	42.4	15.1	14.3
Depreciation and amortization(1)	19.3	17.1	50.2	41.0	32.9	8.1	32.2	8.2	11.0
Restructuring, asset impairment and other charges(2)				101.4	0.2				
Goodwill impairment charges				18.0	13.2				
Income (loss) from operations	3.4	(11.2)	(27.0)	(132.0)	14.7	6.3	24.1	9.0	7.4
Interest expense, net(3)	(3.6)	(4.9)	(11.1)	(7.5)	(5.4)	(3.2)	(20.0)	(1.1)	(7.2)
Other, net(4)	5.8	10.9	9.9	11.4	0.8	1.2	3.0	0.8	0.3
Income (loss) before income taxes	5.6	(5.2)	(28.2)	(128.1)	10.1	4.3	7.1	8.7	0.5
Income taxes (expense) benefit	(3.8)	(0.3)	6.3	38.3	(12.4)	(2.5)	(3.1)	(3.2)	(0.3)
Net income (loss)	\$ 1.8	\$ (5.5)	\$ (21.9)	\$ (89.8)	\$ (2.3)	\$ 1.8	\$ 4.0	\$ 5.5	\$ 0.2

Table of Contents**Year Ended December 31,**

Predecessor to TXUCV	Predecessor to Texas Holdings						Three Months Ended March 31,	
	Period from 1/1/00 to 8/10/00	Period from 8/11/00 to 12/31/00	2001	2002	2003	Period from 1/1/04 to 4/13/04	Period from 4/14/04 to 12/31/04	Predecessor 2004

(dollars in millions)

Other Data:Local access
lines in
service

Residential	117,130	119,488	119,060	116,862	n/a	113,151	116,485	112,610
Business	49,292	50,406	53,023	54,780	n/a	55,175	54,850	53,837

Total local
access lines

DSL subscribers	1,593	4,069	5,423	8,668	n/a	16,651	10,592	18,903
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Total
connectionsCLEC access
lines

	18,541	58,591	26,088	n/a	n/a	n/a		
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**Consolidated
Cash Flow
Data:**Cash flows
from (used
in) operating
activities

	\$ (16.5)	\$ 37.4	\$ 6.8	\$ 34.7	\$ 75.1	\$ 5.3	\$ 49.4	\$ 6.1	\$ 4.3
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Cash flows
used in
investing
activities

	(27.3)	(48.3)	(59.9)	(21.3)	(14.3)	(6.3)	(540.8)	(4.5)	(4.1)
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Cash flows
from (used
in) financing
activities

	34.2	(3.8)	46.3	(4.4)	(61.8)	(0.6)	526.7	(0.1)	(2.8)
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Capital
expenditures

	36.0	59.2	67.0	27.4	18.2	6.7	16.7	4.8	4.1
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As of December 31,

Predecessor to Texas Holdings

As of
March 31,

	2000	2001	2002	2003	As of 4/13/04	As of 12/31/04	2005
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(dollars in millions)

Consolidated Balance Sheet Data:

Cash and cash equivalents	\$ 10.3	\$ 3.4	\$ 12.4	\$ 11.5	\$ 9.9	\$ 35.4	\$ 32.7
Total current assets	63.8	44.3	86.4	34.5	37.1	56.6	57.4
Net plant, property & equipment(5)	332.4	363.4	240.8	231.4	230.0	259.2	254.4
Total assets	787.0	800.4	700.1	647.9	625.2	702.2	697.8
Total long-term debt (including current portion)(6)	157.5	172.8	166.2	100.4	2.8	388.0	385.2
Shareholder s equity	490.5	496.6	407.6	410.9	513.3	156.4	157.7

- (1) On January 1, 2002, TXUCV adopted SFAS No. 142, Goodwill and Other Intangible Assets. Pursuant to SFAS No. 142, TXUCV ceased amortizing goodwill on January 1, 2002, and instead tests for goodwill impairment annually. Amortization expense for goodwill and intangible assets was \$8.7 million in 2000 and \$13.7 million in 2001. Depreciation and amortization excludes amortization of debt issuance expenses. In accordance with SFAS 142, TXUCV recognized goodwill impairments of \$18.0 million in 2002 and \$13.2 million in 2003.
- (2) During 2002, TXUCV recognized restructurings, asset impairment and other charges of \$101.4 million due to the write down of assets relating to TXUCV s competitive telephone company and transport businesses.
- (3) Interest expense prior to the transactions was from the TXUCV s revolving credit facility, GECC capital leases, mortgage notes and is reduced by allowance for funds used during construction.
- (4) Other, net includes equity earnings from our investments in cellular partnerships, dividend income, recognizing the minority interests of investors in East Texas Fiber Line Incorporated as well as certain other miscellaneous non-operating items.

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See Note 6 to Texas Holdings' s audited consolidated financial statements for a description of these investments. The table below sets out the components of the Other, net:

	Year Ended December 31, 2004	Three Months Ended March 31, 2004	Three Months Ended March 31, 2005
(dollars in millions)			
Partnership income	\$ 2.5	\$ 0.9	\$ 0.3
Dividend income	2.3	0.1	0.1
Minority interest	(0.4)	(0.1)	(0.2)
Other	(0.2)	(0.1)	0.1
Other, net	\$ 4.2	\$ 0.8	\$ 0.3

- (5) Property, plant and equipment items are recorded at cost. The cost of additions, replacements and major improvements is capitalized, while repairs and maintenance are charged to expense.
- (6) In connection with the TXUCV acquisition on April 14, 2004, CCI Texas and CCI Illinois incurred, severally and not jointly, an aggregate of \$637.0 million of new long-term debt. As of March 31, 2005, CCI Texas was severally responsible for \$125.0 million in outstanding notes and \$259.0 million in term loans under the existing credit facilities.

Table of Contents**SELECTED HISTORICAL AND OTHER FINANCIAL DATA HOMEBASE**

Homebase is a holding company with no income from operations or assets except for the capital stock of Illinois Holdings and Texas Holdings. Illinois Holdings was formed for the sole purpose of acquiring ICTC and the related businesses on December 31, 2002. We believe the operations of ICTC and the related businesses prior to December 31, 2002 represent the predecessor of Homebase. Texas Holdings is a holding company with no income from operations or assets except for the capital stock of Texas Acquisition. Texas Acquisition was formed for the sole purpose of acquiring TXUCV, which was acquired on April 14, 2004 and renamed CCV after the closing of the acquisition. Texas Holdings operates its business through and receives all of its income from Texas Acquisition, CCV and its subsidiaries. Results for the year ended December 31, 2004 include the results of operations of Texas Holdings since the date of the TXUCV acquisition.

The selected consolidated financial information set forth below have been derived from the unaudited combined financial statements of ICTC and related businesses as of and for the year ended December 31, 2000, the audited combined financial statements of ICTC and related businesses as of and for the years ended December 31, 2001 and 2002, the audited consolidated financial statements of Homebase as of and for the years ended December 31, 2003 and 2004 and the unaudited consolidated financial statements of Homebase as of and for the three months ended March 31, 2004 and 2005. The unaudited combined financial statements of ICTC and related businesses, the predecessor of Homebase, as of and for the year ended December 31, 2000 and the unaudited consolidated financial statements of Homebase as of and for the three months ended March 31, 2004 and 2005 reflect all adjustments that management believes to be of a normal and recurring nature and necessary for a fair presentation of the results for the period. Operating results for the three months ended March 31, 2004 and 2005 are not necessarily indicative of the results for the full year.

The following selected historical consolidated financial information should be read in conjunction with Management's Discussion and Analysis of Financial Condition CCI Illinois and CCI Texas, the audited and unaudited consolidated financial statements of Homebase and the audited combined financial statements of ICTC and related businesses and the related notes included elsewhere in this prospectus.

	Year Ended December 31,				Three Months Ended March 31,		
	Predecessor				Homebase		
	2000	2001	2002	2003	2004	2004	2005
(dollars in millions)							
Consolidated Statement of Operations Data:							
Total operating revenues	\$ 117.1	\$ 115.6	\$ 109.9	\$ 132.3	\$ 269.6	\$ 34.1	\$ 79.8
Cost of services and products (exclusive of depreciation and amortization shown separately below)	39.0	38.9	35.8	46.3	80.6	12.4	24.4
Selling, general and administrative	42.1	36.0	35.6	42.5	87.9	10.6	26.2
Asset impairment					11.6		
Depreciation and amortization(1)	33.6	31.8	24.6	22.5	54.5	5.4	16.8
Income from operations	2.4	8.9	13.9	21.0	35.0	5.7	12.4
Interest expense, net(2)	(1.8)	(1.8)	(1.6)	(11.9)	(39.6)	(2.8)	(11.4)

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Other, net(3)	0.5	5.8	0.4	0.1	3.7		0.3
Income before income taxes	1.1	12.9	12.7	9.2	(0.9)	2.9	1.3
Income tax expense	(1.7)	(6.3)	(4.7)	(3.7)	(0.2)	(1.1)	(0.6)
Net income (loss)	\$ (0.6)	\$ 6.6	\$ 8.0	5.5	(1.1)	1.8	0.7
Dividends on redeemable preferred shares				(8.5)	(15.0)	(2.3)	(4.6)
Net loss applicable to common shares				\$ (3.0)	\$ (16.1)	\$ (0.5)	\$ (3.9)
Net loss per common share and diluted				\$ (0.33)	\$ (1.79)	\$ (0.06)	\$ (0.42)

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	Year Ended December 31,				Three Months Ended March 31,		
	Predecessor				Homebase		
	2000	2001	2002	2003	2004	2004	2005
(dollars in millions)							
Other Financial Data:							
Telephone Operations revenues	\$ 82.0	\$ 79.8	\$ 76.7	\$ 90.3	\$ 230.4	\$ 22.9	\$ 71.0
Other Data:							
Local access lines in service							
Residential	63,064	62,249	60,533	58,461	168,778	58,345	168,017
Business	32,933	33,473	32,475	32,426	86,430	32,481	85,054
Total local access lines(3)	95,997	95,722	93,008	90,887	255,208	90,826	253,071
DSL subscribers		2,501	5,761	7,951	27,445	8,456	30,804
Total connections	95,997	98,223	98,769	98,838	282,653	99,282	283,875
Consolidated Cash Flow Data:							
Cash flows from operating activities	\$ 36.1	\$ 34.3	\$ 28.5	\$ 28.9	\$ 79.8	\$ 5.9	\$ 14.6
Cash flows used in investing activities	(21.8)	(13.1)	(14.1)	(296.1)	(554.1)	(2.7)	(5.5)
Cash flows from (used in) financing activities	(21.5)	(18.9)	(16.6)	277.4	516.3	(2.6)	(4.6)
Capital expenditures	20.7	13.1	14.1	11.3	30.0	2.7	5.5
(dollars in millions)							
Consolidated Balance Sheet Data:							
Cash and cash equivalents	\$ 0.9	\$ 3.3	\$ 1.1	\$ 10.1	\$ 52.1	\$ 56.5	
Total current assets	27.1	26.7	23.2	39.6	98.9	103.9	
Net plant, property & equipment(4)	102.6	100.5	105.1	104.6	360.8	353.1	
Total assets	270.0	248.9	236.4	317.6	1,006.1	1,002.2	
	21.3	21.1	21.0	180.4	629.4	624.9	

Total long-term debt (including current portion)(5)

Redeemable preferred shares				101.5	205.5	210.1
Parent company investment/ Members deficit	191.3	178.1	174.5	(3.5)	(18.8)	(21.0)

- (1) On January 1, 2002, ICTC and related businesses adopted SFAS No. 142, Goodwill and Other Intangible Assets. Pursuant to SFAS No. 142, ICTC ceased amortizing goodwill on January 1, 2002 and instead tested for goodwill impairment annually. Amortization expense for goodwill and intangible assets was \$17.6 million for 2000 and 2001, \$10.1 million in 2002 and \$7.0 million in 2003. Depreciation and amortization excludes amortization of deferred financing costs.
- (2) Interest expense includes amortization of deferred financing costs totaling \$0.5 million in 2003, \$6.4 million in 2004 and \$0.2 million and \$0.7 million for the three months ended March 31, 2004 and 2005, respectively.
- (3) On September 30, 2001, ICTC sold two exchanges of approximately 2,750 access lines, received proceeds from the sale of \$7.2 million and recorded a gain on the sale of assets of approximately \$5.2 million.
- (4) Property, plant and equipment are recorded at cost. The cost of additions, replacements and major improvements is capitalized, while repairs and maintenance are charged to expenses. When property, plant and equipment are retired from ICTC, the original cost, net of salvage, is charged against accumulated depreciation, with no gain or loss recognized in accordance with composite group life remaining methodology used for regulated telephone plant assets.
- (5) In connection with the TXUCV acquisition on April 14, 2004, we issued \$200.0 million in aggregate principal amount of senior notes and entered into the existing credit facilities, of which \$423.9 million was outstanding as of March 31, 2005.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS CCI ILLINOIS AND CCI TEXAS**

We present below Management's Discussion and Analysis of Financial Condition and Results of Operations of each of CCI Illinois and CCI Texas followed by a discussion of liquidity and capital resources of CCI Illinois and CCI Texas on a combined basis after giving effect to the transactions and after giving effect to the IPO transactions. For the twelve months ended December 31, 2004, CCI Texas' financial results are presented on a combined historical basis, comprised of (a) TXUCV's historical results of operations for the period from January 1, 2004 through and including April 13, 2004 and (b) Texas Holdings' results of operations for the period from April 14, 2004 through and including December 31, 2004.

Homebase is a holding company with no income from operations or assets except for that which is derived from its ownership of CCI Illinois and CCI Texas. As a result, a separate Management's Discussion and Analysis of Financial Condition and Results of Operations for Homebase has not been provided because we do not believe such a discussion would provide additional meaningful information to holders of the notes. The following discussion should be read in conjunction with the historical consolidated financial statements and notes and other financial information related to CCI Illinois and CCI Texas appearing elsewhere in this prospectus.

CCI Illinois

Overview

CCI Illinois Business

CCI Illinois is an established rural local exchange company that provides communications services to residential and business customers in Illinois. As of March 31 2005, we estimate that CCI Illinois would have been the 25th largest local telephone company in the United States had it been a separate company, based on industry sources, with approximately 86,624 local access lines and 11,915 DSL lines in service. CCI Illinois' main sources of revenues are our local telephone businesses in Illinois, which offer an array of services, including local dial tone, custom calling features, private line services, long distance, dial-up and high-speed Internet access, carrier access and billing and collection services. CCI Illinois also operates a number of complementary businesses, such as telephone service to county jails and state prisons, operator and national directory assistance and telemarketing and order fulfillment services and expects to begin publishing telephone directories in the third quarter of 2005.

Segments

In accordance with the reporting requirement of Statement of Financial Accounting Standards, or SFAS, No. 131, *Disclosure about Segments of an Enterprise and Related Information*, CCI Illinois has two reportable business segments, Illinois Telephone Operations and Other Illinois Operations. The results of operations discussed below reflect the consolidated results of CCI Illinois.

Acquisition from McLeodUSA

CCI Illinois began operations in its present form with the acquisition of ICTC and several related businesses from McLeodUSA on December 31, 2002. As a result, period-to-period comparisons of CCI Illinois' financial results to date are not necessarily meaningful and should not be relied upon as an indication of future performance due to the following factors:

Revenues and expenses for the three months ended March 31, 2004 and 2005 and for the years ended December 31, 2003 and 2004 for certain long distance services and data and Internet services include services that were not part of the financial results of our Illinois Telephone Operations segment when it was owned by McLeodUSA in 2002. These services were provided, and revenues were recognized, by McLeodUSA as part of its competitive telephone company operations. In order for McLeodUSA to provide these services to customers in our Illinois rural telephone company's service area, ICTC provided McLeodUSA's competitive telephone company operations access to its network and billing and collection services for which it received network access charges and billing

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and collection fees. Following the acquisition by Homebase of ICTC and the related businesses, Illinois Telephone Operations launched its own business providing similar long distance and data and Internet services to customers primarily located in our Illinois rural telephone company's service area. As a result, the results of operations of Illinois Telephone Operations for the three months ended March 31, 2004 and 2005 and for the years ended December 31, 2003 and 2004 include businesses that were not included in 2002 when ICTC and the related operations were owned by McLeodUSA.

Expenses for the three months ended March 31, 2004 and 2005 and for the years ended December 31, 2003 and 2004 included \$0.5 million, \$0.5 million, \$2.0 million and \$2.0 million, respectively, in aggregate professional services fees paid to Mr. Lumpkin, Providence Equity and Spectrum Equity pursuant to a professional services agreement. This is in addition to a professional services fee that was paid by CCI Texas to these parties under a separate professional services fee agreement, entered at the closing of the transactions. See Certain Relationships and Related Party Transactions Professional Services Fee Agreements .

In 2001 and 2002 McLeodUSA encountered financial difficulties and, as a result, initiated cost-cutting initiatives and reduced financial support for all operations other than ICTC. Although certain expenses were reduced as a result of these initiatives, revenues and income from operations also declined in these periods. In connection with its bankruptcy proceeding in 2002, McLeodUSA identified ICTC and the related businesses as assets held for sale and as discontinued operations.

Revenues

Illinois Telephone Operations and Other Illinois Operations. To date, CCI Illinois revenues have been derived primarily from the sale of voice and data communications services to residential and business customers in our Illinois rural telephone company's service area. For the three months ended March 31, 2005, approximately 73.8%, or \$24.8 million, of its operating revenues came from Illinois Telephone Operations and approximately 26.2%, or \$8.8 million, came from Other Illinois Operations. For the year ended December 31, 2004, approximately 71.3%, or \$97.3 million, of CCI Illinois operating revenues came from Illinois Telephone Operations and approximately 28.7%, or \$39.2 million, came from Other Illinois Operations. For the year ended December 31, 2003, approximately 68.3%, or \$90.3 million, of CCI Illinois operating revenues came from Illinois Telephone Operations and 31.7%, or \$42.0 million, came from Other Illinois Operations. For the year ended December 31, 2002, approximately 69.8%, or \$76.7 million, of CCI Illinois operating revenues came from Illinois Telephone Operations and 30.2%, or \$33.2 million, from Other Illinois Operations.

Illinois Telephone Operations added revenues in 2004 and in the three months ended March 31, 2005 from long distance and Internet services provided primarily to our Illinois rural telephone company's customers that had been previously provided by McLeodUSA. At March 31, 2005, Illinois Telephone Operations had approximately 55,318 long distance customers, which represented approximately a 63.9% penetration of CCI Illinois local access lines. At December 31, 2004, Illinois Telephone Operations had approximately 54,345 long distance customers, which represented approximately a 62.6% penetration of CCI Illinois local access lines. We do not anticipate significant growth in revenues for Illinois Telephone Operations due to its primarily rural service area, but we do expect relatively consistent cash flow from year to year due to stable customer demand, limited competition and a generally supportive regulatory environment.

For the three months ended March 31, 2005, Other Illinois Operations revenues were down from the same period in 2004, primarily due to losing the telemarketing and fulfillment contract with the Illinois Toll Highway Authority in mid-2004 and a decline in telephone system sales. In 2004, Other Illinois Operations revenues were down from 2003, reflecting the loss of the contract with the Illinois Toll Highway Authority and the repricing of some large Operator Services customer contracts at lower rates. We had success in growing Other Illinois Operations revenues between 2002 and 2003 for several reasons. Due to its financial difficulties and bankruptcy in 2002, McLeodUSA initiated cost-cutting initiatives and reduced financial support for all operations other than Illinois Telephone Operations and, as a result,

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revenues for Other Illinois Operations suffered. In 2003, following the acquisition from McLeodUSA, management renewed its focus on growing this segment. In addition, revenue growth was driven by the award to Public Services by the State of Illinois of an extension to the prison contract in December 2002, that nearly doubled the number of prison sites we served.

Local Access Lines and Bundled Services. Local access lines are an important element of our business. An access line is the telephone line connecting a person's home or business to the public switched telephone network. The monthly recurring revenue we generate from end users, the amount of traffic on our network and related access charges generated from other carriers, the amount of federal and state subsidies we receive and most other revenue streams are directly related to the number of local access lines in service. As of March 31, 2005, CCI Illinois had approximately 86,624 local access lines in service, which was a decrease of 258 from the 86,882 local access lines in service as of December 31, 2004, which was a decrease of 4,005 from the local access lines in service as of December 31, 2003.

Historically, rural telephone companies have experienced consistent growth in access lines because of positive demographic trends, insulated rural local economies and limited competition. Recently, many rural telephone companies have experienced a loss of local access lines due to challenging economic conditions, increased competition from wireless providers, competitive telephone companies and, in some cases, cable television operators. CCI Illinois has not been immune to these conditions. CCI Illinois has lost access lines in each of the last two years and its Telephone Operations have experienced difficult economic and demographic conditions. In addition, we believe CCI Illinois lost local access lines due to the disconnection of second telephone lines by our residential customers in connection with their substituting DSL or cable modem service for dial-up Internet access and wireless services for wireline service.

Despite the slight loss of local access lines, CCI Illinois has been able to mitigate the loss in its markets and has increased average revenue per customer by focusing on the following:

- aggressively promoting DSL service;

- bundling value-added services, such as DSL with a combination of local service, custom calling features, voicemail and Internet access;

- maintaining excellent customer service standards, particularly as we introduce new services to existing and new customers; and

- keeping a strong local presence in the communities we serve.

The number of DSL subscribers CCI Illinois serves grew substantially for the year ended 2004 and during the three months ended March 31, 2005. CCI Illinois' DSL lines in service increased 10.4% to approximately 11,915 lines as of March 31, 2005 from approximately 10,794 lines as of December 31, 2004, which was a 35.8% increase from approximately 7,951 lines as of December 31, 2003. Our penetration rate for DSL lines in service was approximately 13.8% of our Illinois rural telephone company's local access lines at March 31, 2005.

We have also been successful in growing our revenues in Illinois Telephone Operations by bundling combinations of local service, custom calling features, voicemail and Internet access. The number of these bundles, which we refer to as service bundles, increased 5.9% to approximately 9,300 service bundles at March 31, 2005 from over 8,700 service bundles at December 31, 2004, which itself was a 29.2% increase from over 6,700 service bundles at December 31, 2003.

CCI Illinois has implemented a number of initiatives to gain new access lines and retain existing access lines by enhancing the attractiveness of the bundle with new service offerings, including unlimited long distance (introduced in July 2004), digital video service (introduced in January 2005) and promotional offers like discounted second lines. In addition, we intend to continue to integrate best practices across our Illinois and Texas regions. These efforts may act to mitigate the financial impact of any access line loss we may experience. However, if these actions fail to mitigate access line loss, or we experience a higher degree of access line loss than we currently expect, it could have an

adverse impact on our revenues and earnings. Our strategy is to continue to execute the plan we have had for the past two years.

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Expenses

Historically, Illinois Telephone Operations had reported fairly consistent operating expenses. However, following the acquisition from McLeodUSA in 2003, Illinois Telephone Operations expenses increased substantially due to the start-up of the long distance and data and Internet businesses, the need to build new information technology and systems and the cost of hiring and retaining the senior management team.

In 2004, Other Illinois Operations experienced increased operating expenses. The increase was primarily due to the write-off of \$11.6 million to recognize impairment of goodwill and tradenames in two of our Other Illinois Operations business units. Operating expenses for the three months ended March 31, 2005 have decreased compared to the same period in 2004 primarily due to decreased sales costs.

CCI Illinois primary operating expenses consist of cost of services, selling, general and administrative expenses and depreciation and amortization expense.

Cost of Services and Products

CCI Illinois cost of services include:

operating expenses relating to plant costs, including those related to the network and general support costs, central office switching and transmission costs and cable and wire facilities;

general plant costs, such as testing, provisioning, network, administration, power and engineering; and

the cost of transport and termination of long distance and private lines outside our Illinois rural telephone company's service area.

Illinois Telephone Operations has agreements with McLeodUSA and other carriers to provide long distance transport and termination services. These agreements contain various commitments and expire at various times. We believe Illinois Telephone Operations will meet all commitments in the agreements and believe it will be able to procure services for future periods. We are currently procuring services for future periods, and at this time, the costs and related terms under which we will purchase long distance transport and termination services have not been determined. We do not, however, expect any material adverse changes from any changes in any new service contract.

Selling, General and Administrative Expenses

In general, selling, general and administrative expenses include:

selling and marketing expenses;

expenses associated with customer care;

billing and other operating support systems; and

corporate expenses, including professional service fees.

Illinois Telephone Operations incurs selling and marketing and customer care expenses from its customer service centers and commissioned sales representatives. Our Illinois customer service centers are the primary sales channels for residential and business customers with one or two phone lines, whereas commissioned sales representatives provide customized proposals to larger business customers. In addition, we use customer retail centers for various communications needs, including new telephone, Internet and paging service purchases.

Each of our Other Illinois Operations businesses primarily use an independent sales and marketing team comprised of dedicated field sales account managers, management teams and service representatives to execute our sales and marketing strategy.

CCI Illinois has operating support and other back office systems that are used to enter, schedule, provision and track customer orders, test services and interface with trouble management, inventory, billing, collection and customer care service systems for the local access lines in our operations. We are in the process of migrating key business processes of CCI Illinois and CCI Texas onto single, company-wide systems and platforms. Our objective is to improve profitability by reducing individual company costs through centralization, standardization and sharing of best practices. We expect that our operating support

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systems and customer care expenses will increase as we integrate CCI Illinois and CCI Texas back office systems. During 2004, \$5.5 million and \$1.5 million had been spent on integration in Texas and Illinois, respectively.

Depreciation and Amortization Expenses

CCI Illinois recognizes depreciation expenses for our regulated telephone plant using rates and lives approved by the ICC. The provision for depreciation on nonregulated property and equipment is recorded using the straight-line method based upon the following useful lives:

	Years
Buildings	15-20
Network and outside plant facilities	5-15
Furniture, fixtures and equipment	3-10

Amortization expenses are recognized primarily for our intangible assets considered to have finite useful lives on a straight-line basis. In accordance to SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill and intangible assets that have indefinite useful lives are not amortized but rather are tested annually for impairment. Because tradenames have been determined to have indefinite lives, they are not amortized. Software and customer relationships are amortized over their useful lives of five and ten years, respectively.

The following summarizes the revenues and operating expenses from continuing operations for (i) ICTC and related business, the predecessor of CCI Illinois, for the year ended December 31, 2002 and (ii) CCI Illinois for the years ended December 31, 2003 and 2004 and for the three months ended March 31, 2004 and 2005, from these sources:

	Predecessor		CCI Illinois		Predecessor		CCI Illinois		Predecessor		CCI Illinois	
	Year Ended December 31,				Three Months Ended March 31,							
	2002	2003	2004	2004	2004	2005						
	\$	% of Total	\$	% of Total	\$	% of Total	\$	% of Total	\$	% of Total	\$	% of Total
	(Millions)	Revenues	(Millions)	Revenues	(Millions)	Revenues	(Millions)	Revenues	(Millions)	Revenues	(Millions)	Revenues
Revenues:												
Illinois Telephone Operations(1)												
Local calling services	\$ 33.4	30.4%	\$ 34.4	26.0%	\$ 33.9	24.8%	\$ 8.5	24.9%	\$ 8.3	24.7%		
Network access services	29.0	26.4	27.5	20.8	30.3	22.2	6.6	19.5	6.8	20.2		
Subsidies	4.1	3.7	4.7	3.5	10.6	7.8	2.3	6.7	4.2	12.5		
Long distance services	1.4	1.3	8.8	6.7	7.7	5.6	2.0	5.9	1.9	5.7		
Data and Internet services	4.3	3.9	10.8	8.2	10.6	7.8	2.5	7.3	2.6	7.7		

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Other services	4.5	4.1	4.1	3.1	4.2	3.0	1.0	2.9	1.0	3.0
Total Illinois Telephone Operations	76.7	69.8	90.3	68.3	97.3	71.2	22.9	67.2	24.8	73.8
Other Illinois Operations	33.2	30.2	42.0	31.7	39.2	28.8	11.2	32.8	8.8	26.2
Total operating revenues	109.9	100.0	132.3	100.0	136.5	100.0	34.1	100.0	33.6	100.0

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	Predecessor				CCI Illinois					
	Year Ended December 31,				Three Months Ended March 31,					
	2002		2003		2004		2004		2005	
	\$	% of Total Revenues	\$	% of Total Revenues	\$	% of Total Revenues	\$	% of Total Revenues	\$	% of Total Revenues
(Millions)	(Millions)	(Millions)	(Millions)	(Millions)	(Millions)	(Millions)	(Millions)	(Millions)	(Millions)	(Millions)
Expenses:										
Operating expenses(2)										
Illinois Telephone Operations	46.9	42.7	54.7	41.3	56.7	41.5	13.5	39.6	14.6	43.4
Other Illinois Operations	24.6	22.4	34.1	25.8	46.6	34.2	9.5	27.9	8.3	24.7
Depreciation and amortization	24.5	22.3	22.5	17.0	22.3	16.3	5.4	15.8	5.8	17.3
Total operating expenses	96.0	87.4	111.3	84.1	125.6	92.0	28.4	83.3	28.7	85.4
Income from operations	13.9	12.6	21.0	15.9	10.9	8.1	5.7	16.7	4.9	14.6
Interest expense	1.6	1.5	11.9	9.0	19.7	14.4	2.8	8.2	4.4	13.1
Other income, net	0.4	0.4	0.1	0.1	0.8	0.6			0.3	0.9
Income taxes expense (benefit)	4.7	4.3	3.7	2.8	(2.9)	(2.1)	1.1	3.2	0.3	0.9
Net income (loss)	\$ 8.0	7.2%	\$ 5.5	4.2%	\$ (5.1)	(3.7)%	\$ 1.8	5.3%	\$ 0.5	1.5%

(1) This category corresponds to the line items presented under Business CCI Illinois Overview Illinois Telephone Operations and provides more detail than that presented in the consolidated statement of income of CCI Illinois. See Consolidated Financial Statements of CCI Illinois and audited Combined Financial Statements of ICTC and related businesses.

(2) This category reflects costs of services and products and selling, general and administrative expenses line items set forth in the Consolidated Financial Statement of Income of CCI Illinois and the audited Combined Statements of Income for ICTC.

Results of Operations

Three Months Ended March 31, 2005 compared to March 31, 2004

CCI Illinois Revenues

CCI Illinois revenues decreased by 1.5%, or \$0.5 million, to \$33.6 million in 2005 from \$34.1 million in 2004. An increase of \$1.9 million in our Telephone Operations revenue was offset by a decrease of \$2.4 million in our Other Operations revenue.

Illinois Telephone Operations revenues increased 8.3%, or \$1.9 million, to \$24.8 million in 2005 from \$22.9 million in 2004. As explained below, the increase was due to increased subsidy revenues.

Other Illinois Operations revenues decreased 21.4%, or \$2.4 million, to \$8.8 million in 2005 from \$11.2 million in 2004. The decrease was primarily due to a \$1.4 million decline in Market Response revenue that resulted from the loss in 2004 of the Illinois State Toll Highway Authority as a customer. In addition, a decrease in equipment sales and installations resulted in a \$0.7 million decrease in Business System revenue while a general decline in demand for its services led to a revenue decrease of \$0.3 million for Operator Services.

Illinois Telephone Operations Revenues

Local calling services revenues declined by 2.4%, or \$0.2 million, to \$8.3 million in 2005 from \$8.5 million in 2004. Local calling services revenues declined due to the loss of local access lines, which was partially offset by increased sales of our service bundles, in each case, for the reasons describe under **Overview Revenues Local Access Lines and Bundled Services** .

Network access services increased by 3.0%, or \$0.2 million, to \$6.8 million in 2005 from \$6.6 million 2004. In 2005, we adopted new revenue sharing arrangements that resulted in our recognizing \$0.5 million

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of revenue for services provided in prior periods. This revenue increase was partially offset by a decrease in end user revenues due to a decrease in lines in service and minutes used.

Subsidies revenues increased by 82.6%, or \$1.9 million, to \$4.2 million in 2005 from \$2.3 million in 2004. The subsidy settlement process relates to the process of separately identifying regulated assets that are used to provide interstate services, and therefore fall under the regulatory regime of the FCC, from regulated assets used to provide local and intrastate services, which fall under the regulatory regime of the ICC. Since our Illinois rural telephone company is regulated under a rate of return system for interstate revenues, the value of all assets in the interstate rate base is critical to calculating the rate of return and, therefore, the subsidies our Illinois rural telephone company will receive. In 2004 our Illinois rural telephone company analyzed its regulated assets and associated expenses and reclassified some of these for purposes of regulatory filings. Due to this reclassification, our Illinois rural telephone company received additional subsidy payments in 2005 in addition to \$1.6 million of subsidy payments recovered for prior years.

Long distance services revenues decreased 5.0%, or \$0.1 million, to \$1.9 million in 2005 from \$2.0 million in 2004 because of a decline in billable minutes due to the substitution of competitive services and the introduction of our unlimited long distance calling plans in Illinois. While these plans are helpful in attracting new customers, they can also lead to a reduction in long distance revenue as heavy users of our long distance services take advantage of the fixed pricing offered by these plans.

Data and Internet revenue increased by 4.0%, or \$0.1 million, to \$2.6 million in 2005 from \$2.5 million in 2004 due to the addition of over 3,400 DSL subscribers in Illinois, which was partially offset by a portion of our residential customers substituting other DSL or cable modem services for our dial-up Internet service.

Other Services revenue was \$1.0 million in both 2005 and 2004.

Other Illinois Operations Revenue

Other Illinois Operations revenues decreased by 21.4%, or \$2.4 million, to \$8.8 million in 2005 from \$11.2 million in 2004. The decrease was primarily due to a \$1.4 million decline in Market Response revenue that resulted from the loss in 2004 of the Illinois State Toll Highway Authority as a customer. In addition, a decrease in equipment sales and installations resulted in a \$0.7 million decrease in Business System revenue while a general decrease in demand for its services led to a revenue decline of \$0.3 million for Operator Services.

Public Services revenues remained constant at \$4.8 million from 2004 to 2005.

Operator Services revenues decreased by 15.0%, or \$0.3 million, to \$1.7 million in 2005 from \$2.0 million in 2004. The decrease was primarily due to competitive pricing pressure.

Market Response revenues declined by 60.9%, or \$1.4 million, to \$0.9 million in 2005 from \$2.3 million in 2004. Much of the decrease is due to the non-renewal of a service agreement with the Illinois State Toll Highway Authority, which resulted in a revenue loss of \$1.1 million.

Business Systems revenues declined by 38.9%, or \$0.7 million, to \$1.1 million in 2005 from \$1.8 million in 2004. Two large installations in 2004 resulted in revenue of \$0.6 million, which did not recur in 2005.

Mobile Services revenue remained constant at \$0.3 million from 2004 to 2005.

CCI Illinois Operating Expenses

CCI Illinois operating expenses increased 1.1%, or \$0.3 million, to \$28.7 million in 2005 from \$28.4 million in 2004. This increase was primarily due to increased depreciation and amortization expense, as well as \$0.6 million of CCI Illinois integration and restructuring expenses, which was partially offset by a reduction in Other Illinois Operations operating expense.

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Illinois Telephone Operations Operating Expenses

Operating expenses for Illinois Telephone Operations increased 8.1%, or \$1.1 million, to \$14.6 million in 2005 from \$13.5 million in 2004. Expenses incurred in connection with our integration and restructuring activities accounted for \$0.6 million of the increase in 2005. The balance of the increase is primarily attributable to cost of sales and acquisition expense associated with the introduction of our digital video service in selected Illinois markets and the start of our Illinois directory sales and production operations.

Other Illinois Operations Operating Expenses

Operating expenses for Other Illinois Operations decreased 12.6%, or \$1.2 million, to \$8.3 million in 2005 from \$9.5 million in 2004. Operating expenses for Business Systems and Market Response decreased by \$0.6 million and \$0.5 million, respectively, due to lower sales volumes, which resulted in a corresponding decrease in cost of sales.

Depreciation and Amortization

Depreciation and amortization increased by 7.4%, or \$0.4 million, to \$5.8 million in 2005 from \$5.4 million in 2004.

Income from Operations

Income from operations decreased by 14.0%, or \$0.8 million, to \$4.9 million in 2005 from \$5.7 million in 2004 due primarily to a revenue decrease of \$0.5 million.

Interest Expense

Interest expense increased 57.1%, or \$1.6 million, to \$4.4 million in 2005 from \$2.8 million in 2004. The increase in primarily due to the issuance of \$75.0 million of 9.75% senior notes in connection with the acquisition of TXUCV.

Other Income (Expense)

Other income increased to \$0.3 million in 2005, from \$0 in 2004, due to interest earned on our excess cash deposits.

Income Taxes

Provision for income taxes decreased 72.7%, or \$0.8 million, to \$0.3 million in 2005 from \$1.1 million in 2004. The effective income tax rate for 2005 and 2004 was 41.6% and 40.0% respectively.

Net Income (Loss)

Net income decreased by 72.2%, or \$1.3 million, to \$0.5 million in 2005 from \$1.8 million in 2004.

Year Ended December 31, 2004 compared to December 31, 2003

CCI Illinois Revenues

CCI Illinois revenues increased by 3.2%, or \$4.2 million, to \$136.5 million in 2004 from \$132.3 million in 2003. This increase was due to a \$7.0 million increase in Illinois Telephone Operations revenues, which was partially offset by a \$2.8 million decrease in Other Illinois Operations revenues.

Illinois Telephone Operations revenues increased 7.8%, or \$7.0 million, to \$97.3 million in 2004 from \$90.3 million in 2003. The increase was primarily due to the increase in subsidy revenue as well as recognition of prior period subsidy settlements revenue received in 2004.

Other Illinois Operations revenues decreased 6.7%, or \$2.8 million, to \$39.2 million in 2004 from \$42.0 million in 2003. The decrease was due primarily to a \$1.1 million decline in Operator Services revenues resulting from a general decline in the demand for these services and a \$1.3 million decrease in Market Response revenue due to the loss in 2004 of the Illinois State Toll Highway Authority as a customer.

Table of Contents*Illinois Telephone Operations Revenues*

Local calling services revenues decreased 1.5%, or \$0.5 million, to \$33.9 million in 2004 from \$34.4 million in 2003. The decrease was primarily due to a decline in local access lines, which was partially offset by increased sales of our service bundles, in each case, for the reasons described under [Overview](#) [Revenues](#) [Local Access Lines and Bundled Services](#) .

Network access services revenues increased 10.2%, or \$2.8 million, to \$30.3 million in 2004 from \$27.5 million in 2003. The increase is primarily due to the recognition of interstate access revenues previously reserved during the FCC's prior two-year monitoring period. The current regulatory rules allow recognition of revenues earned when the FCC has deemed those rates to be lawful.

Subsidies revenues increased 125.5%, or \$5.9 million, to \$10.6 million in 2004 from \$4.7 million in 2003. The increase was primarily a result of an increase in universal service fund support due in part to normal subsidy settlement processes and in part to the FCC modifications to our Illinois rural telephone company's cost recovery mechanisms described above in network access services revenues. The subsidy settlement process relates to the process of separately identifying regulated assets that are used to provide interstate services, and therefore fall under the regulatory regime of the FCC, from regulated assets used to provide local and intrastate services, which fall under the regulatory regime of the ICC. Since our Illinois rural telephone company is regulated under a rate of return system for interstate revenues, the value of all assets in the interstate rate base is critical to calculating this rate of return and, therefore, the subsidies that our Illinois rural telephone company will receive. In 2004, our Illinois rural telephone company analyzed its regulated assets and associated expenses and reclassified some of these for purposes of regulatory filings. The net effect of this reclassification was that our Illinois rural telephone company was able to recover \$2.4 million of additional subsidy payments for prior years and for 2004.

Long distance services revenues decreased 12.5%, or \$1.1 million, to \$7.7 million in 2004 from \$8.8 million in 2003. The decrease was due to competitive pricing pressure, which led to our introduction of unlimited long distance calling plans in our Illinois markets beginning in July 2004. While these plans are helpful in attracting new customers, they can also lead to a reduction in long distance revenue as heavy users of our long distance services take advantage of the fixed pricing offered by these plans.

Data and Internet services revenues decreased 1.9%, or \$0.2 million, to \$10.6 million in 2004 from \$10.8 million in 2003 due to competitive pricing pressure for DSL as well as a portion of our residential customers substituting other DSL or cable modem services for our dial-up Internet service. In addition, as DSL becomes more competitive in pricing and performance, corporate customers are switching to DSL from higher cost private data lines. These decreases were partially offset by the addition of 2,843 DSL subscribers in Illinois.

Other services revenues increased 2.4%, or \$0.1 million, to \$4.2 million in 2004 from \$4.1 million in 2003. The increase was due primarily to an increase in directory advertising revenues.

Other Illinois Operations Revenues

Other Illinois Operations revenues decreased 6.7%, or \$2.8 million, to \$39.2 million in 2004 from \$42.0 million in 2003. The decrease was due primarily to a \$1.1 million decline in operator services revenues resulting from a general decline in demand for these services and a \$1.3 million decrease in Market Response revenue due to the loss in 2004 of the Illinois State Toll Highway Authority as a customer.

Public Services revenues increased 2.3%, or \$0.4 million, to \$18.1 million in 2004 from \$17.7 million in 2003. The increase was primarily due to the extension of the prison contract awarded by the State of Illinois Department of Corrections in December 2002 pursuant to which the number of prisons serviced by Public Services nearly doubled. The new prison sites were implemented during the first half of 2003. As a result, we did not receive the revenue from these additional prison sites for the entire year ended December 31, 2003.

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Operator Services revenues decreased 12.2%, or \$1.1 million, to \$7.9 million in 2004 from \$9.0 million in 2003. The decrease was due to a general decline in demand for these services and competitive pricing pressure.

Market Response revenues decreased by 17.8%, or \$1.3 million, to \$6.0 million in 2004 from \$7.3 million in 2003. The decrease is due to the non-renewal of a service agreement with the Illinois State Toll Highway Authority, which resulted in a revenue loss of \$1.6 million. This revenue decrease was partially offset by additional revenues from new customers added during 2004.

Business Systems revenues decreased 9.0%, or \$0.6 million, to \$6.1 million in 2004 from \$6.7 million in 2003. The decrease was primarily due to the weakened economy and general indecision or delay in equipment purchases.

Mobile Services revenues decreased 21.4%, or \$0.3 million, to \$1.1 million in 2004 from \$1.4 million in 2003. This decrease was primarily due to a continuing erosion of the customer base for one-way paging products as competitive alternatives are increasing in popularity.

CCI Illinois Operating Expenses

CCI Illinois operating expenses increased 12.8%, or \$14.3 million, to \$125.6 million in 2004 from \$111.3 million in 2003 due largely to \$11.6 million of impairment charges in Other Illinois Operations. The remaining increase was caused by increased labor costs and integration and restructuring charges of \$1.5 million.

Illinois Telephone Operations Operating Expenses

Operating expenses for Illinois Telephone Operations increased 3.7%, or \$2.0 million, to \$56.7 million in 2004 from \$54.7 million in 2003 primarily due to increased labor costs and expenses incurred in connection with CCI Illinois integration and restructuring activities.

Other Illinois Operations Operating Expenses

Operating expenses for Other Illinois Operations increased 36.7%, or \$12.5 million, to \$46.6 million in 2004 from \$34.1 million in 2003. In 2004, the Operator Services and Mobile Services units recognized \$11.5 million and \$0.1 million of intangible asset impairment, respectively. The remaining increase is due to increased costs incurred with the growth of the prison system business and increased expense in the telemarketing and fulfillment business unit.

Depreciation and Amortization

Depreciation and amortization decreased 0.9%, or \$0.2 million, to \$22.3 million in 2004 from \$22.5 million in 2003.

Income from Operations

Income from operations decreased 48.1%, or \$10.1 million, to \$10.9 million in 2004 from \$21.0 million in 2003 due to intangible asset impairment charges in Other Illinois Operations, which were partially offset by increased income from operations in our Illinois Telephone Operations.

Interest Expense

Interest expense increased 65.5%, or \$7.8 million, to \$19.7 million in 2004 from \$11.9 million in 2003. In connection with the acquisition of TXUCV, CCI Illinois refinanced its old credit facility resulting in a charge of \$4.2 million to write-off unamortized deferred financing costs. The remaining increase was primarily due to an increase in long-term debt to help fund the TXUCV acquisition. Interest bearing debt increased by \$60.4 million from \$182.8 million in 2003 to \$243.2 million in 2004.

Other Income (Expense)

Other income increased 700.0%, or \$0.7 million, to \$0.8 million in 2004 from \$0.1 million in 2003 due to increased interest income and dividends received from investments.

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Income Taxes

Provision for income taxes decreased 178.4%, or \$6.6 million, to \$(2.9) million in 2004 from \$3.7 million in 2003. The effective income tax rate for 2004 and 2003 was approximately (36.0)% and 40.3%, respectively.

Net Income (Loss)

Net income (loss) decreased 192.7%, or \$10.6 million, to \$(5.1) million in 2004 from \$5.5 million in 2003. The decrease was attributable to a \$11.6 million asset impairment expense.

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

CCI Illinois Revenues

CCI Illinois revenues increased by 20.4%, or \$22.4 million, to \$132.3 million in 2003 from \$109.9 million in 2002.

Illinois Telephone Operations revenues increased 17.7%, or \$13.6 million, to \$90.3 million in 2003 from \$76.7 million in 2002. The increase was due primarily to the inclusion of long distance and data and Internet revenues previously recognized by McLeodUSA.

Other Illinois Operations revenues increased 26.5%, or \$8.8 million, to \$42.0 million in 2003 from \$33.2 million in 2002. The increase was due primarily to a significant growth in Public Services revenues as a result of the inclusion of additional prisons when the applicable contract to provide telecommunications services to the State of Illinois Department of Corrections was renewed.

Illinois Telephone Operations Revenues

Local calling services revenues increased 3.0%, or \$1.0 million, to \$34.4 million in 2003 from \$33.4 million in 2002. The increase was due to an increase in fees paid to our Illinois rural telephone company by wireless carriers for local access. In addition, revenues from custom calling features and voicemail increased \$0.3 million due primarily to the success of selling service bundles. These increases were partially offset by the impact of a reduction in local access lines of 2,121 lines.

Network access services revenues decreased 5.2%, or \$1.5 million, to \$27.5 million in 2003 from \$29.0 million in 2002. During the last two years, the FCC instituted modifications to our Illinois rural telephone company's cost recovery mechanisms, decreasing implicit support, which allowed rural carriers to set interstate network access charges higher than the actual cost of originating and terminating calls, and increasing explicit support through subsidy payments from the federal universal service fund. The ICC similarly decreased intrastate network access charges but did not offset these reductions with state universal service fund subsidies.

Subsidies revenues increased 14.6%, or \$0.6 million, to \$4.7 million in 2003 from \$4.1 million in 2002. The increase was a result of an increase in federal universal service fund support due in part to normal subsidy settlement processes and in part due to the FCC modifications to our Illinois rural telephone company's cost recovery mechanisms described above in network access services revenues. The subsidy settlement process relates to the process of separately identifying regulated assets that are used to provide interstate services, and therefore fall under the regulatory regime of the FCC, from regulated assets used to provide local and intrastate services, which fall under the ICC for regulatory purposes. Since our Illinois rural telephone company is regulated under a rate of return system for interstate revenues, the value of all assets in the interstate rate base is critical to calculating this rate of return, and thus the extent to which our Illinois rural telephone company will receive subsidy payments. In 2003, our Illinois rural telephone company analyzed its regulated assets and reclassified some of these assets for purposes of regulatory filings. The net effect of this reclassification was that our Illinois rural telephone company was able to recover additional subsidy payments for prior years and for 2003.

Long distance services revenues increased 528.6%, or \$7.4 million, to \$8.8 million in 2003 from \$1.4 million in 2002. Illinois Telephone Operations did not provide interLATA long distance service in 2002, and instead this service was offered by other divisions of McLeodUSA. The only long distance

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service revenues included in 2002 was for intraLATA long distance services offered by our Illinois rural telephone company. At December 31, 2003 Illinois Telephone Operations long distance penetration was approximately 54.6%. LATAs are the 161 local access transport areas created to define the service areas of the RBOCs by the judgment breaking up AT&T. References to interLATA long distance service mean long distance service provided between LATAs and intraLATA refers to service within the applicable LATA.

Data and Internet services revenues increased 151.2%, or \$6.5 million, to \$10.8 million in 2003 from \$4.3 million in 2002. As with long distance services, while certain portions of revenues for DSL and non-local private lines was attributed to our Illinois Telephone Operations, the remainder of revenues from data and Internet services was included in other McLeodUSA divisions for 2002. Revenues from DSL service increased 70.0%, or \$0.7 million, in 2003. Total DSL lines in service increased 38.7% to approximately 7,951 lines as of December 31, 2003 from approximately 5,761 lines as of December 31, 2002.

Other services revenues decreased 8.9%, or \$0.4 million, to \$4.1 million in 2003 from \$4.5 million in 2002. The decrease was due primarily to a reduction in billing and collection revenues.

Other Illinois Operations Revenues

Other Illinois Operations revenues increased 26.5%, or \$8.8 million, to \$42.0 million in 2003 from \$33.2 million in 2002. The increase was primarily due to the extension of the prison contract awarded by the State of Illinois Department of Corrections in December 2002 pursuant to which the number of prisons serviced by Public Services nearly doubled and, secondarily, a more concerted commitment from management in 2003 to developing these services.

Public Services revenues increased 78.8%, or \$7.8 million, to \$17.7 million in 2003 from \$9.9 million in 2002. The increase was due to the extension of the prison contract awarded by the State of Illinois Department of Corrections in December 2002 pursuant to which the number of prisons serviced by Public Services nearly doubled.

Operator Services revenues decreased 20.4%, or \$2.3 million to \$9.0 million in 2003 from \$11.3 million in 2002. The decrease was due primarily to decreases in revenues from general declines in demand.

Market Response revenues increased 62.2%, or \$2.8 million, to \$7.3 million in 2003 from \$4.5 million in 2002. The increase was due to a renewed commitment from management to serving third party customers and a \$500,000 investment in technology that allowed a larger sales team to be more competitive in pursuing additional business opportunities.

Business Systems revenues increased 13.6%, or \$0.8 million, to \$6.7 million in 2003 from \$5.8 million in 2002. The increase was due in part to the ability to secure performance bonds necessary to bid on certain structured wiring business opportunities which CCI Illinois was previously unable to secure due to McLeodUSA's financial difficulties. The increase was also due to a general improvement in the demand for telecom equipment spending in CCI Illinois markets.

Mobile Services revenues decreased 6.6%, or \$0.1 million, to \$1.4 million in 2003 from \$1.5 million in 2002. This decrease was due to a continuing shift in demand from residential customers for one-way paging services to business customers who generate lower average revenues per customer.

CCI Illinois Operating Expenses

CCI Illinois operating expenses increased 24.2%, or \$17.3 million, to \$88.8 million in 2003 from \$71.5 million in 2002. The increase was due primarily to expenses incurred to generate new services. In addition, expenses increased compared to 2002 due to the growth in its continuing operations, expenses related to the acquisition of ICTC and the related businesses, including the re-establishment of the CCI brand, systems and other related separation expenses, the hiring and retention of the management team and \$2.0 million in professional services fees paid to our existing equity investors.

Table of Contents*Illinois Telephone Operations Operating Expenses*

Operating expenses for Illinois Telephone Operations for 2003 increased 16.6%, or \$7.8 million, to \$54.7 million in 2003 from \$46.9 million in 2002. Expenses associated with the initiation of our Illinois Telephone Operations long distance services accounted for the majority of the variance resulting in \$6.5 million of direct costs associated with long distance services revenues and data and Internet services revenues that were not included in 2002. Information technology and systems expenses increased \$1.3 million in 2003 from \$4.3 million in 2002, as ICTC and the related businesses were separated from McLeodUSA and Illinois Telephone Operations invested in new systems and software. Executive compensation increased \$0.9 million primarily due to the hiring and retention of the management team. In addition, 2003 results include professional services fees paid to our existing equity investors. Other expenses, primarily equipment maintenance and office equipment rents, decreased from prior year results slightly offsetting the increases described above.

Other Illinois Operations Operating Expenses

Operating expenses for Other Illinois Operations increased 38.6%, or \$9.5 million, to \$34.1 million in 2003 from \$24.6 million in 2002. The increase was due principally to increased direct cost of sales associated with a higher revenues and an increase in expenses due to management's efforts to grow these other operations. Total commissions paid to the State of Illinois Department of Corrections in connection with the renewed prison contract increased \$4.7 million in 2003. In addition, due to the credit characteristics of the prison population served pursuant to the prison contracts, the increase in the number of prisons served under the contract also had a corresponding impact on bad debt expenses, which increased proportionately, \$1.3 million from 2002. In addition, expenses relating to the telemarketing and order fulfillment business increased by \$2.3 million to \$6.1 million in 2003 from \$3.8 million in 2002 as a result of management's effort to grow this business.

Depreciation and Amortization

Depreciation and amortization decreased 8.2%, or \$2.0 million, to \$22.5 million in 2003 from \$24.5 million in 2002. The majority of the decrease was due to the sale and leaseback of five buildings on December 31, 2002, as further described in Certain Relationships and Related Party Transactions LATEL Sale/ Leaseback. McLeodUSA's decision not to invest in the Other Illinois Operations resulted in a reduction in capital expenditure in 2001 and 2002 which decreased depreciation expenses proportionately in 2003.

Income from Operations

Income from operations increased 51.1%, or \$7.1 million, to \$21.0 million in 2003 from \$13.9 million in 2002. The increase was due to the addition of long distance and data and Internet services of the type which had previously been attributable to other McLeodUSA divisions, resulting in \$8.5 million of incremental income from operations for Illinois Telephone Operations in 2003. The increase was offset by the expenses related to the acquisition of ICTC and the related businesses, as well as the \$2.0 million of professional services fees paid to our existing equity investors, increased costs associated with the hiring and retention of the management team and additional information technology expenses of \$1.3 million relating to the investment in information technology infrastructure necessary to transition from McLeodUSA to CCI Illinois.

Interest Expense

Interest expense increased 644.0%, or \$10.3 million, to \$11.9 million in 2003 from \$1.6 million in 2002. The increase was due to the increased interest incurred from borrowing under the old credit facility to fund, in part, the acquisition of ICTC and the related businesses from McLeodUSA on December 31, 2002.

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Other Income (Expense)

Other income decreased 75.0%, or \$0.3 million, to \$0.1 million in 2003 from \$0.4 million in 2002 due to a general reduction in, and intercompany elimination of, intrastate billing and collection fees revenues.

Income Taxes

Provision for income taxes decreased \$1.0 million, to \$3.7 million, in 2003 from \$4.7 million in 2002. The effective income tax rate for CCI Illinois increased to 40.3% in 2003 from 36.8% in 2002. The effective income tax rate for 2003 for CCI Illinois approximated the combined federal and state rate of approximately 40%. In conjunction with the acquisition on December 31, 2002, CCI Illinois made an election under the Internal Revenue Code that resulted in approximately \$172.5 million of goodwill and other intangibles, being deductible ratably over a 15-year period.

Net Income

Net income decreased 31.2%, or \$2.5 million, to \$5.5 million in 2003 from \$8.0 million in 2002. The decrease is primarily attributable to increased interest expense due to the borrowings incurred in connection with the acquisition of the predecessor of CCI Illinois, offset by revenues growth and additional income from operations.

Critical Accounting Policies and Use of Estimates

The accounting estimates and assumptions discussed in this section are those that we consider to be the most critical to an understanding of CCI Illinois' financial statements because they inherently involve significant judgements and uncertainties. In making these estimates, we considered various assumptions and factors that will differ from the actual results achieved and will need to be analyzed and adjusted in future periods. These differences may have a material impact on CCI Illinois' financial condition, results of operations or cash flows. We believe that of CCI Illinois' significant accounting policies, the following involve a higher degree of judgement and complexity.

Subsidies Revenues

CCI Illinois recognizes revenues from universal service subsidies and charges to interexchange carriers for switched and special access services. In certain cases, our Illinois rural telephone company, ICTC, participates in interstate revenue and cost sharing arrangements, referred to as pools, with other telephone companies. Pools are funded by charges made by participating companies to their respective customers. The revenue CCI Illinois receives from its participation in pools is based on its actual cost of providing the interstate services. Such costs are not precisely known until after the year-end and special jurisdictional cost studies have been completed. These cost studies are generally completed during the second quarter of the following year. Detailed rules for cost studies and participation in the pools are established by the FCC and codified in Title 47 of the Code of Federal Regulations.

Allowance for Uncollectible Accounts

We evaluate the collectibility of CCI Illinois' accounts receivable based on a combination of estimates and assumptions. When we are aware of a specific customer's inability to meet its financial obligations, such as a bankruptcy filing or substantial down-grading of credit scores, CCI Illinois records a specific allowance against amounts due to set the net receivable to an amount we believe is reasonable to be collected. For all other customers, we reserve a percentage of the remaining CCI Illinois outstanding accounts receivable balance as a general allowance based on a review of specific customer balances, trends and our experience with CCI Illinois' prior receivables, the current economic environment and the length of time the receivables are past due. If circumstances change, we review the adequacy of the CCI Illinois allowance to determine if our estimates of the recoverability of amounts due CCI Illinois could be reduced by a material amount. At March 31, 2005, CCI Illinois' total allowance for uncollectible accounts for all business segments was \$1.6 million. If our estimate were understated by 10%, the result would be a charge of approximately \$0.2 million to CCI Illinois' results of operations.

Table of Contents***Valuation of Goodwill and Tradenames***

We review CCI Illinois goodwill and tradenames for impairment as part of our annual business planning cycle in the fourth quarter and whenever events or circumstances make it more likely than not that an impairment may have occurred. Several factors could trigger an impairment review such as:

- a change in the use or perceived value of CCI Illinois tradenames;
- significant underperformance relative to expected historical or projected future operating results;
- significant regulatory changes that would impact future operating revenues;
- significant negative industry or economic trends; or
- significant changes in the overall strategy in which we operate our overall business.

We determine if an impairment exists based on a method of using discounted cash flows. This requires management to make certain assumptions regarding future income, royalty rates and discount rates, all of which affect this calculation. Upon completion of our impairment review in December 2004 and as a result of a decline in the future estimated cash flows in CCI Illinois Mobile Services and Operator Services businesses, CCI Illinois recognized impairment losses of \$0.1 million and \$11.5 million, respectively. The carrying value of CCI Illinois tradenames and goodwill totaled \$104 million at March 31, 2005.

Pension and Postretirement Benefits

The amounts recognized in our financial statements for pension and postretirement benefits are determined on an actuarial basis utilizing several critical assumptions.

A significant assumption used in determining CCI Illinois pension and postretirement benefit expense is the expected long-term rate of return on plan assets. We used an expected long-term rate of return of 8.5% in 2004 and 8.0% in the first three months of 2005 as we moved toward uniformity of assumptions and investment strategies across all our plans and in response to the actual returns on our portfolio in recent years being significantly below our expectations.

Another significant estimate is the discount rate used in the annual actuarial valuation of CCI Illinois pension and postretirement benefit plan obligations. In determining the appropriate discount rate, we consider the current yields on high quality corporate fixed-income investments with maturities that correspond to the expected duration of CCI Illinois pension and postretirement benefit plan obligations. For 2004 and for the first three months of 2005 we used a discount rate of 6.0%.

In 2004, we contributed \$0.9 million to the CCI Illinois pension plan and another \$0.8 million to CCI Illinois other postretirement plan. We do not expect to contribute to the CCI Illinois pension plan in 2005 but do expect to contribute \$0.8 million to the CCI Illinois postretirement plan.

The effect of the change in selected assumptions on CCI Illinois estimate of pension plan expense is shown below:

Assumption	Percentage Point Change	December 31, 2004 Obligation Higher/(Lower)	2005 Expense Higher/(Lower)
(dollars in thousands)			
Discount rate	±0.5 pts	\$(3,281)/\$3,634	\$(27)/\$26
Expected return on assets	±1.0 pts		\$(515)/\$515

The effect of the change in selected assumptions on CCI Illinois estimate of other postretirement benefit plan expense is shown below:

Assumption	Percentage Point Change	December 31, 2004 Obligation Higher/(Lower)	2005 Expense Higher/(Lower)
		(dollars in thousands)	
Discount rate	±0.5 pts	\$(346)/\$372	\$(14)/\$14

Table of Contents**Liquidity and Capital Resources*****General***

Historically, the operating requirements of CCI Illinois and the predecessor business of CCI Illinois acquired from McLeodUSA have been funded from cash flow generated from its business and borrowings under credit facilities. As of March 31, 2005, CCI Illinois had \$239.7 million of debt, exclusive of unused commitments.

Operating, Investing & Financing Activities***Operating Activities***

Cash provided by operating activities was \$10.3 million and \$5.9 million for the three months ended March 31, 2005 and 2004, respectively. Net income adjusted for non-cash charges generated \$8.2 million of operating cash in 2005, compared to \$7.3 million in 2004. Changes in working capital components, particularly reductions in inventory and accounts receivable, accounted for the remaining change in cash from operating activities. As of January 1, 2005, CCI Texas began purchasing and holding all inventory for CCI Illinois, resulting in a \$2.1 million reduction in inventory for CCI Illinois. In addition, due to an increased collection effort, our accounts receivable balance decreased by \$1.6 million.

For the years ended December 31, 2004 and 2003, CCI Illinois generated net cash from operating activities of \$30.4 million and \$28.9 million, respectively, an increase of \$1.5 million. While net income (loss) decreased by \$10.6 million, non-cash adjustments to net income were \$41.3 million in 2004 compared to \$29.9 million in 2003, an increase of \$11.4 million. Differences totaling \$0.8 million in the components of working capital accounted for the remaining increase in cash from operating activities.

For the years ended December 31, 2003 and 2002, CCI Illinois generated net cash from operating activities of \$28.9 million and \$28.5 million, respectively. Comparing 2003 to 2002, the change in net cash flows from operating activities increased \$0.4 million. For 2003, our net income before non-cash charges for depreciation and amortization and other long-term deferred credits reflect net cash provided of \$2.4 million, a \$4.6 million decrease from \$7.0 million provided in 2002. In 2003, CCI Illinois made estimated income tax payments of \$2.0 million for which no comparable payments were made in 2002.

Investing Activities

For the three months ended March 31, 2005 and 2004, cash used in investing activities was \$1.4 million and \$2.7 million, respectively. In both periods, all cash used in investing activities was for capital expenditures.

For the years ended December 31, 2004 and 2003, net cash used in investing activities was \$13.3 million and \$296.1 million, respectively, a decline of \$282.8 million. The decrease was primarily due to the \$271.2 million cash portion of the purchase price and \$13.6 million of transaction fees and other expenses paid in 2003 in connection with the ICTC acquisition.

For the year ended December 31, 2003, net cash used in investing activities was \$296.1 million, primarily due to the ICTC acquisition from McLeodUSA. For the year ended December 31, 2003, capital expenditures accounted for \$11.3 million in cash used by investing activities. For the year ended December 31, 2002, CCI Illinois used \$14.1 million in cash for investing activities, all of which was due to capital expenditures. Over the three years ended December 31, 2004, CCI Illinois used \$38.7 million in cash for capital investments. Of that total, 78.8%, or \$30.5 million, was for the expansion or upgrade of outside plant facilities and switching assets.

Financing Activities

Payments of \$1.8 million and \$2.6 million made on long-term obligations were the primary uses of cash for financing activities during the three months ended March 31, 2005 and 2004, respectively.

For the year ended December 31, 2004, net cash used in financing activities was \$10.5 million compared to \$277.4 million of net cash provided by financing activities for the year ended December 31, 2003. In connection with the TXUCV acquisition in April 2004, CCI Illinois incurred \$245.0 of new long-

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term debt, repaid \$178.2 million of existing debt and distributed \$63.4 million in dividends to Homebase that was in turn contributed to Texas Acquisition. CCI Illinois also incurred \$8.1 million of costs to secure the new financing. In addition, \$4.0 million was used to retire debt prior to the TXUCV acquisition. To fund the ICTC acquisition in 2003, CCI Illinois received \$283 million from equity and debt issuances and approximately \$9.2 million in proceeds from the sale of the building subject to the LATEL sale/leaseback described under Certain Relationships and Related Party Transactions LATEL Sale/ Leaseback . Long-term debt of \$10.2 million was also repaid in 2003.

For the year ended December 31, 2003, net cash provided by financing activities was \$277.4 million. The majority was from financing obtained to fund the ICTC acquisition described above. After settling the purchase consideration, funds from financing activities were also used to repay \$10.2 million of outstanding borrowings under the old credit facility in 2003. For the year ended December 31, 2002, net cash used in financing activities was \$16.6 million. 2002 financing activities were primarily attributable to funds required to settle intercompany net receivables with McLeodUSA.

Debt and Capital Leases

In connection with the acquisition by Homebase of ICTC and the related businesses, CCI entered into the old credit facility. The old credit facility provided for aggregate borrowings of \$195.0 million, consisting of a \$5.0 million revolving credit facility, a \$120.0 million term loan A facility and a \$70.0 million term loan B facility. Borrowings under the old credit facility were secured by substantially all of the assets of CCI and its subsidiaries. In connection with the closing of the transactions, all of CCI's debt outstanding under the old credit facility was repaid and replaced with the existing credit facilities that provided financing of \$467.0 million, consisting of: (a) \$122.0 million term loan A facility; (b) \$315.0 million term loan B facility; and (c) a 30.0 million revolving credit facility. See Description of Other Indebtedness Existing Credit Facilities .

On April 14, 2004, CCI and Texas Acquisition entered into the existing credit facilities pursuant to which CCI borrowed an aggregate of \$170.0 million, \$50.0 million under the term loan A facility and \$120.0 million under the term loan B facility. In addition, the existing credit facilities also provide for a \$30.0 million revolving credit facility, that is available to both CCI and Texas Acquisition in the same proportion as borrowings under the term loan facilities, none of which had been drawn as of March 31, 2005. Borrowings under the existing credit facilities are secured by substantially all of the assets of CCI (except ICTC, which is contingent upon obtaining the consent of the ICC for ICTC to guarantee \$195.0 million of the borrowings) and Texas Acquisition. For a detailed description of the collateral and guarantees securing borrowings under the existing credit facilities, see Description of Other Indebtedness Collateral and Guarantees elsewhere in this prospectus.

The borrowings under the existing credit facilities bear interest at a rate equal to an applicable margin plus, at the borrowers' election, either a base rate or the London Interbank Offered Rate, or LIBOR. The applicable margin is based upon the borrowers' total leverage ratio. As of December 31, 2004, the applicable margin for interest rates on LIBOR based loans was 2.25% on the term loan A facility and 2.50% on the term loan C facility. At December 31, 2004 the weighted average rate, including swaps, of interest on CCI's term debt facilities was 5.2% per annum. See Description of Other Indebtedness Existing Credit Facilities elsewhere in this prospectus.

On April 14, 2004, Illinois Holdings issued \$75.0 million of outstanding notes, which we are offering to exchange for exchange notes in this offering. The outstanding notes pay, and the exchange notes will pay, interest semi-annually on April 1 and October 1. See Description of Notes for a detailed discussion of the terms and conditions of the existing notes and the exchange notes.

On October 22, 2004, we amended and restated the existing credit facilities to, among other things, convert all borrowings then outstanding under the term loan B facility into approximately \$314.0 million of aggregate borrowings under a new term loan C facility. The term loan C facility is substantially identical to the term loan B facility, except that the applicable margin for borrowings under the term loan C facility through April 1, 2005 was 1.50% with respect to base rate loans and 2.50% with respect to LIBOR loans.

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Thereafter, provided certain credit ratings are maintained, the applicable margin for borrowings under the term loan C facility is 1.25% with respect to base rate loans and 2.25% with respect to LIBOR loans.

CCI has two operating leases with its affiliates. For a description of these leases and other related party transactions, see Certain Relationships and Related Party Transactions LATEL Sale/ Leaseback and MACC, LLC .

Capital Requirements

In 2004, CCI Illinois primary uses of cash and capital consisted of:
scheduled principal and interest payments on its long-term debt;

capital expenditures of approximately \$13.3 million for network, central offices and other facilities and information technology for operating support and other systems; and

\$1.5 million to integrate and restructure the operations of CCI Illinois and CCI Texas following the TXUCV acquisition.

In 2005, CCI Illinois expects that its primary uses of cash and capital will consist of:
scheduled principal and interest payments on its long-term debt;

\$15.0 million of the \$37.5 million cash distribution to our existing equity investors;

capital expenditures of approximately \$14.8 million for similar investments as were made in 2004;

approximately \$2.5 million in TXUCV integration and restructuring costs; and

incremental costs associated with being a public company.

The expected one-time integration and restructuring costs of approximately \$4.0 million in 2004 and 2005 will be in addition to certain additional ongoing costs CCI Illinois will incur to expand certain administrative functions, such as those related to SEC reporting and compliance, and do not take into account other potential cost savings of and expenses of the TXUCV acquisition. CCI Illinois does not expect to incur costs relating to TXUCV integration after 2005.

Beyond 2005, CCI Illinois will require significant cash to service and repay debt and make capital expenditures. In the future, CCI Illinois will assess the need to expand its network and facilities based on several criteria, including the expected demand for access lines and communications services, the cost and expected return on investing to develop new services and technologies and competitive and regulatory factors. CCI Illinois believes that its current network in Illinois is capable of supporting video with limited additional capital investment.

Surety Bonds

In the ordinary course of business, CCI Illinois enters into surety, performance and similar bonds. As of March 31, 2005, CCI Illinois had approximately \$1.2 million of these types of bonds outstanding.

Table of Contractual Obligations & Commitments

As of March 31, 2005, CCI Illinois material contractual cash obligations and commitments, on an historical basis, were as follows:

	Payments Due by Period						
	Total	2005	2006	2007	2008	2009	Thereafter
Long-term debt	239,702	14,279	8,884	9,397	10,934	13,598	182,610
Operating leases	15,860	1,943	2,312	1,914	1,511	1,514	6,666
Pension and other post-retirement obligations	12,045	628	1,922	1,974	1,964	1,979	3,578

Total contractual cash obligations and commitments	267,607	16,850	13,118	13,285	14,409	17,091	192,854
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Pension funding is an estimate of our minimum contribution requirements through 2004 to provide pension benefits for employees. Obligations relating to other postretirement benefits are based on estimated future benefit payments.

Our estimates are based on forecasts of future benefit payments which may change over time due to a number of factors, including life expectancy, medical costs and trends and on the actual rate of return on the plan assets, discount rates, discretionary pension contributions and regulatory rules. For more information, see Note 10 (Pension Costs and Other Postretirement Benefits) to the audited consolidated financial statements of Illinois Holdings.

Impact of Inflation

The effect of inflation on CCI Illinois financial results has not been significant in the periods presented.

Recent Accounting Pronouncements

In December 2003, the U.S. Congress enacted the Medicare Prescription Drug, Improvement and Modernization Act of 2003 that will provide a prescription drug subsidy beginning in 2006 to companies that sponsor post-retirement health care plans that provide drug benefits. Additional legislation is anticipated that will clarify whether a company is eligible for the subsidy, the amount of the subsidy available and the procedures to be followed in obtaining the subsidy. In May 2004, the FASB issued Staff Position 106-2 *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*, which provides guidance on the accounting and disclosure for the effects of this Act. We have determined that CCI Illinois post-retirement prescription drug plan is actuarially equivalent and intend to reflect the impact beginning on July 1, 2004 without a material adverse effect on its financial condition or results of operations.

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

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets - An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transaction*. SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29,

Accounting for Nonmonetary Transactions, and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for fiscal periods beginning after June 15, 2005 and is required to be adopted by us in the three months ended September 30, 2005. We are currently evaluating the effect that the adoption of SFAS 153 will have on our financial condition or results of operations, but do not expect it to have a material impact.

Quantitative and Qualitative Disclosures About Market Risk

CCI Illinois is exposed to market risk from changes in interest rates on its long-term debt obligations. CCI Illinois estimates its market risk using sensitivity analysis. Market risk is defined as the potential change in the fair value of a fixed-rate debt obligation due to hypothetical adverse change in interest rates and the potential change in interest expense on variable rate long-term debt obligations due to a change in market interest rates. The fair value on long-term debt obligations is determined based on discounted cash flow analysis, using the rates and the maturities of these obligations compared to terms and rates currently

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available in long-term debt markets. The potential change in interest expense is determined by calculating the effect of the hypothetical rate increase on the portion of CCI Illinois variable rate debt that is not hedged through the interest swap agreements described below and does not assume changes in our capital structure. As of March 31, 2005, approximately 66.0% of CCI Illinois long-term debt obligations were fixed rate and approximately 34.0% were variable rate obligations that were not subject to interest rate swap agreements.

At March 31, 2005, CCI Illinois had \$164.7 million of debt outstanding under the existing credit facilities, including \$81.4 million of variable rate debt not covered by interest rate swap agreements. We have limited CCI Illinois exposure to fluctuations in interest rates by entering into interest rate swap agreements that effectively convert a portion of the variable rate debt to a fixed-rate basis, thus reducing the impact of interest rate changes on future interest expenses. At March 31, 2005, CCI Illinois had interest rate swap agreements covering \$83.2 million of aggregate principal amount of its variable rate debt at fixed LIBOR rates ranging from 2.99% to 3.35%. The swap agreements expire on December 31, 2006, May 19, 2007 and December 31, 2007. The fair value of the interest rate swaps amounted to an asset of \$1.5 million at March 31, 2005. The accumulated gain on derivative instruments of \$0.9 million net of tax, is included in other comprehensive income at March 31, 2005.

At March 31, 2005, CCI Illinois had \$75.0 million of aggregate principal amount of fixed rate long-term debt obligations and the fair market value of these obligations was estimated to be \$79.1 million based on the overall weighted average interest rate of CCI Illinois fixed rate long-term debt obligations of 9.75% and an overall weighted maturity of 7.0 years, compared to rates and maturities currently available in long-term debt markets. Market risk is estimated as the potential loss in fair value of CCI Illinois fixed rate long-term debt resulting from a hypothetical increase of 10% in interest rates. Such an increase in interest rates would result in an approximately \$3.4 million decrease in the fair value of CCI Illinois fixed rate long-term debt. At March 31, 2005, CCI Illinois had \$81.4 million of variable rate debt not covered by interest rate swap agreements. If market interest rates average 1% higher than the average rates that prevailed from January 1, 2005 through March 31, 2005, interest expense would increase by approximately \$0.2 million for the period.

Table of Contents**CCI Texas****Overview*****CCI Texas Business***

CCI Texas is an established rural local exchange company that provides communications services to residential and business customers in Texas. As of March 31, 2005, we estimate that CCI Texas would have been the 18th largest local telephone company in the United States had it been a separate company, based on industry sources, with approximately 166,447 local access lines and approximately 18,889 DSL lines in service. CCI Texas' main source of revenues is its local telephone businesses in Texas, which offers an array of services, including local dial tone, custom calling features, private line services, long distance, dial-up and high-speed Internet access, carrier access and billing and collection services. CCI Texas also operates complementary businesses, including publishing telephone directories and offering wholesale transport services on a fiber optic network.

Beginning in 1999, CCI Texas began operating a competitive telephone company business in a number of local markets in Texas. The competitive telephone company business grew to more than 58,000 lines in service by the end of 2001, at which time CCI Texas reevaluated its strategic direction and decided to refocus on its rural telephone company business. During the subsequent 18 months, CCI Texas systematically exited certain of its less profitable competitive telephone company markets, ceased service to residential customers and concentrated on making the competitive telephone company profitable by focusing solely on business customers within a limited number of geographic markets. In late 2002, CCI Texas decided to exit the competitive telephone company business entirely, placed its competitive telephone company assets and customer base for sale and classified all competitive telephone company assets and liabilities as held for sale. In 2003, CCI Texas continued to rationalize its business plan and, in March 2003, CCI Texas sold the majority of its remaining competitive telephone company assets and customer base to Grande Communications. By the end of March 2003, with the exception of a small number of remaining competitive telephone company customers who were in the process of transitioning to other carriers, CCI Texas had effectively exited the competitive telephone company business.

Competitive telephone company revenues, reflected in Exited Operations, represent primarily local access revenues and features attributable to competitive telephone company customers. In addition, some competitive telephone company customers also subscribed to other CCI Texas services including long distance and dial-up Internet. For the relevant periods, the revenues from competitive telephone company customers associated with these products are included in the relevant product categories listed above.

In 2002, as a part of CCI Texas' refocus on its Texas rural telephone companies, CCI Texas initiated a process to sell its transport business. The transport assets were consequently classified as held for sale at the end of 2002. In early 2003, it became apparent that a sale of the entire company was likely and the decision was made to cease efforts to sell the transport network as a separate entity. Consequently, in June 2003, the transport assets were reclassified as held and used.

The Transactions

Prior to the closing of the transactions, TXUCV had been a direct, wholly owned subsidiary of Pinnacle One, which is owned by TXU Corp. When the transactions were consummated on April 14, 2004, Homebase, the parent of the issuers of the notes, through its indirect, wholly owned subsidiary Texas Acquisition, acquired all of the capital stock of TXUCV. Texas Holdings and Texas Acquisition were each formed solely for the purpose of acquiring TXUCV. TXUCV was subsequently renamed CCV.

Revenues

Telephone Operations. To date, CCI Texas' revenues have been derived primarily from the sale of voice and data communications services to residential and business customers in our Texas rural telephone companies' service areas. For the three months ended March 31, 2005, approximately 87.6%, or \$40.6 million, of our revenues were derived from local and long distance voice and data services, associated carrier access fees and subsidies associated with customers with CCI Texas' rural telephone companies

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service areas, approximately 6.5%, or \$3.0 million, came from directory services and approximately 5.9%, or \$2.7 million, was derived from transport services, primarily to other carriers. After giving effect to the transactions, for the year ended December 31, 2004, approximately 88.6% of CCI Texas' \$187.0 million of revenues were derived from local and long distance voice and data services, associated carrier access fees and subsidies associated with customers within CCI Texas' rural telephone companies' service areas. Of the remaining 11.4% of revenues, \$11.0 million, or 5.9%, was derived from directory services and \$10.3 million, or 5.5%, was derived from transport services, primarily to other carriers.

Local Access Lines and Bundled Services. Local access lines are an important element of our business. An access line is the telephone line connecting a person's home or business to the public switched telephone network. The monthly recurring revenue we generate from end users, the amount of traffic on our network and related access charges generated from other carriers, the amount of federal and state subsidies we receive and most other revenue streams are directly related to the number of local access lines in service. As of March 31, 2005, CCI Texas had approximately 166,447 local access lines in service, which was a decrease of 1,879 from 168,326 local access lines in service as of December 31, 2004, which was a decrease of 3,316 from 171,642 local access lines in service as of December 31, 2003.

Historically, rural telephone companies have experienced consistent growth in access lines because of positive demographic trends, insulated rural local economics and limited competition. Recently, many rural telephone companies have experienced a loss of local access lines due to challenging economic conditions, increased competition from wireless providers, competitive telephone companies and, in some cases, cable television operators. CCI Texas has not been immune to these conditions. We believe that the principal reason our Texas rural telephone companies lost local access lines during 2004 was due to the weak economy in Texas. In addition, we believe we lost local access lines due to the disconnection of second telephone lines by our residential customers in connection with their substituting DSL or cable modem service for dial-up Internet access and wireless service for wireline service. Furthermore, CCI Texas implemented a more stringent disconnect policy for non-paying customers in July 2003 following the consolidation of CCI Texas' two local billing systems. Partially offsetting some of this residential decline was an increase in housing starts in the suburban parts of our Texas rural telephone companies' service areas.

A significant portion of CCI Texas' line loss in the first quarter of 2005 is attributable to the migration of MCIMetro's Internet service provider, or ISP, traffic from our primary rate interface, or PRI, facilities and local T-1 facilities to interconnection trunks. As a result of this migration, CCI Texas experienced a loss of approximately 1,534 access lines during the first quarter of 2005 and expects to lose approximately 3,200 additional access lines during the second quarter of 2005. Because these access lines do not generate special feature, long distance, access or subsidy revenue, the revenue loss associated with the migration is approximately one fifth what it would have been if we had lost an equivalent number of commercial access lines. In other words, the loss of 1,534 ISP lines has a revenue impact comparable to the loss of 279 commercial access lines. The expected second quarter loss of 3,200 additional ISP lines will have a revenue impact comparable to the loss of 582 commercial lines. Once the migration of MCIMetro's ISP traffic is complete, we will have no remaining MCIMetro ISP lines in Texas and approximately 1,035 ISP lines remaining with other customers.

Despite the slight loss of local access lines, CCI Texas has been able to mitigate the loss in its markets and has increased average revenue per customer by focusing on the following:

- aggressively promoting DSL service;

- bundling value-added services, such as DSL with a combination of local service, custom calling features, voicemail and Internet access;

- maintaining excellent customer service standards, particularly as we introduce new services to existing and new customers; and

- keeping a strong local presence in the communities we serve.

CCI Texas number of DSL subscribers grew substantially in 2004 and during the three months ended March 31, 2005. We believe this growth was due to CCI Texas strong focus on selling DSL

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service, including the deployment of a customer self-installation kit. DSL lines in service increased 13.4% to approximately 18,889 lines as of March 31, 2005 from approximately 16,651 lines as of December 31, 2004. DSL lines in service increased 92.1% to approximately 16,651 lines as of December 31, 2004 from approximately 8,668 lines as of December 31, 2003. CCI Texas penetration rate for DSL lines in service was approximately 11.3% of our Texas rural telephone companies local access lines at March 31, 2005.

In October 2003, CCI Texas initiated a new campaign to market service bundles. While CCI Texas offered limited service bundles prior to 2003, this initiative was subsequently marketed more aggressively and took advantage of increased pricing flexibility associated with the change from a Chapter 59 to Chapter 58 state regulatory election. See Regulation State Regulation of CCI Texas . Between the introduction of five service bundles in October 2003 and December 31, 2003, CCI Texas sold over 7,500 service bundles, and has sold over 8,900 and 1,300 additional service bundles during 2004 and the three months ended March 31, 2005, respectively.

We have implemented a number of initiatives to gain new access lines and retain existing access lines by enhancing the attractiveness of the bundle with new service offerings. In addition, we intend to continue to integrate best practices across our Texas region. These efforts may act to mitigate the financial impact of any access line loss we may experience. However, if these actions fail to mitigate access line loss, or we experience a higher degree of access line loss than we currently expect, it could have an adverse impact on our revenues and earnings.

Directory Publishing. In 2002, CCI Texas began to sell and publish its yellow and white pages directories in-house. Until then, CCI Texas had contracted with a third party provider to sell, publish and distribute its directories. As compensation for selling and publishing the directories, CCI Texas had previously paid this contractor a portion of the directory revenues on a revenue share basis of between 32.5% and 35.5%. The first directory that CCI Texas produced in-house was the Lufkin directory published in August 2002, which was followed by the Conroe directory in February 2003 and the Katy directory in April 2003.

Transport Services. CCI Texas transport business has remained relatively stable despite the general pricing pressure in the wholesale transport business nationwide. This stability is partly due to the relative lack of competition on some of CCI Texas routes and CCI Texas having built fiber routes directly to some significant carrier customers. In 2002, CCI Texas began to investigate selling the transport network and, consequently did not focus on aggressively growing this part of its business. In light of TXU Corp. s decision to sell the entire company in 2003, CCI Texas continued to manage the transport network in a maintenance mode and did not make any significant investments in the network. We intend to continue to evaluate the opportunities for growing the transport business going forward.

Expenses

Operating expenses include Network Operating Cost and Selling, General and Administrative expenses. They have fluctuated over the past three years because CCI Texas business strategy has undergone several significant changes. The exit from the competitive telephone company line of business contributed to a significant reduction in the size of the company and led to expense reductions primarily in employee expenses and network circuit and operating costs. Several significant systems projects contributed to higher costs historically than we anticipate will be the case. These projects included a financial system restructuring and conversion, the integration of the Fort Bend Communications Company billing and operations systems and projects designed to automate procedures and processes.

Network Operating Costs

CCI Texas cost of services includes:

expenses related to plant costs, including those related to network and general support costs, central office switching and transmission costs, and cable and wire facilities;

general plant costs, such as testing, provisioning, network, administration, power and engineering; and

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the cost of transport and termination of long distance and private lines outside our Texas rural telephone companies' service areas.

CCI Texas operates a dedicated long distance switch in Dallas and transports the majority of its long distance traffic to this switch over its transport network. Historically, CCI Texas was a party to several long distance contracts for the purchase of wholesale long distance minutes that involved minimum volume commitments and that, at times, resulted in above market rate average costs per minute for long distance services. CCI Texas has since terminated all such contracts requiring minimum volume commitments and now has considerably greater flexibility in its ability to select long distance carriers for its traffic and to manage a variety of carriers in order to minimize its cost of long distance minutes.

Selling, General and Administrative Expenses

In general, selling, general and administrative expenses include:

selling and marketing expenses;

expenses associated with customer care;

billing and other operating support systems; and

corporate expenses, including professional service fees.

CCI Texas markets to residential customers and small business customers primarily through its customer service centers and to larger business customers through a dedicated, commissioned sales force. The transport and directory divisions use dedicated sales forces.

CCI Texas has operating support and other back office systems that are used to enter, schedule, provision and track customer orders, test services and interface with trouble management, inventory, billing, collection and customer care service systems for the local access lines in our Texas rural telephone companies' operations.

We are in the process of migrating key business processes of CCI Illinois and CCI Texas onto single, company-wide systems and platforms. Our objective is to improve profitability by reducing individual company costs through centralization, standardization and sharing of best practices. We expect that our operating support systems costs will increase temporarily as we integrate CCI Illinois' and CCI Texas' back office systems. As of March 31, 2005, \$7.1 million and \$2.1 million had been spent on integration and restructuring in Texas and Illinois, respectively.

Depreciation and amortization expenses

CCI Texas recognizes depreciation expenses for our regulated telephone plant and equipment and nonregulated property and equipment using the straight-line method. The depreciation rates and depreciable lives for regulated telephone plant and equipment are approved by the PUCT. CCI Texas' depreciable assets have the following useful lives:

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

Amortization expenses were recognized on goodwill over its useful life, normally 15 to 40 years prior to January 1, 2002. Beginning January 1, 2002, CCI Texas implemented SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS 142 requires that goodwill and intangible assets that have indefinite useful lives not be amortized, but rather be tested annually for impairment. CCI Texas conducted impairment tests and recorded impairment losses of \$13.2 million and \$18.0 million respectively for 2003 and 2002.

The following summarizes revenues and operating expenses from continuing operations for (i) TXUCV, the predecessor of CCI Texas, for the years ended December 31, 2002 and 2003 and for the period from January 1, 2004 to April 13, 2004, (ii) CCI Texas for the period from April 14, 2004 to December 31, 2004, (iii) the combined

operations of TXUCV for the period from January 1, 2004 to April 13, 2004 and of CCI Texas for the period from April 14, 2004 to December 31, 2004, (iv) TXUCV

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for the three months ended March 31, 2004 and (v) CCI Texas for the three months ended March 31, 2005, CCI Texas believes the combined results for the year ended December 31, 2004 are useful to compare to the operations and financial results of TXUCV in the prior year period. The results of operations presented herein for all periods prior to the acquisition are sometimes referred to as the results of operations of the predecessor.

	Year Ended December 31,						Three Months Ended March 31,								
	Predecessor			CCI Texas			Predecessor			CCI Texas					
	2002	2003	1/1/04 to 4/13/04	4/14/04 to 12/31/04	Combined 2004	2004	2005	2002	2003	1/1/04 to 4/13/04	4/14/04 to 12/31/04	Combined 2004	2004	2005	
(Millions)	% of Total Revenues	(Millions)	% of Total Revenues	(Millions)	% of Total Revenues	(Millions)	% of Total Revenues	(Millions)	% of Total Revenues	(Millions)	% of Total Revenues	(Millions)	% of Total Revenues	(Millions)	% of Total Revenues
Revenues(1)															
Local															
Calling															
Services	\$ 54.3	25.3%	\$ 56.2	28.9%	\$ 16.9	31.4%	\$ 41.0	30.8%	\$ 57.9	31.0%	\$ 14.5	31.9%	\$ 14.2	30.0%	
Network															
Access															
Services	36.2	16.9	35.2	18.1	10.6	19.7	26.5	19.9	37.1	19.8	9.0	19.8	9.6	20.0%	
Subsidies	31.8	14.8	41.4	21.2	11.0	20.4	29.9	22.5	40.9	21.9	8.5	18.7	9.5	20.0%	
Long															
Distance															
Services	20.1	9.4	13.4	6.9	3.5	6.4	7.0	5.3	10.5	5.6	3.0	6.6	2.1	4.0%	
Data and															
Internet															
Services	14.1	6.6	14.7	7.5	3.9	7.2	10.3	7.7	14.2	7.6	3.5	7.7	3.9	8.0%	
Directory															
Publishing	9.6	4.4	10.4	5.3	3.1	5.8	7.9	5.9	11.0	5.9	2.7	6.0	3.0	6.0%	
Transport															
Services	12.6	5.8	12.8	6.6	3.2	5.9	7.1	5.3	10.3	5.5	2.8	6.2	2.7	5.0%	
Other															
Services	6.0	2.8	4.8	2.5	1.7	3.2	3.4	2.6	5.1	2.7	1.4	3.1	1.3	2.0%	
Limited															
Services	30.0	14.0	5.9	3.0		0.0		0.0		0		0		0.0%	
Operating															
Revenues	214.7	100.0	194.8	100.0	53.9	100.0	133.1	100.0	187.0	100	45.4	100	46.3	100.0%	
Expenses															
Operating															
Expenses(2)	186.3	86.8	133.8	68.7	39.5	73.3	76.8	57.7	116.3	62.2	28.2	62.1	27.9	60.0%	
Depreciation															
Amortization	41.0	19.1	32.9	16.9	8.1	15.0	32.2	24.2	40.3	21.5	8.2	18.1	11.0	23.0%	

per arges	119.4	55.6	13.4	6.9										
al erating enses	346.7	161.5	180.1	92.5	47.6	88.3	109.0	81.9	156.6	83.7	36.4	80.2	38.9	84.0
erating (ss) ome	(132.0)	(61.5)	14.7	7.5	6.3	11.7	24.1	18.1	30.4	16.3	9.0	19.8	7.4	16.0
al other (pense) income,	3.9	1.8	(4.6)	(2.3)	(2.0)	(3.7)	(17.0)	(12.8)	(19.0)	(10.2)	(0.3)	(0.7)	(6.9)	14.0
(ss) ome ore ome es	(128.1)	(59.7)	10.1	5.2	4.3	8.0	7.1	5.3	11.4	6.1	8.7	19.1	0.5	0.0
ome tax (nefit) ense	(38.3)	(17.9)	12.4	6.4	2.5	4.6	3.1	2.3	5.6	3.0	3.2	(7.0)	0.3	0.0
t (loss) ome	\$ (89.8)	(41.8)%	\$ (2.3)	(1.2)%	\$ 1.8	3.4%	\$ 4.0	3.0%	\$ 5.8	3.1%	\$ 5.5	12.1%	\$ 0.2	0.0%

(1) This category corresponds to the line items presented under Business CCI Texas and provides more detail than that presented in the consolidated statement of operations and comprehensive loss of TXUCV. See the Consolidated Financial Statements of TXUCV and Texas Holdings.

(2) This line item includes network operating costs and selling, general and administrative expenses.

Results of Operations

Three Months Ended March 31, 2005 Compared to March 31, 2004

Revenues

CCI Texas total revenues increased by 2.0%, or \$0.9 million, to \$46.3 million in 2005 from \$45.4 million in 2004. The increase was primarily due to the timing of reimbursements received through the subsidy settlement process that is described below in the discussion of Subsidies revenues.

Local services revenue decreased 2.1%, or \$0.3 million, to \$14.2 million in 2005 from \$14.5 million in 2004 due to the loss of local access lines, which was partially offset by increased sales of our service bundles, in each case, for the reasons described under Overview Revenues Local Access Lines and Bundled Services .

Network access revenues increased 6.7%, or \$0.6 million, to \$9.6 million in 2005 from \$9.0 million in 2004 due to increased usage.

Subsidies revenues increased 11.8%, or \$1.0 million, to \$9.5 million in 2005 from \$8.5 million in 2004. The increase in subsidy revenue is due to timing of receipt as a result of the settlement process with the federal and state regulatory commissions.

Long distance services revenues decreased by 30.0%, or \$0.9 million, to \$2.1 million in 2005 from \$3.0 million in 2004 due to decreased minutes of use and a change in the average rate per minute due to customers selecting lower rate plans as part of bundle offerings.

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Data and Internet services revenues increased 11.4%, or \$0.4 million, to \$3.9 million in 2005 from \$3.5 million in 2004. DSL lines increased by 57.0%, or 6,861 lines, to 18,903 lines from 12,042 lines compared to 2004. The increased revenue from DSL was partially offset by a decrease in dial-up Internet service driven by the substitution by customers of high speed Internet access.

Directory publishing revenues increased by 11.1%, or \$0.3 million, to \$3.0 million in 2005 from \$2.7 million in 2004 due to increased advertising revenues generated on increased advertisements placed in the current phone books.

Transport services revenues decreased 2.5%, or \$0.1 million, to \$2.7 million in 2005 from \$2.8 million in 2004 primarily due to customer losses and lower demand.

Other services revenues decreased by 7.1%, or \$0.1 million, to \$1.3 million in 2005 from \$1.4 million in 2004 due to a reduction in equipment sales to our competitive telephone company customers.

Operating Expenses

Operating expenses decreased by 1.1%, or \$0.3 million, to \$27.9 million in 2005 from \$28.2 million in 2004. Expenses of \$1.6 million were incurred by CCI Texas in 2005 to integrate its operations with CCI Illinois. In addition, upon closing of the TXUCV acquisition CCI Texas entered into a professional services agreement with Mr. Lumpkin, Providence Equity and Spectrum Equity. Fees under this agreement totaled \$0.7 million in 2005. These costs were offset by \$1.7 million of savings as a result of a reduction in workforce after the acquisition. Results for 2004 also included non-recurring sale related charges of \$1.1 for due diligence, transaction costs and severance payments. The balance is primarily due to employee attrition post-acquisition.

Depreciation and Amortization

Depreciation and amortization expense increased by 34.2%, or \$2.8 million, to \$11.0 million in 2005 from \$8.2 million in 2004. The increase is primarily due to the amortization expense associated with intangibles acquired in the TXUCV acquisition.

Other Income (Expense)

Other expense increase by \$6.6 million to \$6.9 million in 2005 from \$0.3 million in 2004. In connection with the TXUCV acquisition, additional debt was incurred, causing an increase in net interest expense of \$6.1 million. In addition, income from partnership and other minority investments decreased by \$0.6 million in 2005 compared to 2004.

Income Tax Expense

Income tax expense decreased 90.6%, or \$2.9 million, to \$0.3 million in 2005 from \$3.2 million in 2004 due to a sharp decrease in pre-tax earnings. The effective income tax rate for 2005 and 2004 was (49.4%) and 37.1% respectively.

Net Income (Loss)

Net income decreased by 95.8%, or \$5.3 million, to \$0.2 million in 2005 from \$5.5 million in 2004.

Year ended December 31, 2004 compared to December 31, 2003*Revenues*

CCI Texas total revenues decreased by 4.0%, or \$7.8 million, to \$187.0 million in 2004 from \$194.8 million in 2003. The decrease was primarily due to CCI Texas exit of the competitive telephone company and wholesale long distance businesses in 2003.

Local services revenue increased 3.0%, or \$1.7 million, to \$57.9 million in 2004 from \$56.2 million in 2003 despite a 1.9% decrease in local access lines. The net increase in local services revenue was primarily due to the success of targeted promotions of service bundles.

Network access revenues increased 5.4%, or \$1.9 million, to \$37.1 million in 2004 from \$35.2 million in 2003. This increase is attributable to increased universal service fund surcharge rates, a temporary

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increase in network access rates and increased revenue from charges to consumers for local number portability.

Subsidies revenues decreased 1.2%, or \$0.5 million, to \$40.9 million in 2004 from \$41.4 million in 2003. The decrease was due in part to the subsidy settlement processes that resulted in the recovery of additional subsidy payments in 2003. This additional recovery was associated with the requirement that rural telephone companies separately identify assets that are used to provide interstate services, and therefore fall under the regulatory regime of the FCC, from regulated assets used to provide local and intrastate services, which fall under the regulatory regime of the PUCT. Since our Texas rural telephone companies are regulated under a rate of return mechanism for interstate revenues, the value of assets in the interstate rate base is critical to calculating this rate of return and therefore, the subsidies our Texas rural telephone companies will receive. In 2003, our Texas rural telephone companies analyzed their regulated assets and reclassified some of these assets for purposes of regulatory filings. The net effect of the reclassification was that our Texas rural telephone companies were able to recover additional one-time subsidy payments for prior years and for 2003. Of the decrease, \$4.7 million related to subsidies received in the second quarter of 2003 that were related to prior years. Offsetting this decrease, there was an increase in the normal monthly reimbursement rate as a result of the settlement process.

Long distance services revenues decreased by 21.6%, or \$2.9 million, to \$10.5 million in 2004 from \$13.4 million in 2003 primarily due to decreased minutes of use and a decrease in the average rate per minute due to customers selecting lower rate plans as part of bundle offerings.

Data and Internet services revenues decreased by 3.4%, or \$0.5 million, to \$14.2 million in 2004 from \$14.7 million in 2003. The decrease was caused primarily by a decrease in dial-up Internet service as a portion of our residential customers substituted other DSL or cable modem services for our dial-up Internet access. This was partially offset by increased sales of DSL service. DSL lines increased by 83.0% compared to 2003 to a penetration rate of 9.0%, or 16,651 DSL lines in service as of December 31, 2004.

Directory Publishing revenues increased by 5.8%, or \$0.6 million, to \$11.0 million in 2004 from \$10.4 million in 2003. The increase was in part due to the transition from a third-party sales force to an internal sales force for the sale of advertising for yellow and white pages directories, beginning with the publication of the Lufkin directory in August 2002, followed by Conroe in February 2003 and Katy in April 2003. This resulted in increased sales productivity and higher revenue due to the addition of the approximately 35.5% of revenue previously shared with the prior publisher. Since CCI Texas recognizes the revenue from each directory over the 12-month life of the directory, 2003 revenue still reflects a combination of outsourced and in-house directory operations.

Transport services revenues decreased by 19.5%, or \$2.5 million, to \$10.3 million in 2004 from \$12.8 million in 2003 primarily due to higher revenues received from our non-recurring fiber agreements in 2003 and customer losses and lowered demand for our transmission services in 2004.

Other services revenues increased by 6.3%, or \$0.3 million, to \$5.1 million in 2004 from \$4.8 million in 2003. The increase was primarily due to an increase in the rate charged to customers for our inside wire maintenance contracts.

Exited services revenue from exited operations was \$5.9 million in 2003 compared to \$0 in 2004. CCI Texas exited both the competitive telephone company and the wholesale long distance service business in 2003. Of the \$5.9 million amount, \$3.9 million was related to the local service revenue from the competitive telephone company business and \$2.0 million was related to the wholesale long distance service.

Operating Expenses

Operating expenses decreased by 13.1%, or \$17.5 million, to \$116.3 million in 2004 from \$133.8 million in 2003. Network costs decreased primarily as a result of having exited in 2003 the wholesale long distance and the competitive telephone company businesses. Exiting these businesses led to the removal of leased circuit costs from SBC Communications and other providers. Total employee head count decreased from 655 at December 31, 2003 to 554 at December 31, 2004 as a result of the

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competitive telephone company exit and the TXUCV acquisition, resulting in savings in salaries and benefits. These savings were offset by \$5.7 million in severance, \$1.9 million in retention and project bonuses, \$5.5 million in integration and restructuring costs and \$1.0 million in transaction costs related to the TXUCV acquisition in 2004, compared to \$9.1 million in severance and retention costs in the comparable period of 2003.

Severance expenses for 2004 included \$5.2 million in severance expenses for approximately 70 TXUCV employees separated at the closing of the acquisition. The full year impact of the cost saving of these headcount reductions was approximately \$7.0 million, exclusive of other cost savings and expenses of the acquisition and current and future integration plans.

We currently expect to incur approximately \$14.5 million in operating expenses associated with the integration and restructuring process in 2004 and 2005. Of the \$14.5 million, approximately \$11.5 million relates to integration and approximately \$3.0 million relates to restructuring. As of December 31, 2004, CCI Texas had spent \$5.5 million on integration and restructuring. These one-time integration and restructuring costs will be in addition to certain ongoing expenses we expect to incur to expand certain administrative functions, such as those relating to SEC reporting and compliance, and do not take into account other potential cost savings and expenses of the TXUCV acquisition.

Depreciation and Amortization

Depreciation and amortization expense increased 22.5%, or \$7.4 million, to \$40.3 million in 2004 from \$32.9 million in 2003. The increase was primarily due to the amortization expense associated with intangibles acquired in the TXUCV acquisition.

Other Income (Expense)

Other income (expense) increased 219.5%, or \$14.4 million, to \$(19.0) million in 2004 from \$(4.6) million in 2003. The increase is primarily due to a \$17.8 million increase in interest expense associated with CCI Texas incurrence of \$392.0 million in debt, a \$1.9 million prepayment penalty incurred in connection with the termination of the old credit facility and the amortization of debt issuance costs of \$1.3 million, each incurred in connection with the TXUCV acquisition. Offsetting the decrease was a \$1.4 million increase in income received from investments in two cellular partnerships. The year ended December 31, 2003 also included \$0.5 million loss on the sale of the competitive telephone company business, a \$0.7 million write-down in connection with CCI Texas reevaluation of transport assets and \$0.3 million in due diligence costs to prepare TXUCV for sale.

Income Tax Expense

Income tax expense decreased by 54.8% or \$6.8 million to \$5.6 million in 2004 from \$12.4 million in 2003. The effective tax rate was approximately 49.1% and 122.8% for 2004 and 2003, respectively. During 2003 our income tax provision was exceptionally high due to a nondeductible goodwill impairment charge which increased our tax expense by \$4.7 million and a nondeductible increase in our valuation reserve of \$3.1 million.

Year ended December 31, 2003 compared to December 31, 2002*Revenues*

CCI Texas total revenues decreased by 9.3%, or \$19.9 million, to \$194.8 million in 2003 from \$214.7 million in 2002. The decrease was primarily due to CCI Texas exit from the competitive telephone company business.

Local services revenues increased 3.5%, or \$1.9 million, to \$56.2 million in 2003 from \$54.3 million in 2002. The increase was primarily due to the success of targeted promotions of custom calling features.

Network access revenues decreased 2.8%, or \$1.0 million, to \$35.2 million in 2003 from \$36.2 million in 2002. During the last two years, the FCC instituted certain modifications to our Texas rural telephone companies cost recovery mechanisms, decreasing implicit support, which allowed rural carriers to set interstate network access charges higher than the actual cost of originating and terminating calls, and increasing explicit support through subsidy payments from the federal universal service fund.

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Subsidies revenues increased 30.2%, or \$9.6 million, to \$41.4 million in 2003 from \$31.8 million in 2002. The increase was due in part to the subsidy settlement processes resulting in the recovery of additional subsidy payments associated with prior years and 2003. Since our Texas rural telephone companies are regulated under a rate of return mechanism for interstate revenues, the value of assets in the interstate rate base is critical to calculating this rate of return and therefore, the subsidies our Texas rural telephone companies will receive. During 2003, the Texas rural telephone companies recognized revenues of \$6.4 million of receipts from the federal universal service fund that were attributable to 2002 and 2001, which was a larger out-of-period adjustment than in prior years. The receipts were the result of filings CCI Texas made in 2003 that updated prior year cost studies and reclassified certain asset and expense categories for regulatory purposes. The increase was also due to the FCC modifications to our Texas rural telephone companies cost recovery mechanisms described above in network access service revenues.

Long distance services revenues decreased by 33.3%, or \$6.7 million, to \$13.4 million in 2003 from \$20.1 million in 2002 due to decreased minutes of use and a change in the average rate per minute due to customers selecting lower rate plans.

Data and Internet services revenues increased by 4.3%, or \$0.6 million, to \$14.7 million in 2003 from \$14.1 million in 2002. The increase was primarily due to increased sales of DSL service. Growth in sales of DSL lines of 59.8% in 2003 contributed to a penetration of 5.1%, or approximately 8,668 DSL lines in service, as of December 31, 2003. The increase was offset by a decrease in dial-up Internet service driven by the substitution by customers of high speed Internet access and a decrease in dial-up and DSL customers as a result of CCI Texas exiting the competitive telephone company business.

Directory Publishing revenues increased by 8.3%, or \$0.8 million, to \$10.4 million in 2003 from \$9.6 million in 2002. The increase was in part due to the transition from a third party sales force to an internal sales force for the sale of advertising for yellow and white pages directories, beginning with the publication of the Lufkin directory in August 2002 and followed by Conroe in February 2003 and Katy in April 2003. This transition resulted in increased sales productivity and higher revenues due to the termination of revenue sharing with the previous publisher of between 32.5% and 35.5%. Since CCI Texas recognizes the revenues from each directory over the 12-month life of the directory, 2003 revenues still reflect a combination of outsourced and in-house directory operations.

Transport services revenues remained flat in 2003 with no significant customer gains or losses.

Other services revenues decreased by 20.0%, or \$1.2 million, to \$4.8 million in 2003 from \$6.0 million in 2002. The decrease was due to a reduction in equipment sales to our competitive telephone company customers and the termination of the pager product line.

Exited services revenues decreased 80.3%, or \$24.1 million, to \$5.9 million in 2003 from \$30.0 million in 2002. The decrease was due to decreases in revenues from the exit of the competitive telephone company business and from lower revenues from wholesale long distance service. Of this amount, \$19.6 million was related to the local service revenues from the competitive telephone company business and \$4.5 million was related to the wholesale long distance service resulting from the exit from these businesses.

Operating Expenses

Operating expenses decreased by 28.2%, or \$52.5 million, to \$133.8 million in 2003 from \$186.3 million in 2002. The decrease was due principally to the following factors.

Network costs decreased primarily as a result of CCI Texas having substantially exited the competitive telephone company business by the end of March 2003, which led to the removal of leased circuit costs from SBC and other carriers.

Related to the exit from the competitive telephone company business, total headcount decreased by 161 to 644 as of December 31, 2003. CCI Texas estimates that the actual expense of salaries and benefits for these employees was approximately \$4.4 million in addition to the \$4.4 million in severance costs CCI Texas incurred in connection with these terminations.

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Bad debt expense decreased by \$11.0 million from \$10.2 million in 2002 to a \$0.8 million benefit in 2003. This was primarily due to (1) a re-evaluation of the bad debt reserve from \$5.0 million at year-end 2002, which included a \$2.7 million reserve for MCI accounts receivable due to the bankruptcy of MCI's parent, Worldcom, Inc., to \$1.5 million at year-end 2003 and (2) a decrease in bad debt write-offs to \$2.3 million in 2003, which decrease primarily related to the exit from the competitive telephone company business.

Non-competitive telephone company network costs decreased due to process improvements and network optimization projects. Process improvements were related to implementation of an automated system for tracking circuit costs payable to other carriers, including a monthly feed to the general ledger. Network optimization projects included renegotiation of contracts with long distance and other carriers, which eliminated monthly minimum usage fees. In addition, network costs decreased due to the removal of circuits in connection with the exit from the wholesale long distance business.

Operating expenses decreased due to one-time system consolidation projects in 2002 that were not experienced in 2003. This decrease, however, was partially offset by expenses associated with a one-time software development project to enhance CCI Texas' customer billing system in connection with the sale process.

The incurrence of \$1.4 million of one-time transaction costs, including financial and legal expenses associated with preparing TXUCV for sale.

In addition, \$2.4 million in retention bonuses that were paid to key employees to facilitate the sales transaction process while running the day to day operations of the business.

Depreciation and Amortization

Depreciation and amortization expense decreased 19.8%, or \$8.1 million, to \$32.9 million in 2003 from \$41.0 million in 2002 primarily due to the decrease in depreciable asset base resulting from the impairment write-down of the transport and competitive telephone company assets. In connection with the impairment, TXUCV recorded a \$90.3 million write-down of the net book value of its transport and competitive telephone company depreciable assets from \$98.3 million to \$8.0 million.

Other Charges

Other charges decreased 88.8%, or \$106.0 million, to \$13.4 million in 2003 from \$119.4 million in 2002. This decrease is primarily due to asset impairment and restructuring charges for the competitive telephone company and transport business of \$0.2 million in 2003 compared to \$101.4 million in 2002. In accordance with SFAS 142, CCI Texas conducted impairment tests on October 1, 2003 and October 1, 2002 and, as a result of TXU's decision in 2003 to sell TXUCV for a known price and CCI Texas' decision to exit the competitive telephone company and transport businesses, recognized on its consolidated financial statements, goodwill impairment losses of \$13.2 million and \$18.0 million, respectively for the years ended December 31, 2003 and 2002.

Other Income (Expense)